Long-term Disaster Financing Mechanism Needed

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Over the past two or three decades Taiwan has increasingly felt the impact from the global greenhouse effect. While extreme weather events used to be rare, they occur now on an annual basis. The World Bank has therefore listed Taiwan as a disaster prone area. Taiwan suffers average losses of more than NT$12.8 billion per year due to natural disasters caused by extreme weather, according to Executive Yuan statistics from 2006. Typhoon Fanapi, for example, which hit Taiwan in September, brought so much rainfall that it equaled a once-in-200-years flood, although it passed over the island within just 48 hours. It caused severe floods in the south. While a number of people were injured, the flooding caused more than NT$4.5 billion in material damage to property as well as the farming, forestry, fishery and livestock industries. Typhoon Morakot, which engulfed Taiwan on Aug. 8 last year, was even more devastating. Aside from claiming the lives of 675 people, it caused losses in the order of NT$14.4 billion in the agricultural sector. The damage caused to public infrastructure and private property is hard to fathom. Disaster relief, disaster prevention, and post-disaster reconstruction are surely the government's unshirkable responsibility. But since disasters occur every year and necessary expenditure often by far exceeds immediate disaster-related losses, government finances are under heavy strain. As we live in a disaster-prone area it is worth that we give some deep thought to the important question of how a disaster financing mechanism could be established for the event of major natural disasters. Such a mechanism would serve to finance reconstruction work after a disaster and reduce the government's temporary fiscal exposure to natural disasters.

Judging from Taiwan's experiences with post-disaster reconstruction over the past decade, the government adopts the following approaches to finance reconstruction in the wake of major natural disasters: in the initial phase the government will adjust the existing budget or use reserve funds as stipulated by the Budget Act in response to the emergency. On top of that the most important measures are additional budget allocations under the Budget Act or the compilation of a special budget following enactment of a special budget act. After a massive earthquake hit Taiwan on Sept. 21, 1999, the government allocated NT$5.3 billion in emergency funding for disaster relief and reconstruction on day two of the catastrophe. It also issued an Emergency Decree which stipulated in Article 1 that additional budgets totaling NT$106.1 billion (including NT$80 billion worth of debt financing) be compiled for the second half of fiscal year 1999 and fiscal year 2000. When the ruling party changed in 2000 a NT$100 billion special budget (in two installments, entirely financed through new debt) was put together for fiscal year 2001 based on Article 69 of the (now defunct) Temporary Statute for 921 Earthquake Post-Disaster Reconstruction in addition to the NT$6.3 billion that had already been earmarked for reconstruction efforts in the central government's general budget.

Then again when Typhoon Mindulle struck central Taiwan in 2004, the government compiled a NT$5.7 billion additional budget for river remediation in the disaster-affected areas. During the SARS (severe acute respiratory syndrome) crisis in 2003 the government compiled a NT$50 billion special budget for SARS prevention and relief (including NT$43 billion that were financed through new debt). Following last year's disaster from Typhoon Morakot, the central government compiled a NT$16.5 billion "Special Budget for Typhoon Morakot Post-Disaster Reconstruction" that spans four fiscal years (2009-2012). Just NT$290 million of that special budget are financed from miscellaneous revenue, while the remainder is financed through new debt issues. As we can see from these past measures the government has been funding reconstruction in the wake of major natural disasters mainly through debt issues and rarely through taxes or other revenue. All in all a total NT$339.5 billion in expenditure for post-disaster reconstruction in previous disasters have been funded through debt issues. If we include new debt issued for the first and second installments of the also disaster-related 2006-2010 special budget for the central government's regulation project for flood-prone areas – NT$31 billion and NT$44.5 billion respectively – then as much as NT$415 billion in expenditure for disaster prevention and post disaster reconstruction is virtually entirely debt financed. Clearly the government is robbing Peter to pay Paul when it comes to funding post-disaster reconstruction. Aside from debt financing it does not seem to have a long-term financing mechanism and therefore considerably lacks flexibility. This does not only jeopardize the soundness of current government finances, but also affects the government's capacity to shoulder the fiscal burden for post-disaster reconstruction in future major natural disasters.

With regard to post-disaster reconstruction funding the government should therefore not only operate in cooperation with private sector resources, but also raise funds for emergency needs in non-crisis times, from the annual budget. By amending relevant tax laws it could impose a surcharge or surtax for post-disaster reconstruction modeled on the tobacco products surcharge and the financial enterprises business tax. These could be included in the current revenue and reserved for a specific purpose so that reconstruction funding would steadily accumulate in non-crisis times. Secondly the Budget Act should be amended so that the surpluses of annual budget reserves are designated for the funding of future post-disaster reconstruction. For the management and utilization of these designated surcharges or taxes and reserve surpluses a special fund could be established that would be included in the annual general budget and overseen by the Legislative Yuan and the Control Yuan. Given the current lack of effective alternative revenue sources and the overwhelming use of debt financing, we could avoid putting further strain on government finances if we proceed this way.