

Protecting Small Businesses Against Disasters in the Philippines Through Insurance

Securing MSMEs through an Integrated Climate and Disaster Risk Management Approach

The challenge

Micro, small and medium enterprises (MSMEs) represented 99.52% of 1,003,111 registered businesses in the Philippines in 2019. Microenterprises make up 88.45% or 887,272 of all enterprises and accounted for 30.4% of all jobs (around 2.4 million). Almost half of all registered MSMEs are into wholesale and retail (46.25%), other industries (16.38%), accommodation and food services (14.48%), manufacturing (11.65%), and other services (6.63%).

MSMEs are exposed to severe losses due to extreme weather events exacerbated by Climate Change. The Philippines is fifth among countries most exposed to risks due to climate change in 1998–2017. Total losses amounted to USD 2.9 billion or 0.576% per unit GDP¹, with an average death toll of 0.971 per 100,000 inhabitants due to 307 climate-related events. Risks that disrupt MSME operations include typhoons, power blackouts, fire, flood, accidents, and earthquakes. These disasters disrupted the work of employees and the delivery of products to markets, and damaged facilities. Raw materials and completed products were also damaged, disrupting the value chain from the input suppliers to the business and the markets.

Our approach

The Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia (GIZ RFPI Asia III), through the develoPPP programme of the German Government, joined resources with AXA Philippines, the Philippine Department of Trade and Industry

(DTI) and Cebuana Lhuillier Insurance Brokers (CLIB) to improve the access and uptake of microinsurance products among MSMEs in the Philippines by developing a disaster risk insurance product and providing financial literacy training to DTI Business Counsellors stationed in the DTI Negosyo (Business) Centers.

The MicroDRI Project conducted a market and product development study to assess the needs of MSMEs for a disaster risk insurance product. The results of the study, including of the focus group discussions with MSMEs, and the extensive commercial experience of AXA Philippines and CLIB were used to create a responsive and relevant disaster risk insurance product licensed as microinsurance by the Insurance Commission.

Project name	Microinsurance Disaster Risk Insurance for MSMEs (MicroDRI)
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Project region	Asia and the Pacific
Lead executing agency	Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia III (RFPI Asia III)
Duration	January 2018 – January 2022

The MicroDRI project also raised awareness within the DTI on the importance of disaster risk insurance among MSMEs. As the government agency overseeing the development of MSMEs and as the chair of the Micro, Small and Medium Enterprises Development (MSMED) Council, the DTI is mandated by law to guide the development of MSMEs in partnership with the private sector,

¹ Eckstein, D., Hutflits, M-L., Wings, M., (2019). *Global Climate Risk Index 2019*. Germanwatch e.V., Bonn, Germany. p. 8.



(L) MicroDRI project orientation with microentrepreneurs and (R) coordination with partners.

non-governmental organisations and relevant government agencies.

The benefits

With its expertise on climate and disaster risk insurance, the MicroDRI project provided technical assistance to the Resilience Core Group (RCG) chaired by the DTI with the Philippine Disaster Resiliency Foundation (PDRF), the Philippine Chamber of Commerce and Industry (PCCI), Philexport, the Asia Pacific Alliance for Disaster Management and the Employees Confederation of the Philippines. Through a partnership with PDRF, DTI prepared the Business Resiliency Manual, which contained the Disaster Risk Reduction and Management – Business Continuity Planning – Disaster Risk Insurance Checklist (DRRM-BCP-DRI Checklist)².

Success factors

The Philippine Government recognises MSMEs' exposure to risks and values their role and contribution to the economy. It

develops the necessary policies for market development and sustainability with the private sector. The MicroDRI project benefitted from the long history of partnership between GIZ and the DTI. GIZ also developed the microinsurance market in the Philippines with CLIB in the past decade. AXA is a recognised global brand that embraces innovations in developing markets such as within the MSME sector.

The Micro, Small and Medium Enterprises Development Council (MSMEDC) chaired by the DTI recognised the heavy impact of disasters on the development and growth of MSMEs in the Philippines. In March 2020, MSMEDC passed its Resolution Number 1, "Directing all Negosyo Centers to Promote and Advocate Financial Literacy and Climate and Disaster Risk Insurance (CDRI) to ensure disaster resilience and business continuity among MSMEs in the Philippines".

The resolution, which promotes financial literacy and CDRI, supports the Philippines' Republic Act 9501 or the "Magna Carta for Micro, Small and Medium Enterprises," which was created to protect the growth of microenterprises. Advocacy of financial literacy and CDRI will be implemented through Negosyo Centers by DTI Business Advisors using the MicroDRI DRRM-BCP-DRI Checklist.

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² https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/e-library/Growing+a+Business/MSME+Guidebook_First+Edition+April+2020.pdf

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