

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Philippines	Project Title:	Encouraging Investment through Capital Market Reforms Program
Lending/Financing Modality:	Policy-Based Loan	Department/ Division:	Southeast Asia Department/ Public Management, Financial Sector and Trade Division

### I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General Intervention

#### A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

Although poverty rates in the Philippines were still higher than in Malaysia, Thailand, Indonesia, and Viet Nam in 1991–2012, the country has made good progress in poverty reduction—in the first half of 2013, poverty incidence fell by 3 percentage points to 24.9%, down from 27.9% in the same period in 2012. This represents around 2.5 million Filipinos uplifted from poverty. This significant reduction in poverty in 2013 is in sharp contrast to the period 2006–2012, when the annual reduction averaged only 0.2 percentage points. Still, some 45% of the population is vulnerable to falling into poverty and new data from the first six months of 2014 placed poverty rate at 25.8%, largely as a result of the impact of typhoon Yolanda and rapid food price increases. Inequality has declined modestly but remains relatively high. In 2012, inequality in income distribution as measured by the Gini coefficient was 47.3, only slightly lower than in 2003, when it was 48.9. Inequality in consumption expenditure distribution is somewhat lower—the Gini index was 43 in 2012, versus 44 in 2003. Both Gini indices put the Philippines among the countries with the highest inequality in the region. While the Philippines shows the usual inverse relationship between economic growth and poverty incidence, the poverty–growth relationship is weaker compared with other economies in Southeast Asia. In particular, poverty remains highly concentrated in rural areas, where 75% of poor households live.

Reducing poverty and eliminating the vulnerabilities of large sections of the population remain one of the government's principal challenges. To address this challenge, the Philippine Development Plan (PDP), 2011–2016 translates the Social Contract with the Filipino People (SCFP) into three broad strategies:<sup>a</sup> (i) attaining high, sustained economic growth through a stable macroeconomic environment, rapid growth of industry, investments in infrastructure, and curbing corruption and enforcing the rule of law; (ii) providing equal access to development opportunities by investing in human capital, especially in education, health, and other basic social services; and by ensuring equal treatment through better access to infrastructure, credit, land, technology, and other productive inputs; and (iii) formulating effective social safety nets to ensure both the protection and the promotion of extremely vulnerable groups.

The country partnership strategy, 2011–2016 of the Asian Development Bank (ADB) for the Philippines is based on the intersection of the Philippine Development Plan priorities with Strategy 2020, consistent with the needs of a lower-middle-income country.<sup>b</sup> To support the government's objective of high, inclusive, and sustainable growth, ADB will focus on three core operational areas: infrastructure, environment, and education. To increase investments in infrastructure, ADB will implement a coordinated program to increase employment, and in turn government tax revenues, and to strengthen the government's capacity to utilize public–private partnerships. At the same time, efforts are needed to ensure that the private sector has a ready supply of long-term savings that can be deployed to finance infrastructure development. The Encouraging Investment through Capital Market Reforms Program will remove key development constraints, beginning with initiatives to improve efficiencies in the government bond market. This market serves as the foundation of all capital market development by providing transparency, pricing benchmarks, and market standards.<sup>c</sup> The program will then build on existing ADB capital market development programs to increase the domestic investor base and encourage a greater diversity of market participants, with the intention of transforming savers into investors, thereby increasing intermediation in the contractual savings sector.<sup>d</sup>

#### B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Poorly managed and inefficient execution of the government's borrowing strategy compromises its ability to deliver on its SCFP. Reduced expenditures on human capital (e.g., health, education, and social services) disproportionately affect the poor through diminished productivity, as they do not have alternative income to compensate. Inadequate spending on infrastructure diminishes competitiveness overall, but also has a disproportionate impact on the poor because low-income regions lack the connectivity to participate in wealthier urban markets. Finally, an inability to access affordable insurance increases the vulnerability of the poor and near-poor.

2. Beneficiaries. Key immediate stakeholders include the government, through the Bureau of the Treasury, the direct participants in the Bureau of the Treasury's debt issuance and cash management programs, and the recipients of the government's social programs. On a wider basis, the Philippines will benefit from the resultant increase in infrastructure development. Participation was facilitated through missions and policy dialogue with the government, donor partners, and the private sector. The ability of the industry to provide long-term financing to infrastructure will

enable an expanded sale of whole-life products, through an expended bancassurance framework, which also provide a buffer for income loss associated with the death of a principal wage earner.

3. Impact channels. By reducing the cost of issuance and the negative carry on the bond sinking fund, among others, the program will free up significant scarce resources that could be redirected to support implementation of the government's SCFP. Increasing expenditures on human capital and infrastructure can also ensure equal opportunities, thereby achieving more equal economic growth and a corresponding reduction in poverty.

4. Other social and poverty issues. The program is selective in its focus and does directly support other parts of the SCFP, such as providing equal access to development opportunities (e.g., education, health, and other basic social services). Other objectives, such as better access to infrastructure, credit, land, technology, and other productive inputs are being supported by the government with, in some cases, support from development partners.

5. Design features. The program does not include any direct links to the government's poverty reduction targets. Rather, the program seeks to address key prerequisites to achieving high, sustained, and inclusive growth rates (e.g., financing to meet the government's investment targets).

### **C. Poverty Impact Analysis for Policy-Based Lending**

1. Impact channels of the policy reform(s). The program provides direct support to the government's efforts to achieve the goals set out under the SCFP by encouraging the nonbank finance sector to support infrastructure development through the provision of long-term peso-denominated financing. The program also provides indirect support by increasing the efficiency of the government debt market and freeing up fiscal resources to support increased expenditures on education, health, and other basic social services. Overall, finance sector development has been found to provide direct benefits for the poor. An International Monetary Fund working paper estimated the quantitative impact of finance sector development on poverty in 65 developing countries and found that it directly reduces poverty by raising the investment and interest incomes of the poorest 20% of the population. Further, instability in the finance sector directly reduces the incomes of the poor, thereby raising poverty. Therefore, finance sector reforms that aim to mitigate risks of finance sector instability help reduce the vulnerability of the poor or the likelihood that the near poor will fall into poverty as a result of finance sector crises.

2. Impacts of policy reform(s) on vulnerable groups. The program is not anticipated to have an impact on vulnerable groups.

3. Systemic changes expected from policy reform(s). The program has a high-level impact, leading to finance sector development, which increases economic growth and income.<sup>f</sup> However, the impact from these reforms will only be felt over the medium (4–10 years) to long term. In the short term, reforms to strengthen public financial management and to increase the efficiency of the Bureau of the Treasury operations will provide more immediate benefits through increased spending on human capital, especially in education, health, and other basic social services (1–3 years).

## **II. PARTICIPATION AND EMPOWERING THE POOR**

1. Participatory approaches and project activities. Reforms are currently high level and focused on providing an enabling environment that is consistent with international sound practice. Nevertheless, ADB will continue its policy dialogue with the government to ensure that related initiatives consider access to finance, and will consider outreach to civil society should the need arise.

2. Civil society organizations. NA

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA): NA

☐ Information gathering and sharing ☐ Consultation ☐ Collaboration ☐ Partnership

4. Participation plan. Not applicable

☐ Yes. ☒ No. The program deals with high level, highly technical reforms to encourage wider capital market development. The reforms would not be subject to a high degree of customization at this stage.

## **III. GENDER AND DEVELOPMENT**

Gender mainstreaming category: No gender elements

**A. Key issues.** NA

**B. Key actions.** NA

☐ Gender action plan ☐ Other actions or measures ☒ No action or measure

The program supports high-level finance sector development, including reforms to increase the flow of long-term finance to fund infrastructure development. These reforms are unlikely to widen gender inequality or to have a negative impact on women.

## **IV. ADDRESSING SOCIAL SAFEGUARD ISSUES**

**A. Involuntary Resettlement**

**Safeguard Category:** ☐ A ☐ B ☒ C ☐ FI

1. Key impacts. The program supports high-level finance sector development and will not involve any land acquisition and will not generate any resettlement issues.

2. Strategy to address the impacts. NA	
3. Plan or other Actions.	
<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan
<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Social impact matrix
<input checked="" type="checkbox"/> No action	
<b>B. Indigenous Peoples</b>	<b>Safeguard Category:</b> <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Key impacts. The program supports high-level finance sector development and will not affect, directly or indirectly, the territories or natural and cultural resources that indigenous peoples own, use, occupy, or claim as their ancestral domain. Is broad community support triggered? <input type="checkbox"/> Yes <input type="checkbox"/> No	
2. Strategy to address the impacts. NA	
3. Plan or other actions.	
<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan
<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework
<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary
<input type="checkbox"/> Social impact matrix	
<input checked="" type="checkbox"/> No action	

V. ADDRESSING OTHER SOCIAL RISKS	
<b>A. Risks in the Labor Market</b>	
1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). Not significant (L)	
<input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards	
2. Labor market impact. NA	
<b>B. Affordability</b>	
Not applicable.	
<b>C. Communicable Diseases and Other Social Risks</b>	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): NA	
<input type="checkbox"/> Communicable diseases <input type="checkbox"/> Human trafficking	
<input type="checkbox"/> Others (please specify) _____	
2. Risks to people in project area. Not applicable	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. The design and monitoring framework does not contain performance targets that directly address poverty reduction.	
2. Required human resources. The program does not include project implementation arrangements. Monitoring will be conducted through regularly scheduled reconnaissance missions.	
3. Information in the project administration manual. Not applicable	
4. Monitoring tools. No program-specific monitoring tools will be utilized.	

<sup>a</sup> Government of the Philippines, National Economic and Development Authority. 2011. *Philippine Development Plan, 2011–2016*. Manila (publicly released on 27 May). <http://www.neda.gov.ph/PDP/2011-2016/default.asp>

<sup>b</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2010*. Manila.

<sup>c</sup> As an ancillary benefit, these efficiencies will provide fiscal savings, which are potentially significant and can be redirected to support the SCFP's emphasis on human capital.

<sup>d</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 2 to the Republic of the Philippines for the Financial Market Regulation and Intermediation Program*. Manila; ADB. 2011. *Technical Assistance to the Republic of the Philippines for Capacity Development of Financial Regulators*. Manila; and ADB. 2013. *Technical Assistance to the Republic of the Philippines for Strengthening Treasury's Liquidity Management*. Manila.

<sup>e</sup> G. Jeannwney, S. Kpodar, and K. Kpodar. 2008. Financial Development and Poverty Reduction: Can there be a benefit without a cost? *IMF Working Paper #62*. Washington, DC.

<sup>f</sup> R. Levine and S. Zervos. 1998. Stock Markets, Banks, and Economic Growth. *The American Economic Review*. Pittsburgh.