Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 03-Nov-2020 | Report No: PIDA30554

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Philippines	P170914	Second Philippines Promoting Competitiveness and Enhancing Resilience Development Policy Loan (P170914)	P170052
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EAST ASIA AND PACIFIC	16-Dec-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of the Philippines	Department of Finance		

Proposed Development Objective(s)

The DPL series aim to support the Government of the Philippines in: i) promoting competitiveness and ii) enhancing resilience.

Financing (in US$, Millions)

SUMMARY

Total Financing	600.00

DETAILS

Total World Bank Group Financing	600.00
World Bank Lending	600.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Despite its sound macroeconomic framework and strong reform program, the resilience of the Philippines is being tested by the COVID-19 pandemic. Prior to the pandemic, the economy grew by an average of 6.3 percent per year in 2010-2019, as a result of strong macroeconomic fundamentals, favorable external conditions, and the cumulative effects of structural reforms. This contributed to poverty reduction, with the poverty incidence falling from 26.6 percent in 2006 to 16.6 percent in 2018.[1] At the start of 2020, the economy was set to continue its strong growth momentum due to a sustained public investment expansion, a recovering external environment, and supportive conditions for domestic consumption. However, COVID-19 struck, and cases began to increase in March, compelling the government to impose strict lockdown measures on March 16 while taking steps to build up health system capacity. The containment measures restricted movement of people, interrupted supply chains, and disrupted economic activity, resulting in income losses for firms and workers. As a result, the poverty incidence is estimated to increase by around 1.9 percentage points between 2019 and 2020[2] despite the government's efforts to mitigate the negative effects of the pandemic on poor and vulnerable households.

This proposed Development Policy Loan (DPL) supports the government of the Philippines' recovery effort from the social and economic impact of the COVID-19 pandemic while advancing structural reforms on competitiveness and resilience. A sustained and balanced economic recovery will put the government's medium-term ambition to boost inclusive growth, accelerate poverty reduction, and strengthen resilience, back on track. However, amid an unprecedented health and economic crisis, the government faces substantial financial need to sustain the implementation of its reform agenda, as domestic and global growth is expected to contract in the short-term, with increasing downside risks to a deeper recession in the medium-term. This operation supports transformational reforms such as the digitalization of customs procedures, operationalization of the Rice Liberalization Act, the Common Tower policy promoting ICT infrastructure expansion, and the introduction of digital infrastructure for registration of identification systems, which are currently being undertaken by the government.

While the government's immediate priority is to flatten the infection curve, promoting competitiveness while enhancing resilience to shocks will help to get the country back on its inclusive growth path. As the economy recovers from the pandemic, long-overdue reforms that limit market competition and maintain high income inequality must be addressed head-on to protect the job-creating small and medium enterprises (SMEs) that are less resilient to shocks. Of equal importance is the protection of the poor and vulnerable against non-health natural shocks given that the Philippines remains the third most vulnerable country in the world to natural disasters and climate change effects. Therefore, prioritizing reforms to promote competitiveness and enhancing resilience to shocks is crucial to get the country back to its inclusive growth path.

Relationship to CPF

The reforms supported by this DPL are fully aligned with the Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF). The CPF covering 2019-2023 focuses on three development objectives: (i) job creation; (ii) improving human capital; and (iii) building resilience to conflict and natural disasters, which remain relevant in the current context. Cross-cutting themes include governance and digital transformation. This operation is fully aligned with the objectives of the CPF by supporting reforms towards improving business climate, promoting competitiveness, facilitating digitalization of the economy and government service provision, and strengthening financial inclusion, which are needed reforms to boost the quality of job creation. The DPL series also support reforms to enhance fiscal resilience through higher tax revenue collection effort. In addition, the DPL supports the government's efforts to strengthen disaster and climate risk management, directly aligned with the third objective of the CPF.

C. Proposed Development Objective(s)

[1] According to national poverty line reported by the Philippine Statistics Authority.
[2] Based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP.

The DPL series aim to support the Government of the Philippines in: i) promoting competitiveness and ii) enhancing resilience.

The proposed DPL series supports the government on the areas of promoting competitiveness and enhancing resilience. The proposed operation is the second in a series of three operations designed to support critical policy and institutional reforms, and their implementation to achieve the government's development objectives by: (i) promoting competitiveness through lowering trade cost and ease of doing business, lowering entry barrier in telecom sector, agricultural productivity; and (ii) enhancing country's fiscal, social, and financial resilience to shocks through increasing revenue collection, strengthening resilience of payment systems, introducing a national ID, institutionalizing disaster risk finance strategy and enhanced management of public assets to improve financial risk management derived from natural disasters.

Key Results

The policy matrix of this operation has been adjusted to prioritize structural reforms to achieve long term inclusive growth under the new normal.[3] Despite disruptions caused by the COVID-19 pandemic; the government continued with the implementation of reforms supported by the series. In addition, the government has fast-tracked structural reforms that were binding constraints to the digital transformation of the country, which will also help SMEs and citizens to transition to the new normal. Therefore, the set of policy actions supported by the second and third operations of this series were adjusted to reflect government's new reform priorities. Pillars on promoting competitiveness and enhancing resilience will remain, which are crucial for rebuilding better and to help the country to return to its inclusive growth path. New policy measures for trade facilitation and digital infrastructure investment were added (under 'promoting competitiveness' pillar). Key policy measures under the previous pillar of 'enhancing fiscal sustainability' were merged with the 'enhancing resilience' pillar in this DPL, as increased excise taxes fit well under the fiscal resilience of the pandemic response program. The reform for improve financial risk management derived from natural disasters and climate change will also remain. The PFM reform agenda, while still on track, were dropped from the policy matrix but reflected in the document and fully part of the Government's policy tools of fiscal consolidation. The WB team continues to engage with DBM through technical assistance (TA) to support the implementation of reform program to ensure achievement of the results.

D. Project Description

This operation supports key institutional and policy reforms that are being undertaken by the government as guided by PDP Plan 2017 - 2022 and the 0+10 point socioeconomic agenda, while recognizing important policies by the government to help the Philippines enhance its resilience and accelerate recovery amid the COVID-19 pandemic. The DPL is structured around the following pillars and contains nine prior actions**:**

Pillar 1: Promoting competitiveness. ***PDO***: Promoting competitiveness through a set of cross-cutting reforms in areas of (i) agriculture and trade policy, (ii) ease of doing business, and (iii) promoting competition and investment in telecom. Prior actions are: (i) through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to increase market penetration of mobile telecom service, (ii) through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implemented Ease of Doing Business and

[3] A table summarizing changes from DPL 1 to DPL 2 is included in Annex 5 in the program document.

Efficient Government Service Delivery Act (RA No. 11032), (iii) through JOA No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve custom management and reduce trade costs, and (iv) through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) and has initiated and made progress in updating the farmer registry system for basic sectors in agriculture (RSBSA) to implement the Rice Liberalization Act (RA No. 11203).

Pillar 2: Enhancing resilience. ***PDO:*** Enhancing fiscal sustainability through increasing revenue and strengthening fiscal resilience to natural disasters through improved risk management and enhanced response systems, while strengthening social resilience by improving social program delivery and improved access to digital payments. Prior actions are: (i) through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of UHC; (ii) as evidence by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for mass registration; (iii) through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the Bangko Sentral ng Pilipinas has operationalized the regulatory framework for (a) defining the coverage of payment system operators and (b) defining the oversight framework and payment systems designations to implement NPSA (RA No. 11127); (iv) as evidenced by GAAs 2019 and 2020, and JMC, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy; and (v) through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.

E. Implementation

Institutional and Implementation Arrangements

The DOF is the main liaison with the World Bank on the proposed operation and it will coordinate the implementation arrangements with other relevant departments and agencies. The government has designated the DOF International Finance Group as the Bank's main counterpart in the policy dialogue and monitoring of the operation. However, policy dialogue and monitoring and evaluation of the program supported by this DPL are shared with DBM, as well as the BTr (which is an agency of the DOF), NEDA, PSA, BSP, ARTA, DICT, BOC, and DA. Since the policy targets are aligned with regular programs of the relevant agencies, their reporting mechanisms will be used.

The monitoring mechanism and accountability systems reflect defined areas of action and correspond to the expected outcomes of the prior actions and allow beneficiaries to voice potential grievances and concerns. Indicators selected to monitor progress toward achievement of the PDO 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. In terms of accountability, communities and individuals who believe that they have been 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).

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The DPL supports actions that are expected to have largely positive effects on poverty and income distribution in the

short term, and overall positive effects over the medium and long term. Annex 4 in the program document summarizes the analysis carried out on the potential effects of the reforms supported under the operation. While some measures may have immediate negative impact on some portion of the population (i.e. rice farmers), most actions are of an institutional nature and will be broadly neutral on poverty in the short term. In the long term, competition will help to create more and better jobs, benefitting the poor and vulnerable groups the most. Expanded mobile and broadband coverage will help to reduce digital divide and allow everyone to access to digital economy. Trade facilitation reforms are expected to improve country's competitiveness, lower trading costs are expected to benefit the SMEs the most as they are proportionally more affected than large firms. Reforms under the resilience pillar will improve service delivery through the use of a foundational ID and better national payment system which are expected to improve the welfare of the poor derived from improved accessibility and delivery of public services including the social protection programs. Reforms to increase revenue will allow new investment in physical and human capital, ultimately benefiting the entire population. Reform aimed at strengthening financial resilience to natural disasters and climate change such as the asset management policy to improve financial risk management are also expected to improve welfare of the poor in the long term as they are less resilient to natural disasters and will therefore benefit more from faster post-disaster financial response.

Environmental, Forests, and Other Natural Resource Aspects

The environmental impact of the reform actions supported by the DPL are estimated to be positive overall. Ongoing World Bank operations and ASA are working with the government to address technical barriers to enable the adoption of risk informed approaches to development, including through the integration of climate change and disaster risk assessments in public investment projects and environmental risk and impact assessments. For example, the strengthening of the financial sector mechanisms for Climate and Environmental Risks has been incorporated in the current Financial Sector Assessment Program (FSAP) 2019. Arrangement of dedicated funding for asset rehabilitation will support the provision of sufficient funding for reconstruction to ensure that public investment projects can be carried out more rapidly and to the required level of design as set out in government environmental impact assessment and disaster management system requirements.

G. Risks and Mitigation

The overall program risk rating is substantial with high degree of uncertainty on the duration and depth of the COVID-19 pandemic. The macroeconomic risk is substantial given the risk of a prolonged COVID-19 outbreak that may result in a deeper recession, pushing more people into poverty, and diverting attention away from structural and long-term reforms, which may affect the achievement of the PDOs. In addition, the political economy and governance risks can stall the reforms' momentum, considering that the delivery of reforms requires consensus among government branches on the implementation pace of reforms, and that the upcoming 2022 Presidential election may halt the pace of structural reforms, especially if these imply enacting unpopular market-oriented reforms. Furthermore, institutional capacity for implementation poses a substantial risk, as the COVID-19 impact is overstretching the capacity of implementing agencies of the reforms supported by the DPL series. To manage and mitigate these risks, several measures have been put in place. By design, the operation has focused on a small number of reform areas allowed for easy convergence. In addition, the selection of reforms has limited the dependence on actions across various levels of government and agencies. Furthermore, close dialogue between the Bank and the Government will help to ensure policy consistency and ownership of the reform objectives. In addition to these, timely technical assistant support provided by the Bank team will mitigate implementation risks due to capacity constraints. Numerous TAs and advisory works are ongoing in support of the key pillars of this proposed DPL operations. Similarly, the Bank's timely provision of financial support through various programs (Emergency DPL, DRM DPL, and this operation) will help to mitigate macroeconomic and implementation risks.

CONTACT POINT

World Bank

Rong Qian
Senior Economist

Borrower/Client/Recipient

Republic of the Philippines
Carlos Dominguez
Secretary
cdominguez@dof.gov.ph

Implementing Agencies

Department of Finance
Mark Joven
Undersecretary
mdjoven@dof.gov.ph

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Rong Qian

Approved By

Country Director:	Ndiame Diop	14-Oct-2020