



Report and Recommendation of the President to the Board of Directors

Project Number: 47337
December 2013

Proposed Loan
Republic of the Philippines: Emergency Assistance
for Relief and Recovery from Typhoon Yolanda

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 December 2013)

| | | |
|---------------|---|------------|
| Currency unit | – | peso/s (P) |
| P1.00 | = | \$0.0228 |
| \$1.00 | = | P43.77 |

ABBREVIATIONS

| | | |
|-------|---|---|
| ADB | – | Asian Development Bank |
| CSO | – | civil society organization |
| EAL | – | emergency assistance loan |
| GDP | – | gross domestic product |
| GRDP | – | gross regional domestic product |
| LIBOR | – | London interbank offered rate |
| NEDA | – | National Economic and Development Authority |
| OCHA | – | Office for the Coordination of Humanitarian Affairs |
| PFM | – | public financial management |
| YRRP | – | Yolanda recovery and rehabilitation plan |

NOTES

- (i) The fiscal year (FY) of the Government of the Philippines ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

| | |
|-------------------------|--|
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CONTENTS

| | Page |
|------------------------------------|-------------|
| LOAN AT A GLANCE | |
| I. THE PROPOSAL | 1 |
| II. THE RATIONALE | 1 |
| III. THE EMERGENCY ASSISTANCE LOAN | 6 |
| A. Impact and Outcome | 6 |
| B. Outputs | 6 |
| C. Financing Plan | 8 |
| D. Implementation Arrangements | 9 |
| IV. DUE DILIGENCE | 9 |
| A. Governance | 9 |
| B. Poverty and Social | 9 |
| C. Safeguards | 10 |
| D. Risks and Mitigating Measures | 10 |
| V. ASSURANCES | 10 |
| VI. RECOMMENDATION | 10 |
| APPENDIXES | |
| 1. Design and Monitoring Framework | 11 |
| 2. List of Linked Documents | 12 |

LOAN AT A GLANCE

| | | | | | | | | | | | |
|---|--|---|---|---------------------------|------|--------------------------------------|---|----------------------------|---|--------------------|--|
| 1. Project Name: Emergency Assistance for Relief and Recovery from Typhoon Yolanda | | 2. Project Number: 47337-001 | | | | | | | | | |
| 3. Country: Philippines, The Republic of | | 4. Department/Division: Southeast Asia Department/Public Management, Financial Sector, & Trade Division | | | | | | | | | |
| 5. Sector Classification: | | | | | | | | | | | |
| Sectors | | Primary | Subsectors | | | | | | | | |
| Public sector management | | √ | Economic and public affairs management | | | | | | | | |
| 6. Thematic Classification: | | | | | | | | | | | |
| Themes | | Primary | Subthemes | | | | | | | | |
| Economic growth | | √ | Promoting economic efficiency and enabling business environment | | | | | | | | |
| | | | Widening access to markets and economic opportunities | | | | | | | | |
| Social development | | | Disaster risk management | | | | | | | | |
| 6a. Climate Change Impact: No Climate Change Indicator available. | | 6b. Gender Mainstreaming: | | | | | | | | | |
| | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Gender equity theme (GEN)</td> <td style="width: 20%;"></td> </tr> <tr> <td>Effective gender mainstreaming (EGM)</td> <td></td> </tr> <tr> <td>Some gender elements (SGE)</td> <td style="text-align: center;">√</td> </tr> <tr> <td>No gender elements</td> <td></td> </tr> </table> | | Gender equity theme (GEN) | | Effective gender mainstreaming (EGM) | | Some gender elements (SGE) | √ | No gender elements | |
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| Effective gender mainstreaming (EGM) | | | | | | | | | | | |
| Some gender elements (SGE) | √ | | | | | | | | | | |
| No gender elements | | | | | | | | | | | |
| 7. Targeting Classification: | | 8. Location Impact: | | | | | | | | | |
| General Intervention | Targeted Intervention | | | | | | | | | | |
| | Geographic dimensions of inclusive growth | Millennium development goals | Income poverty at household level | | | | | | | | |
| √ | | | | | | | | | | | |
| | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">National</td> <td style="width: 20%;">High</td> </tr> </table> | | National | High | | | | | | |
| National | High | | | | | | | | | | |
| 9. Project Risk Categorization: Complex | | | | | | | | | | | |
| 10. Safeguards Categorization: | | | | | | | | | | | |
| | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Environment</td> <td style="width: 30%;">C</td> </tr> <tr> <td>Involuntary resettlement</td> <td>C</td> </tr> <tr> <td>Indigenous peoples</td> <td>C</td> </tr> </table> | | Environment | C | Involuntary resettlement | C | Indigenous peoples | C | | |
| Environment | C | | | | | | | | | | |
| Involuntary resettlement | C | | | | | | | | | | |
| Indigenous peoples | C | | | | | | | | | | |
| 11. ADB Financing: | | | | | | | | | | | |
| Sovereign/Nonsovereign | Modality | Source | Amount (\$ Million) | | | | | | | | |
| Sovereign | Special Assistance Loan | | 500.0 | | | | | | | | |
| Total | | | 500.0 | | | | | | | | |
| 12. Cofinancing: No Cofinancing available. | | | | | | | | | | | |
| 13. Counterpart Financing: No Counterpart Financing available. | | | | | | | | | | | |
| 14. Aid Effectiveness: | | | | | | | | | | | |
| Parallel project implementation unit | | No | | | | | | | | | |
| Program-based approach | | Yes | | | | | | | | | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of the Philippines for Emergency Assistance for Relief and Recovery from Typhoon Yolanda (international name Haiyan).¹

2. The emergency assistance loan (EAL) supports the Government of the Philippines' fiscal response to meet additional public spending needs under its recovery program for areas affected by Typhoon Yolanda. The emergency assistance will help the government mitigate the impact of the typhoon on poverty incidence in the Visayas, a group of islands in the center of the country.²

II. THE RATIONALE

3. The Philippines ranks third on the United Nations Disaster Risk Index, behind the Pacific island states of Vanuatu and Tonga. Every year, about 20 typhoons hit the Philippines. The country also experiences floods, earthquakes, droughts, and volcanic eruptions. However, 2013 has been an exceptionally difficult year for the Philippines. By the end of October 2013, the Philippines had been struck by 23 typhoons of increasing ferocity and a 7.2 magnitude earthquake on the island of Bohol on 15 October, reportedly killing 218 people, displacing 345,000, and causing about P2.25 billion in damage to property and infrastructure.³ The frequency and severity of these natural disasters are overstressing the administrative capacity and resources of both national and local governments to respond effectively.

4. **Description of the emergency.** Typhoon Yolanda hit the central Philippines on 8 November 2013. It reached winds of 315 kilometers an hour with heavy rains, making Typhoon Yolanda the strongest storm to make landfall in the world in 2013. According to the situation analysis report dated 8 November 2013 by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the typhoon made landfall five times in the Visayas and once in Palawan; a storm surge was also recorded in several locations along the eastern coastline. OCHA reported that the storm surge created 5–6 meter waves that wiped out most of the infrastructure, health facilities, schools, basic public services, homes, and commercial buildings in several coastal towns and municipalities on the islands of Samar and Leyte. Tacloban, a city of more than 221,000 people in Leyte, was the most severely damaged city. The tsunami-like storm surge created floods about 3 meters high in the city, destroying much of its infrastructure, homes, and other buildings.

5. The humanitarian costs of Typhoon Yolanda are severe. As of 29 November 2013, as many as 10.9 million people had been affected by the disaster, of which 3.8 million are displaced across nine regions (Table 1). Much of the damage and loss is concentrated in the Visayas. Also, as of 29 November, 5,598 people had died, 26,136 were reported injured, and 1,759 were missing. The death toll is expected to increase. More than 1.1 million homes were reportedly destroyed or damaged. Tens of thousands of people have reportedly left their affected areas for safer locations, placing severe pressure on underfunded social services in these other locations. Reports are increasing of traumatized children and adults without support services.

¹ Internationally known as typhoon Haiyan.

² The design and monitoring framework is in Appendix 1.

³ Government of the Philippines, National Disaster Risk Reduction and Management Council. 2013. *Situation Report on the Effects of the Earthquake in Sagbayan, Bohol*. Manila.

6. **Damage and loss to property and infrastructure.** The Asian Development Bank (ADB) has worked closely with the government's National Economic and Development Authority (NEDA), the OCHA, and other development agencies to carry out an initial damage and needs assessment, which provided the basis for the government's Yolanda Recovery and Rehabilitation Plan (YRRP). Data for the damage and needs assessment was provided by the situation reports produced by the government through the National Disaster Risk Reduction and Management Council (NDRRMC) and situation reports produced by OCHA, as well as joint ADB and OCHA rapid assessments of Tacloban and other locations. Table 1 presents a selection of property and infrastructure assessed as damaged and lost because of Typhoon Yolanda. Estimates of the damage and loss to public and private property and infrastructure range between \$3.0 billion and \$4.0 billion, but these are preliminary and are likely to be revised as further assessments are carried out. Like other natural calamities of this type, more than half of the estimated damage and loss is private property, especially houses, commercial premises, farmers' crops and livestock, and fisheries. However, damage to public property (roads, bridges, basic utilities and services, and public schools) is also sizable.

Table 1: Selected Damage and Loss Indicators^a
(as of 29 November 2013)

| Humanitarian | Number of persons |
|---|--|
| Population affected | 10.9 million (2.3 million families) |
| Population displaced | 3.8 million (835,379 families) |
| Inside evacuation centers | 0.2 million (48,239 families) |
| Outside evacuation centers | 3.6 million (787,140 families) |
| Number of confirmed deaths | 5,598 |
| Number of reported injuries | 26,136 |
| Number of reported missing persons | 1,759 |
| Damaged or destroyed property | Units |
| Houses destroyed | 580,481 |
| Houses damaged | 587,625 |
| Day care centers | 1,600 centers, serving 48,000 children, damaged |
| Public schools (elementary and high school) | 15 of 57 divisions reporting significant damage affecting 3,232 schools, 34,104 personnel (26,855 classrooms) with serving 1,007,980 children ^b |
| Health facilities | 2,280 health facilities damaged including 61 hospitals ^c |
| Damaged infrastructure^d | |
| Agriculture land, crops, livestock, and fisheries | 865,305 individuals; 202,410 farm households affected |
| Power network | 566 transmission towers down; 7 substations down |

^a Summary Initial Disaster and Needs Assessment (accessible from the list of linked documents in Appendix 2).

^b Government of the Philippines, Department of Education. 2013. *Situation Report #10*. Manila. 20 November. This represents 26% of total school divisions, 32% of all schools, and 20% of classrooms in the affected area.

^c Department of Health estimates as of 19 November 2013.

^d Data on roads and bridges damaged not yet available.

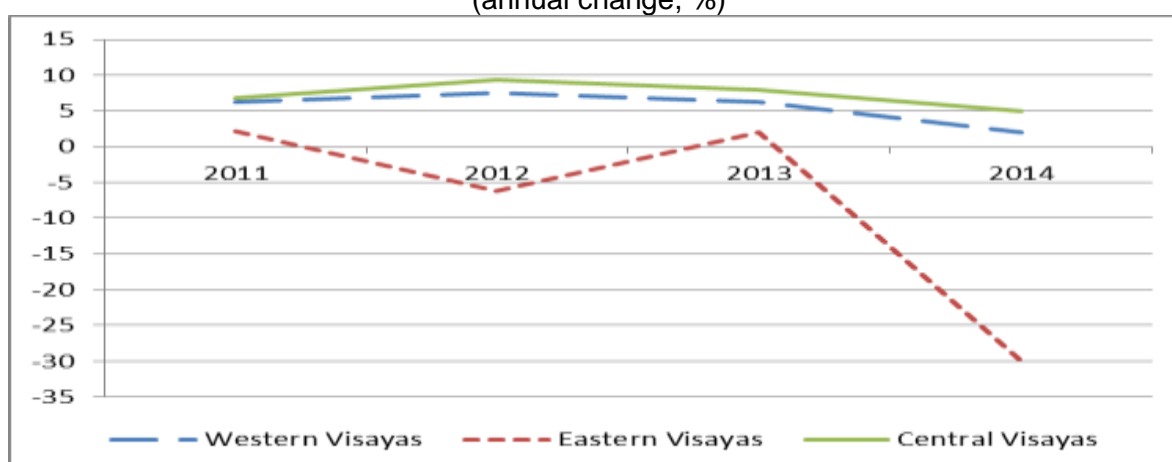
Sources: Government of the Philippines, National Disaster Risk Reduction and Management Council; United Nations Office for the Coordination of Humanitarian Affairs; and Asian Development Bank staff visits to damaged locations.

7. **Economic costs.** The total economic costs will be much larger than the direct estimates of damage and loss to property once lost output and household incomes are realized at the end of 2013 and in 2014. Preliminary estimates are that Typhoon Yolanda and other recent natural calamities may cut the national economic growth rate by 0.3–0.8 percentage points in the fourth

quarter of 2013 alone.⁴ This is equivalent to \$900 million–\$2.5 billion in lost gross domestic product (GDP) in 2013. In 2014, the drop in the growth rate could be as high as 1 percentage point.⁵

8. Typhoon Yolanda's economic impact will be devastating to the affected Visayas areas, which rely heavily on agriculture, fisheries, and agro-based industries for incomes and employment. While the economic impacts are difficult to project, preliminary estimates suggest that the combined regional economies of Central Visayas, Eastern Visayas, and Western Visayas—which account for 12.5% of the country's GDP—could shrink by 4.0%–8.0% in 2014. The largest economic contraction will be in Eastern Visayas, because of the scale of the damage inflicted there including the destruction of its main regional economic center, Tacloban. ADB estimates that Eastern Visayas' economy could contract by 30.0% or more in 2014 (Figure 1). Eastern Visayas was also the most vulnerable economy among the three affected regions, because of its smaller economic base and the dominant role of agriculture as a source of household income. With average per capita gross regional domestic product (GRDP) of P54,236 per year (2012, current prices), Eastern Visayas does not have the resources to overcome this disaster without substantial assistance.

Figure 1: Potential Impact on Estimated Growth Rates in Gross Regional Domestic Product (annual change, %)



Source: Asian Development Bank preliminary estimates for 2013 and 2014. Gross regional domestic product growth rates for 2011 and 2012 from the Government of the Philippines, National Statistical Coordination Board.

9. Central Visayas and Western Visayas will slow markedly in 2014, although much less than in Eastern Visayas. Based on the impact of previous natural calamities in the region, ADB estimates that the economy of Western Visayas may experience a cut in its growth rate by more than half in 2014 because of the damage to crops and fisheries. Central Visayas will be the least affected of the three regions as the city of Cebu, the second-largest metropolis in the country, was only slightly affected by the typhoon (Figure 1).

10. **Poverty incidence in the Visayas.** The incidence of poverty in the Visayas is expected to surge in the immediate aftermath of the typhoon as the regional economies initially contract, unemployment rises, and food prices spike during the early emergency relief phase. The most severely affected areas will have the largest increases in poverty incidence. ADB simulations of the impact of Typhoon Yolanda show that the number of poor people below the poverty line

⁴ NEDA estimates.

⁵ ADB estimates.

could increase by 1.5 million.⁶ Eastern Visayas is expected to have the largest jump in poverty because of the magnitude of the damage in the region, the destruction in public infrastructure and services, and the high share of families that were vulnerable to falling into poverty before the typhoon. ADB estimates that the poverty rate in Eastern Visayas may increase from 41.2% to 55.7% (Table 2). Many families will adopt strategies to escape poverty or mitigate the risk of falling into poverty, such as migrating to safer locations and relying on remittances. Thus, actual poverty rates will be lower than those projected in Table 2. Nevertheless, the incidence of poverty in the most severely affected provinces will remain elevated for some time, as many families have lost income generating assets. The poverty gap, which measures how far people are below the poverty line, has also increased in the severely affected areas. The implication of the larger poverty gap is that not only are there more people impoverished as a result of the damage caused by Typhoon Yolanda, but it may also take some of them a long time to escape poverty (footnote 6).

Table 2: Simulations of Potential Poverty Impact

| Geographical area | Poor Persons before Typhoon Yolanda (number) | Poor Persons after Typhoon Yolanda (number) | Change in Number of Poor Persons (%) | Poverty Rate before/after Typhoon Yolanda (%) |
|--|---|--|---|--|
| By region | | | | |
| Eastern Visayas | 1,720,892 | 2,328,850 | 35.3 | 41.2 / 55.7 |
| Central Visayas | 2,317,565 | 2,766,554 | 19.4 | 34.8 / 41.5 |
| Western Visayas | 2,101,364 | 2,526,658 | 20.2 | 31.0 / 37.3 |
| By category | | | | |
| Severely affected provinces ^a | 2,302,752 | 3,122,377 | 35.6 | 39.7 / 53.8 |
| Moderately affected provinces ^b | 3,103,702 | 3,691,407 | 18.9 | 33.5 / 39.9 |
| Slightly affected provinces ^c | 2,538,327 | 2,769,273 | 9.1 | 35.0 / 38.2 |

^a Includes Aklan, Antique, Biliran, Capiz, Eastern Samar, Leyte, Southern Leyte, and Western Samar.

^b Includes Bohol, Catanduanes, Cebu, Iloilo, Negros Occidental, and Romblon.

^c Includes Albay, Negros Oriental, Occidental Mindoro, Oriental Mindoro, Palawan, Siquijor, and Sorsogon.

Source: 2009 Family Income and Expenditure Survey; ADB estimates. See Summary Poverty Impact Assessment (accessible from the list of linked documents in Appendix 2)

11. **Fiscal adjustment.** These economic and social costs create pressure on fiscal policy in two ways. First, the national government started reallocating budget spending in November 2013 to finance emergency relief efforts. The relief efforts are expected to continue until March 2014. The national government has also allocated spending for rehabilitation of infrastructure, basic services, schools and institutions, and reconstruction of infrastructure and housing to start in December 2013 or early 2014. The national government is also transferring national government personnel to the affected areas to assist local governments. Additional funding will also be needed to scale up social assistance programs to assist displaced persons and the newly unemployed. Overall, the additional public spending is estimated at P153 billion, of which P14 billion has been added to the 2013 budget and P139 billion will be added to the 2014 budget. Second, the expected decline in GRDP in the affected regions will result in foregone tax revenue, which ADB estimates could be as much as P8.0 billion–P2.3 billion in 2013 and P5.7 billion in 2014.

12. **Government action and preliminary assessment of the country's capacity.** Initially the breakdown in communication logistics and damaged infrastructure hampered relief operations to remote areas in the immediate aftermath of the typhoon. However, the

⁶ Poverty Impact Assessment (accessible from the list of linked documents in Appendix 2).

government, including the NDRRMC, armed forces, and police, responded to the disaster through immediate rescue, evacuation, and relief operations that provided basic food supplies, water, and medical assistance. The government also provided the public with daily information on the impact of the typhoon on lives and property. A state of national calamity was declared on 11 November 2013, which gave the national government enhanced powers to work with local governments in the hardest hit areas.

13. At the end of November 2013, NEDA finalized the YRRP, which is expected to be endorsed by the government in December 2013. The YRRP covers the following five priority areas with specified broad interventions and designated agency responsibilities: (i) shelter and reconstruction of houses; (ii) power restoration; (iii) livelihood and employment; (iv) resettlement and psychosocial care; and (v) environmental protection (para. 23 and Table 3).

14. **Development coordination.** Because of the recent successive disasters, Philippine emergency agencies are stretched. The international community and nongovernment organizations have responded quickly to support the government's emergency and relief operations. OCHA activated its systems and continues to update the government and its development partners through situation reports based on rapid assessments. The Typhoon Haiyan Action Plan, a United Nations-led emergency relief initiative, was announced on 9 November 2013. It aims to ensure that people with typhoon-induced needs that exceed the immediate national response capacity receive necessary materials and services, and live in a safe and healthy environment until reconstruction restores normality and self-reliance. The action plan estimates the funding requirements to meet these objectives at \$301 million. To support the ongoing relief and recovery operations in the areas affected by Typhoon Yolanda, 43 international donors have pledged or have already sent assistance. Private foundations, both domestic and international, have also contributed substantial amounts for relief support to victims.⁷

15. ADB's response to Typhoon Yolanda included the immediate creation of the Typhoon Yolanda Response Team and three financing facilities: (i) a \$3 million grant from the Asia Pacific Disaster Response Fund was disbursed on 14 November, just days after the typhoon; (ii) a \$20 million special grant from the Japan Fund for Poverty Reduction, which is expected to be submitted to the ADB Board of Directors for consideration in mid-December, will help rebuild livelihoods of affected persons and families in Eastern Visayas; and (iii) the proposed \$500 million EAL will support post-disaster efforts led by the government. ADB also has ongoing and planned interventions in the affected areas. ADB's conditional cash transfer project partially funds 200,000 households in the affected areas, including at least 69,000 families in the severely affected areas.⁸

16. **Structure and modality of ADB's emergency assistance loan.** The EAL is an integral part of ADB's commitment to the Government of the Philippines to support recovery from Typhoon Yolanda. The government was initially targeting a national budget deficit of 2.0% of GDP in 2013 and 2014. As the public spending needs arising from the calamity will require additional financing of around P153 billion, the deficit is likely to rise above the targets for 2013 and 2014. The government has asked ADB and the World Bank to provide support to fill the additional financing gap.

⁷ Development Coordination (accessible from the list of linked documents in Appendix 2).

⁸ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Technical Assistance Grant, and Administration of Technical Assistance Grant to the Republic of the Philippines for the Social Protection Support Project*. Manila.

17. ADB's different lending modalities were assessed carefully to determine the best way to help the government maintain its national expenditure program, while also responding to the urgent needs of the emergency relief effort and the YRRP. An EAL was selected as the modality based on three factors:⁹ (i) quick-disbursing support is appropriate because of the urgency of the humanitarian situation in the Visayas and the need to mitigate the immediate economic and social impacts; (ii) international studies show that the speed of aid is critical in lifting victims out of extreme poverty on a sustainable basis through timely and high-quality rehabilitation and reconstruction of public and private assets, and restoration of livelihood activities; and (iii) directing funds through government channels enables the government to take ownership of the emergency response and initiatives.¹⁰

18. The use of the EAL to support the government's fiscal response to mitigate the adverse economic and social conditions in the Visayas is consistent with ADB's Disaster and Emergency Assistance Policy (2004). The policy stresses that EALs are designed to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies, rather than comprehensive reconstruction.

19. In structuring the EAL for the Philippines, lessons were taken from previous EALs. In particular, coursing the assistance through the government's budget is important to ensure government ownership of the recovery agenda. Also, governments often divert resources from other purposes and unaffected areas to initiate rehabilitation programs. This can undermine the government's poverty reduction programs in other areas. Given the urgency of the crisis in the Visayas and the need to meet critical expenditures, the EAL will be coursed through the national budget to help finance (i) essential livelihood and economic expenditures linked to the disaster through the proposed YRRP, and (ii) other essential disaster-related expenditures under the government's 2014 public expenditure program. The EAL and the World Bank's proposed emergency loan are closely aligned with the purpose of funding the increased government financing gap.

III. THE EMERGENCY ASSISTANCE LOAN

A. Impact and Outcome

20. The impact will be revitalized regional economies in the Visayas. This will be measured by the recovery in GRDP growth rates (adjusted for inflation) to pre-Typhoon Yolanda levels. The outcome will be mitigated adverse social impact of the typhoon on the poor. This will be measured by the recovery in the per capita consumption level of the poorest 50% of households in the affected areas towards pre-typhoon levels.

B. Outputs

21. The EAL will provide \$500 million in immediate short-term financial support to the government to meet its additional financing gap linked to new spending initiatives under the YRRP and other disaster-related public expenditures.

⁹ For similar design to the proposed EAL, see ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for Emergency Assistance for Post-Conflict Recovery*. Manila; ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Republic of Tajikistan for Crisis Recovery Support Program*. Manila.

¹⁰ H. Masyrafah and J. McKeon. 2008. *Post-Tsunami Aid Effectiveness in Aceh: Proliferation and Coordination of Reconstruction*. *Wolfensohn Center for Development Brookings, Working Paper 6*. Washington, DC; ADB. 2011. *Completion Report: Earthquake and Tsunami Emergency Support Project in Indonesia*. Manila

1. Output 1: Government's Yolanda Recovery and Rehabilitation Plan Finalized

22. NEDA— in coordination with other government agencies— has finalized the YRRP, which is expected to be endorsed by the government in December 2013. In formulating the YRRP, ADB and other development partners collaborated closely with the government by providing NEDA with staff technical expertise. ADB staff also worked with OCHA on joint rapid needs assessment missions to the affected areas in November 2013.

23. Table 3 presents the key features and immediate activities of the YRRP. The YRRP will be implemented from December 2013 to December 2017. The YRRP will provide immediate humanitarian needs to victims from December 2013 to March 2014. The short-term recovery and rehabilitation of affected areas, housing, and livelihoods, as well as provision of social assistance and care will commence in December 2013 and be completed by December 2014. From January 2015 to December 2017, the government will focus on larger and more complex reconstruction investments. The government will formulate interventions for this later phase after further assessments have been completed in 2014. The EAL will support the restoration of the local economies and the livelihoods of affected persons.

Table 3: Yolanda Recovery and Rehabilitation Plan

| Components | Expected Outcomes | Immediate Activities |
|---------------------------------------|--|---|
| 1. Shelter and reconstruction | New settlement areas established and public infrastructure rebuilt | Temporary shelter, housing assistance to families, and reconstruction of public services, public schools, and health facilities |
| 2. Power restoration | Power fully restored in all areas | Restoration and rehabilitation of power infrastructure |
| 3. Livelihood and employment | People's livelihoods and incomes restored | Assistance to farmers, short-term employment programs, livelihood programs |
| 4. Resettlement and psychosocial care | Resettlement successfully completed and affected persons supported | Support services provided and expansion of existing housing programs |
| 5. Environmental protection | No-build zones identified and enforced | |

Source. National Economic and Development Authority.

2. Output 2: Funding for National Government Expenditure Program for 2014 Met

24. The devastation caused by the typhoon requires an immediate response from the government. The EAL's objective is to provide immediate and flexible financing to support the government's response to these urgent needs. The projected financing gap for 2014 is P274 billion. However, this financing gap, along with the financing gap for 2013 are expected to increase by a total of P153 billion (Table 4). The EAL will help finance the additional financing gap in the national government budget arising from increased public spending linked to the YRRP.

25. A special feature of the EAL is the monitoring framework and reporting mechanism that will be built into the YRRP. Implementation of the YRRP will be outcome-driven and will include a rigorous monitoring and evaluation framework, with specified performance indicators linked to the YRRP activities. The monitoring framework will be finalized in December 2013. The EAL's mechanism will draw on the YRRP's framework and will comprise three parts: (i) a NEDA-led interagency coordination committee for formulating the YRRP and monitoring and reporting on implementation, (ii) the use of country public financial management (PFM) systems for monitoring budgetary disbursements and implementation, and (iii) the use of civil society

organization (CSO) mechanisms for monitoring and evaluating impact of selected projects under the YRRP.

26. ADB has approved a small scale TA to support the formulation of YRRP. In addition, it plans to process another TA that will help the Government, among others, set up a monitoring system to track the implementation of YRRP. ADB also plans to establish an extended mission in one of the affected areas to support implementation of ADB's assistance. All these sources will be utilized to monitor the overall implementation of YRRP. Further, since the Government will be drawing down on the loan proceeds to match the financing needs of YRRP, staff will work closely with the Government on monitoring the different components (Table 3) of YRRP. The government (through NEDA-led coordination committee) will work with ADB and other development agencies to report on YRPP implementation and outcomes on a quarterly basis. As much as possible, sex disaggregated data will be collected on coverage related to housing construction and new settlements as well as livelihood restoration programs. ADB will also coordinate monitoring with key CSOs. The stand-alone TA for monitoring YRRP implementation will also engage a CSO to carry out monitoring and evaluation of selected activities of the YRRP in severely affected areas.

27. While the EAL will finance imports necessary for recovery, it will not finance a list of imports identified for that purpose. Instead, the EAL will finance general imports in connection with the recovery, except those on the list of ineligible items.¹¹

C. Financing Plan

Table 4: Financing Plan for National Government Budget (P million)

| 2014 Budget Financing Requirements | Projected 2013 Budget | Approved 2014 Budget |
|---|----------------------------|-------------------------|
| Net financing requirement | 299,846^a | 274,110 |
| Gross foreign borrowings ^b | 104,340 ^c | 95,030 ^d |
| Less amortization | 107,782 | 89,994 |
| Net foreign borrowings | (3,442) | 5,036 |
| Gross domestic borrowings | 630,691 | 620,011 |
| Less amortization | 327,403 | 350,937 |
| Net domestic borrowings | 303,288 | 269,074 |
| Additional financing requirement linked to the typhoon | 153,000^e | |
| 2013 national government budget supplement | 14,000 | |
| 2014 national government budget supplement | 139,000 | |
| Of which funding source: | | |
| ADB emergency assistance loan | 21,750 | |
| ADB JFPR grant and Asia Pacific Disaster Response Fund | 1,000 ^f | |
| World Bank emergency loan | 21,750 | |
| Others (Gross domestic borrowings and government Savings) | TBD | |

() = negative, ADB = Asian Development Bank, JFPR = Japan Fund for Poverty Reduction, TBD = to be determined.

^a The projected 2013 net financing requirements as of mid-2013 before Typhoon Yolanda.

^b Includes overseas development assistance (both program and projects) and overseas commercial borrowings and bonds

^c Includes ADB's proposed Local Government Finance and Fiscal Decentralization Reform Program of \$250 million and the World Bank's development policy loan 2 of \$300 million

^d Includes ADB's proposed Increasing Competitiveness for Inclusive Growth Program, subprogram 2 of \$200 million. Financing for 2014 also includes project disbursement of both the World Bank and ADB's proposed community-driven development projects.

^e Preliminary figure and is subject to change with the final endorsement of the YRRP.

¹¹ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

^f The proposed JFPR grant is for \$20 million. The Asia Pacific Disaster Response Fund grant of \$3 million was disbursed on 14 November 2013.

Source: Government of the Philippines, Department of Finance.

28. The government has requested a loan of \$500 million from ADB's ordinary capital resources to help fund the financing gap for 2014 arising from additional public spending linked to the YRRP and other disaster-related spending. The EAL will have a 32-year term, including a grace period of 8 years, custom tailored repayment method, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment fee of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. Based on this, the average loan maturity is 19 years and the maturity premium payable to ADB is 0.20% per annum. The loan proceeds will be used to finance the full exchange cost (excluding local taxes and duties) of items necessary for the recovery that are produced and procured in ADB member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. Since disbursement of the loan proceeds will be similar to program loans, disbursement and audit will be done in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans*.¹² The proceeds of the EAL will be disbursed to the Philippines as the borrower.

D. Implementation Arrangements

29. The Department of Finance will be the executing agency. The proceeds of the EAL will be released upon effectiveness and withdrawn based on financing needs under the YRRP. The EAL period is from December 2013 to December 2014.

IV. DUE DILIGENCE

A. Governance

30. Improved governance and anticorruption efforts are core government priorities. The government with development partner support, has developed and is implementing a comprehensive and coherent suite of PFM reforms to strengthen PFM systems, promote transparency and accountability, and address corruption. In 2011, the government launched its PFM reform road map, 2011–2016, covering budget reporting and performance management, government integrated financial management information system, Treasury cash management operations, and accounting and auditing reforms. In January 2012, the government launched the Good Governance and Anti-Corruption Plan, 2012–2016 to improve transparency, accountability, and citizen engagement. The plan includes several PFM initiatives, including zero-based budgeting, enhanced CSO participation in budgeting, more comprehensive information on funds disbursement by legislators, and publication of a statement of fiscal risks. ADB has provided substantial support to PFM reforms, including most recently on public debt management, establishing a treasury single account, and local governance budget and finance reform. Pre-mitigation PFM risk is assessed as substantial, however the government has in place a wide-ranging PFM reform program with indications of initial positive impacts.¹³

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

B. Poverty and Social

32. The incidence of poverty in the severely affected areas is expected to surge as a result of the economic and social costs of Typhoon Yolanda. The EAL aims to help mitigate these

¹² ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

¹³ Risk Assessment and Risk Management Plan (accessible from the list of link documents in Appendix 2).

adverse effects on the affected communities by supporting the government's 2014 public expenditure program linked to YRRP and other disaster-related spending. The EAL is categorized as some gender elements.

C. Safeguards

33. The EAL does not trigger the safeguard policies and is categorized C for the environment, involuntary resettlement, and indigenous peoples as loan proceeds are not earmarked for physical projects.

D. Risks and Mitigating Measures

34. The assumptions underlying the EAL include the maintenance of macroeconomic stability. The EAL has four main risks that are rated low to medium: (i) further natural disasters and their adverse impact on regional economies may undermine implementation of the YRRP and increase poverty rates; (ii) the government's administrative capacity and resources may be stretched, thereby limiting implementation of its YRRP; (iii) weak interagency coordination may undermine relief and recovery efforts; and (iv) corruption may increase in the disbursement of funds to local governments. The risk of corruption has been observed in disaster-related rehabilitation and reconstruction plans in other countries. Mitigating measures will address these risks (footnote 13). The NEDA-led interagency coordination committee will strengthen coordination among agencies and development partners in implementing the YRRP. The YRRP will also include a rigorous monitoring, reporting, and evaluation framework. Also, recent PFM reforms have helped improve transparency and accountability in the budget system.

V. ASSURANCES

35. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. The government has agreed with ADB on certain covenants for the assistance, which are set forth in the loan agreement.

VI. RECOMMENDATION

36. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$500,000,000 to the Republic of the Philippines for Emergency Assistance for Relief and Recovery from Typhoon Yolanda, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) waiver of the requirement that quick disbursement components finance a list of identified imports under the Disaster and Emergency Assistance Policy (2004) and as more fully discussed in para. 27 of this report.

Takehiko Nakao
President

4 December 2013

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|---|--|--|--|
| <p>Impact</p> <p>Regional economies in the Visayas revitalized</p> | <p>By end of 2019:</p> <p>Growth rates in real RGDP in the affected areas recover to pre-typhoon levels (Baseline: average growth rates 2002–2012)</p> | <p>NEDA RGDP reports</p> | <p>Assumption Macroeconomic stability maintained</p> <p>Risk Further natural disasters and their adverse impact on the regional economies in the Visayas</p> |
| <p>Outcome</p> <p>Adverse social impact of the typhoon on the poor mitigated</p> | <p>By end of 2017:</p> <p>Per capita consumption (adjusted for inflation) of poorest 50% of households in the affected areas recovers towards to pre-typhoon levels (Baseline: average per capita consumption 2009–2012)</p> | <p>NEDA RGDP data and poverty data</p> | <p>Risk Government's administrative capacity and resources may be stretched, thereby limiting implementation of its disaster recovery program.</p> |
| <p>Outputs</p> <p>1. Government's YRRP finalized</p> <p>2. Funding of the national government expenditure program for 2014 met</p> | <p>By December 2014:</p> <p>Government's YRRP endorsed</p> <p>Financing for the YRRP finalized and initiatives launched to mobilize resources from domestic and international sources</p> | <p>YRRP</p> <p>DOF</p> | <p>Risk Weak interagency coordination</p> |
| <p>Activities with Milestones NEDA produces draft YRRP (November 2013)</p> | | | <p>Inputs ADB loan: \$500 million equivalent</p> |

ADB = Asian Development Bank, DOF = Department of Finance, NEDA = National Economic and Development Authority, RGDP = regional gross domestic product, YRRP = Yolanda recovery and rehabilitation plan.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=47337-001-3>

1. Loan Agreement
2. Contribution to the ADB Results Framework
3. Development Coordination
4. Country Economic Indicators
5. Summary Poverty Reduction and Social Strategy
6. Risk Assessment and Risk Management Plan
7. List of Ineligible Items

Supplementary Documents

8. Summary Initial Disaster Needs Assessment
9. Summary Financial Management Assessment
10. Interim Operational Strategy
11. Poverty Impact Assessment