Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD304

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$500 MILLION

TO

REPUBLIC OF THE PHILIPPINES

FOR THE

Fourth Disaster Risk Management Development Policy Loan with a Catastrophe-Deferred Drawdown Option

October 21, 2021

Urban, Resilience And Land Global Practice
East Asia And Pacific Region

Republic of the Philippines

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of September 30, 2021)

Currency Unit

US$1.00 = 51.05 PHP (Philippine Peso)

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Française de Développement
BSP	*Bangko Sentral ng Pilipinas* (Central Bank of the Philippines)
BTMS	Budget and Treasury Management System
BTr	Bureau of the Treasury
CAT-DDO	Catastrophe-Deferred Drawdown Option
CCA-DRR	Climate Change Adaptation- Disaster Risk Reduction
CCAM-DRR	Climate Change Adaptation and Mitigation- Disaster Risk Reduction
CCC	Climate Change Commission
CCET	Climate Change Expenditure Tagging
COA	Commission on Audit
CPF	Country Partnership Framework
CREATE	Corporate Recovery and Tax Incentives for Enterprises
CRVA	Climate Resiliency Vulnerability Assessment
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOST	Department of Science and Technology
DPL	Development Policy Loan
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
DRRM	Disaster Risk Reduction and Management
GDP	Gross Domestic Product
GeoRiskPH	Geospatial Information Management and Analysis Project for Hazards and Risk Assessment in the Philippines
GOCC	Government Owned and Controlled Corporation
GOP	Government of the Philippines

GRID	Green, Resilient and Inclusive Development
GRS	Grievance Redress System
HUC	Highly Urbanized Cities
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development
ICC	Independent Component Cities
JICA	Japan International Cooperation Agency
LGU	Local Government Unit
NCCAP	National Climate Change Action Plan
NDRRM	National Disaster Risk Reduction and Management
NGA	National Government Agency
NGO	Non-Government Organizations
NPL	Non-performing Loans
OBI	Open Budget Index
OCD	Office of Civil Defense
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PCIP	Provincial Commodity Investment Plan
PDNA	Post-disaster Needs Assessment
PDO	Program Development Objective
PDP	Philippine Development Plan
PEFA	Public Expenditure and Financial Accountability
PEISS	Philippine Environmental Impact Statement System
PFM	Public financial management
PRDP	Philippine Rural Development Project
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
TESDA	Technical Education and Skills Development Authority
TVET	Technical and Vocational Education and Training
TWG	Technical Working Group
US	United States
US$	United States Dollar
WB	World Bank

Regional Vice President:	Manuela V. Ferro
Country Director:	Ndiame Diop
Regional Director:	Benoit Bosquet
Practice Manager:	Francis Ghesquiere
Task Team Leaders:	Lesley Jeanne Yu Cordero, Benedikt Lukas Signer

REPUBLIC OF THE PHILIPPINES

FOURTH DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

TABLE OF CONTENTS

The Fourth Disaster Risk Management Development Policy Loan with A CAT-DDO Loan was prepared by an IBRD team consisting of Lesley Y. Cordero (Senior Disaster Risk Management Specialist and Task Team Leader); Benedikt Signer (Senior Financial Sector Specialist and Co-Task Team Leader); Marilyn Tolosa Martinez, (Senior Disaster Risk Management Specialist); Agnes Balota (Environmental Specialist); Madhu Raghunath (Lead Urban Specialist); Rong Qian (Senior Economist); Kevin Chua (Senior Economist); Ruth Rodriguez (Social Protection Specialist); Yasuhiro Kawasoe (Social Protection Specialist); Yoonyoung Cho (Senior Economist); Eli Weiss (Senior Agriculture Economist); Maria Theresa Quinones (Senior Rural Development Specialist); Lilanie Magdamo (Senior Operations Officer); Vincent Abrigo (Senior Program Assistant); Tomas A. St. Maria (Financial Management Specialist); Tatiana Skalon (Financial Sector Specialist); Fides Borja (DRM Consultant); Deanna Villacin (Disaster Risk Finance Consultant); Paula Macandog (Consultant); Bianca Gutierrez (Environmental Consultant); and Elezor A. Trinidad (Program Assistant). The team worked under the supervision of Ndiame Diop (Country Director, EACPF) and Francis Ghesquiere (Practice Manager, SEAU) and benefited from helpful comments and suggestions from Achim Fock (Operations Manager, EACPF), Cecile Thioro Niang (Practice Manager, EEAF2), and Olivier Mahul (Practice Manager, EFNRF). Sumati Rajput (Financial Sector Specialist, EFNRF), Muthukumara S. Mani (Lead Economist, SARCE), and Marc Forni (Lead DRM Specialist, SEAU2) were the peer reviewers. The team gratefully acknowledges the excellent collaboration of the Government of the Philippines.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P177125	No

Proposed Development Objective(s)

The development objective is to strengthen the Government of the Philippines' institutional and financial capacity to manage risks from climate change, natural disasters, and disease outbreaks.

Organizations

Borrower:	REPUBLIC OF THE PHILIPPINES
Implementing Agency:	DEPARTMENT OF FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**500.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	500.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline (2021)	Target (2024)
Pillar A. Strengthening Disaster Response and Recovery Policies and Planning		
Results Indicator A1. Vulnerable Local Government Units (LGUs) submit Disaster Rehabilitation and Recovery Plans as required to rapidly request and access funding from the NDRRM Fund for recovery and reconstruction projects.	0 vulnerable LGUs affected by disasters that require funding submit Disaster Rehabilitation and Recovery Plans to rapidly request and access funding from the NDRRM Fund.	50% of vulnerable LGUs affected that require funding by disasters submit Disaster Rehabilitation and Recovery Plans to rapidly request and access funding from the NDRRM Fund.
Results Indicator A2. Climate, disaster, and health-related baseline data of LGUs are included in the Government's central risk data system (GeoRiskPH).	GeoRiskPH includes climate, disaster, and health-related data of 0 LGUs.	GeoRiskPH includes climate, disaster, and health-related data of 100 LGUs.
Results Indicator A3. Increased community participation in vulnerable provinces in TVET courses related to DRM and disease outbreaks.	3,143 graduates in DRM and disease outbreak related TVET in vulnerable provinces; with 18% women participation in construction, automotive, electrical, and metals engineering related TVET courses.	4,715 graduates (50% increase from the baseline) in DRM and disease outbreak related TVET in vulnerable provinces, women participation in construction, automotive, electrical, and metals engineering related TVET courses increased to 40%.
Pillar B. Strengthening the Resilience of Government Programs in Key Sectors		
Results Indicator B1. Increased compliance of NGAs and LGUs in disaster and climate budget tagging.	10% of NGAs and 10% LGUs complied with budget tagging in 2020 (for the 2021 budget).	50% of NGAs and 30% of LGUs complied with budget tagging.
Results Indicator B2. Local investment programs of highly urbanized cities (HUC) and independent component cities (ICC) and priority vulnerable provinces integrate CCA-DRR measures.	13% (5/38) of HUCs and ICCs and 33% (8/24) of priority vulnerable provinces have local investment programs that integrate CCA-DRR measures.	100% (38/38) of HUCs and ICCs and 100% (24/24) of priority vulnerable provinces have local investment programs that integrate CCA-DRR measures.
Results Indicator B3. The Government has updated the PCIPs to integrate climate risk and resilience in priority investments.	16 out of 60 PCIPs integrated climate risk and resilience in priority investments.	60 out of 60 PCIPs integrated climate risk and resilience in priority investments.

IBRD PROGRAM DOCUMENT FOR A PROPOSED FOURTH DISASTER RISK MANAGEMENT DEVELOPMENT POLICY LOAN WITH A CAT-DDO TO THE REPUBLIC OF THE PHILIPPINES

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Fourth Disaster Risk Management (DRM) Development Policy Loan (DPL) with a Catastrophe Deferred Drawdown Option (CAT-DDO4) of US$500 million aims to strengthen the Government of the Philippines' institutional and financial capacity to manage risks from climate change, natural disasters, and disease outbreaks.** The program and its pillars would focus on (i) strengthening disaster response and recovery policies and planning; and (ii) strengthening the resilience of Government programs in key sectors. The operation builds on the achievements and lessons learned from the first and second DRM DPLs with CAT-DDO (P125943 and P155656), the Third DRM DPL (P171440) as well as the decade-long partnership between the World Bank (WB) and the Government of the Philippines (GOP) related to enhancing DRM, Disaster Risk Financing (DRF) and climate change adaptation.

2. **The Philippine economy has been growing at a sustained average annual rate of 6.4 percent before the pandemic, exceeding its regional peers such as Thailand and Malaysia.** With sustained economic growth, the country is now transitioning from a lower middle-income country to an upper-middle-income country, as its Gross Domestic Product (GDP) per capita nearly doubled, from US$1,669 in 2000 to US$3,191 in 2018 (constant 2010 US$).[1] Sustained economic growth supported by inclusive policies has allowed the country to make progress in reducing poverty and inequality. The poverty rate declined from 23.5 percent in 2015 to 16.7 in 2018.[2] Gini coefficient likewise fell from 44.4 to 42.7 over the same period.[3]

3. **Climate change and natural disasters are threatening to revert the country's development gains.** The Philippines remains highly vulnerable to multiple hazards due to its unique geography. The country ranks ninth as the most affected country globally from extreme weather events, second highest among Asian countries based on the World Risk Index 2020.[4] Around 60 percent of the country's total land area and at least 74 percent of Filipinos are vulnerable to multiple hazards, including typhoons, earthquakes, floods, storm surges, tsunamis, volcanic eruptions, and landslides. Climate-related events were the most frequent of the 2,754 disasters recorded in the country from 2005 to 2015. Typhoons accounted for around 90 percent of the damage in recent years. In the past thirty years, 33,000 people have died, and 120 million people have been adversely affected by natural disasters.[5] In January 2020, Taal Volcano experienced a phreatic eruption affecting 586,045 people close to the Metro Manila Region. In September 2020, magnitude 5.2 and magnitude 6.1 earthquakes hit Mindanao. Subsequently, three successive destructive typhoons hit Luzon from October to mid-November 2020. Typhoons Quinta, Rolly, and Ulysses affected over eight million people, with combined damage to infrastructure and agriculture of Php42 billion (US$841 million).[6] Typhoon Ulysses caused the worst flooding in Metro Manila to date. In July 2021, the

[1] https://databank.worldbank.org/source/world-development-indicators, accessed on 8 October 2021.
[2] Updated 2015 and 2018 Full Year Official Poverty Statistics. https://psa.gov.ph/poverty-press-releases/nid/162559
[3] https://psa.gov.ph/content/annual-family-income-estimated-php-313-thousand-average-2018
[4] http://weltrisikobericht.de/english/ The World Risk Index is calculated on a country-by-country basis through the multiplication of exposure and vulnerability. Exposure covers threats of the population due to earthquakes, storms, floods, droughts, and sea-level rise. Vulnerability focuses on societies' capacity to cope.
[5] World Bank Group (2019). Country Partnership Framework for the Republic of the Philippines 2019-2023.
[6] National Disaster Risk Reduction and Management (NDRRM) Council Situation Report No. 12, November 11, 2020.

Taal volcano again experienced phreatic activities, and the alert status remains high.[7] Climate change continues to exacerbate the impacts of disasters. The Philippine Atmospheric, Geophysical and Astronomical Services Administration has projected warming at a rate of 0.1˚C per decade, which is expected to alter the rainfall pattern and distribution and increase the frequency of extreme events.

4. **The economic costs of climate change and natural disasters are considerable.** From 2010 to 2019, the total damages incurred by the Philippines due to extreme events and natural disasters amounted to Php463 billion (US$9.3 billion). Of the total, 63 percent came from the agriculture sector.[8] Based on the Philippines catastrophe risk model, the country is estimated to incur, on average, Php176.7 billion (US$3.5 billion) in damages each year from typhoons and earthquakes, accounting for around one percent of GDP. Economic losses associated with rare catastrophic events such as Typhoon Yolanda (Haiyan) were even higher, reaching 4.6 percent of the country's GDP. These costs may further increase in the coming years as the severity of climate change and natural disasters intensifies. There was no full fiscal risk assessment to quantify contingent liabilities at the national and sub-national levels. However, historical data shows that the GOP spent an average of Php91.9 billion (US$1.8 billion) per year (0.6 percent of GDP) on disaster-related response, recovery, and reconstruction activities between FY2015-2018.[9]

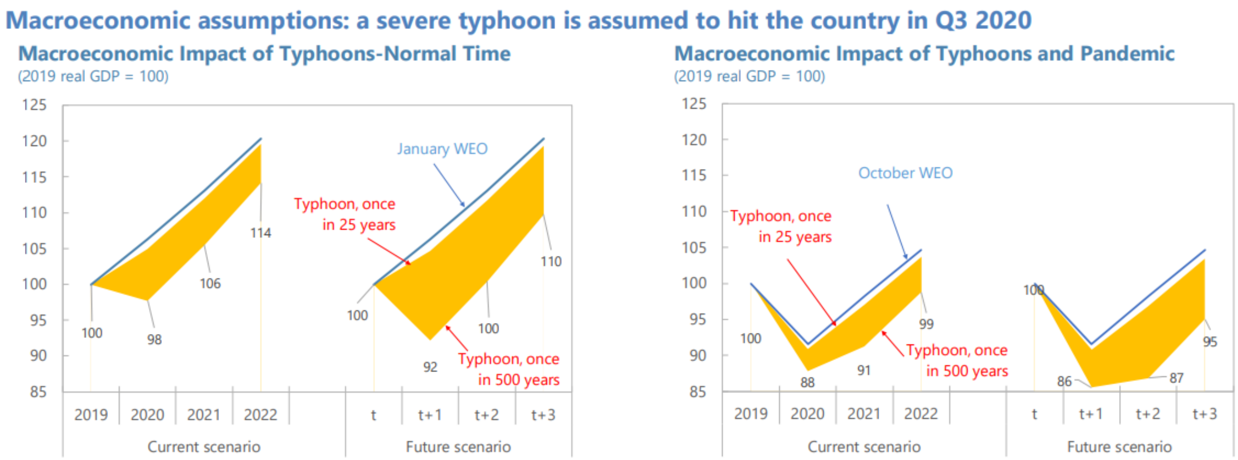
5. **The COVID-19 pandemic has aggravated the impacts of climate change and natural disasters.** Economic disruptions brought about by the COVID-19 pandemic, along with climate change and natural disasters, continue. The economy contracted by 3.9 percent in the first quarter of 2021 while second quarter growth accelerated to 11.8 percent, bringing first semester growth to 3.7 percent amid the prolonged implementation of containment measures and a deterioration in domestic demand conditions. Essential health protocols such as social distancing and lockdown measures have created massive disruptions on mobility, tourism, business operations, and local supply chains, resulting in significant losses in household income and workers' unemployment. The compounding impacts of climate change, natural disasters, and disease outbreaks are expected to magnify the country's economic losses. A recent analysis by the WB and the International Monetary Fund (IMF) shows the compounding effects of a severe typhoon and pandemic can elevate the macroeconomic impact under both current and future climate scenarios (Figure 1). Such a scenario is likely to be devastating for the economy and people's livelihoods.

[7] On July 24, 2021, DOST- Philippine Institute of Volcanology and Seismology lowered the alert status to Alert Level 2 which means that there is decreased unrest but should not be interpreted that unrest has ceased or that the threat of an eruption has ceased. Entry into Taal Volcano Island, Taal's Permanent Danger Zone, is strictly prohibited.

[8] Philippine Statistics Authority. *https://psa.gov.ph/content/damages-due-natural-extreme-events-and-disasters-amounted-php-463-billion*

[9] World Bank Group (2020). Public Expenditure Review: Disaster Response and Rehabilitation in the Philippines.

Figure 1. Impacts of Combined Shocks



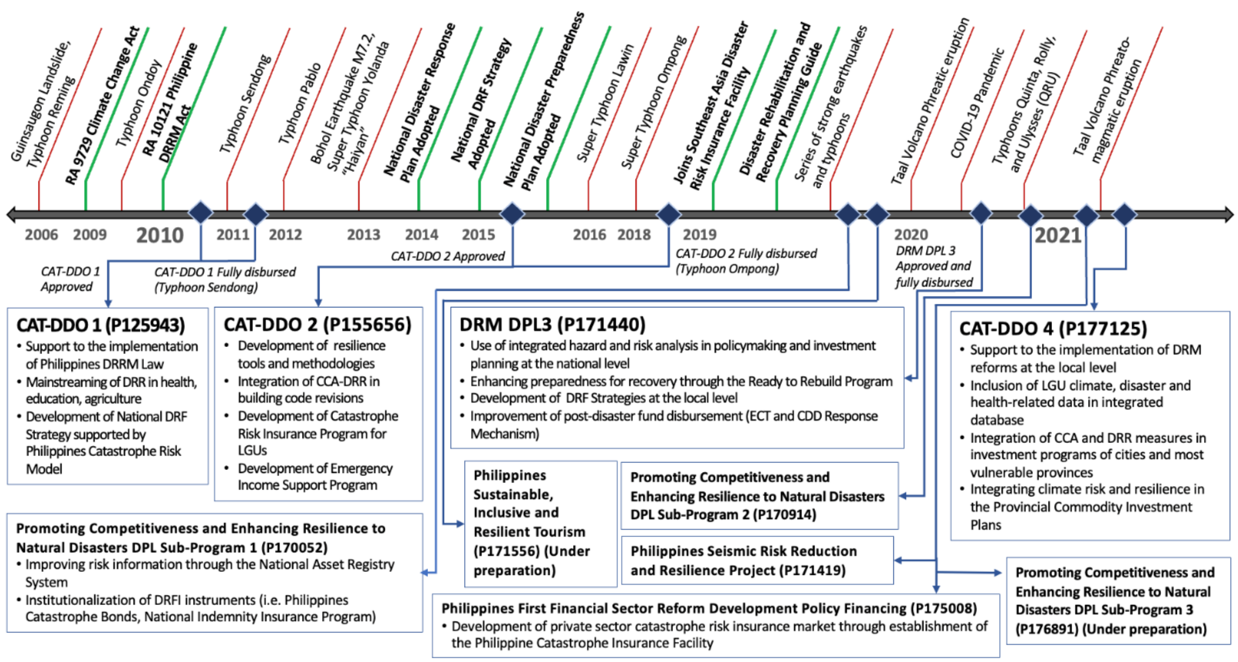
Source: IMF, Philippines Financial Sector Stability Assessment 2021
https://www.imf.org/en/Publications/CR/Issues/2021/04/08/Philippines-Financial-System-Stability-Assessment-Press-Release-and-Statement-by-the-50347. (WEO refers to the World Economic Outlook)

6. **The compounding impacts of climate change, natural disasters, and the COVID-19 pandemic have disproportionately affected the poor.** The poor are less able to cope with and recover from the impacts of climate change, natural disasters, and pandemics on consumption and disruptions in income flows. They have limited labor skills and fewer assets. They also have limited access to resources and opportunities. They invest less in reducing risks they face and therefore lose more when disaster strikes. They have limited access to credit and other financial support to help them cope with and recover from disasters. As these events happen more frequently, the poor also recurrently experience the impact, trapping them in a vicious cycle of poverty. Moreover, the poor tend to live in low-lying risk-prone areas that expose them to multiple hazards. In the Philippines, around one million Filipinos across the country are impoverished by natural disasters every year. Many of them reside in disaster-prone provinces on the eastern edge of the country. Many of the poor are also working in the agriculture and fishery sectors, which are highly vulnerable to climate change and natural disasters. The COVID-19 pandemic has worsened the situation. Lockdowns and mobility restrictions severely affected the poor through loss of employment, income, and livelihood. It has also aggravated challenges of food security and nutrition.

7. **Over the last decade, the Philippines has reformed the way the country deals with disasters. It has shifted its approach from reactive to proactive risk management with a significant focus on preparedness and resilience.** The 2009 Climate Change Act mandated the mainstreaming of climate change adaptation into policy formulation and the establishment of a framework and strategy for climate change. The GOP prepared and adopted in 2010 the National Climate Change Action Plan (NCCAP), which provides the country's strategic direction in responding to climate change for 2011 to 2028. The NCCAP aims to build the adaptive capacities of communities, increase the resilience of vulnerable sectors and natural ecosystems, and optimize mitigation opportunities towards gender-responsive and rights-based sustainable development. It has identified seven thematic priorities: food security, water sufficiency, ecological and environmental stability, human security, climate-smart industries and services, sustainable energy, and knowledge and capacity development. The 2010 Philippine Disaster Risk Reduction and

Management (DRRM) Act[10] directed the shift from disaster response to disaster risk reduction and preparedness. It provided the legal and institutional foundation for strengthening the country's institutional capacity for DRM and mainstreaming disaster risk reduction into development planning, budgeting, and governance. The GOP developed in 2011 the National Disaster Risk Reduction and Management (NDRRM) Framework, which called for building safe, adaptive, and disaster-resilient Filipino communities towards sustainable development. Building on the NDRRM Framework, the GOP prepared the NDRRM Plan 2011-2028, which aims to strengthen GOP's capacity in four priority areas, including disaster prevention and mitigation, disaster preparedness, disaster response, and disaster rehabilitation and recovery. Figure 2 provides the overview of key Philippine DRM milestones and the WB support for the past decade.

Figure 2.The Philippines and the WB: Key DRM Milestones



8. **The GOP has put in place policies and interventions because of its rich experience and lessons learned from previous disasters, in part through the development policy operations, technical assistance, and analytical work supported by the WB**. Sustained engagement allowed the progression of DRM reforms and facilitated the distilling of lessons from the country's implementation experience. Box 1 and Annex 5 present the WB engagement in the Philippines on DRM.

[10] The Philippine DRRM Act defines a disaster as a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources. Disasters include disease outbreaks and public health emergencies.

Box 1. World Bank Engagement in the Philippines on Disaster Risk Management

The Philippines has reformed the way the country deals with disasters. It has shifted its approach from reactive to proactive risk management with a significant focus on preparedness and resilience.

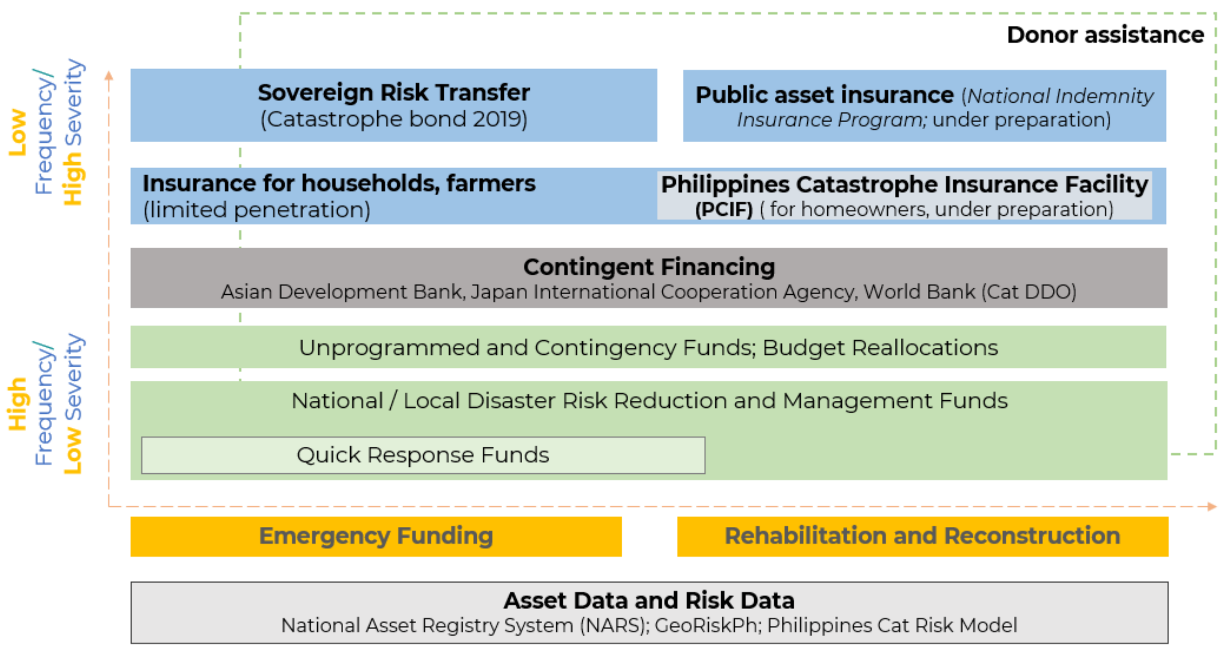
The GOP and Bank engagement commenced with **the first DRM-DPL with CAT-DDO** in 2011 (US$500 million). It aimed to support the implementation of national laws and policies that form the foundation of the current DRM system. The CAT-DDO 1 helped the GOP in: (i) strengthening its institutional capacity for DRM efforts; (ii) mainstreaming disaster risk reduction into development planning, and (iii) managing better its fiscal exposure to natural hazard impacts. The **second DRM-DPL with CAT-DDO** (US$500 million), approved in 2015, further strengthened these fundamental policies, particularly in strengthening risk reduction investment planning and regulations, strengthening financial protection, and improving disaster response capacities. The **third DRM-DPL** (US$500 million), approved in 2020, is focusing on the implementation of DRM policy reforms by further enhancing GOP preparedness capacities at the national and local levels to respond to and recover from disasters. It aims to strengthen adaptive social protection programs and mainstream anticipatory planning for resilient recovery.

Building on the achievements and lessons under the first and second DRM-DPL with CAT-DDO, particularly concerning disaster risk financing, the Bank further supported the GOP in strengthening financial resilience to natural disasters and climate change through the **Promoting Competitiveness and Enhancing Resilience to Natural Disasters DPL- Sub-programs 1, 2, and 3 (US$1.8 billion total)**. Pillar 3 of the DPL series seeks to strengthen the integration of climate and disaster risk management in the government's core fiscal planning and public financial management (PFM) by (i) reducing contingent liabilities by creating and managing a public asset registry; (ii) increasing the efficiency of post-disaster financing by expanding the government's risk layering strategy; and (iii) enhancing regulation for private insurance market against natural disasters. The Bank also supported the GOP through the **First Financial Sector Reform Development Policy Financing** (US$400 million). It aims to (i) strengthen financial sector stability and resilience; (ii) expand financial inclusion for individuals and firms; and (iii) catalyze disaster risk and sustainable finance by enhancing public-private partnership based financial instruments for disaster risk financing and greening the financial sector to support sustainable economic recovery from COVID-19 pandemic.

Finally, following the reforms made under the CAT-DDO 2, the Bank supported GOP efforts to strengthen the physical resilience through the **Seismic Risk Reduction and Resilience Project** (US$300 million). This project aims to enhance the safety and seismic resilience of selected public buildings in Metro Manila, and the capacity of the Department of Public Works and Highways to prepare for and respond to emergencies. The **Sustainable Inclusive and Resilient Tourism Project** (US$150 million) is under preparation to help the GOP enhance sustainability, inclusion, and resilience in targeted tourism destinations in the Philippines.

9. **The CAT-DDO 4, is part of the GOP's overall DRF and Risk Layering Strategy.** A key milestone in the Philippines' efforts to increase financial resilience was the adoption of the National DRF Strategy in 2015 supported by CATDDO 2. The strategy aims to: (i) maintain the sound fiscal health of the national government following disasters; (ii) develop sustainable risk financing mechanisms for LGUs; and (iii) reduce the impact of disasters on poor and vulnerable households. The GOP's sophisticated risk-layering approach aims to minimize the cost and optimize the timing of the post-disaster response (Figure 3). The strategy includes: (i) annual budget allocations to the NDRRM Fund, including agencies' Quick Response Funds; (ii) contingent financing from development partners as pre-arranged loans that can be accessed in times of financial crisis; (iii) a catastrophe-linked bond (Cat Bond) that transfers catastrophe risk to international capital markets and provides quick funding in case of pre-determined severe disaster events occurring;[11] and (iv) a new National Indemnity Insurance Program, which is under preparation (supported by a WB DPL Series), to improve insurance protection for strategic high-risk national government assets.

Figure 3. The Philippines Disaster Risk Finance Strategy and Risk Layering Approach



10. **The proposed CAT-DDO 4 will support the implementation of a decade-long reform process by helping address the gaps in the management of risks relating to climate, disasters, and disease outbreaks, particularly those faced by the LGUs in implementing policies within the current DRM system and covered by existing laws.** These include, but not limited to the need to (i) address complex approval

[11] In 2019, the Philippines worked with the World Bank to issue the first catastrophe-linked bonds (Cat Bonds) sponsored by a government in an Asian country, providing US$225 million to protect against earthquakes and typhoons. *https://www.worldbank.org/en/news/feature/2020/04/09/the-philippines-transferring-the-cost-of-severe-natural-disasters-to-capital-markets* and *http://pubdocs.worldbank.org/en/752771575392782540/case-study-Philippines-CAT-bond-final-12-3-2019.pdf*.

processes that often delay the disbursement of funds for rehabilitation and recovery; (ii) improve access, understanding, maintenance (updating), and use of risk information and research; (iii) enhance risk awareness and risk informed decisions and actions by governments and communities; (iv) implement comprehensive and mutually reinforcing community preparedness and response plans and programs; and (v) mainstream climate change adaptation and disaster risk reduction (CCA-DRR) in the context of increased devolution resulting from the Mandanas Ruling. The policy reforms under the proposed operation will also support the institutionalization and rollout of reforms at the sub-national level.

11. **The proposed policy reforms under the CAT-DDO 4 are essential in ensuring continuity in Government efforts through the upcoming elections and into the next administration.** Competing priorities around elections and challenges around settling in of the new administration after the national and local elections may slow down the momentum of the reform process. The three-year policy commitment and program of the CAT-DDO will help to institutionalize this effort across the change in administration. The prolonged impact of the COVID-19 pandemic induced by the emergence of new and more infectious variants may also shift the focus from policy reforms to immediate health and social protection actions. Further delay in recovery from COVID-19 may also reduce the government's ability to allocate required resources for risk reduction reforms vital to ensure that the country remains in a growth trajectory leading to its long-term development vision.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

12. **The Philippine economy expanded in the first half of 2021, following a deep contraction in the same period in 2020.** Real output expanded by 3.7 percent year-on-year in the first half of 2021 (-9.3 percent in the first half of 2020 and -9.6 percent in 2020) due mainly to base effects and less stringent community restrictions. On the supply side, the industry and services sectors expanded due to the return of economic activities amid less stringent restrictions. However, the agriculture sector contracted due to a continued large slump in the livestock sectoral output. On the demand side, growth was supported by fixed investment amid continued spending on public construction and durable equipment. Private consumption rose, though still far from pre-pandemic levels as inflation and unemployment remained elevated. Public consumption also expanded alongside spending measures to address the pandemic. Exports benefited from sustained external demand, while imports recovered given domestic demand for raw materials, intermediate, and capital goods.

13. **Recovering import activities brought the current account balance to a deficit in the first half of 2021.** Following a deficit averaging 1.7 percent of GDP in 2018-2019, the current account reversed to a surplus of 3.1 percent of GDP in 2020 due to a sharp decline in import demand caused by the collapse in domestic investment (Table 1). As imports recovered in the first half of 2021, the current account balance reverted to a deficit of 0.6 percent of GDP. Meanwhile, the capital and financial accounts saw net outflows in the first half of 2021, driven by outflows in portfolio investments. As a result, the balance of payments reached a deficit of 1.1 percent of GDP, a reversal from the 2.5 percent surplus in the first half of 2020. The recovering import and stock market outflows contributed to the 3.4 percent year-on-year depreciation of the peso to Php/US$50.14 in September 2021. Gross international reserves reached 10.8 months of imports in August 2021.

Table 1. Key Economic Indicators

	2018	2019	2020	2021	2022	2023	2024
		Actual			Projected		
Growth and inflation	(in percent of GDP, unless otherwise indicated)						
Gross domestic product (percent change)	6.3	6.1	-9.6	4.3	5.8	5.5	5.5
Inflation (period average)	5.2	2.5	2.6	4.3	3.4	3.2	3.0
Savings and investment							
Gross domestic savings	15.4	15.2	11.2	10.6	10.5	10.3	10.0
Gross domestic investment	27.3	26.7	21.4	22.2	24.1	25.3	26.3
Public sector							
National government balance	-3.1	-3.4	-7.6	-7.6	-7.2	-6.5	-6.0
Primary balance	-1.1	-1.5	-5.5	-4.8	-4.2	-3.5	-3.1
Total revenue (government definition)	15.6	16.1	15.9	15.6	15.7	15.8	15.8
Tax revenue	14.0	14.5	14.0	14.1	14.1	14.2	14.2
Total spending (government definition)	18.7	19.5	23.6	23.2	22.9	22.2	21.8
National government debt	39.9	39.6	54.6	58.4	60.7	62.7	64.0
Balance of payments							
Total exports (percent change)	4.7	5.3	-12.5	15.2	13.8	11.6	9.5
Total Imports (percent change)	10.0	0.8	-22.4	18.0	19.8	15.2	13.8
Remittances (percent change of US$ remittance)	3.0	3.9	-0.8	5.4	3.4	3.2	3.0
Current account balance	-2.6	-0.8	3.1	1.3	-0.9	-1.4	-2.2
Foreign direct investment (billions of dollars)	9.9	8.7	6.6	7.8	8.8	12.0	13.0
Portfolio Investment (billions of dollars)	1.4	-2.5	-1.8	0.5	1.0	1.2	3.0
International reserves							
Gross official reserves (billions of dollars)1/	79.2	87.8	110.1				
Gross official reserves (months of imports)2/	6.9	7.6	12.6				

Sources: GOP for historical and World Bank for projections.
1/ Includes gold
2/ Defined as the total of goods and services imports and primary income that can be financed by reserves

14. **The COVID-19 pandemic has put increased pressure on the fiscal balance, resulting in an increase in public debt to the highest level in over a decade.** In recent years, a commitment to tax policy reforms allowed the government to maintain a healthy fiscal balance[12] despite a substantial acceleration in public spending. However, the fiscal deficit rose to 7.6 percent of GDP in 2020 and 7.9 percent of GDP in the first half of 2021 as the government expanded spending to help contain the impact of the crisis, while tax revenues eroded amid the recession (Table 2). Public spending reached 23.6 percent of GDP in 2020 and 24.2 percent in the first half of 2021, with higher spending on social protection and health to mitigate the impact of COVID-19.[13] The increase in financing needs increased public debt from 39.6 percent of

[12] The national government averaged a deficit of 2.7 percent of GDP between 2016-2019, below its 3.2 percent medium-term target.
[13] The Government's COVID-19 response packages amounted to Php564 billion (3.1 percent of GDP).

GDP in 2019 to 54.6 percent in 2020, the highest since 2006. The debt portfolio is composed largely of long-term debt (67.3 percent) and mostly denominated in peso (69.4 percent).

Table 2. Key Fiscal Indicators

	2018	2019	2020	2021	2022	2023	2024
		Actual			Projected		
Overall Balance	**-3.1**	**-3.4**	**-7.6**	**-7.6**	**-7.2**	**-6.5**	**-6.0**
Primary Balance	-1.1	-1.5	-5.5	-4.8	-4.2	-3.5	-3.1
Total Revenues (and grants)	**15.6**	**16.1**	**15.9**	**15.6**	**15.7**	**15.8**	**15.8**
Tax Revenues	**14.0**	**14.5**	**14.0**	**14.1**	**14.1**	**14.2**	**14.2**
Taxes on net income and profits	5.7	5.9	5.8	5.4	5.4	5.3	5.3
Taxes on Domestic Goods and Services	4.3	4.4	4.3	4.7	4.8	4.8	4.8
General Sales, Turnover, or VAT	2.0	2.0	1.9	1.6	1.6	1.6	1.6
Selected Excises on Goods	1.6	1.6	1.7	1.6	1.7	1.7	1.7
Selected Taxes on Services	0.6	0.7	0.7	0.6	0.6	0.6	0.6
Other Domestic Taxes	0.1	0.1	0.1	0.9	0.9	0.9	0.9
Taxes on International Trade and Transactions	3.2	3.2	3.0	3.2	3.2	3.4	3.4
Other Taxes	0.8	0.9	0.8	0.7	0.7	0.7	0.7
Non-tax revenue	**1.6**	**1.6**	**2.0**	**1.5**	**1.6**	**1.6**	**1.6**
Total Expenditures	**18.7**	**19.5**	**23.6**	**23.2**	**22.9**	**22.2**	**21.8**
Current operating expenditures	13.4	14.0	18.5	17.9	17.2	16.8	16.5
Personnel Services	5.4	5.7	6.6	6.1	5.7	5.6	5.6
Maintenance and other operating expenditures	2.9	2.9	4.9	4.4	3.6	3.4	3.2
Subsidy	0.7	1.0	1.3	1.0	0.8	0.7	0.8
Allotment to Local Government Units	2.3	2.4	3.5	3.5	4.0	4.0	4.0
Interest Payments	1.9	1.8	2.1	2.8	3.0	3.0	2.9
Tax Expenditures	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Capital Outlays	5.3	5.3	4.9	5.2	5.7	5.4	5.3
Infrastructure & other capital outlay	4.4	4.5	3.8	4.3	4.5	4.3	4.2
Equity	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Capital transfer to local government units	0.9	0.8	1.0	0.9	1.2	1.1	1.1
National Government Financing	4.9	5.2	15.3	14.0	13.7	11.5	10.6
External (net)	1.7	1.6	4.1	3.0	2.8	2.7	2.7
Domestic (net)	3.3	3.6	11.1	11.0	10.9	8.8	8.0
National Government Debt	39.9	39.6	54.6	58.4	60.7	62.7	64.0

Sources: BTr, DBM, Philippine Statistics Authority, and WB projections.

15. **The *Bangko Sentral ng Pilipinas* (BSP) maintains an accommodative monetary policy stance despite elevated inflation in early 2021 to support the economy.** Headline inflation averaged 2.6 percent in 2020 amidst a large negative output gap but accelerated to 4.5 percent in the first nine months of 2021, driven mostly by supply-side factors related to weather disturbances, disruptions caused by community quarantine measures, surge in global oil prices, and continued impact of the African Swine Fever. So far, the BSP has sustained its accommodative policy stance, with the key policy rate at 2.0 percent as of August 2021. The BSP continues to help the GOP finance its economic recovery efforts by extending a Php540 billion (2.9 percent of GDP) zero-interest, short-term loan advance in July 2021. The National Government availed the same loan amount in October 2020 and January 2021, which have already been settled. Earlier in March 2020, the BSP also entered a repurchase deal with the BTr for Php300 billion worth of government securities, which was fully redeemed in September 2020.

16. **The financial system has so far withstood the impact of COVID-19, partly supported by government policy and regulatory forbearance measures**. The overall capital adequacy ratio of the universal and commercial banking industry remains stable at 17.2 percent as of end-June 2021, well above BSP's regulatory threshold of 10 percent. In terms of asset quality, the banking system's gross non-performing loan (NPL) ratio rose to 4.5 percent in August 2021 from 2.8 percent in August 2020 and is expected to

deteriorate further as firms continue to face difficult financial situations. Furthermore, the banking system saw a significant increase in its restructured loans, from 1.0 percent of total loans in August 2020 to 3.1 percent in August 2021. The overall liquidity of the universal and commercial banking industry is sufficient to absorb funding shocks with a liquidity coverage ratio of 196.4 percent as of end-June 2021. Monetary, payment system, liquidity, and prudential measures have been deployed to support the system's resilience to withstand the impact of COVID-19. These include lowering of reserve requirements to 12 percent and inclusion of peso loans to Micro, Small and Medium Enterprise (MSME) loans and certain large enterprises in the calculation of compliance with the reserve requirements; a 60-day statutory loan moratorium on all bank loan repayments that expired in March 2021; and exclusion of eligible loans from the past due and non-performing classification until December 2021, for supervisory purposes. In February 2021, to keep the financial sector resilient, the Financial Institutions Strategic Transfer Law was enacted to allow banks to sell bad assets to special asset management companies.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Growth prospects hinge on the GOP's ability to manage the COVID-19 health crisis.** The medium-term growth trajectory depends on effective pandemic containment, delivery of mass vaccination, and improvement in the external environment. Surges in COVID-19 cases in early March and August 2021 have momentarily derailed economic recovery, as tighter mobility restrictions were implemented.[14] While mass vaccination has begun in March 2021, vaccine supply constraints may prolong the widespread inoculation. The baseline growth projection assumes that vaccination will accelerate in the second half of 2021 with the arrival of more vaccine supplies. Health and quarantine protocols including targeted lockdowns are expected to be implemented during case surges as the government balances the threat to lives and livelihoods with the health of the economy. The projection also assumes that the government pursues fiscal consolidation by reducing the growth of recurrent expenditures while increasing tax revenues as the economic recovery picks up. The global economy is expected to rebound this year, allowing the exports sector to return to positive growth.

18. **The vaccination effort has steadily progressed with the arrival of more vaccines.** Available vaccine doses in the country have reached 51.9 million by end-August compared to a total population of about 110 million. Of these doses, roughly 64 percent have already been administered to the public. The daily inoculation rate has steadily risen in the past six months to an average of 470,000 in August 2021. About 12.6 percent of the population has received full vaccination as of August 2021. While this percentage lags neighboring Indonesia, Malaysia, and Thailand, it is expected to accelerate in the coming months with the arrival of more vaccines. The authorities are expecting about 20 million doses each month from September to December 2021, with the total number of doses reaching 137 million by the end of the year. The authorities may have to address vaccine hesitancy, which has been declining in the Philippines but remains high, ranging between 15-58 percent of Filipinos based on various surveys.[15]

---

[14] Metro Manila and four nearby provinces (NCR+) shifted to stricter quarantine in March 2021 as cases reached nearly 10,000 per day. The area is under a 6pm to 5am curfew with exception to authorized persons, cargo vehicles, and public transportation. Public transportation, priority construction projects, and essential businesses will continue to operate subject to government guidelines. Non-essential gatherings are capped at ten people. Those below 15 years of age, 65-year-old and above, and with immunodeficiency and comorbidities are required to remain at home at all times.

[15] UNDP, 2021, "Trends in COVID-19 Vaccine Acceptance in the Philippines and their Implications on Health Communication," Manila: UNDP Philippines, August.

Table 3. Supply and Demand-side Contributions to Growth

	2018	2019	2020	2021	2022	2023	2024
	Actual			Projected			
Real GDP growth, at constant market prices	**6.3**	**6.1**	**-9.6**	**4.3**	**5.8**	**5.5**	**5.5**
Private Consumption	4.2	4.3	-5.7	2.5	4.1	3.8	3.8
Government Consumption	1.5	1.1	1.3	1.1	1.4	1.1	1.0
Capital Formation	2.9	0.9	-9.1	4.0	3.5	2.9	3.0
Exports, Goods and Services	3.4	0.8	-4.7	3.7	3.1	2.8	3.0
Imports, Goods and Services	5.7	1.0	-8.7	6.9	6.3	5.2	5.3
Real GDP growth, at constant factor prices	**6.3**	**6.1**	**-9.6**	**4.3**	**5.8**	**5.5**	**5.5**
Agriculture	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Industry	2.2	1.7	-4.0	1.8	1.9	1.9	1.9
Services	4.0	4.3	-5.6	2.4	3.7	3.5	3.4

Sources: GOP for historical and World Bank for projections.
Note: Numbers may not add up due to rounding errors or statistical discrepancy.

19. **Growth is expected to recover over the medium term.** The economy is projected to grow at 4.3 percent in 2021 and about 5.6 percent in 2022-2024. (Table 3). Growth will increase, driven by a recovery in domestic activities and the improvement of global demand. The pace of recovery, nonetheless, is quite uncertain, given episodes of case surges and community lockdowns. Private consumption is expected to recover as labor market conditions improve and remittances return but tempered with quarantine measures. Public investment is expected to grow with the continued rollout of public infrastructure investment projects, while private investment may remain tepid due to subdued lending and elevated uncertainty this year. However, as business sentiments improve, private investment is expected to recover stronger in 2022. External demand is expected to improve with the recovery of trading partners and the anticipated growth in the global economy. While government consumption growth is expected to moderate, its contribution to growth is expected to be relatively bigger given the fiscal multiplier effect.[16] It is estimated that raising government expenditure by one percent of GDP increases growth by 0.7 percent in the short term, while the impact grows to 1.4 percent towards the medium term.

20. **The fiscal deficit is expected to decline over the medium term as the Government implements its consolidation plans.** The fiscal deficit is projected at 7.6 percent of GDP in 2021 before moderating in succeeding years. The declining trajectory is anchored on the economic recovery and the government's commitment to fiscal discipline. In addition, the GOP is exploring new sources of revenue, including tax

[16] R. Manasan, 2011, "Assessment of the Impact of the Fiscal Stimulus, Fiscal Risk and Fiscal Transparency: The Philippines", in Ito, T. and F. Parulian (eds.), *Assessment on the Impact of Stimulus, Fiscal Transparency and Fiscal Risk.* ERIA Research Project Report 2010-01, pp. 213-251. Moreover, the fiscal impulse in the Philippines is estimated to be larger in the medium term due to the wider output gap caused by the sharp growth contraction. Estimates reveal that the fiscal impulse has reached 1.3 percent in 2020, higher than the 0.2-0.9 percent in the preceding three years.

on digital services and excise tax on plastic bags.[17] The President also lifted the 9-year ban on new mining permits in April 2021. Additional mining operations are expected to contribute to higher excise tax collections. Efforts to digitalize tax administration and customs will also improve tax administration, contributing to higher revenue effort. However, corporate income tax revenue is expected to decline in the short term in view of the passage of the Corporate Recovery and Tax Incentives for Enterprises Act.[18]

21. **The pace of public spending is expected to decelerate over the medium term.** Recurrent operating expenditures will steadily decline from 17.9 percent of GDP in 2021 to 16.5 percent of GDP in 2024. The decline will be driven by the lower growth of personnel services, maintenance, and other operating expenditures, and subsidies as the government wind down its pandemic response. Meanwhile, capital outlays are expected to grow faster in 2021 before slowing down in succeeding years. The government remains committed to pursuing the infrastructure investment agenda, with capital outlays representing 5.2 percent of GDP in 2021 and will increase to 5.9 percent of GDP in 2022. The GOP's commitment to ramp up infrastructure spending will help build back business confidence, accelerate the growth recovery through job creation, while at the same time close its long-standing infrastructure gaps.

22. **The public financing needs are expected to remain elevated in the short-term due to the pandemic shock and in the medium-term as the fiscal deficit remains large.** The financing needs are estimated to reach 14.3 percent of GDP in 2021, driven by the high fiscal deficit and amortization,[19] before gradually declining in succeeding years in line with the fiscal consolidation (Table 4). Throughout the forecast horizon, the financing profile is expected to be manageable as the government conveyed its intention to rely heavily on domestic financing sources (75 percent of total financing).[20] So far, placements of domestic bonds by the BTr have been consistently oversubscribed, but yields have started to rise, alongside U.S. Treasuries since February 2021.

[17] In March 2021, the House Committee on Ways and Means approved a measure that will impose a Php20 tax on plastic carrier bags. A bill to impose taxes on foreign digital services has been approved by House in August 2020 and is currently under discussion in the Senate, where the standard 12 percent value added tax rate is to apply.
[18] The Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) Act, the largest stimulus package for businesses in the country's history, was signed into law by the President in March 2021. The law involves 5 to 10 percent corporate income tax cuts and enhances the flexibility of the country's fiscal incentives system. The DOF estimates that CREATE Act will entail foregone revenues of around 0.37 percent of GDP between 2021-2030.
[19] The higher amortizations in 2021 and 2022 partly reflect the repayment of non-interest-bearing short term loans from BSP. As of January 2021, the government has an outstanding borrowing of Php540 billion (US$11.2 billion) from the BSP, which raised the share of short-term debt to 15 percent of total debt (from 9.8 percent in end-2020). The debt portfolio still consists mainly of medium to long-term debt at 85 percent.
[20] The government's reliance on domestic financing sources risks crowding out the private sector. Nonetheless, the interest rate environment is expected to remain subdued, with both the BSP and the U.S. Federal Reserve conveying their intentions to keep interest rates low to support economic recovery. Moreover, the Philippine authorities are pushing for reforms on foreign investment with the aim of attracting more foreign investors' participation.

Table 4. Government's Medium-Term Financing Plan

	2018	2019	2020	2021	2022	2023	2024
	Actual			Projected			
	in percent of GDP unless otherwise indicated						
Financing needs	5.1	5.9	10.9	14.3	14.4	12.5	12.0
Amortizations	2.1	2.5	3.2	6.7	7.2	6.0	5.9
Domestic [1/]	1.5	1.8	2.5	5.3	6.1	3.7	3.7
External	0.6	0.7	0.8	1.4	1.1	2.4	2.2
Primary deficit	1.1	1.5	5.5	4.8	4.2	3.5	3.1
Interest payments	1.9	1.8	2.1	2.8	3.0	3.0	2.9
Financing sources	4.9	5.2	15.3	14.3	14.4	12.5	12.0
External	1.7	1.6	4.1	3.2	3.0	2.7	2.6
o/w this operation				0.1			
o/w World Bank			0.4	0.2			
o/w ADB			1.1	0.2			
o/w AIIB			0.2				
o/w AfD			0.1				
o/w JICA			0.7	1.0			
Domestic	3.3	3.6	11.1	11.1	11.4	9.8	9.4
o/w ST borrowing from BSP				4.4			
Change in cash [2/]	-0.3	-1.2	3.9	-	-	-	-

Sources: Government of the Philippines for historical and World Bank for projections.
Note: [1/]This refers to domestic amortization in the BTr National Government Cash Operation Report, which includes redemption from the Bond Sinking Fund. For 2021, the amortization includes repayment of short-term advances/loan from BSP. [2/]Historical change in cash is obtained from BTr National Government Cash Operation Report.

23. **While public debt is expected to increase in the medium term, it remains sustainable owing to the expected growth recovery and fiscal consolidation.**[21] With the high financing needs in 2021-2024, the debt-to-GDP ratio is projected to increase in the short term and peak at 64 percent in 2024 before trending down (Figure 4). This debt path classifies the country as 'higher scrutiny', yet debt remains sustainable as debt dynamics revert after 2023 due to fiscal consolidation and the return to a positive interest-growth differential.[22] While contingent liabilities have been manageable and have declined in recent years,[23] the

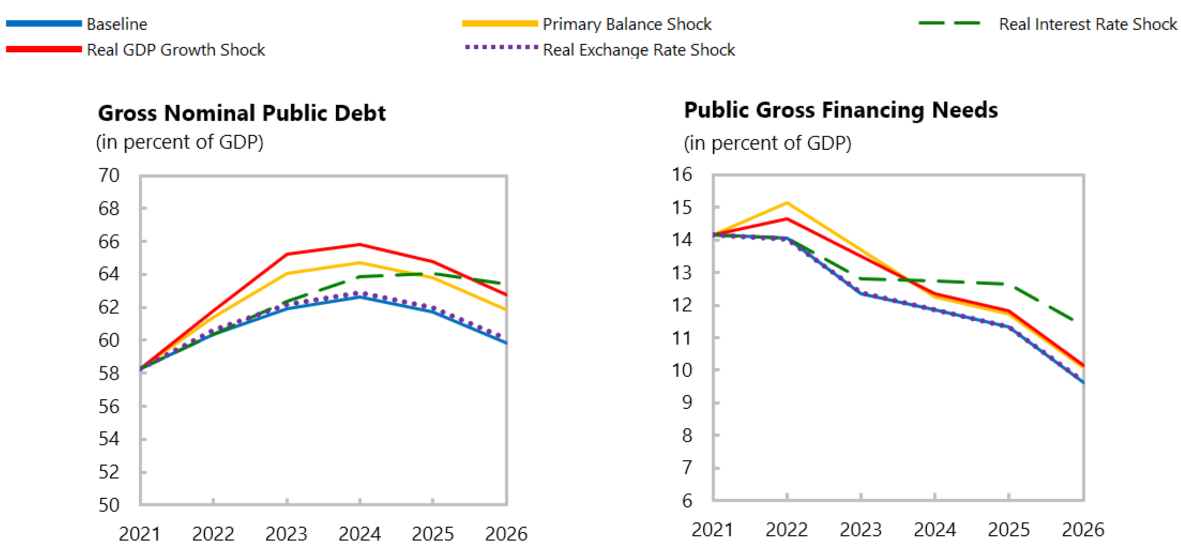
[21] In the debt sustainability analysis, public debt comprises the national government's outstanding debt from domestic and external sources. Domestic borrowings are mainly in the form of treasury bonds and treasury bills, while external borrowings are bilateral and multilateral loans, and commercial bonds such as U.S. dollar bonds, Eurobonds, Yen bonds, and peso-denominated bonds. The debt-to-GDP ratio reached 54.6 percent in 2020 from 39.6 percent in 2019, owing to new debt incurred in response to the pandemic. Similarly, the debt-to-revenue ratio picked up to 3.4 percent in 2020 from 2.5 percent in 2019 and is expected to rise in the next two years due to elevated financing needs before declining in 2024.
[22] Emerging markets with public debt ratios exceeding 50 percent of GDP, or public gross financing needs exceeding 10 percent of GDP are classified as higher scrutiny countries.
[23] Outstanding contingent liabilities by the national government include national government guarantees to Government-Owned and Controlled Corporations (GOCCs) and guarantees assumed by the national government from government financial institutions. Debt and contractual obligations of GOCCs are covered by national government guarantees through Republic Act No. 4860 or the respective charter of GOCCs. The national government extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or as required by bilateral or multilateral lending institutions.

sharp downturn of activities in 2020 may lead to elevated risks of a rise in contingent liabilities as balance sheets come under stress. To keep debt levels sustainable, the GOP is pursuing fiscal consolidation over the medium term by tempering the growth of public expenditures and increasing tax revenues.[24] The debt composition is expected to remain stable with low shares of short-term debt and foreign-currency-denominated debt, in line with the GOP's debt management strategy.

24. **The debt dynamics appear to be resilient against growth, interest rate, real exchange rate, and primary balance shocks.** Four different scenarios were considered, including shocks on the real growth rate, interest rate, real exchange rate, and the primary balance. Among these scenarios, the most significant shocks are those originating from the real GDP growth rate. A real growth shock with projected growth rates trimmed by a third in the next two years leads to a higher debt path with a debt ratio reaching 66.8 percent in 2024. A real exchange rate shock (i.e., six percent real exchange rate shock with a 0.25 pass-through to inflation), an interest rate shock (i.e., 425 bps interest rate increase), and a primary balance shock would also raise the debt path, but not as high as the real GDP growth shock (Figure 4). In the worst-case scenario of combined macro-fiscal shock, the debt ratio will peak at 70.7 percent in 2024.

Figure 4. National Government Debt-to-GDP Projections under Alternative Scenarios

Macro-Fiscal Stress Tests



Source: WB staff calculations.

25. **Monetary policy is expected to be supportive of growth as inflation is managed within the target range of 2-4 percent.** Headline inflation is expected to reach an average of 4.3 percent in 2021 and decline in succeeding years. Inflation is likely to remain elevated this year, reflecting the impact of supply constraints on key food commodities and the projected uptick in international oil prices. As the supply constraints are

[24] The GOP is exploring new tax revenue measures including a tax on foreign digital services and an excise tax on plastic bags. Furthermore, the president lifted the moratorium on new mining permits which would allow for more public revenue from mining operations. Efforts to digitalize tax administration and customs will also improve tax administration. Finally, the DOF is crafting a fiscal consolidation playbook with recommendations for the next administration.

resolved in the coming months, and oil prices stabilize next year, inflation is also expected to retreat within the 2-4 percent target range. The passage of the Rice Tariffication Law in 2019, which removed the quantitative restrictions on rice imports and replaced them with import tariffs, helped manage rice supply and prices in the country. Monetary policy is expected to remain accommodative to growth in response to weakened economic activity while managing inflation within the target range. Monetary policy accommodation in advanced economies is expected to continue, especially as the U.S. Federal Reserve indicated that the interest rates would be kept near zero in the near term.

26. **The most significant downside risk is a prolonged incidence of COVID-19 infections, which may lead to an extension of more robust containment measures.** Flattening the infection curve remains the primary challenge to the authorities as new virus variants have led to case surges in 2021. The failure to contain the virus will result in extensions of strict lockdown restrictions leading to significant loss of jobs and incomes. This, in turn, may suppress public revenue generation and limit the fiscal space to support growth. Meanwhile, banks appear well-provisioned and liquid, benefitting from forbearance measures that limited a more dramatic increase in NPLs so far. However, as forbearance measures are gradually removed and credit growth remains weak, banking sector risks will rise as the impact from the COVID-19 shock becomes more fully realized. Together, this could impede a more robust recovery, particularly SMEs. Institutional changes in 2022, including the national election and the implementation of the Mandanas ruling, which increases unconditional block grant transfers to local government units (LGUs), carry risks associated with the transition. Finally, natural disaster risk remains an ever-present threat with the onslaught of typhoons of increasing destructive force. Box 2 summarizes a downside scenario that quantifies these risks.

27. **Risks also emanate from the external front.** The limited global vaccine supply risks slowing the arrival of vaccine inventories to the Philippines amid competing demands, which is complicated by the decisions of some developed countries to implement booster shots widely. The risk of a slower-than-expected global recovery may lead to sluggish demand for the country's exports, scarce Foreign Direct Investment flows, and smaller remittance inflows. The disruptions in international logistics and global value chains, if not timely resolved, may heavily impact the country's external trade. With international flights still limited, the prospect for international tourism remains weak, which affects the Philippines, where tourism activities represented 12.7 percent of GDP in 2019. Finally, trade protectionism may intensify given the ongoing trade tensions between the United States and China and emerging vaccine nationalism, with supplies cornered by wealthy countries.

28. **The macroeconomic policy framework is adequate for the purpose of the proposed operation.** The government is taking necessary measures to mitigate the impact of the crisis while remaining committed to maintaining macroeconomic stability. On monetary policy, the BSP is committed to the inflation-targeting objective and is responsive to global interest rate movements. It has maintained a market-determined exchange rate regime as the first line of defense against external shocks and accumulated sizable foreign exchange reserves as a second line of defense. On fiscal policy, the authorities are committed to fiscal consolidation over the medium term, which is credible considering the conservative expenditure policy in the past 10 years, which created fiscal space allowing the expansion of public expenditure to manage the COVID-19 impacts, and public investment program to support recovery. In addition, the government's commitment to accelerate the pace of structural reforms as part of the

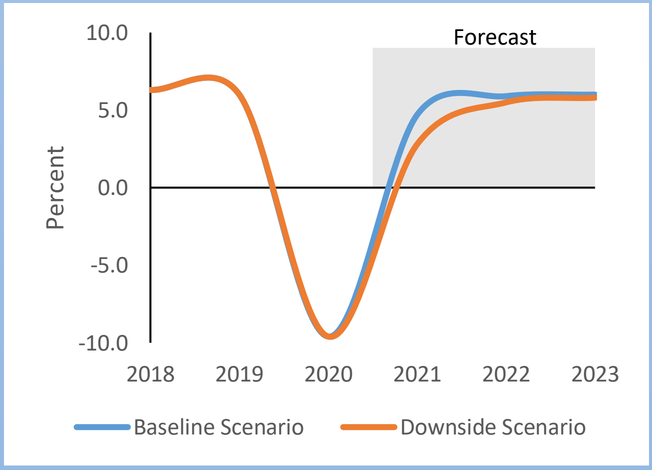
recovery will further promote competitiveness and support growth. Public debt is sustainable owing to the expected growth recovery and fiscal consolidation.

Box 2. A Downside Scenario

Growth could falter to 2.4 percent in 2021 and 5.0 percent in 2022 in the events of an uncontained surge in Delta variant cases, prolonged economic restrictions, slower-than-expected vaccination effort, and the impact of natural disasters. The challenges to contain the number of infections could result in prolonged bouts of economic disruption and a protracted erosion in consumer and business confidence. Such difficulty can be exacerbated by slower vaccination effort that could arise due to global supply inequity and public vaccination disruptions. The downside scenario assumes that (i) the Philippines faces severe and prolonged bouts of the Delta cases that can continue until Q4 2021; (ii) vaccination effort will be delayed into mid-2022 instead of the government's target of end-2021; and (iii) natural disasters will have negative impact on agriculture and other economic activities. In these events, public consumption and investment activities weaken towards the end of the year, which will spillover to early 2022 as vaccination efforts are delayed. Growth is thus projected to fall to 2.4 percent in 2021, and 5.0 percent in 2022 from the baseline scenario (Figure 2a).

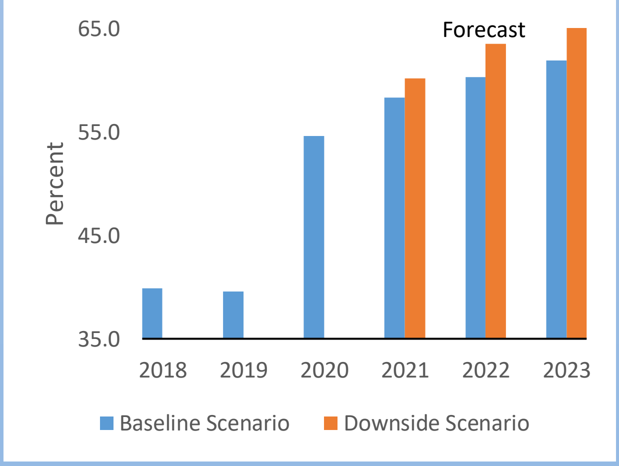
In this downside scenario, the public debt ratio will pass the 60 percent mark in 2021. Government revenues are expected to be tempered due to disruptions in business activity, losses of income, and tepid consumption growth. It is expected to fully execute its spending program in 2021, realign funds to expand public health system capacity, and protect vulnerable businesses and individuals. This will result in a higher fiscal deficit and financing needs that would peak at 15.3 percent in 2021 before decreasing in succeeding years. Consequently, the public debt ratio is expected to rise to 60.2 percent in 2021 and 63.7 percent in 2022, passing the 60 percent mark a year earlier than the baseline scenario (Figure 2b).

Figure 2a. Baseline vs. Downside scenario GDP growth (2018-2023, percent)



Source: Philippines Statistics Authority, WB staff calculations.

Figure 2b. Baseline vs. Downside public debt ratio (2018-2023, in percent of GDP)



Source: Philippine Statistics Authority, BTr, WB staff calculations.

2.3. IMF RELATIONS

29. **The Philippines does not have an ongoing program with the IMF.** The most recent IMF program expired at end-2000, and all obligations were fully repaid in 2006. Article IV Consultations are conducted on a standard 12-month basis. The last consultations were concluded in June 2021, and the staff report was released in August 2021. The press release and a summary of the staff report are included in Annex 2. The IMF remarks that the economy is recovering after a major, pandemic-induced downturn in 2020. The current macroeconomic policy settings are appropriate. To build back better, the IMF recommends continued efforts to monitor financial sector risks, accelerate structural reforms, and reinvigorate the infrastructure investment program for a more equitable and greener future while rebuilding policy buffers over the medium term.

3. GOVERNMENT PROGRAM

30. **Building resilience to climate and disaster risks is a core priority of the country to achieve its long-term vision "*Ambisyon Natin* 2040", which embodies the collective aspiration of the Filipino people of having a strongly rooted, comfortable, and secure life by 2040.** In 2016, the President approved *Ambisyon Natin* 2040 and mandated that the four Philippine Development Plans (PDP) prepared until 2040 should be anchored on the country's long-term vision. *Ambisyon Natin* 2040 specifically aims to increase per capita incomes by three-fold, end poverty, and promote a strongly rooted, comfortable, and secure life for all Filipinos by 2040. Achieving this vision would require building resilience and creating an environment where people can (i) improve their lives and well-being with stability and predictability; (ii) be protected from natural disasters, and other shocks that drive them to poverty; (iii) prepare and equip themselves to mitigate the impacts, recover faster, and rebuild better. CCA-DRR measures were mainstreamed in all sectors of the PDP 2017-2022 to help lay solid foundations for achieving the *Ambisyon Natin* 2040.

31. **The GOP has strengthened its efforts to consider in its national plans the country's changing risk landscape and heightened complexity of climate change and disaster risks and COVID-19 pandemic.** In 2021, the GOP updated the PDP to respond to the devastating impacts of the COVID-19 pandemic that threatens the country's growth prospects and trajectory towards achieving *Ambisyon Natin* 2040. The Updated PDP prioritizes the health and resilience of Filipinos as the foundation for attaining the *Ambisyon Natin* 2040. The GOP also updated the NDDRM Plan to consider the compounding effects of the COVID-19 pandemic that further amplify the impact of climate change and natural disasters. It incorporated lessons from the implementation of the NDRRM Plan over the past decade. It also strengthened its alignment with *Ambisyon Natin* 2040 and the country's commitment to the Sendai Framework for Disaster Risk Reduction[25] and Paris Agreement on Climate Change.[26] New policy directions were identified in the NDRRM Plan, including the need to (i) make DRRM investments integral in development, poverty reduction, fiscal stability, and sustainable economic growth; (ii) bridge the gap between science and

---

[25] Sendai framework for disaster risk reduction 2015–2030. In: UN world conference on disaster risk reduction, 2015 March 14 – 18, Sendai, Japan. Geneva: United Nations Office for Disaster Risk Reduction; 2015. *https://www.preventionweb.net/files/43291_sendaiframeworkfordrren.pdf*

[26] Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015, T.I.A.S. No. 16-1104. *https://treaties.un.org/doc/Publication/UNTS/No%20Volume/54113/Part/I-54113-0800000280458f37.pdf*

technology and policy-making; (iii) invest and scale up local data collection; (iv) build resilient infrastructure and livelihoods; (v) invest in public health; (vi) prioritize building back better, (vii) ensure coherence in DRRM and climate change agenda; and (viii) reconfigure DRRM protocols and approaches to adapt to the new normal, among others.

32. **LGUs are at the forefront of service delivery, DRM, and climate change adaptation and mitigation.** The enactment of the Local Government Code in 1991 shifted the country's approach to local development and service delivery. The Code provided LGUs with enhanced powers to generate revenues and access different financing to improve local service delivery and facilitate local economic development. It also provided the institutional framework for local governance in the country. LGUs consist of provinces, highly urbanized cities (HUC), independent component cities (ICC), component cities, municipalities, and barangays (village). Each unit enjoys a certain degree of autonomy. The province is the highest level of local government. It supervises component cities and municipalities that are under their jurisdiction. The HUC and ICC are self- governing and are independent of the province. Cities and municipalities are comprised of barangays (villages). There are 81 provinces, 33 HUCs, 5 ICCs, 108 component cities, and 1,488 municipalities. Under the 2009 Climate Change Act and 2010 Philippine DRRM Act, the LGUs are also at the frontline for (i), carrying out actions aimed at adapting, mitigating, and preparing for climate change; and (ii) disaster prevention and mitigation, preparedness, response, and rehabilitation and recovery. Through the Risk Resiliency Program[27], the GOP has identified LGUs that are vulnerable to climate change and disasters and would be prioritized for support based on the following prioritization criteria: (i) high poverty incidence, (ii) high susceptibility of exposure to hazards such as drought, strong winds, flooding, rain-induced landslide, storm surges, and (iii) situated location in critical and degraded watersheds or geographic programmatic areas of focus of the GOP. These LGUs include 24 provinces covering 21 cities and 394 municipalities.

33. **LGUs will play an increasingly vital role in climate change adaptation and DRM with the implementation of the Supreme Court Ruling on the Mandanas Case (Mandanas Ruling)[28], which called for significant increase of National Government transfers to LGUs beginning 2022 and full devolution of functions identified in the 1991 Local Government Code and succeeding laws no later than 2024.** The revenue allotment of LGUs is expected to increase by 37.9 percent, equivalent to 1.2 percent of 2022 projected GDP[29]. In line with the Mandanas Ruling, Executive Order No. 138 was issued in 2021, requiring the National Government Agencies (NGAs) to fully devolve the functions, services, and facilities to LGUs no later than FY 2024. The NGAs and LGUs are required to prepare Devolution Transition Plans and the strategy for and phasing of the devolution to the LGUs.

34. **Climate policy reforms instituted by the GOP are well in place to support the devolution transition and enable climate and disaster-resilient recovery**. In 2015, climate budget tagging was implemented at the

[27] The Risk Resiliency Program developed by the Climate Change Adaptation and Mitigation- Disaster Risk Reduction (CCAM DRR) Program aims to assist the GOP in strengthening the resiliency of natural ecosystems and the adaptive capacity of vulnerable groups and communities to short- and long-term climate and disaster risks. It converges the efforts and resources of NGAs and LGUs in pursuing climate and disaster resilience to ensure that they contribute to the GOP's priority programs and coordinate their targets and activities to facilitate efficient program execution and achieve shared results.
[28] The Mandanas Ruling will lead to a significant increase in the amount of fiscal transfers by determining that the formula used to calculate fiscal transfers has to be adapted as the just share of LGUs from the national taxes is not limited to "national internal revenue taxes" collected by the Bureau of Internal Revenue but includes collections (customs duties) by the Bureau of Customs.
[29] 2022 nominal GDP projection based on the 2022 Budget of Expenditures and Sources of Financing (BESF).

local level through a Joint Memorandum Circular issued by the Department of Budget and Management (DBM), Climate Change Commission (CCC), and the Department of Interior and Local Government (DILG).[30] In the process of prioritizing and assigning codes to climate change programs, projects and activities during the preparation of the annual investment program, climate budget tagging enables LGUs to take stock of climate actions, track, and report climate change expenditures. This is essential since tackling climate change and natural disasters is defined along thematic outcomes instead of sectors. The track record of implementation can be improved by requiring NGAs and LGUs to plan and work together to link, harmonize, and synchronize efforts in addressing climate change.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. **The proposed CAT-DDO 4 was informed by lessons learned from the implementation experience of the Philippines and other countries.** First, a strong institutional champion is key to advancing complex reform programs. The deep involvement of the DOF as an implementing agency has been crucial in carrying out DRM policy actions across oversight and line agencies and simultaneously advancing new thinking in financial protection. Second, a CAT-DDO is effective for supporting policy reforms through prior actions to remove critical roadblocks and results indicators to provide impetus for sustained reform. Third, any effective reform program needs to be backed by a robust analytical foundation. Fourth, continuing policy dialogue with different stakeholders, including NGAs, LGUs, civil society, private sector, and academia, during project preparation and implementation is essential in securing broader support to the DRM reform agenda. Finally, establishing clear rules on procedures and responsibilities of the GOP and the WB at preparation supports the effectiveness of the CAT-DDO instrument.

36. **The proposed CAT-DDO 4 will continue the support to the GOP in strengthening its resilience to disasters and adapting to climate change.** It will enhance the GOP's capacity to manage risks from climate change, natural disasters, and disease outbreaks simultaneously and systematically. The proposed reforms under CAT-DDO 4 intend to address the remaining challenges and gaps identified in Paragraph 10. These are also well aligned with the new focus areas in the Updated NDRRM Plan 2020-2030. The CAT-DDO 4 also follows the WB Group's crisis response framework for supporting Green, Resilient and Inclusive Development (GRID) in IDA and IBRD countries.

37. **The development objective of the proposed CAT-DDO 4 is to strengthen the GOP's institutional and financial capacity to manage risks from climate change, natural disasters, and disease outbreaks.** This is supported by reforms organized under two pillars. Pillar A- Strengthening Disaster Response and Recovery Policies and Planning will support policy reforms aimed at continuously strengthening GOP capacities for faster and better response and recovery. Pillar B- Strengthening the Resilience of Government Programs will enable the implementation of policy and institutional reforms that ensure resilient investments at the local and sectoral levels and enhance the transparency of climate expenditures. These policy reforms

[30] The Climate Change Act mandated DBM to undertake the formulation of the annual budget in a way that ensures the appropriate prioritization and allocation of funds to support climate change-related programs and projects in the annual program of government. The CCET was initiated as part of the climate budgeting framework that builds on the results of the Climate Public Expenditure and Institutional Review done in 2013 and public finance management (PFM) reforms.

under the two pillars are consistent with the new policy directions outlined in the Updated NDRRM Plan (see Section 3).

38. **The key features of the proposed operation are**:

- *Pre-approval criteria.* For this contingent financing instrument, the Borrower must implement a DRM program, which the Bank will monitor on a periodic basis.

- *Drawdown trigger.* The trigger for drawdown is that (i) a proclamation declaring a State of Calamity has been issued by the Borrower's President due to an imminent or occurring natural catastrophe and/or a public health emergency; and/or (ii) a proclamation declaring a State of Public Health Emergency has been issued by the Borrower's President due to a public health emergency. For this operation, the drawdown trigger will cover new and distinct shocks, which should differ from pre-existing shocks or an ongoing state of calamity.

- *Features.* Up to the full loan amount is available for disbursement at any time within three years from loan signing. The CAT-DDO has a revolving feature; amounts repaid during the drawdown period are available for subsequent withdrawal. The three-year drawdown period may be renewed up to four times, for a total maximum period of 15 years. The adequacy of the macroeconomic framework is only assessed at effectiveness and reconfirmed at renewal, but it is not required for drawdown. Renewal would require that the original program remains satisfactory.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Strengthening Disaster Response and Recovery Policies and Planning

Prior Action #1: The Government has mandated the use of Disaster Rehabilitation and Recovery Plans to link funding approval from the NDRRM Fund to planning through a NDRRM Council[31] memorandum circular.

39. **Rationale:** Post-disaster rehabilitation and recovery continues to take a long time, resulting in impacts on affected communities. Post-disaster planning alone often takes six to eight months and can be further delayed if coordination mechanisms are not in place. Lessons learned over the past decade have repeatedly identified disbursement bottlenecks as one of the largest constraints for efficient disaster response in the Philippines. Accessing disaster recovery funding can take up to two years for LGUs due to complex and bureaucratic approval process. To accelerate this, the WB technical assistance complementing the CAT-DDO 2, supported GOP to prepare the Philippine Disaster Rehabilitation and Recovery Planning Guide to assist NGAs and LGUs preparedness for disasters. This reform is being rolled out at the local level under DRM-DPL 3 by strengthening LGU capacity to prepare pre-disaster rehabilitation and recovery plans and develop local DRF strategies to finance post-disaster recovery interventions. The final step is to mandate the use of Disaster Rehabilitation and Recovery Plans to access

[31] The NDRRM Council is the highest organized and authorized body in DRRM in the Philippines composed of national government agencies, LGUs, non-government organizations and the private sector. It is responsible for coordinating, integrating, supervising and monitoring the development and enforcement by agencies and organizations of the various laws, plans, programs, guidelines, codes, or technical standards required by the Philippine DRRM Act.

the NDRRRM Fund. This reform will institutionalize a shift from ad-hoc ex-post funding requests to linking funding directly to ex-ante preparedness plans. This will help LGUs shorten the overall disaster recovery phase, including access to disaster recovery financing from the National Government level, by (i) putting in place institutional arrangements and coordination mechanisms before disasters occur; and (ii) identifying disaster scenarios and corresponding local recovery needs and resources.

40. **Policy.** The NDRRM Council has issued revised guidelines on the administration of the NDRRM Fund[32] to enhance its responsiveness, transparency, and accountability.[33] Under the revised Guidelines, the NDRRM Council has mandated the use of the approved Disaster Rehabilitation and Recovery Plans as a requirement to request funding from the NDRRM Fund for recovery and reconstruction projects. The Guidelines also adopted equity-based criteria in reviewing and approving funding proposals focusing on vulnerable LGUs. These include geographic vulnerability to disasters, poverty incidence, income class, and intensity of the impact of damages on population, housing, agriculture, and infrastructure. Closely linking rehabilitation and recovery planning to funding approvals will speed up the rehabilitation and recovery process, facilitate for efficient allocation of the limited NDRRM Fund, and ensure coherence of Rehabilitation and Recovery Plans with the Government's goal to have safer, adaptive, and disaster-resilient communities.

41. **Expected Results.** By 2024, 50 percent of vulnerable LGUs[34] affected by disasters that require funding submit Disaster Rehabilitation and Recovery Plans as required to rapidly request and access funding from NDRRM Fund for recovery and reconstruction projects.

Prior Action #2: The Government has required NGAs and LGUs to establish baseline data for disaster and climate risks to inform DRM interventions through the NDRRM Plan 2020-2030.

42. **Rationale.** Timely access to critical information is vital in informing policies and plans to better manage risks associated with climate change, natural disasters, and disease outbreaks. Substantial efforts have been made over the last decade to assess climate and disaster hazards[35] to better understand the risks. In 2020, the GOP has established a multi-hazard central database system called GeoRiskPH that is managed by the Department of Science and Technology (DOST). Under the DRM-DPL3, key NGAs have initiated the sharing of critical data in the GeoRiskPH and used the GeoRiskPH in informing their respective planning and investment programming. However, there remains a gap in the sources of data and information as NGA data does not capture ground level reality in the communities. The database still lacks comprehensive information from LGUs, which is critical in understanding the risks of climate change, natural disasters, and pandemics and in ensuring that national and local CCA-DRR policies and plans are

[32] The NDRRM Fund is an annual appropriation intended to be used for DRM activities covering mitigation, prevention, preparedness, response, and reconstruction. The DBM administers the fund and releases directly to implementing agencies or LGUs upon approval of the President of the Philippines as recommended by the NDRRM Council.

[33] Prior to the issuance of the revised guidelines, access to the NDRRM Fund was on a per project basis where Office of Civil Defense (OCD) reviews the necessity and relevance of project proposals for funding. Projects were assessed based on the inclusion of the Post-Disaster Needs Assessment (PDNA) report that is usually completed after three to five months post-disaster. In the absence of a PDNA, OCD conducts field validation to evaluate the proposed request from LGUs. Such processes would take months to a year to get approved. The NDRRM Council noted that based on the evaluation of the NDRRM Fund, majority of the funds were used for (regular) pre-disaster programs and projects.

[34] The GOP identified 24 vulnerable provinces covering 21 cities and 394 municipalities.

[35] As defined in the Philippine DRRM Act, disaster includes disease outbreaks and other public health emergencies.

risk-informed. Many LGUs have limited capacity and resources to collect and maintain these maps and technical data. Most of them rely on consultants and service providers whose engagement is limited thus making it difficult for the LGUs to continue the initiative on their own. There is also a need to enhance the granularity of data by further integrating the updated LGU- specific information and datasets to address fragmentation of data that constrains planning and inform evidence-based decisions at the national, sectoral, and local levels. This includes data on the demographic profile, land use and physical environment, hydro-meteorological and geologic hazards, coping capacity, vulnerability, critical facilities, and administrative boundaries. Furthermore, learning from the COVID-19 pandemic, health-related information and data of LGUs integrated in the GeoRiskPH can enhance the GOP's preparedness and build resilience to future public health emergencies. The integration and consolidation of baseline data into one information database system will allow NGAs and LGUs to access officially integrated real time hazard and risk-related information without the need to secure access from various forecasting and mapping agencies. Further, it will allow LGUs to continuously maintain their technical data through the GeoRiskPH.

43. **Policy.** The Government, through the NDRRM Plan 2020-2030[36], requires NGAs and LGUs to establish baseline information for all hazards and risks assessments to inform overall planning and DRM interventions, specifically for the development of local and national DRM strategies. Currently, GeoRiskPH has good coverage of hazard related data from national agencies. GeoRiskPH would be further enhanced with the inclusion of baseline data from LGUs that would help capture the changes in baseline environmental/ hazard/ disease outbreak conditions of the LGUs brought by the impacts of climate change. It is expected that improved accuracy, availability, access and use of climate, disaster and health-related data will lead to timely and informed policymaking, planning, and disaster risk and public health emergency assessments. It will also facilitate tracking of progress of DRM efforts in the country.

44. **Expected Results.** By 2024, GeoRiskPH includes climate, disaster, and health-related baseline data of 100 LGUs.[37]

Prior Action #3: The Government has strengthened delivery of the community-based DRM related Technical and Vocational Education and Training (TVET) program through the issuance of a Technical Education and Skills Development Authority (TESDA) Circular.

45. **Rationale:** In the aftermath of disasters, there is high demand for skilled workers in specialized sectors to initiate the reconstruction and rehabilitation process. These include construction, welding, electrical installation and maintenance, pipe-laying, heavy equipment operation, and food production. As disasters are further exacerbated by climate change, targeted skills that would help address climate impacts are also needed such as construction of resilient infrastructures, improving crop and livestock production, and disaster resilient crop management, among others. This situation is even more dire if communities and businesses are directly impacted by natural disasters and disease outbreaks simultaneously as it creates additional shortages in the labor market in terms of health care experts. Transitioning back to the labor market can be very stressful for disaster or pandemic-affected people. A TVET qualification prior to disasters can equip the displaced and less skilled labor by improving their livelihood opportunities and enabling them to find suitable post-disaster employment. It has the potential to help rebuild the physical infrastructure, restore economic activity, and strengthen the social fabric of disaster-affected

[36] NDRRM Council Resolution No. 8 s.2020 was issued on October 30, 2020 approving the NDRRM Plan 2020-2030.
[37] LGUs may include provinces, cities or municipalities.

communities. Moreover, evidence shows that there is low participation of women in TVET courses related to construction, automotive, electrical, and metals engineering. There is a need to equip communities, especially women, in vulnerable provinces with these critical and targeted skills.

46. **Policy:** TESDA Circular No. 11 recognizes the challenges related to disaster response and emphasizes the importance of skills and livelihood training for disaster response and recovery as part of its overall program. It aims to have a standardized approach in the provision of disaster response- related TVET to effectively build the capacity of communities to cope from disasters. Under its community-based training program, TESDA will train and organize community trainers and individuals on critical skills needed during disaster response, rehabilitation, and recovery. The program specifically targets the poor and marginalized groups who cannot access formal training programs. TESDA will deploy a pool of community trainers, with priority given to the 24 vulnerable provinces, to provide basic skills training to disaster-affected communities. In addition, TESDA is expanding its program to public health-related training to help manage the impacts of the COVID-19 pandemic and other future health emergencies in the communities.

47. **Expected Results:** By 2024, TESDA targets 4,715 graduates (50 percent increase from the baseline of 3,143 graduates) in DRM and disease outbreak related TVET in vulnerable provinces and 40 percent increase in women participation in construction, automotive, electrical, and metals engineering TVET courses (also see Paragraph 61-63).

Pillar B. Strengthening the Resilience of Government Programs in Key Sectors

Prior Action #4: The Government has mandated the inclusion of CCA-DRR measures in all projects through the Republic Act 11518 (General Appropriations Act of 2021).

48. **Rationale.** It is critical that CCA-DRR measures are fully considered in development planning and allocating public financial resources. Resources need to be allocated efficiently and targeted to the sectors and LGUs most vulnerable to climate change and disasters to sustain development gains in the face of increasing risks and tight fiscal space. This requires (i) good information on current and future spending on CCA-DRR to inform decisions; and (ii) a priority focus on incorporating CCA-DRR measures in future budget proposals. Climate budget tagging[38] helps the government understand funding gaps, evaluate adequacy of spending on priority areas, and inform future budget allocation.[39] The Philippine's climate budget tagging typology reflect the priorities of the NCCAP and includes disaster risk reduction initiatives. Climate change budget tagging can also inform disease surveillance systems and public health emergency preparedness.

---

[38] Climate budget tagging is part of the Climate Change Expenditure Tagging (CCET) framework and sometimes used interchangeably in Government policy documents. CCET, as defined in the Joint Memorandum Circular issued by CCC and DBM in 2014, consists of the policy-based definitions of climate change response, a detailed climate change typology, a common method for tagging climate change expenditure, a process of reviewing and reporting on results, and the assignment of roles and responsibilities to NGAs. More information is available in the reference guide issued by the DBM and CCC, *https://niccdies.climate.gov.ph/files/documents/National%20CCET%20Reference%20Guide.pdf*

[39] The latest Climate Budget Brief for FY 2021 resulting from the NGA's budget tagging submissions, shows that 6.26 percent of the total National Budget (Php 282 billion) is allocated to programs in line with the implementation of the NCCAP—a 21 percent increase from the FY 2020 budget.

49. **Policy.** The Government adopted policies to improve the tracking and prioritization of CCA-DDR spending in the budget. Section 37 of Republic Act 11518 (General Appropriations Act of 2021) mandates all agencies of the government to incorporate CCA-DRR measures in all projects. Section 38 of the Act further mandates all NGAs and LGUs to tag their budgets for climate change adaptation and mitigation to mainstream adaptation in the national and local development process. Consistent with the General Appropriations Act, the DBM National Budget Memorandum No. 141 included financing new or expanded projects relating to climate and disaster resilience in the Budget Priorities Framework to reduce risks and shocks in the long term. The DBM Local Budget Memorandum No. 82 further mandated all LGUs to identify, tag, and prioritize their respective climate change programs, projects, and activities. It required all LGUs to submit their climate change-tagged Annual Investment Plans, Local Climate Change Action Plan, Local DRRM Plan, Devolution Transition Plan, and Local Expenditure Program by 2024.

50. **Expected Results:** The program will support the advancement and implementation of CCA-DRR measures within the NGAs and LGUs through the following:

   a. 50 percent of NGAs and 30 percent of LGUs complied with budget tagging by 2024 compared to a baseline of 10 percent for both for the 2021 budget.
   b. 100 percent (38/38) of highly urbanized cities (HUC) and independent component cities (ICC) and 100 percent (24/24) of priority vulnerable provinces have local investment programs that integrate CCA-DRR measures.

Prior Action #5: The Government has adopted Climate Risk Vulnerability Assessment (CRVA) to integrate climate risk management and resilience in the Provincial Commodity Investment Plans (PCIPs) through a Department of Agriculture (DA) memorandum.

51. **Rationale**: Natural hazards and extreme weather events cause severe damage to the Philippines' agriculture and fishery sector.[40] This was intensified by the COVID-19 pandemic, further increasing the risks to food security and vulnerabilities of farmers and fisherfolks that comprise 23 percent of the country's total employment.[41] The application of climate risk vulnerability assessments can inform the development and implementation of risk reduction strategies and investments to reduce the impact of climate change on agricultural production (including fisheries and livestock), and food security. The integration of resilience and sustainability features can raise the quality of future commodity investment planning. The PCIPs have been instrumental in leveraging resources from NGAs, LGUs, and non-government organizations (NGOs) to finance interventions for value chain upgrading for priority agricultural commodities.[42,43] Without these features integrated into the programs and projects specified

---

[40] OECD (2017), Agricultural Policies in the Philippines, OECD Food and Agricultural Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9789264269088-en

[41] https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=PH

[42] To date, over Php 31 billion (US$620.7 million) worth of rural infrastructures and enterprise development projects identified in the PCIPs have been financed through the WB- supported Philippine Rural Development Project (PRDP). The PRDP is DA's flagship project for rural development that aims to establish a modern, value chain-oriented and climate-resilient agriculture and fisheries sector. It provides essential infrastructure, facilities, technology, and information to raise incomes, productivity, and competitiveness in targeted areas in partnership with LGUs and the private sector.

[43] As of April 2021, non-PRDP funding from NGAs, LGUs, donors, and NGOs in 77 provinces have leveraged cumulative additional resources amounting to Php 80.8 billion (US$1.6 billion), These leveraged funds represent a 61 percent increase from the reported

in the PCIP, resulting benefits will be short-lived and will require repeated investments of the same nature. By integrating the CRVA in the PCIPs, provinces will be able to determine the areas, crops, and communities that are most vulnerable to climate change; and identify and prioritize climate interventions and support. The integration of resilience and sustainability features can help reduce climate vulnerability of critical areas, crops, livestock, fisheries, and communities, and contribute to achieving inclusive, prosperous, and resilient food system. With the integration of CRVA, it is expected that investments drawn from PCIPs will contribute to the implementation of climate resilience initiatives.

52. **Policy:** The Government has mandated the completion of CRVA as a standard assessment and targeting tool for DA's investment projects in all provinces in the Philippines, through DA Memorandum. In May 2021, the CRVA-PCIP protocol was incorporated in the Philippine Rural Development Project (PRDP) Enhanced Operations Manual. PRDP is supporting the integration of CRVA in the PCIPs to strengthen its interventions in the commodity value chain by considering climate-related information and risk profile as basis for identifying climate resilient interventions and risk adaptation measures. The PCIPs serve as a basis for identifying essential climate-resilient infrastructure investments and enterprise development initiatives that can be funded by PRDP with counterpart funding from the LGUs.[44]

53. **Expected Results:** As of 2021, 16 out of 60 PCIPs integrated climate and resilience criteria to prioritize investments. By 2024, 60 out of 60 provinces will have completed enhanced PCIPs.

Table 5: Prior Actions and Analytical Underpinnings

Prior Actions	**Analytical Underpinnings**
Operation Pillar 1: Strengthening Disaster Response and Recovery Policies and Planning	
Prior Action #1: The Government has mandated the use of Disaster Rehabilitation and Recovery Plans to link funding approval from the NDRRM Fund to planning through a NDRRM Council memorandum circular.	*World Bank Group. 2017. Philippines - Lessons learned from Yolanda: an assessment of the post-Yolanda short and medium-term recovery and rehabilitation interventions of the Government http://documents.worldbank.org/curated/en/537771507750178892/Philippines- Lessons-learned-from-Yolanda-an-assessment-of-the-post-Yolanda-shortand-medium-term-recovery-and-rehabilitation-interventions-of-the-Government* This Policy Note serves as a primary reference for GOP for timely and effective disaster rehabilitation and recovery. It underscored the need to have a standard framework for post-disaster rehabilitation and recovery; and streamlined processes and procedures for downloading of funds to NGAs and LGUs for immediate rehabilitation and recovery. *World Bank Group. 2020. Public Expenditure Review: Disaster Response and Rehabilitation in the Philippines*

Php 50.2 billion (US$1.005 billion) cumulative resources as of May 2020 and a 245 percent increase from the Php 23.4 billion (US$468.6 million) cumulative resources leveraged as of October 2019.

[44] https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=PH

	https://openknowledge.worldbank.org/handle/10986/35064 The public expenditure review is a comprehensive diagnostic of public spending on disaster and climate-related shocks in the in the Philippines. It identified key challenges in the disbursement of funds following disasters and measures to improve financial preparedness and risk management, particularly (i) streamlining the flow of funds for effective disaster response; (ii) tracking funds and embedded reallocations; (iii) identifying disbursement bottlenecks; (iv) improving oversight of fund utilization; and (v) monitoring the achievement of policy targets. This analytical work features the DRM challenges the country faces amidst the COVID-19 pandemic and the policy recommendations to strengthen its physical, fiscal, and social resilience. It identified the complex approval and disbursement process of funding as a key constraint for timely and more responsive post-disaster and rehabilitation and recovery and recommended to streamline the process.
Prior Action #2: The Government has required NGAs and LGUs to establish climate and disaster risks baseline data to inform disaster risk management interventions through the NDRRM Plan 2020-2030.	*World Bank Group. 2017. Philippines - Lessons learned from Yolanda: an assessment of the post-Yolanda short and medium-term recovery and rehabilitation interventions of the Government.* This Policy Note highlighted the need for baseline data before a disaster to speed up post-disaster response and facilitate effective planning and investment programming. *National Disaster Risk Reduction and Management Council. 2020. National Disaster Risk Reduction and Management Plan 2020-2030.* Government underscored the need address the need for baseline data for all hazard risk assessments and consolidate this in the Government's central information database system (GeoRiskPH). The timely availability, and improved access and use of baseline data will facilitate science or evidenced based planning and investment programming. The Plan also stressed the need to integrate CCA-DRR and ecosystem-based approaches and strengthen the link between rehabilitation and recovery and preparedness and mitigation actions. *World Bank. Global Facility for Disaster Reduction and Recovery. 2014. Understanding Risk in an Evolving World: Emerging Best Practices in Natural Disaster Risk Assessment.* The report showcased emerging best practices on how risk assessments are being used to inform DRM actions and broader development. It likewise emphasized the need for continued investment in accurate and useful risk information.

Prior Action #3: The Government has strengthened the delivery of community-based DRM-related TVET program through the issuance of TESDA Circular.	*World Bank Group. 2017. Philippines - Lessons learned from Yolanda: an assessment of the post-Yolanda short and medium-term recovery and rehabilitation interventions of the Government http://documents.worldbank.org/curated/en/537771507750178892/Philippines-Lessons-learned-from-Yolanda-an-assessment-of-the-post-Yolanda-shortand-medium-term-recovery-and-rehabilitation-interventions-of-the-Government* The report underscored that community participation is crucial in the rehabilitation and recovery process. The affected communities are the main resource available for rehabilitation and recovery. It further highlighted the need for technical assistance and training of community members in owner-driven or community-driven shelter reconstruction. *World Bank. 2019. Mindanao Skills Development Strategy for Poverty Reduction https://openknowledge.worldbank.org/handle/10986/33182?show=full* This report was requested by the Mindanao Development Authority to support the elaboration of human resource and skills development strategy for Mindanao, as a critical imperative in securing jobs and enhancing productivity. The relevant findings of this analytical work served as springboard in discussions with TESDA on further opportunities for the Bank's financing and technical assistance, especially in strengthening skills development system at the national level.
Operation Pillar 2: Strengthening the Resilience of Government Programs in Key Sectors	
Prior Action #4: The Government has mandated the inclusion of CCA-DRR measures in all projects through the passage of Republic Act 11518.	*Accelerating Climate Investment in the Philippines Advisory Services and Analytics (P171993).* This analytical work assessed the performance of the Risk Resiliency Program. It highlighted the opportunity for the program to be the platform for mobilizing quality local resilience investments from a wider range of financing sources particularly in the context of the implementation of Mandanas Ruling. World Bank. 2021. Climate Change Budget Tagging: A Review of International Experience. Equitable Growth, Finance and Institutions Insight; World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/35174 License: CC BY 3.0 IGO." This report presents the context and key design features of climate budget tagging initiatives based on a review of 18 climate methodologies in 18 countries including the Philippines. It presents the strengths and weaknesses of budget tagging as a tool for supporting climate change policies and puts forward the benefits, challenges and lessons learned from experience in climate tagging and

	from experience with budget tagging for poverty, gender, and international development objectives.
Prior Action #5: The Government adopted CRVA to integrate climate risk management and resilience in the PCIPs through a DA memorandum.	*Transforming Philippine Agriculture During Covid-19 and Beyond (June 2020)*. https://openknowledge.worldbank.org/bitstream/handle/10986/34012/Transforming-Philippine-Agriculture-During-COVID-19-and-Beyond.pdf The report reviews the DA's banner programs, including modernization programs focused on "Greening of Agriculture", noting that legacy policies may obstruct "new thinking" paradigms. *The Philippine Rural Development Project (P132424, P132317) with Advisory Services and Analytics (TF017788) and additional financing (P169025)* The project has supported the enhancement of farm and fishery productivity in targeted areas by assisting smallholders and fishers to increase their marketable surpluses and their access to markets. It has also provided agricultural assets and/or services to farmers and fisherfolks, and technical and funding assistance to agri-enterprises. The project further has helped improve technical capacity of provinces to plan and manage subprojects for developing the agriculture sector. As a result, all the provincial LGUs now have PCIPs, which served as the basis in prioritizing agricultural commodities and investments. *Philippines Economic Update, June 2020: Braving the New Normal.* https://openknowledge.worldbank.org/bitstream/handle/10986/33879/Philippines-Economic-Update-Braving-the-New-Normal.pdf The report summarizes key economic and social developments, important policy changes, and the evolution of external conditions over the past six months in the Philippines. It also presents findings from recent World Bank analysis, situating them in the context of the country's long-term development trends and assessing their implications for the country's medium-term economic outlook. The report mentions that agricultural exports were affected by disruptions in global value chains due to the COVID-19 pandemic.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

54. **The proposed CAT-DDO 4 is fully aligned with the Systematic Country Diagnostic (SCD) and the current Country Partnership Framework of the World Bank Group for the Philippines (CPF, Report No. 24605-PH for FY2019-2023).** The SCD identified policy priorities that can further position the Philippines in addressing the country's core constraints to reducing poverty and promoting shared prosperity in line with the Philippine's *Ambisyon Natin 2040* vision. It highlighted the need for actions that aim at addressing the country's intense vulnerabilities by scaling up efforts to protect the country from natural disasters and climate change impacts. The proposed operation also supports the CPF Focus Area #3 on reducing core vulnerabilities by building peace and resilience, which aims to address the country's core vulnerabilities

of conflict alongside climate change and natural disasters, which pose the most significant risks to future growth in the Philippines. It supports the CPF Objective #10 on increased resilience to natural disasters and climate change. Under the same focus area, the proposed CAT-DDO 4 will support the implementation of the Philippines Nationally Determined Contribution, particularly as it relates to climate resilience.

55. **The proposed CAT-DDO 4 directly contributes to the achievement of the WB's Twin Goals of ending extreme poverty and promoting shared prosperity.** A strong link exists between enhancing resilience and poverty reduction. The impact of natural disasters and climate change, and disease outbreaks on the poor in terms of losses of assets and well-being are substantial. The increased frequency of recurrence and higher magnitude of disasters and disease outbreaks keep or move people back into poverty. The CAT-DDO 4 will help the country reduce risks and increase its ability to cope with disasters, climate change, and disease outbreaks will also help reduce poverty.

56. **The proposed operation complements several WBG-supported operations and technical assistance activities.** These include: (i) *DRM-DPL 3* (P171440, US$500 million, ongoing), which aims to strengthen the GOP's policy and institutional capacity to reduce disaster risk, respond to and recover from natural disasters; (ii) *Promoting Competitiveness and Enhancing Resilience to Natural Disasters Series* (Sub-program 2-P170052, US$600 million, ongoing and Sub-program 3-P176891, US$600 million, under preparation), which includes a focus on enhancing government's financial resilience by integrating risk financing in fiscal planning; improving financial risk management of public assets by developing asset management; and investing in reducing the contingent liability of the government through actions that enhance private catastrophe risk insurance; (iii) *First Financial Sector Reform Development Policy Financing* (P175008, US$400 million, ongoing), which aims to support financial reforms that will assist GOP in achieving a resilient, inclusive and sustainable financial sector, including promoting homeowner catastrophe risk insurance; (iv) *Philippines Seismic Risk Reduction and Resilience Project (P171419,* US$ 300 million, ongoing*)* supporting the Government's Earthquake Resiliency Program for Greater Metro Manila area; and (v) *Philippines Sustainable, Inclusive and Resilient Tourism Project (P171556,* US$150 million, under preparation), which intends to strengthen the resilience of communities by improving local infrastructure, developing livelihood opportunities, and increasing disaster preparedness in selected tourism destinations.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

57. **The Bank has conducted consultations with the relevant oversight agencies of the GOP as well as other relevant agencies and stakeholders in preparation of the CAT-DDO 4.** The DOF convened a Technical Working Group (TWG) to consult relevant oversight and line agencies, including the National Economic and Development Authority (NEDA), DBM, Office of the President, DOST, NDRRM Council – Office of Civil Defense (OCD), DILG, DENR, DA, CCC, TESDA and other key agencies. This builds on the mechanism under CAT-DDOs 1 and 2 and the third DRM DPL in which the DOF regularly convenes a TWG to discuss progress of the result indicators and policy actions. The TWG has been an effective platform for consultation, coordination, and monitoring of the program implementation of the previous operations.

58. **Among development partners and donors, the Japan International Cooperation Agency (JICA), Asian Development Bank (ADB) and the Agence Française de Développement (AFD) are key collaborators on the DRM agenda.** During the preparation of the CAT-DDO 4, there was strong coordination with the

Government of Japan through the Japan-World Bank Global Facility for Disaster Reduction and Recovery, JICA, and AFD. The ADB is active in risk financing with a focus on cities, which complements WB work on this agenda. The DOF regularly conducts bilateral discussions with partners around specific topics or sectors for donor collaboration. Through this, updates are provided on DRM programs and complementary support from agencies such as AFD, ADB, JICA, and United Nations Agencies, among others.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

59. **The proposed operation will continue to support GOP efforts to mitigate the poverty impacts of climate change, natural disasters, and disease outbreaks.** Under Pillar 1, mainstreaming the use of pre-disaster rehabilitation and recovery plan as a requirement to rapidly request and access the NDRRM Fund is expected to contribute to poverty reduction by speeding up rehabilitation and recovery of communities affected by disasters. Improved availability, access and use of baseline data is also expected to help the affected communities to be better prepared and resilient from these shocks. Generating local baseline information including disaster risk mapping, may have the following temporary adverse implications (i) reduction in LGU budgetary allocation; (ii) potential and expensive relocation of affected communities out of disaster-prone zones and (iii), increase in taxes and insurance premiums on land and property values. These concerns will be addressed through the process of public consultations that is embedded in the preparation and approval of comprehensive land use plans, local development plans, and other relevant plans of the LGUs. Specific activities under Prior Actions 1, 2, 3, and 4 are also supporting vulnerable LGUs (refer to Section 4.2), which have high poverty incidence, highly susceptible to hazards such as drought, strong winds, flooding, rain-induced landslide, storm surges, and are in critical and degraded watersheds. Government audit report has shown that there is a significant imbalance between the risk exposure of the poor and vulnerable LGUs and the availability of resources to prevent and cope with the adverse impacts of disasters. LGUs that face higher vulnerability to climate change and natural disasters fall under the lower income categories.[45] Prior Action 5 will also contribute to poverty reduction by supporting reforms that would benefit the farmers, fisherfolks, and rural dwellers. Poverty incidence in the agricultural and fishery sector is highest in the Philippines.

60. **Women and men, because of gender and social norms, are differently affected by climate change, natural disasters, and disease outbreaks.** The compounding effects of these shocks tend to affect women disproportionally for the following reasons: (i) women face an increased burden of primary caregiving responsibilities for their families, elderly and extended households during disasters; (ii) pregnant and nursing mothers often face even greater difficulties due to lack of access to childcare services in relief centers and safety issues; and (iii) women and girls face an increased risk of gender-based violence, especially in shelters. Women are 14 times more likely to die during a natural disaster than men.[46] Pregnant and nursing mothers as well as those who were left to care for the elderly and sick relatives are often at a disadvantage in cases of immediate evacuation and when rescuers are still not available. This

[45] Commission on Audit. 2014. Assessment of Disaster Risk Reduction and Management at the Local Level.
[46] UN Development Fund for Women & Corner, L. (2008). *Making the MDGs Work for All. Gender-Responsive Rights-Based Approaches to the MDGs.* UN Development Fund for Women. *https://www.refworld.org/docid/4a292e2f2.html* p. 134

high risk is attributed to their lower socio-economic status, lack of voice and empowerment, and lack of adequate access to resources. Most often women are forced to leave the workforce post disaster to fulfill their care and domestic responsibilities,[47] increasing the overall risks for families already facing "loss of jobs and income, loss of livestock, damage to properties, and food insecurity[48]." When men leave their families to seek post-disaster employment, women also carry the burden of building back their households. In cases of disease outbreaks, women are faced with the burden of unpaid care work as they provide "greater support to family members, including maintaining sanitary conditions in the home, caring for family members who are ill, putting themselves at increased risk of becoming infected.[49] This is also compounded in cases when women are working as it would also mean balancing this with housework as well as their other care responsibilities at home.

61. **The CAT-DDO 4 will support actions to narrow the existing gender disparities in Government skills development programs.** While women account for a majority of TVET enrollees and graduates (around 53 percent in 2020), the overall labor force participation rate of women is still lower at 34.5 percent than men at 54.8 percent during the same period.[50] Further, women graduates are fewer in automotive, construction, electrical, and metals engineering courses, comprising only 18 percent of the total graduates.[51,52] Gender stereotypes and biases act as barriers to women's enrollment in these industries, which are perceived as unsuitable for women due to the need for "physical strength" and the job's hazards.[53] The traditionally male-dominated courses are in demand during post-disaster reconstruction and offer an opportunity for disaster-affected individuals to earn their livelihood, especially under cash for work programs. Having the necessary skills in these sectors increases women's access to employment after a disaster. Under Prior Action 3, the CAT-DDO 4 will increase women's participation in DRM related skills development courses that are male-dominated by (i) enhancing the design of TVET courses to meet the specific skills and learning needs of women; [54] (ii) setting a target to ensure that 40 percent of graduates from automotive, construction, electrical, and metals are women and; (iii) incorporating social and behavior change communication and community campaigns to increase men and women's awareness of gender norms and stereotypes affecting women's enrollment in technical TVET courses and subsequent access to job opportunities.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

---

[47] UN Women. (2020, September 16). *COVID-19 and its economic toll on women: The story behind the numbers. https://www.unwomen.org/en/news/stories/2020/9/feature-covid-19-economic-impacts-on-women*

[48] Barrameda, T. V. (2012). *Stories women tell: Five rural women's lived experiences of survival and typhoons.* Philippine Journal of Social Development, 4, 125-148.

[49] UN Women. (2020). *Gender snapshot: COVID-19 in the Philippines.*

[50] Philippine Statistics Authority. (2021). Women and Men Fact Sheet. *https://psa.gov.ph/gender-stat/wmf*

[51] TESDA. (2020). TVET Statistics 4th Quarter Report.

[52] WB staff computation based on data from TESDA.

[53] Illo, J. (2018). *Gender Profile of the TVET Sector*. Technical Education and Skills Development Authority.

[54] Under the inter-agency Career Guidance Advocacy Program involving TESDA, Department of Labor and Employment, Department of Education, Commission on Higher Education, and Professional Regulation Commission, mentoring sessions can be introduced. Dissemination of labor market information can likewise be improved by highlighting job opportunities in technical fields for prospective female trainees to encourage them to enroll and pursue a technical career, particularly in sectors that are traditionally male dominated.

62. **The CAT- DDO 4 supports reforms that have an overall positive impact on the natural environment and contribute to the resilience of ecosystems, communities, the built environment, and industries.** The reforms will prepare the government to mobilize and access resources for climate and disaster resilience, generate information for evidence-based CCA-DRR planning and investment programming, promote transparency and accountability in public spending, and support sectoral programs that address the social and economic challenges brought by the COVID-19 pandemic. Key investment areas in the Risk Resiliency Program are expected to contribute to increased resilience of vulnerable communities and critical infrastructure; adequate supply of clean air, water, and other natural resources; enhanced knowledge and access to information and improved institutional capacities. The projects and activities implemented in the priority provinces including forest development, rehabilitation, maintenance and protection, biodiversity protection, coastal, watershed and wetlands assessments, small water impounding systems, and forest land use planning could have temporary negative environmental impacts such as construction-related pollution. However, the scale is likely to be limited and the associated risks can be readily mitigated. Annex 4 provides the Environment and Poverty/Social Impact Analysis.

63. **The Philippines has emphasized its orientation towards climate change and disaster resilience.** The NCCAP assesses the country's situation regarding climate change risks and outlines an agenda for adaptation and mitigation for 2011 to 2028. It prioritizes key thematic areas like food security, human security, and climate smart industries and services that this operation supports. The submission of the country's Nationally Determined Contribution to the United Nations Framework Convention on Climate Change on April 15, 2021, highlights the national development objectives and priorities including the transformation of its socio-economic sectors towards climate and disaster-resilient and low-carbon economy.

64. **The GOP has environmental regulations in place that will help address the potential environmental and social impacts associated with the investment programs.** Essential elements of good environmental assessment practice are outlined in the Philippine Environmental Impact Statement System (PEISS), which includes screening, scoping, environmental and social impact assessment, independent review, public participation, disclosure, and monitoring. Environmentally Critical Projects or projects located in Environmentally Critical Area, determined through project screening, will be subject to the Environmental Impact Assessment (EIA) process. Projects or activities screened as unlikely to cause significant adverse impact on the quality of the environment are not required to secure an Environmental Compliance Certificate but may opt to secure a Certificate of Non-Coverage. More importantly, such non-coverage is not an exemption from compliance with other environmental laws and government permitting requirements. The PEISS similarly includes the identification of social impacts and issues such as displacement of settlers, change in land ownership, displacement of property, right-of-way conflict, in-migration, presence of Indigenous Peoples, cultural change and heritage are part of the scoping and EIA review process. These provisions are complemented by other laws such as the Magna Carta of Women, Indigenous Peoples' Rights Act, Magna Carta of Senior Citizens, and Magna Carta for the Disabled. The Philippines Country Environmental and Social Framework Assessment (Phase 1) conducted by the Bank confirmed the comprehensive environmental and social policy framework of the country and its congruence to the Bank's Environmental and Social Framework (ESF), which provides a strong legal platform for the application of the ESF standards.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

65. **The Philippines has improved public financial management (PFM) at the national level over the last decade significantly and continues to be a strong performer within the region.** The Philippines has improved public financial management at the national level over the last decade significantly and continues to be a strong performer within the region. The 2016 Public Expenditure and Financial Accountability assessment indicated that three of the seven PFM pillars (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment. The financial statements of government agencies are audited annually. There were no major qualifications in the DOF annual financial statements in the most recent year and most matters raised in previous years' audit reports were fully or partially addressed. The national government budget is made available to the public online through the DBM's website, from the budget proposal stage (the National Expenditure Program), until it is signed by the President of the Philippines and made effective through the General Appropriations Act.

66. **The GOP continues to make strides in the PFM reform agenda.** A previous World Bank Group DPL series supported the formulation and then adoption of a Unified Accounts Code Structure to be used across budgeting, accounting, and reporting. A Treasury Single Account has been implemented and the BTr is working to expand its coverage. The most recent stand-alone DPL for improving fiscal management included actions to strengthen budget preparation, cash management and adoption of the Budget and Treasury Management System (BTMS) as the basis for a single national government financial information system. DBM is also developing links with other financial management systems including fiscal planning and budget preparation, procurement, and payroll. BTMS covered around 30 percent of total expenditure transactions by value in July 2020 and the number of agencies included continues to expand according to plan until its implementation was suspended by DBM in July 2021 under the COVID expenditure prioritization policy. In addition, to improve budget predictability and execution, the government has gradually tightened the validity period for obligations from 2014 until 2019 when an annual cash budget was adopted. The adoption of cash appropriations effectively limited the validity of obligations to the year funds are appropriated.

67. **Coupled with these are many steps to strengthen procurement which started with the passage of the Government Procurement Reform Act (Republic Act 9184) in January 2003**. Several measures were taken under this Act to address systemic procurement corruption including inter alia the mandatory use of public bidding, periodic monitoring, and evaluation of the performance of the procurement system through the Agency Procurement Compliance and Performance Indicator system and the mandatory use of electronic procurement and framework contracting. In recent years, the Government Procurement Policy Board developed a policy on organization, staffing and competency requirements for professionalization, standardized all procurement documents and harmonized them with development partners.

68. **The Philippines posted steady improvements in terms of the overall Open Budget Index (OBI) over the past decade**. From an overall OBI score of 51 in 2006, the Philippines' score improved to 55 in 2010, before reaching a score of 67 in 2017, ranking 19th worldwide, which further increased to 76 in 2019, ranking 10th worldwide.[55] Moreover, the Philippines remains first in Southeast Asia for Budget Transparency since

[55] 2019 Open Budget Survey. https://www.internationalbudget.org/open-budget-survey/rankings

2017.[56] In 2014, the Philippines was one of the pilot countries for the IMF's revised Fiscal Transparency Evaluation (FTE). The Philippines FTE report was published in June 2015. The government is committed to pursuing further public financial management reforms to enhance fiscal transparency through the timely provision of complete and accurate information, which will be facilitated by deployment of the BTMS.

69. **The adequacy of the foreign reserves control environment in the BSP is based on domestic assessments.** The Philippines does not have an active IMF program to develop safeguard assessments. The BSP is also not subject to international audit. BSP's financial statements are audited by the COA. The Bank and IMF have been relying on the audited financial statements released by COA. The auditor's opinions for BSP audited financial statements related to calendar years 2016 to 2018 are unmodified (unqualified). However, the audit opinions contain an "Emphasis of Matter" paragraphs relating to deviation from Philippine Accounting Standards 21 relating to the booking of realized and unrealized gains and losses due to the change in exchange rates and non-adoption of the classification and measurement; and impairment provisions of Philippine Financial Reporting Standards 9 in CY2018. The paragraphs reflect the auditor's judgment that the matter is fundamental to users' understanding of the financial statements. The auditor's opinions are not modified in respect to the matter emphasized and remain unmodified.

70. **The proceeds from the loan will be deposited in US Dollar into a deposit account at the BSP that forms part of the foreign exchange reserves** once the loan becomes effective and the Bank is satisfied with (i) the progress achieved by the government in carrying out the program, (ii) the adequacy of the government's macroeconomic policy framework, and (iii) submission of withdrawal application in required format in US Dollar. Immediately after disbursement of the loan, the government will ensure that the loan amount is promptly accounted for in the government's budget system in the general fund, and thereby is available to finance budget expenditures. The Government will provide a written confirmation to the Bank within 30 days that this accounting and transfer has been completed, including the exchange rate applied to convert the loan proceeds into Philippine Peso, and the name and number of the government's bank account in which the funds have been deposited and that the exact amount was received in the account.

71. **The CAT-DDO is the disbursement mode for this operation.** The CAT-DDO feature gives an IBRD Borrower the option of drawing down the loan proceeds during a three-year period, which can be extended up to four (three-year) periods, during which the DPL can be disbursed. Each extension will require the approval of the WB Regional Vice President. The loan proceeds may be drawn down at any time after a natural disaster resulting in a declaration of a State of Calamity by the President in accordance with the Philippine DRRM Act, or as it may be amended by the Government at the time of disbursement. For this operation, the drawdown trigger will cover new and distinct shocks, which should differ from pre-existing shocks or an ongoing state of calamity. The closing date for this operation is December 31, 2024.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

72. **The DOF is the main liaison with the World Bank on budget support operations, including the proposed operation**. However, policy dialogue and monitoring and evaluation of the program will be supported in

[56] https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1652-philippines-remains-no-1-in-southeast-asia-for-budget-transparency

close collaboration with NDRRM Council – DOF, NEDA, OCD, DBM, DOST, DILG, TESDA, DENR, CCC and DA. The GOP has designated the DOF International Finance Group as the WB's main counterpart in the policy dialogue and monitoring of the operation.

73. **Indicators selected to monitor progress toward achievement of PDO reflect defined areas of action and correspond to the expected outcomes of the prior actions.** They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. Moreover, the Pillars and result indicators in the policy framework are aligned with government priorities. Since the policy targets are aligned with regular programs of the relevant agencies, their reporting mechanisms will be used.

74. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, because of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."

6. SUMMARY OF RISKS AND MITIGATION

75. **The overall risk rating for the proposed operation is Moderate.** The most relevant risks that could affect the achievement of the program development objective are macroeconomic risks, political and governance risks, and institutional capacity for implementation. While these are considered Substantial, the overall risk rating is Moderate. The proposed reforms under the CAT-DDO 4 are anchored in Philippines laws and development plans, giving them a solid legal foundation and public support. The GOP, through the DOF, has also shown strong leadership in pursuing DRM reforms over the last decade. An inter-agency TWG, established since the CAT-DDO 1, supports the DOF. It has been a functional platform for consultation, coordination, and monitoring of program implementation. With support from CAT-DDO 1 and 2 and DRM-DPL3, the GOP has established a good track record of delivering results. All other risks associated with sector strategies, program design, fiduciary, social and environmental, and stakeholders are rated Moderate.

76. **Macroeconomic risks are rated Substantial given the prolonged impact of the COVID-19 pandemic that may delay economic recovery and exacerbate the country's economic conditions.** The GOP's vaccination effort has steadily progressed. However, the increased incidence of COVID-19 infection due to the emergence of new and more infectious variants may extend the imposition of stricter containment measures, resulting in weak consumer and business confidence that could dampen the prospects of a

swift economic recovery. Prospects of slower global economic recovery may also weaken the export sector in terms of sluggish export demand, low flows of foreign direct investments, and limited remittance inflows. The generation of public revenues may thus be suppressed and may constrain the fiscal space to support economic growth. The narrower fiscal space risks funding of programs such as the DRM-related TVET or LGU capacity building on data collection and management, which are instrumental to the achievements of outcomes under this operation. To mitigate the impact of the crisis and maintain macroeconomic stability, the GOP is taking necessary measures. The authorities are committed to fiscal consolidation over the medium term with interventions to raise public revenues and temper the growth of public expenditures. The BSP, committed to its inflation-targeting objective, also maintains a flexible exchange rate regime and keeps sizable foreign reserves on monetary policy.

77. **Political and governance risks are rated Substantial.** The GOP has shown strong leadership and commitment in advancing the DRM reform agenda. Progress over the last decade in carrying out reforms and investments to make the country more resilient to climate risks and natural disasters has been substantial. Many of the reforms were undertaken with support from CAT-DDO 1, CAT-DDO 2 and the ongoing DRM-DPL 3. The national and local elections in May 2022 may slow down the pace of implementation of policy reforms proposed under this CAT-DDO 4. This risk will be mitigated by the strong legal foundation of the climate and DRM reforms and by continuing to support the DOF in leading the reform process and convening oversight and line agencies to continue the policy dialogue at both political and technical levels. Residual risks remain even after mitigation measures are put in place.

78. **Risks relating to institutional capacity for implementation and sustainability are considered Substantial.** Some LGUs may have limited technical capacity or overstretched capacity as they continue to respond and recover from the impacts of COVID-19 pandemic. LGUs may be unable or unwilling to comply with the policy reforms given the capacity constraints. To mitigate the risks, the Bank in collaboration with the concerned NGAs will continue to provide technical assistance and capacity building support to LGUs. Residual risks remain Substantial even with mitigation because of the uncertainties brought about by the COVID-19 pandemic and its variants, full implementation of the Mandanas Ruling, and outcome of the national and local elections in 2022.

79. **Other Risks associated with the resurgence of COVID-19, including the highly infectious Delta variant, are also considered Substantial.** Surges in cases of new COVID-19 variants are happening and threatening to overwhelm the country’s health system. The GOP has imposed restrictions on mobility, particularly in Metro Manila and major cities across the country, causing substantial disruptions in economic activities, substantial loss of employment and income, and stalling the country’s economic recovery. The Government is taking measures to speed up the vaccination roll out to flatten the infection curve. Despite all these measures, the patterns observed worldwide and, in the Philippines, have been sporadic and difficult to control.

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Substantial
Overall	Moderate

.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Indicator Name	Baseline (2021)	Target (2024)
PILLAR A: Strengthening Disaster Response and Recovery Policies and Planning			
Prior Action #1: The Government has mandated the use of Disaster Rehabilitation and Recovery Plans to link funding approval from the National Disaster Risk Reduction and Management (NDRRM) Fund to planning through a NDRRM Council memorandum circular. *NDRRM Council Memorandum Circular No. 110 s.2021 issued on September 23, 2021*	**Results Indicator A1:** Vulnerable Local Government Units (LGUs) submit Disaster Rehabilitation and Recovery Plans as required to rapidly request and access funding from the NDRRM Fund for recovery and reconstruction projects.	0 vulnerable LGUs affected by disasters that require funding submit Disaster Rehabilitation and Recovery Plans to rapidly request and access funding from the NDRRM Fund.	50% of vulnerable LGUs affected by disasters that require funding submit Disaster Rehabilitation and Recovery Plans to rapidly request and access funding from the NDRRM Fund.
Prior Action #2: The Government has required National Government Agencies (NGAs) and LGUs to establish climate and disaster risks baseline data to inform disaster risk management interventions through the NDRRM Plan 2020-2030. *NDRRM Council Resolution No. 8 s.2020 approving the NDRRM Plan 2020-2030 issued on October 30, 2020*	**Results Indicator A2:** Climate, disaster, and health-related data of LGUs are included in the Government's central risk data system (GeoRiskPH).	GeoRiskPH includes climate, disaster, and health-related data of 0 LGUs.	GeoRiskPH includes climate, disaster, and health-related baseline data of 100 LGUs.
Prior Action #3: The Government has strengthened the delivery of community-based Disaster Risk Management (DRM)-related Technical and Vocational Education and Training (TVET) program through the	**Results Indicator A4**: Increased community participation in vulnerable provinces in TVET courses related to DRM and disease outbreaks.	3,143 graduates in DRM and disease outbreak related TVET in vulnerable provinces; with 18% women participation in construction, automotive, electrical, and metals	4,715 graduates (50% increase from the baseline) in DRM and disease outbreak related TVET in vulnerable provinces, women participation in construction, automotive, electrical, and

Prior Actions	Indicator Name	Baseline (2021)	Target (2024)
issuance of Technical Education and Skills Development Authority (TESDA) Circular. *TESDA Circular No. 11 s.2021 issued on February 1, 2021*		engineering related TVET courses.	metals engineering related TVET courses increased to 40%.
PILLAR B: Strengthening the Resilience of Government Programs in Key Sectors			
Prior Action #4: The Government has mandated the inclusion of climate change adaptation and disaster risk reduction (CCA-DRR) measures in all projects through the passage of Republic Act 11518. *Republic Act 11518 (General Appropriations Act) (Section 37 on integration of CCA-DRR measures in Government projects and Section 38 on Climate Budget Tagging) approved on December 20, 2020*	**Results Indicator B1:** Increased compliance of NGAs and LGUs in disaster and climate budget tagging.	10% of NGAs and 10% of LGUs complied with the budget tagging in 2020 (for the 2021 budget).	50% of NGAs and 30% of LGUs complied with the budget tagging.
	Results Indicator B2: Local investment programs of highly urbanized cities (HUCs) and independent component cities (ICCs), and the priority vulnerable provinces integrate CCA-DRR measures.	13% (5/38) of HUCs and ICCs and 33% (8/24) of priority vulnerable provinces have local investment programs that integrate CCA-DRR measures.	100% (38/38) of HUCs and ICCs and 100% (24/24) of the priority vulnerable provinces have local investment programs that integrate CCA-DRR measures.
Prior Action #5: The Government adopted Climate Risk Vulnerability Assessment to integrate climate risk management and resilience in the Provincial Commodity Investment Plans (PCIPs) through a Department of Agriculture Memorandum.	**Results Indicator B3:** The Government has updated the PCIPs to integrate climate risk and resilience in priority investments.	16 out of 60 PCIPs integrated climate risk and resilience in priority investments.	60 out of 60 PCIPs integrated climate risk and resilience in priority investments.

Prior Actions	Indicator Name	Baseline (2021)	Target (2024)
DA Memorandum on Protocol for Integrating Climate Risk Vulnerability Assessment (CRVA) in Province-led Activities issued on January 11, 2021			

ANNEX 2: FUND RELATIONS ANNEX

INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/177

PHILIPPINES

August 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PHILIPPINES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Philippines, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 23, 2021 consideration of the staff report that concluded the Article IV consultation with the Philippines.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 23, 2021, following discussions that ended on June 11, 2021, with the officials of the Philippines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Philippines.

The documents listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/243

IMF Executive Board Concludes 2021 Article IV Consultation with the Philippines

FOR IMMEDIATE RELEASE

Washington, DC – August 6, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the 2021 Article IV consultation[1] with the Philippines.

The economy is recovering after a major, pandemic-induced economic downturn. Real GDP contracted by 9.6 percent in 2020. The authorities have deployed a comprehensive set of policy responses that have helped to mitigate the socioeconomic impact and maintain financial stability. While a moderate economic recovery started in the third quarter of 2020, the second COVID-19 wave of infections that emerged in early 2021 will likely slow the economic recovery in the first half of the year. CPI inflation averaged 4.4 percent through June 2021, above the authorities' target band of 2 to 4 percent, reflecting primarily food supply shocks and the price impact of pandemic-related transportation supply restrictions. A sharp import compression in 2020 resulted in a current account surplus of 3.6 percent of GDP. Vaccination has started and is poised to accelerate from midyear.

The recovery is expected to gain momentum in the second half of 2021 and in 2022. Real GDP is projected to expand by 5.4 percent in 2021 and 7.0 percent in 2022, due to continued easing of quarantine measures, progress in vaccinations, and macroeconomic policy support. Medium-term economic growth is forecast to return to the pre-pandemic rate of 6.5 percent. Headline inflation is expected to decrease to 3.3 percent by end-2021, as the transitory drivers taper off and reach the mid-point of the target band over the medium term. With the economic recovery, the projected rebound in investment, and a more expansionary fiscal policy stance, the current account surplus is expected to narrow in 2021 and reach a deficit of 1.8 percent of GDP in the medium term. The risks to the outlook are larger than usual and tilted to the downside, given risks of a protracted pandemic and uncertainty around the vaccine program. Banks benefit from strong capital and liquidity buffers but are facing rising asset quality risks.

Executive Board Assessment[2]

Executive Directors commended the authorities' comprehensive policy response to the COVID-19 pandemic, which has helped to cushion its socio-economic impact. Strong fundamentals and prudent macroeconomic policies have helped to maintain macro-financial stability. Directors noted that there are larger-than-expected uncertainties, including related to the pandemic and the vaccination program. They underscored the importance of continuing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

700 19th Street NW
Washington, DC 20431
USA

IMF.org

supportive macroeconomic policies and prioritizing health policy responses to sustain the recovery.

Directors agreed that the expansionary fiscal stance strikes an appropriate balance between recovery needs and fiscal prudence, with the priority given to health, social, and infrastructure spending. They noted that the Philippines has some fiscal space to respond flexibly if downside risks materialize. Directors welcomed the authorities' commitment to fiscal consolidation, and in this regard, emphasized the benefits of adopting a medium-term fiscal strategy, centered on revenue mobilization and expenditure control, to anchor their commitments. They encouraged continued efforts to enhance fiscal transparency and accountability, including procurement procedures.

Noting the economic slack and inflation outlook, Directors agreed that the monetary policy stance should remain accommodative and data driven, mindful of risks to financial stability. They recommended gradually phasing out direct budgetary financing to safeguard the central bank's operational capacity and independence. A clear communication strategy would help enhance the effectiveness of monetary policy as normalization begins. Directors observed that the large current account surplus in 2020, which led to a large buildup of foreign reserves, is likely temporary. They saw an important role for the exchange rate in absorbing external shocks.

Directors highlighted that adequate credit provisioning and measures to strengthen prudential supervision remain important to preserve banking system soundness. They recommended that regulatory forbearance be allowed to expire as scheduled, and generally saw merit in limiting dividend payouts to allow for capital retention when needed. Directors underscored the urgent need to strengthen the bank resolution framework and enhance AML/CFT implementation, in line with the 2021 FSAP recommendations. Steadfast efforts are needed to facilitate swift exit from the FATF grey list and reduce the risk of disruptions to cross-border financial flows.

Directors welcomed the authorities' emphasis on structural reforms to improve the business environment and foster more sustainable, inclusive, and greener growth. They stressed the importance of investment in training and education to facilitate sectoral reallocation. Directors also encouraged efforts to increase spending on social protection, strengthen public service delivery, and implement climate-related initiatives.

Philippines: Selected Economic Indicators

	2017	2018	2019	2020	2021 Proj.	2022 Proj.
	(Annual percentage change, unless otherwise indicated)					
National account						
Real GDP	6.9	6.3	6.1	-9.6	5.4	7.0
Consumption	6.0	6.8	6.3	-5.2	4.5	7.0
Private	6.0	5.8	5.9	-7.9	3.4	6.4
Public	6.5	13.4	9.1	10.5	9.9	9.6
Gross fixed capital formation	10.6	12.9	3.9	-27.5	5.6	10.3
Final domestic demand	7.1	8.2	5.7	-10.6	4.7	7.7
Net exports (contribution to growth)	-0.9	-2.3	-0.2	4.0	0.2	-1.4
Real GDP per capita	5.2	4.7	4.6	-10.8	3.8	5.4
Output gap (percent, +=above potential)	0.4	0.2	-0.1	-8.6	-3.9	-0.7
Labor market						
Unemployment rate (percent of labor force)	5.7	5.3	5.1	10.4	7.6	6.3
Underemployment rate (percent of employed persons)	16.1	16.4	13.8	16.2	…	…
Employment	-1.6	2.0	1.9	-6.1	5.2	3.2
Price						
Consumer prices (period average)	2.9	5.2	2.5	2.6	4.2	3.0
Consumer prices (end of period)	2.9	5.1	2.5	3.5	3.3	3.0
Core consumer prices (period average)	2.5	4.1	3.2	3.1	…	…
Residential real estate (Q4/Q4)	5.5	0.5	10.4	0.8	…	…
Money and credit (end of period)						
3-month PHIREF rate (in percent) 1/	3.3	6.5	3.1	1.3	…	…
Claims on private sector (in percent of GDP)	45.6	47.6	48.0	51.9	48.5	47.6
Claims on private sector	16.4	15.1	7.8	-0.6	1.0	8.0
Monetary base	13.7	6.4	-3.0	5.1	6.0	10.5
Broad money	11.3	9.0	9.8	8.6	6.2	9.1
Public finances (in percent of GDP)						
National government overall balance 2/	-2.1	-3.1	-3.4	-7.6	-9.6	-7.7
Revenue and grants	14.9	15.5	16.1	15.9	14.9	15.4
Total expenditure and net lending	17.1	18.7	19.5	23.6	24.5	23.1
General government gross debt	38.1	37.1	37.0	51.9	57.7	60.2
Balance of payments (in percent of GDP)						
Current account balance	-0.7	-2.6	-0.8	3.6	0.4	-1.8
FDI, net	-2.1	-1.7	-1.4	-0.8	-0.4	-0.9
Total external debt	22.3	22.8	22.2	27.2	25.0	24.4
Gross reserves						
Gross reserves (US$ billions)	81.6	79.2	87.8	110.1	103.6	98.3
Gross reserves (percent of short-term debt, remaining maturity)	419.3	364.9	398.3	552.6	508.3	459.0
Memorandum items:						
Nominal GDP (US$ billions)	328.5	346.8	376.8	361.5	400.6	433.6
Nominal GDP per capita (US$)	3,153	3,280	3,512	3,323	3,628	3,867
GDP (in billions of pesos)	16,557	18,265	19,518	17,939	19,390	21,320
Real effective exchange rate (2010=100)	103.4	100.5	105.4	111.5	…	…
Peso per U.S. dollar (period average)	50.4	52.7	51.8	49.6	…	…

Sources: Philippine authorities; World Bank; and IMF staff estimates and projections.

1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.

2/ IMF definition. Excludes privatization receipts and includes deficit from restructuring of the previous Central Bank-Board of Liquidators.

INTERNATIONAL MONETARY FUND

PHILIPPINES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 8, 2021

KEY ISSUES

Context: The economy is recovering after a major, pandemic-induced economic downturn. The authorities have deployed a comprehensive set of policy responses that have helped to mitigate the socioeconomic impact and maintain financial stability. The economic recovery slowed in the first half of 2021 due to a second wave of COVID-19 infections. Vaccination has started and is poised to accelerate from midyear.

Outlook and risks: Continued macroeconomic policy support in 2021, further gradual improvements in the pandemic situation, and higher partner country growth are expected to drive the economic rebound in the remainder of 2021 and in 2022. The risks to the outlook are larger than usual and tilted to the downside, given risks of a protracted pandemic and uncertainty around the vaccine program. Banks benefit from strong capital and liquidity buffers but are facing rising asset quality risks.

Main policy recommendations:

- The expansionary fiscal stance in 2021 strikes an appropriate balance between recovery needs and fiscal prudence. Steadfast budget execution with flexibility to address evolving priorities would ensure the effectiveness of this support. Monetary policy should remain accommodative, given economic slack and inflation prospects.
- The Philippines has some fiscal space to respond if downside risks materialize. A medium-term fiscal strategy could serve to anchor the authorities' commitment to fiscal prudence and the gradual return to lower budget deficits, reinforcing confidence.
- For adequate credit provision during the recovery, banks should have the flexibility to use the capital conservation buffers as provided in the Basel capital frameworks. Dividend payouts should be limited for capital retention when needed amid higher asset quality risks, and regulatory forbearance should phase out as scheduled. Effective AML/CFT implementation would help prevent disruptions of cross-border financial flows from the Philippines' grey-listing by the Financial Action Taskforce.
- Steady structural reforms, combined with a continued public infrastructure push, could help rekindle investment and return to the high, pre-pandemic rates of economic growth. Increasing spending on social protection and education, strengthening public service delivery further, and meeting commitments on climate change would foster more inclusive and greener growth.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr.Street
Manila 1004

DEVELOPMENT POLICY LETTER

DAVID R. MALPASS
President
World Bank Group
Washington, D.C.

Dear **President MALPASS**:

On behalf of the Government of the Philippines (GPH), we would like to provide an update on our disaster risk management (DRM) agenda, and express our interest in obtaining a budget support program loan from the World Bank through the Fourth Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO 4) in the amount of USD500 million.

Due to its unique geography, the Philippines is a locus of typhoons, earthquakes, floods, storm surges, tsunamis, volcanic eruptions, and landslides. About 60 percent of the country's total land area is exposed to these hazards, and at least 74 percent of Filipinos are vulnerable to its impacts. Being highly prone to natural disasters and the effects of climate change, the country suffers substantial losses in terms of loss of lives; damages to infrastructure and physical properties; disruption in the delivery of essential services; and loss of income and/or employment due to damages in livelihood sources. With the ongoing COVID-19 pandemic, these economic losses are further magnified due to mobility and travel restrictions, and imposition of other essential health protocols.

The GPH has recognized the need for more effective and responsive policies and programs to address the compounding challenges of COVID-19 pandemic, natural disasters, and climate change. The Government updated the Philippine Development Plan (PDP) 2017-2022 to ensure that our initiatives remain aligned with the country's growth prospects and trajectory towards achieving the country's long-term vision, known as *Ambisyon Natin 2040*, of providing a strongly- rooted, comfortable, and secure life for all Filipinos by 2040. Climate and disaster resilience remain a priority strategy, and this has been mainstreamed in all sectors of the PDP. Moreover, we have updated the National Disaster Risk Reduction and Management (NDRRM) Plan 2020-2030 to take into account the effects of the COVID-19 pandemic that further amplify the impact of climate change and natural disasters. The NDRRM Plan 2020-2030 incorporated lessons from the implementation of the Plan over the past decade; and strengthened its alignment with *Ambisyon Natin* 2040 and the country's commitment to the Sendai Framework for Disaster Risk Reduction and Paris Agreement on Climate Change.

The proposed CAT-DDO4 aims to strengthen the GPH's institutional and financial capacity to manage risks from climate change, natural disasters, and disease outbreaks. This development objective is envisioned to be achieved through policy reforms organized into two pillars. Pillar A - Strengthening Disaster Response and Recovery Policies and Planning, will support policy reforms aimed at continuously strengthening GPH's capacities for faster and better response and recovery; and Pillar B - Strengthening the Resilience of Government Programs in Key Sectors, will enable the implementation of policy and institutional reforms that ensure resilient investments at the local and sectoral levels and enhance the transparency of climate expenditures. The CAT-DDO 4 will sustain the reform process in DRM and climate change adaptation and mitigation that we have undertaken over the last decade.

To strengthen disaster response and recovery policies and planning, the Government has mandated the use of Disaster Rehabilitation and Recovery Plans to link funding approval from the National Disaster Risk Reduction and Management (NDRRM) Fund to planning through a NDRRM Council memorandum circular. The Government likewise required its National Government Agencies (NGAs) and local government units (LGUs) to establish climate and disaster risks baseline data to inform DRM interventions through the NDRRM Plan 2020-2030.

To strengthen the resilience of government programs, the Government has mandated the inclusion of climate change adaptation and disaster risk reduction (CCA-DRR) measures in all projects through the passage of Republic Act No. 11518 (General Appropriations Act for Fiscal Year 2021). The Government also adopted the Climate Risk Vulnerability Assessment to integrate climate risk management and resilience in the Provincial Commodity Investment Plans through a Department of Agriculture memorandum.

Building on the decade-long partnership with the World Bank in building resilience to climate change and natural disasters, as well as the accomplishments and lessons under the previous CAT-DDOs and DRM development policy loans, these proposed reforms reinforce our commitment to continue to pursue the advancement of our CCA-DRR plans and programs to achieve long-term resilience to multiple risks, including but not limited to, disaster, climate, and health risks.

The Government remains steadfast in this endeavor and acknowledges the partnership and continued support the Bank has been extending. We look forward to sustained cooperation and dialogue with the Bank and other development partners in achieving our overall development objectives.

Very truly yours,

CARLOS G. DOMINGUEZ
Secretary of Finance
OCT 07 2021

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening Disaster Response and Recovery Policies and Planning		
Prior Action #1: The Government has mandated the use of Disaster Rehabilitation and Recovery Plans to link funding approval from the National Disaster Risk Reduction and Management (NDRRM) Fund to planning through a NDRRM Council memorandum circular.	yes – positive	yes – positive
Prior Action #2: The Government has required National Government Agencies (NGA) and Local Government Units (LGUs) to establish climate and disaster risks baseline data to inform disaster risk management interventions through the NDRRM Plan 2020-2030.	yes – positive	yes – positive
Prior Action #3: The Government has strengthened the delivery of community-based Disaster Risk Management (DRM)-related Technical and Vocational Education and Training (TVET) program through the issuance of Technical Education and Skills Development Authority (TESDA) Circular.	yes – positive	yes – positive
Operation Pillar 2: Strengthening the Resilience of Government Programs in Key Sectors		
Prior Action #4: The Government has mandated the inclusion of climate change adaptation and disaster risk reduction (CCA-DRR) measures in all projects through the passage of Republic Act 11518.	yes - positive	yes - positive
Prior Action #5: The Government has adopted Climate Risk Vulnerability Assessment to integrate climate risk management and resilience in the Provincial Commodity Investment Plans (PCIPs) through a Department of Agriculture (DA) memorandum.	yes - positive	yes - positive

ANNEX 5: WORLD BANK ENGAGEMENT IN THE PHILIPPINES ON DISASTER RISK MANAGEMENT (DRM)

The Philippines has reformed the way the country deals with disasters. It has shifted its approach from reactive to proactive risk management with a significant focus on preparedness and resilience. The GOP has put in place policies and interventions because of its rich experience and lessons learned from previous disasters, in part through the support of the first and second DRM- Development Policy Loan with Catastrophe-Deferred Drawdown (CAT DDO 1 and 2) and the ongoing DRM DPL 3.

The **CAT DDO 1** (P125943, US$500 million) was approved on September 13, 2011, and became effective on December 22, 2011. The operation closed on October 31, 2014. The development objective of CAT-DDO 1 was to enhance the capacity of the GOP to manage the impacts of natural disasters. It helped establish key national policies that form the foundation for the current DRM system. The reforms focused on: (a) strengthening DRM institutional and planning capacity; (b) strengthening the institutional framework and capacity for DRM in land use planning; and (c) strengthening policies and tools to reduce risk in the housing sector. In particular, the CAT-DDO 1 helped the GOP pursue the following:

- **Policy Area 1:** The GOP: (i) established local DRRM offices with corresponding budget and personnel in all provinces, and majority of cities and municipalities; (ii) issued Guidelines on the use of Local Disaster Risk Reduction and Management funds; (iii) developed of monitoring system to track disaster-related financing; and (iv) rolled-out of training on post-disaster needs assessment and emergency response.

- **Policy Area 2:** The GOP: (i) mainstreamed climate change disaster risk reduction measures in Provincial Development and Physical Framework Plans; and (ii) mainstreamed disaster risk reduction measures in key sectors (transport, health, and social protection).

- **Policy Area 3:** The GOP prepared its National Disaster Risk Financing Strategy for the Philippines to manage the country's financial exposure to natural hazards.

The **CAT-DDO 1** was fully drawn in December 2011 following Tropical Storm *Washi* that hit the southern Philippines. President Benigno S. Aquino III declared a State of National Calamity on December 20, 2011, through Presidential Proclamation No. 303. The Department of Finance sent a request to withdraw funds on December 27, 2011. The loan proceeds amounting to US$497,500,000 were disbursed to the GOP on December 29, 2011.

The **CAT-DDO2** (P155656, US$500 million) was approved on December 22, 2015, and became effective on April 15, 2016. It was planned to originally close on September 30, 2018. Following the request for extension from the GOP, the operation closed on March 30, 2020. The development objective of the CAT-DDO 2 was to enhance the technical and financial capacity of the GOP to reduce disaster risk and manage the socio-economic and fiscal impacts of natural disasters. Specifically, the CAT-DDO 2 supported policy actions on (a) strengthening risk reduction investment planning and regulations; and (b) enhancing the financial capacity to manage natural disaster risks. The key policy reforms under CAT-DDO 2 were as follows:

- **Policy Area 1:** The GOP (i) formulated the Socio-Economic Resilience Methodology for national-level climate and disaster risk-informed planning and investment programming and mainstreamed in the Midterm update of the Philippine Development Plan; (ii) integrated disaster risk reduction measures into the revised National Building Code of the Philippines proposed in Congress; (iii) developed and approved the Provincial Commodity Investment Plans using the expanded Vulnerability and Suitability Assessment tool; (iv) developed the policy framework for post-disaster shelter assistance and endorsed to the Social Development Committee; and (v) developed multi-hazard vulnerability assessments of priority cultural heritage sites and integrated assessment methodology into the Philippine Standards for Conservation.

- **Policy Area 2**: The GOP (i) developed a joint catastrophe risk insurance program for local government units (LGUs); (ii) established a baseline number of line agencies that developed and piloted their disaster risk financing and insurance strategies; (iii) established a roadmap for property catastrophe risk insurance pool for homeowners; (iv) developed a program for post-disaster emergency income support; and (v) updated and adopted a catastrophe risk insurance supervision database template.

The CAT-DDO 2 was fully drawn in 2018 following Category 5 Typhoon Ompong (Mangkhut). Although fully disbursed, the GOP opted to renew the CAT-DDO 2 through 2020 to continue benefitting from the technical assistance program, which supported policy and institutional actions to increase the country's physical and financial resilience to natural disasters.

The **DRM-DPL 3** (P171440, US$500 million) was approved by the Board on April 9, 2020, and became effective on April 27, 2020. The operation will close on June 30, 2022. The development objective of the DRM-DPL3 is to strengthen the policy and institutional capacity of the GOP to reduce disaster risk, respond to, and recover from natural disasters. The operation focuses on two policy areas: (a) strengthening the policy and institutional framework for disaster risk reduction and (b) strengthening the policy and institutional framework for disaster recovery. DRM-DPL 3 specifically supports the following policy reforms:

- **Policy Area 1**: The GOP (i) uses the GeoRiskPH, an integrated database system with related analytical interfaces, for the prioritization of public infrastructure projects; (ii) integrates CCA-DRR measures in the Environmental Impact Assessment process; (iii) integrates climate resilience and disaster risk reduction in the Local Disaster Risk Reduction and Management Plans of LGUs; and (iv) develops a multi-year investment for seismic risk reduction and retrofitting with specific budget allocation.

- **Policy Area 2**: The GOP (i) builds the capacity of LGUs to recover better from future disasters through the formulation of local disaster rehabilitation and recovery plan; and the development of local disaster risk financing strategies to finance post-disaster recovery; and (ii) improves post-disaster fund disbursement through the implementation of Emergency Cash Transfer Program and community-driven response mechanisms.

The loan was fully drawn on 30 April 2020 to provide for the urgent financing needs of the GOP to respond to the COVID-19 pandemic. Supported by a technical assistance program linked to this operation, assistance was also provided to the GOP in the development of LGU COVID-19 Recovery Guide.