

Stifling Philippine Growth: The Cost A Pandemic
and Transfer of Risk
by
Bayani IV Quilala, M.A.

Interesting Start for 2020

Economics, Duterte Style

President Rodrigo Duterte assumed the presidency in June 2016 amidst a campaign platform of anti crime, anti corruption , peace and order. This, plus his tough guy stance against crime resonated well with the public and won a landslide victory in May 2016. Second on Duterte's agenda is the Economy. Second because his administration comes after Benigno Aquino, wherein the Philippines was considered as one of Asia's fastest expanding economies, growing at an average rate of 6-7 percent a year since 2012¹. Duterte's "eight-point plan" of economic proposals reflects continuity of Aquino's initiatives²:

1. Continue and maintain current macroeconomic policies, while reforming the tax collection system;
2. Accelerate infrastructure spending to reduce inefficiencies in public-private partnerships (PPP);
3. Improve the investment climate by addressing ownership restrictions to foreign firms;
4. Develop the agricultural sector through business support to farmers;
5. Address bottlenecks in land administration and management systems;
6. Strengthen the educational system to improve the skills of the workforce;

¹Manzano & Villegas (2016). Prospects for the Philippine Economy under the Duterte Presidency. *Contemporary Southeast Asia*. Vol. 38, No. 2 (August 2016). ISEAS - Yusof Ishak Institute pp. 197-201.

² *What is your presidential candidate's platform of government?* JC Ansis, CNN Philippines. February 12, 2016.

7. Introduce a lower or more progressive income tax system;
8. Expand and improve the conditional cash transfer program.

Economically, that name of the game for the Duterte administration is maintaining the momentum for Philippine growth. Thus there will be no major shifts in economic policy, to which Duterte himself has stated he plans to pursue an economic policy consistent with the previous administration (likewise admitting his lack of experience and reliance his economic team) and as yet no radical policy changes have been announced³

An Economic Inheritance

Since 2012, the Philippines has been enjoying an average economic growth of 6.6 annually and if all things go well, the Duterte administration will be assured of 6-7% annual GDP growth⁴. The previous administrations of Gloria Macapagal Arroyo and Benigno Aquino III, have initiated sustained macroeconomic reforms, anchored by fiscal tightening, moderate inflation, expanding trade surplus and steady economic growth.

Apart from the macroeconomic reforms, Economic growth relies on a number of factors that have contributed greatly to the country. One is the reality that about 10% of the population are working and earning abroad. In 2019, the Philippines was ranked 4th after, China, India and Mexico in remittance destination totalling to around 35B US Dollars. Philippine remittances contribute 9.8% of gross domestic product (GDP)⁵.

Second, the Growing BPO (business process outsourcing) sector of the Philippines has remained positive althroughout. According to the the IT and Business Process Association of the

³*Philippines: President-Elect Duterte Prompts Concern Over Economic Policy* What will the Philippines' president-elect mean for the country's economic prospects? Jack Wagner. The Diplomat May 27, 2016.

⁴ Manzano & Villegas (2016). Prospects for the Philippine Economy under the Duterte Presidency. *Contemporary Southeast Asia*. Vol. 38, No. 2 (August 2016). ISEAS - Yusof Ishak Institute pp. 197-201.

⁵Ph: the fourth largest remittance destination in 2019. *BusinessWorld*. Feb 10, 2020

Philippines (IBPAP) , growth of the industry is at a rate of 20 percent wherein revenues for the Philippines have increased from US\$1.3 billion in 2004 to a total revenue of US\$ 25 billion in 2016. Activity in the industry appears to be robust enough such that the industry's projected total income range would reach US\$ 40 to 55 billion by 2020 providing 1.3 to 1.5 million new jobs, contributing 9 percent of the country's GDP growth. The country has been considered a priority destination for BPO companies since the government has initiated incentives such as tax holidays, tax exemptions, and simplified export and import procedures. Academic institutions have also responded to the demand for BPO professionals and started to conduct University training programs available for would-be BPO employees. In relation to this, Filipino employees possess accent neutrality, labor costs are lower and more government support⁶.

For all the positive fiscal initiatives of the previous administrations, infrastructure was generally left under developed, reflecting a “shallow” growth with high levels of unemployment, poverty and hunger⁷. Hence Duterte's “Build, Build, Build” program which was launched in 2017 and if successful, will be dubbed as the “golden age of infrastructure” in the country after years of neglect and since the Marcos regime⁸. The program includes an ambitious \$180 billion infrastructure spending budget, with 75 flagship projects, that include six airports, nine railways, three bus rapid transits, 32 roads and bridges, and four seaports that will help bring down the costs of production, improve rural incomes, encourage countryside investments, make the movement of goods and people more efficient, and create more jobs⁹. Indeed the government has been throwing money to fuel the infrastructure freight train. According to Finance Secretary Dominguez, government spending on infrastructure development represents 5 percent of gross domestic product (GDP) in 2017 which is twice the average spending over the last 50 years.

⁶ Business Processing Outsourcing in the Philippines. ASEANbriefing. April 17,2017.

⁷Duterte's Build build build project to transform the Philippines could become his legacy. Forbes.RJ Heydrian. Feb 28, 2018.

⁸Build build build to yield expanded more comprehensive list. *The Philippine Daily Inquirer*. Ben de Vera. October 16 2019.

⁹Duterte's Build build build project to transform the Philippines could become his legacy. Forbes.RJ Heydrian. Feb 28, 2018.

Furthermore, infrastructure spending could increase to 7 percent by 2022¹⁰.

A Positive Economic Outlook

In an article for the South China Morning Post¹¹ by Roberto V. Ongpin, former Minister of Trade and Industry during the Marcos Administration (it should be noted that it was during the Marcos Administration that the Philippine government has undertaken massive infrastructure spending and development leading to economic gains and unparalleled until the “Build Build Build” program) cites favourable transformations in the Philippine economy he thought he would not see again during his lifetime:

- Historically High Approval ratings for the Duterte Administration (85 per cent among the Filipino people).
- Standard & Poor’s has for the first time ever raised our sovereign risk rating to BBB+, placing us on par with countries like Mexico and Thailand, and ahead of Italy, Portugal, Indonesia, India and Vietnam
- Cost of borrowing has dropped substantially.
- The economy grew 6.2 per cent in 2018, and continues to be resilient and strong, despite external adversity
- The Philippine peso has been one of the best performing currencies in Asia and indeed in the world. While the US dollar has been strengthening over the euro, British pound, yen and yuan, the peso has strengthened significantly against the US dollar year on year. This strength in the currency is vitally important in controlling inflation, the cost of servicing debt and of imported goods.
- Inflation is now only at 2.4 per cent and well under control – it had reached

¹⁰Build build build to yield expanded more comprehensive list. *The Philippine Daily Inquirer*. Ben de Vera. October 16 2019.

¹¹*Under Duterte, an economically resurgent Philippines is finding its feet*, Letters. SCMP. RV Ongpin. 13 Aug, 2019.

more than 50 per cent during my time in government. Unprecedented tax measures have been passed, which have not only raised revenue but also made the tax burden more equitable.

- Increased pivot to China. As a former US colony, the Philippines has always had a tendency to look to the US as a model for development and for financial assistance. It is very timely that China now plays a greater role in Philippine economic development. Inevitably, China will become a leading super power (if it is not already one) and Duterte is smart enough to realise this.
- What is unique about this president, unlike many of his predecessors, is that he does not interfere with private business, and he lets his economic managers run the economy. And they are doing a superb job.

Calamities leading to 2020

According to the Asian Disaster Reduction Center¹², the Philippine geographic location is situated in the “Pacific Ring of Fire” and along the typhoon belt in the Pacific and visited by an average of 20 typhoons every year, five of which are destructive. The country is vulnerable to frequent earthquakes, volcanic eruptions and highly susceptible to tsunami, sea level rise, storm surges, landslides, flood/flashflood/flooding, and drought.

In mid 2019, even by Philippine standards, the country has experienced an unusual mix of natural disasters. Earthquakes in Zambales on April that year (at magnitude 6.1; most heavily felt in Porac, Pampanga); Itbayat, Batanes (magnitude 5.9, July); and a series of earthquakes in fairly rapid succession in Cotabato and other parts of southwest Mindanao (from magnitude 6.5, October to December). True to statistics, 20 typhoons went through the country and before the year closed, Typhoons “Tisoy” (international name: Kammuri) and “Ursula” (Phanfone), usually arriving in December, affecting parts of the Philippines on Christmas Day¹³.

¹²Asian Disaster Reduction Center

¹³Natural Disasters the new normal. *The Philippine Daily Inquirer*. Guillermo Luz, January 25, 2020.

Socio-Economic Effects of the of Taal Volcano Eruption

The last major eruption of Taal Volcano was on October 1977, and 42 years later, erupted once more. On 12 January 2020 eruption caused havoc in agriculture, tourism and caused the evacuation of thousands of families. While the eruption itself lasted for a few days, the alert levels were maintained weeks later and ashes were spewed as far as northern parts of the archipelago. During the eruption, more than 71,000 families (more than 280,000 people) affected with more than 39,000 families are temporarily sheltered in more than 490 evacuation centers in the Batangas and Cavite areas. There is difficulty in availing of basic services—access to health infrastructure, drinking water, food, etc. The long term effects of the damage might have a significant impact since agricultural land, livestock were all blanketed by ashfall, similarly affecting drinking water and air quality¹⁴.

Economically, the cost of the Taal eruption was centered mostly on the 17-kilometer radius of Taal Volcano affecting a whole region (Region IVA- Calabarzon) which comprises of 5 provinces, Calamba, Laguna, Batangas, Rizal, and Quezon Provinces. The estimate included losses mostly in the agriculture and fisheries sector totalling 6.7B pesos. Central Bank (BSP) Governor Benjamin Diokno identified the industries affected: Losses in agriculture were expected at P3.1 billion; services, P2.7 billion and industrial sector, P711 million with inflation to be expected¹⁵

Government Relief and Rehabilitation Response

During the crisis, 493 evacuation centers in Region-IVA were opened, mostly public school and basketball courts which are serving 39,052 families or 148,987 persons. Another, 23,133 families or 90,017 persons are being served outside the evacuation centers. The office of Civil Defence under the Department of National Defense convened a National Security Meeting among

¹⁴ Volcano eruption: Humanity & Inclusion assesses the needs of those affected Relief Web. 3 Feb 2020.

¹⁵ Taal volcano cost calabarzon economy, but economic impact on the rest of ph minimal. *Philippine Daily Inquirer*. DL Lucas. 30, January 2020

the relevant agencies its initiatives included:

The supplying of N95 masks for the responders and affected population; transportation of other logistical requirements and deployment of water tankers for evacuation centers as well as delivery of food and non-food items (FNFI); the conduct of aerial surveys for assessment purposes logistically support by the Transportation Department and Armed Forces; Search, Rescue and Retrieval (SRR) efforts were jointly conducted by the Armed Forces of the Philippines (AFP), Philippine National Police (PNP), Bureau of Fire Protection (BFP) and Philippine Coast of Guard (PCG). They likewise provided assistance in the hauling, delivery and distribution of relief goods, deployment of personnel for evacuation, conducted water rationing, flushing operations and dredging of roads to clear off ashes, as well as the rescue and emergency medical operations; The Department of Public Works and Highways (DPWH) deployed manpower and equipment to assist in rescue, cleaning and clearing of ash fall and cropping of trees in road sections; the Department of Health (DOH), contributed a total of Php9,190,412 worth of logistical assistance, medicines, face masks, water disinfectants, hygiene kits, conducted site inspection in the evacuation centers, disease surveillance, nutrition services and deployed personnel for Rapid Health Assessment (RHA), Emergency Response Teams (ERTs), and Human Resources for Health (HRH); the Department of Social Welfare and Development (DSWD) has provided a total of Php16,586,946.28 worth Food and Non-Food Items (FNFI); The Department of Information and Communications Technology (DICT) installed high-frequency radios in the region and provided generator sets and VHF/UHF radios for DICT Tagaytay Relay Stations. It also installed communications equipment, computers, and internet access at Fernando Air Base in Lipa City; Meanwhile Private donors also extended support in the form of assorted in-kind donations and transport vehicles to assist in the delivery of relief items with around 1,000 volunteers also assisted in the repacking of relief goods¹⁶.

In February 2020, the government identified the steps to address rehabilitation and recovery efforts for Region IVA. Intra Agency cooperation will center along five important points for

¹⁶*Duterte Declares State of Calamity in Calabarzon due to Taal volcano eruption*. GMANews. V. Lopez. 27 Feb 2020.

economic recovery: Agriculture and Fisheries, such as provision of fishery inputs, rice, corn, cassava and livestock; sustainable livelihood programs and assistance to damaged enterprises Tourism and Other Livelihood Activities; new settlements and the repair of damaged houses for Housing and Settlements. Specifically, a housing program by the Local government of Batangas for its affected constituents since they have not been allowed to return to their homes near the volcano. Accordingly, the town of Ibaan can house 800 households in their housing project originally intended for police and military personnel¹⁷; for Social Services, relief assistance, supplementary feeding programs, and the provision of medicines; construction of evacuation centers and the rehabilitation of damaged national roads and bridges for Physical Infrastructure¹⁸.

On a National level, Proclamation 906, or Declaring a State of Emergency in CALABARZON was signed by President Duterte on February 21, 2020. Accordingly, the declaration will hasten rescue, relief and rehabilitation efforts of the government and the private sector, including any international humanitarian assistance, as well as control the prices of basic goods and commodities in the affected areas. Similarly, all departments and concerned agencies to augment the basic facilities of affected localities. Law enforcement agencies and the military meanwhile will ensure peace and order in affected areas. A highlight of this Proclamation was the passing of P30-billion supplemental budget to jumpstart economic rehabilitation efforts in the affected provinces¹⁹. There was also an approval of the adoption of the DSWD's Emergency Cash Transfer (ECT) program during disasters, utilizing NDRRM Funds. The ECT program is an adaptive strategy in bridging the gaps between immediate disaster relief, humanitarian response, and early recovery support through the provision of unconditional cash to victims of disasters and emergency situations requiring interventions²⁰.

¹⁷ *Batangas Rushes Homes for Dwellers*. Inquirer. M.Cinco. Feb 4, 2020.

¹⁸ *Government steps up rehabilitation, recovery and planning for Taal affected communities*. Philippine Information Agency. 7 Feb 2020.

¹⁹ *Duterte Declares State of Calamity in Calabarzon due to Taal volcano eruption*. GMANews. V. Lopez. 27 Feb 2020.

²⁰ *Ibid*.

Covid19

In November 2019, COVID-19 (a respiratory disease caused by the novel coronavirus or SARS-COV2) affected Wuhan City of the Hubei province with a population of around 60million people. In January 2020, the Chinese Communist Party admitted its underestimating of the virus and immediately put Wuhan and the province of Hubei under quarantine to prevent the spread of the disease. Compounding the problem of the spread of the disease is that the spread occurred the same time as the celebration of the Lunar New Year holidays wherein most Chinese are travelling in different destinations as tourists. The COVID-19 pandemic has already affected 200 countries (and still counting) globally. The human cost is rapidly being matched by huge economic costs. Experts estimate that each COVID-19 sufferer infects between 2-3 others (twice as high as the seasonal flu) and COVID-19 could have been circulating for many weeks before it was detected because people simply thought they had a common cold and did not go to hospitals. The number of silent COVID-19 carriers could not be estimated²¹.

In the Philippines, first case of the disease was identified from a Chinese tourist on January 30 with the first death from the disease in the Philippines coming a few days later. February 5 saw the first confirmed case of a Filipino citizen outside the Philippines. On March 5 the DOH confirmed that the fifth case was the first local transmission in the country. As the infections began to rise, President Duterte has formally declared a state of public health emergency in the Philippines on March 9 and six days later, announced a partial lockdown on Metro Manila beginning at midnight on March 15 with Land, domestic air, and domestic sea travel to and from Metro Manila shall be suspended until April 14, 2020 (international departures will be permitted). A day later on March 16 the entire island of Luzon is placed on "enhanced community quarantine," (ECQ).

On March 22, the President asked Congress, to declare a national emergency and grant the president emergency powers on account of COVID-19. The next day, The Senate and the House of

²¹ COVID-19: Its Impact on the Philippines - Parts I, II and III of V
Europe Solidaire Sans Frontieres. Da Silva, Raymond. 14 April 2020.

Representatives had a special session, on March 23, to deliberate President Duterte's request to realign funds for COVID-19 response. The House of Representatives approved House Bill 6616 or "Bayanihan Act". The day after, the Senate approved Senate Bill 1481 or "We Heal As One". Subsequently, both Bills was named "Bayanihan to Heal as One Act" to which President Duterte signed into law, granting him 30 additional powers to handle COVID-19 and its projected aftermath. Come April, COVID-19 cases in the country to 2,311 with a death toll of 96 and recovered patients at 50. On April 10 COVID-19 cases doubled to 4,195 with 221 deaths and recovered patients to 140. During the same month, its has been announced that the ECQ will extend until May and that testing kits have been made available and mass testing will be conducted. As of April 18 COVID-19 cases the 6,000 mark and while the death toll is 397, recovery outpaced it with 516.

Socio-economic effects

The Duterte Administration has pinned its hopes on the earlier mentioned factors for economic growth: macroeconomic and fiscal initiatives by the previous administrations which has assured the Duterte administration of 6-7% GDP; the 35B\$ remittance inflow to the country which comprises almost 10% of the GDP; the Business Process outsourcing (BPO) industry that is projected to lead to US\$ 40 to 55 billion by 2020 and providing 1.3 to 1.5 million new jobs. The BPO sector contributes 9 percent of the country's GDP growth; and the Duterte Administration's massive infrastructure spending dubbed the "Build Build Build" program wherein an ambitious US 180\$ billion shall be invested in infrastructure development that could pave the way for increased economic activity and GDP growth.

The catastrophic events leading up to the start of 2020 will have an effect on the Philippines' ability to maintain its consistent 5-6% GDP growth since 2012. It should be noted that in order for the "Build Build Build" program to take off, funding and support for the project should be established. Duterte's High Approval ratings (85 per cent) helps a lot to garner support needed²²

²²*Under Duterte, an economically resurgent Philippines is finding its feet*, Letters. SCMP. RV Ongpin. 13 Aug, 2019.

including a majority coalition in the Legislative. During the Aquino Administration, realising that public spending on infrastructure is a key driver of the economy, for the Infrastructure spending of the Aquino Administration, the government relied about 40% on Public and Private Partnerships (PPP) to drive infrastructure spending which is defined as²³:

“as a contractual agreement between the Government and a private firm targeted towards financing, designing, implementing and operating infrastructure facilities and services that were traditionally provided by the public sector. It embodies optimal risk allocation between the parties – minimizing cost while realizing project developmental objectives. Thus, the project is to be structured in such a way that the private sector gets a reasonable rate of return on its investment.”

However, the targets of the PPP fell sort due to notable delays in tariff adjustments in some power, water, and toll road PPP deals; right-of-way disputes; as well as changes in the rule of the game²⁴. 2014 infrastructure spending fell short because of delays and fiascos that plagued most projects as well as underspending, 24.4% short of the P365.2-billion program for infrastructure. This underspending blunted the positive results of fiscal and macroeconomic policies implemented by the Aquino administration²⁵. Thus, the Duterte Administration will rely less on the PPPs and more on: Government Revenues; Official Development Assistance (ODA), particularly from Japan and China, as his main sources of infrastructure funding since Japan has been a leading investor in the Philippines for decades and China has pledged \$7.3 billion in infrastructure investments as well as to undertake some projects; the TRAIN law or the The Tax Reform for Acceleration and Inclusion (TRAIN) Act, officially cited as Republic Act No. 10963, is the initial package of the Comprehensive Tax Reform Program (CTRP) is expected to raise sufficient revenues to fund infrastructure spending (estimated to raise P786 billion over the next 5 years)²⁶.

The socio-economic effects of Covid19 is a delicate balancing act for the Duterte administration government as it tries to find equilibrium between preventing the spread of the virus

²³ What is PPP? (<https://ppp.gov.ph/ppp-program/what-is-ppp/>)

²⁴ PH PPP thrust: Work in Progress. *Rappler*. C. DelaPaz. July 2015

²⁵ How public-private partnerships work in infra projects. *Rappler*. C. 26 July 2015.

²⁶ Duterte's Build build build project to transform the Philippines could become his legacy. *Forbes*. RJ Heydrian. Feb 28, 2018.

and mitigating its damage to the economy and be consistent with growth trajectories. The Philippines is mainly a consumption driven economy²⁷ and with the ECQ or Enhanced Community Quarantine, it has affected retailers, services and financial institutions especially if we consider households contribute more than two-thirds of aggregate expenditures²⁸. The considerable depreciation in Oil prices likewise might not have a significant effect on growth because what should be boon to the economy, social distancing restrictions negates. Similarly A lull in economic activities will surely be followed by lay-offs and unemployment further decreasing economic activity.

An integral part in funding the “Build Build Build” program is reliance on Overseas Development Assistance (ODA). The world felt a slight hiccup economically with the threat of a Trade War between the US and China which was averted and even led to a historic trade agreement. The first phase of this two-year agreement was for China, to buy \$200 billions worth of goods from the US. But as the catastrophic impact of COVID-19 has unfolded in both countries, they will surely not be able to implement the first phase of trade agreement²⁹. The region’s reliance on China is expansive especially on China-made components; export of agricultural products to China’s market; Decrease in Chinese tourism, similarly affecting transportation (airlines) industries. Closer to home, dependence on China’s investment on major infra projects will have an effect on Philippine developmental goals. According to Heydrian (2018), the Philippines and Cambodia will be considered in a worst situation because both are economically and politically very dependent on China. Eighty (80%) percent of Cambodia’s economy is dependent on China. The “Build, Build, Build” mega flagship projects of the Duterte’s government are mainly dependent on China’s funding support³⁰.

²⁷ Philippine sustain strong growth amidst local and global uncertainties. WorldBank. April 2019.

²⁸ Ibid.

²⁹ *Duterte’s Build build build project to transform the Philippines could become his legacy.* Forbes. RJ Heydrian. Feb 28, 2018.

³⁰ Ibid.

Exhaustive Funding; bankrolling the fight against Covid19

It is clear that given the situation funding for the massive infrastructure programs will be redirected in the meantime to stymie the health and economics effects of the virus. In the fight against Covid19 the government sought to source out the funds needed and initially came up with a PhP600 billion in funds with 300B coming from the Central Bank, 205B in unobligated funds and from Government owned and controlled corporations (GOCC), 50-100B will be in form of Loans and 3.6B coming from private entities and big businesses. As of April 8 on the cash on hand amounts to PhP100B and was transferred to the Department of Social Welfare (DSWD) to support 18 million families affected by economic downturn³¹. A week later, the Department of Finance (DOF) announced the establishment of the administration's four-pillar socioeconomic strategy to specifically address the effects of Covid19. Finance Secretary Carlos G. Dominguez III said that the funds now amounted to a total of P1.45 trillion and will be distributed accordingly: P583.8 billion in emergency support for vulnerable groups; P35.7 billion in expanded medical resources to fight the disease and ensure frontliners' safety; P610 billion in additional concessional financing, including P310 billion in loans from multilateral and bilateral lenders; and P220.5 billion in other monetary and fiscal initiatives³²

Insuring against natural calamities

Asia has borne almost half of the estimated global economic cost of natural disasters for the past 20 years to the amount of roughly \$53 billion annually and its effect on the Asian countries' Economic growth is astounding as direct physical losses from disasters in the region significantly outpaced growth in gross domestic product (GDP)³³. In the Philippines, where natural disasters occur regularly, the average cost to the economy during earthquakes amount to PhP43.5 billion and

³¹ *Covid19 response: moneytrail*. CNNPhilippines. MN.Lopez. April 8, 2020.

³² IMF cuts 2020 Ph growth forecast to 0.6% expect unemployment rise amid pandemic. *Inquirer*. BO De Vera. 14 April 2020.

³³ *Insuring Against Asia's Natural Calamities*. Asian Economic Integration Monitor. Asian Development Bank (ADB).

Php133.2 billion from typhoons (average 20 a year) and can be combined to an annual average loss is estimated at Php176.6 billion. Given the random nature of the severity and frequency of natural disasters, it is inefficient for the Government (GoP) to budget for a large amount each year to cover itself against disasters as the funds can be alternatively used for other purposes such as infrastructure development or social programs³⁴.

Calamities have a tendency to derail any economic development plan and with the average number of typhoons affecting the country, effects of climate change and the appearance of novel catastrophes such as Covid19, funding for calamities should be a key policy included in the Philippine development plan. Natural disasters affect a nation on many socio-economic levels; the loss of lives could be devastating for families and the subsequent refugee problem, evacuation, health and safety issues compounds to a larger problem of poverty. Economically, Damage to infrastructure, crops, and housing are accompanied by loss of revenue, rising unemployment, disruptions in trade and commerce, and market destabilization³⁵

Disaster risk financing & Insurance (DRFI)

Just like any insurance policy wherein there is transfer of risk from one party to another, Disaster risk financing (DRF) reduces country exposure to disaster-related losses by transferring or sharing risk through specifically designed financial instruments³⁶. It's objective is to improve financial resilience of the country against natural disasters by minimizing its contingent liabilities; to protect the economic gains of the country and ensure minimal impact especially on the poor and marginalized³⁷.

³⁴Villacin, DT (2017). A Review of Philippine Government Disaster Financing for Recovery and Reconstruction. *Philippine Institute for Developmental Studies*. Discussion Paper series 2017-21. June.

³⁵Insuring Against Asia's Natural Calamities. *Asian Economic Integration Monitor*. Asian Development Bank

³⁶ Ibid.

³⁷Villacin, DT (2017). A Review of Philippine Government Disaster Financing for Recovery and Reconstruction. *Philippine Institute for Developmental Studies*. Discussion Paper series 2017-21. June.

There are two types of DRFI Instruments include ones that are put in place in anticipation of potential disaster events (ex ante) and ones turned to after an event (ex post) ³⁸. Examples of Ex ante finance includes setting aside reserves; establishing contingent credit; and developing various kinds of risk transfer products involving insurance, reinsurance and parametric insurance, along with capital market solutions such as catastrophe bonds. Food Security is essential during a calamity. Thus Agricultural insurance would greatly contribute to maintaining stability of Food prices by insuring the farmer's loss and compensation of agricultural produce. Ex post finance—or post-disaster response funding—includes budget reallocation, domestic and external credit, tax increases, and donor assistance³⁹.

In the Philippines, the government has taken many steps to address such natural disasters, such as sourcing disaster financing from national and local level funds as well as contingent credit lines⁴⁰ as manifested by Duterte administration recently, during the Covid19 crisis wherein in the PhP600 billion war chest to fight the virus, half came from the BSP, a third came from Government owned and controlled corporations (GOCC) while the rest will be in the form of Loan Extensions.⁴¹ However, given the reality of Pandemics, Super typhoons and anticipation of the “Big One⁴²”, higher impact disasters would most likely exceed these resources. There is a need for a more sophisticated, deliberate and long term version of the DRFI if the Philippines is to remain relevant and effective given the recent Natural and Climate disasters.

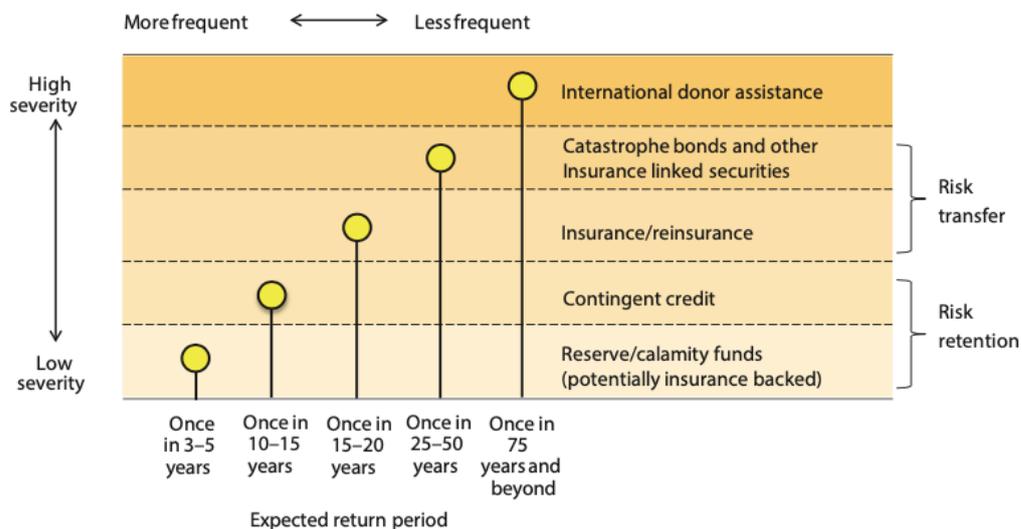
³⁸ *Using Parametric Insurance to Address Rapid Post Disaster Financing*. Development Asia. Asian Development Bank (ADB). December 2018

³⁹ *Insuring Against Asia's Natural Calamities*. *Asian Economic Integration Monitor*. Asian Development Bank

⁴⁰ ⁴⁰ *Using Parametric Insurance to Address Rapid Post Disaster Financing*. Development Asia. Asian Development Bank (ADB). December 2018

⁴¹ IMF cuts 2020 Ph growth forecast to 0.6% expect unemployment rise amid pandemic. *Inquirer*. BO De Vera. 14 April 2020.

⁴² *Should you be afraid of the big one?*. ABSCBN. JR Aguila. May 2019.



Source: J.D. Cummins and O. Mahul. 2009. *Catastrophe Risk Financing in Developing Countries: Principles for Public Intervention—Overview*. Washington, D.C.: World Bank. Quoted in ADB. 2013. *Investing in Resilience: Ensuring a Disaster-Resistant Future*. Manila. p. 128.

The figure above from a paper published by the Asian Development Bank⁴³ there should be identified levels of the severity of calamities and the equivalent source of funding for these. In Low Level severity, a focused response will be on risk retention, through calamity funds and fiscal reserves. If the calamity funds and reserves are exhausted or are not easily accessible, a Medium Level severity requires sourcing from contingent credit and insurance which borderlines between risk retention and risk transfer. For High Level severity (such as Covid19), risk transfer instruments should include catastrophe risk reinsurance or catastrophe (cat) bonds.

The Philippine government has recently formulated a national DRFI strategy identifying interventions in three levels: national, local and individual. Examples of the various interventions include putting in place DRFI strategies for certain sectors, establishing a catastrophe risk insurance facility for local governments and one for private homeowners and SMEs. Capacity-building to improve DRFI management is also prioritized such as improving risk analytics capability at the government oversight level and DRFI management at the local levels⁴⁴

⁴³ Insuring Against Asia's Natural Calamities. *Asian Economic Integration Monitor*. Asian Development Bank

⁴⁴Villacin, DT (2017). A Review of Philippine Government Disaster Financing for Recovery and Reconstruction. *Philippine Institute for Developmental Studies*. Discussion Paper series 2017-21. June.

According to the Annual Global Climate and Catastrophe Report 2013, total economic losses from natural catastrophes worldwide totaled \$192 billion in 2013—with insured losses a mere \$45 billion. While 67% of economic losses in the United States (US) were insured, just 7.6% were insured in Asia⁴⁵. An ADB Paper⁴⁶ cites that inadequate insurance options for governments available ranges from the perception that insurance is expensive, lack of awareness on the value of insurance as well as the full economic impact of disasters, a widespread mistrust of the industry itself, few appropriate insurance solutions to address people’s real needs and concerns, Distribution systems are less sophisticated, and poor regulation. Thus the Philippines mostly partners with International organizations to augment the lack of Insurance options available. In a World Bank study , while Catastrophe risk transactions provide insurance coverage against natural disasters, since the country is still considered an emerging economy, access to relevant insurance coverage is a challenge. Partnering with the World Bank is among the most viable options whose fiancé objectives are: Gain access to international reinsurance markets to transfer risk; Create pool for national and local government units (LGUs) to obtain more cost-effective coverage; Create a customized policy for quick post disaster payouts; Combine currency hedging with the insurance to provide payouts in Philippine peso⁴⁷.

Conclusion

The Philippines has been rising star since 2010, with the previous 2 administrations instilling the fiscal and macroeconomic foundations to further ensure a 5-6% annual GDP growth. Underspending on the infrastructure however, has taken a backseat. Given the limited and concrete economic policies of the popular Duterte administration (whose platform was predominantly anti-drugs and anti corruption), they relied much on continuity of the previous administrations and to initiate a massive infrastructure program to further nudge economic growth to 6-7%. Funding will

⁴⁵ Insuring Against Asia’s Natural Calamities. *Asian Economic Integration Monitor*. Asian Development Bank

⁴⁶ Ibid

⁴⁷*Insuring the Philippines against natural disasters: Case Study*. The World Bank. August 2018.

come from public and private partnerships (PPP), in the form of loans and overseas development assistance mostly from China and an ODA mainstay in the country, Japan. The Government will likewise strengthen the unique income generating industries greatly contributing to the GDP; Remittances from abroad and the Business Process Outsourcing (BPO) industries, all complemented by a new tax system that would ensure increased revenues for the government to fuel its “Build build build” program.

The recent Calamities that have struck the Philippines leading to 2020 and on its first months have been catastrophic at least to the government’s efforts in expanding the economy. There has been much optimism for the Philippines as an emerging market and seen as the 16th largest economy by 2050 according to HSBC⁴⁸, until the start of 2020. There was a massive shift in fiscal and monetary priorities from that of long term infrastructure building to short term alleviation programs to help those affected such as unemployment and health care. Funds were also reallocated to prepare to mitigate the economic effects of the virus. Currently, the Philippine government is relying on available funds and government savings, local borrowings and other international loans (WB and ADB). It is one thing to borrow for a guaranteed return on the economy and another as a stop gap measure to blunt the effects of a Calamity.

Being situated in the Pacific Ring of fire, the frequent and regular typhoon arrivals (20 annually on average), climate change and now, the introduction of global pandemics, the Philippines is in dire need of an upgraded disaster risk financing and insurance (DRFI) policy. A systematised approach and identifying combinations of ex ante and ex post type of finances, identify what calamities to finance, where to get the funds and the “speed” on how the fund can be retrieved as well as allocated deepening on the short term, medium and longterm requirements and severity of the calamity. Similarly, external loans should be an option but not an automatic response in terms of a crisis, as risk transfer and insurance should be the mainstay given the ‘uniqueness’ of recent calamities.

Case in point is the 2020 Wimbledon Championships in the UK. In April 2020, the All England Lawn Tennis Club (AELTC) announced the cancellation of the 2020 Wimbledon

⁴⁸ *Ph Economy seen as 16th largest by 2050-HSBC. Businessworld. November 25, 2015.*

Championships. Fortunately, the club's risk and finance sub-committee had the foresight in getting the events insured for possible disruptions that would affect the Championships. Such events include world wars, a period of national mourning in the event of the Queen's passing as well as epidemics/pandemics such as Covid19. Accordingly, the estimated payout for the cancellation to be in excess of £100 million⁴⁹

Similarly, the government has to take advantage of such risk transfer options especially there is steady growth in the insurance industry, with the Insurance Commission (IC) exercising its Regulatory powers and the market is now more open than ever with a number of international companies setting up shop. For the past 3-4 years the industry has been growing, from January to September 2019, total premium income of the industry is at P224.97 billion, up from last year's, P218.91 billion with growth was attributed to all sectors of the insurance industry. Other developments include:

- significant increase in all premium types of variable life insurance products drove premiums to about P172.05 billion as of September 2019;
- non-life sector contributed P44.02 billion;
- preneed industry, on the other hand, has shown a consistent performance as its premium income increased by 20.60 percent to P16.99 billion from P14.08B;
- health maintenance organization (HMO) industry is on the upswing, according to the IC, highlighting that the sector total revenues reached P36.76 billion as of the third quarter of 2019, up 8.64 percent from P33.83 billion during the same period in 2018;
- industry assets reached a record-high P1.74 trillion in the quarter ending September 2019, with life sector alone posted P1.39 trillion in assets during the first nine months of 2019. At the same time, the non-life sector accounted for P248.99 billion in the same period;
- number of individuals covered by microinsurance significantly grew to a total of

⁴⁹*Wimbeldon 2020 cancellation: We're fortunate to have insurance.* Insurance Business Asia. T. Tanguangco. 3 April 2020.

40 million Filipinos as of end-September;

- In terms of insurance density, the amount of premium per capita, rose by 1.16 percent year-on-year, which means that each individual is willing to spend P2,077.30 on insurance;
- the contribution of the insurance sector to the national economy in terms of premium as a share of gross domestic product, reached 1.69 percent in the third quarter of 2019; and
- Ultimately, as proof that more and more Filipinos are becoming aware of the importance of insurance, market penetration has reached 59.15 percent as of end-September, it added⁵⁰.

Given the gradual stages to be taken by the Philippine government in terms of building the economy through Infrastructure development, concrete steps have to be taken to proactively seek reinsurers and risk transfer institutions on every aspect of the “build build build” program as this would ensure the continuity of the infrastructure projects and is considered a form of disaster mitigation in times of Calamities. Similarly, the establishment of a standardised DRFI policy should be realised and complement economic development programs of the government so as to ensure the momentum generated since 2010.

Notes

Manzano & Villegas (2016). Prospects for the Philippine Economy under the Duterte Presidency. *Contemporary Southeast Asia*. Vol. 38, No. 2 (August 2016). ISEAS - Yusof Ishak Institute pp. 197-201.

Under Duterte, an economically resurgent Philippines is finding its feet, Letters. SCMP. Roberto V. Ongpin. 13 Aug, 2019

Villacin, DT (2017). A Review of Philippine Government Disaster Financing for Recovery and Reconstruction. *Philippine Institute for Developmental Studies*. Discussion Paper series 2017-21. June.

What is your presidential candidate's platform of government? JC Ansis, CNN Philippines. February 12, 2016. (<http://nine.cnnphilippines.com/news/2016/02/12/presidential-candidates->

⁵⁰ Sustained Growth in Insurance sector seen. *Manila Times*. MU Caraballo. 29 January 2020.

platform-of-government-elections.html)

Philippines: President-Elect Duterte Prompts Concern Over Economic Policy What will the Philippines' president-elect mean for the country's economic prospects? Jack Wagner. *The Diplomat* May 27, 2016. (<https://thediplomat.com/2016/05/philippines-president-elect-duterte-prompts-concern-over-economic-policy/>)

Duterte's 8-point economic agenda. CNN Philippines. May 12, 2016

Ph: the fourth largest destination in 2019. *BusinessWorld*. Feb 10, 2020 (<https://www.bworldonline.com/phl-fourth-largest-remittance-destination-in-2019/> feb 10, 2020)

Business Processing Outsourcing in the Philippines. ASEANbriefing. April 17, 2017 (<https://www.aseanbriefing.com/news/business-process-outsourcing-philippines/>)

Build build build to yield expanded more comprehensive list. *The Philippine Daily Inquirer*. Ben de Vera. October 16 2019 (https://ppp.gov.ph/in_the_news/review-of-build-build-build-to-yield-expanded-more-comprehensive-list/).

Duterte's Build build build project to transform the Philippines could become his legacy. Forbes. RJ Heydarian. Feb 28, 2018 (<https://www.forbes.com/sites/outofasia/2018/02/28/dutertes-ambitious-build-build-build-project-to-transform-the-philippines-could-become-his-legacy/#1ff8c6ba1a7f> Richard Javad Heydarian feb 28. 2018)

Asian disaster Reduction Center. (<https://www.adrc.asia/nationinformation.php?NationCode=608&Lang=en>)

Natural Disasters the new normal. *The Philippine Daily Inquirer*. Guillermo Luz, jan 25, 2020. (<https://opinion.inquirer.net/126870/natural-disasters-the-new-normal>)

What is PPP? (<https://ppp.gov.ph/ppp-program/what-is-ppp/>)

Taal volcano cost calabarzon economy, but economic impact on the rest of ph minimal. *Philippine Daily Inquirer*. DL Lucas. 30, January 2020 (<https://business.inquirer.net/289357/taal-volcano-seen-to-cost-calabarzon-economy-p6-7b-but-economic-impact-on-rest-of-ph-minimal-says-bsp> Daxim L. Lucas. *Philippine Daily Inquirer* / 06:27 PM January 30, 2020)

Volcano eruption: Humanity & Inclusion assesses the needs of those affected. Relief Web. 3 Feb 2020 (<https://reliefweb.int/report/philippines/volcano-eruption-humanity-inclusion-assesses-needs-those-affected>)

Duterte Declares State of Calamity in Calabarzon due to Taal volcano eruption. *GMANews*. V. Lopez. 27 Feb 2020 (<https://www.gmanetwork.com/news/news/regions/727549/duterte-declares-state-of-calamity-in-calabarzon-due-to-taal-volcano-eruption/story/>)

Batangas Rushes Homes for Dwellers. *Inquirer*. M.Cinco. Feb 4, 2020. (<https://newsinfo.inquirer.net/1223733/batangas-rushes-homes-for-taal-volcano-dwellers>)

Government steps up rehabilitation, recovery and planning for Taal affected communities. Philippine Information Agency (PIA). 7 Feb 2020 (<https://pia.gov.ph/news/articles/1034188>)

COVID-19: Its Impact on the Philippines - Parts I, II and III of V. Europe Solidaire Sans Frontieres. Da Silva, Raymond. 14 April 2020. (<http://www.europe-solidaire.org/spip.php?article52772>)

PH PPP thrust: Work in Progress. *Rappler*. C. DelaPaz. July 2015 (<https://www.rappler.com/business/industries/208-infrastructure/99616-ph-ppp-projects-delays-risks-competitiveness>)

Insuring Against Asia's Natural Calamities. *Asian Economic Integration Monitor*. Asian Development Bank (ADB). (https://aric.adb.org/pdf/aeim/AEIM_2014April_ThemeChapter.pdf)

Philippine sustain strong growth amidst local and global uncertainties. WorldBank. April 2019. (<https://www.worldbank.org/en/news/press-release/2019/04/01/philippines-to-sustain-strong-growth-amidst-local-and-global-uncertainties>)

How public-private partnerships work in infra projects. *Rappler*. C. 26 July 2015. (<https://www.rappler.com/business/features/99751-rapplertalk-public-private-partnerships-infrastructure>)

Covid19 response: moneytrail. CNNPhilippines. MN.Lopez. April 8, 2020. (<https://cnnphilippines.com/news/2020/4/8/COVID-19-response-money-trail.html>)

IMF cuts 2020 Ph growth forecast to 0.6% expect unemployment rise amid pandemic. *Inquirer*. BO De Vera. 14 April 2020 (<https://business.inquirer.net/294743/imf-cuts-2020-ph-growth-forecast-to-0-6-expects-unemployment-to-rise-amid-covid-19-pandemic#ixzz6KJOY2tqP>)

Using Parametric Insurance to Address Rapid Post Disaster Financing. Development Asia. Asian Development Bank (ADB). December 2018 (<https://development.asia/insight/using-parametric-insurance-address-rapid-post-disaster-financing>)

Should you be afraid of the big one?. ABSCBN. JR Aguila. May 2019 (<https://news.abs-cbn.com/ancx/culture/spotlight/05/02/19/should-you-be-afraid-of-the-big-one>)

Insuring the Philippines against natural disasters: Case Study. The World Bank. August 2018. (<http://pubdocs.worldbank.org/en/449941523545801796/case-study-financial-products-Philippines-2018-parametric-catastrophe-insurance-pool-8-15-2018.pdf>)

Wimbledon 2020 cancellation: We're fortunate to have insurance. Insurance Business Asia. T. Tanguangco. 3 April 2020. (<https://www.insurancebusinessmag.com/asia/news/breaking-news/wimbledon-2020-cancellation-were-fortunate-to-have-the-insurance-218813.aspx>)

Ph Economy seen as 16th largest by 2050-HSBC. *Businessworld*. November 25, 2015. (<http://industry.gov.ph/phl-economy-projected-as-16th-biggest-by-2050-hsbc/>)

Sustained Growth in Insurance sector seen. *Manila Times*. MU Caraballo. 29 January 2020. <https://www.manilatimes.net/2020/01/29/business/business-top/sustained-growth-in-insurance-sector-seen/678109/>