ASIAN DEVELOPMENT BANK

Philippines: Post-COVID-19 Business and Employment Recovery Program - Subprogram 1

Project Name	Post-COVID-19 Business and Employment Recovery Program - Subprogram 1
Project Number	55300-001
Country / Economy	Philippines
Project Status	Approved
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	Loan 4289-PHI: Post-COVID-19 Business and Employment Recovery Program - Subprogram 1 Ordinary capital resources: US$ 500.00 million Loan: Post-COVID-19 Business and Employment Recovery Program - Subprogram 1 Asian Infrastructure Investment Bank: US$ 500.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth
Drivers of Change	Gender Equity and Mainstreaming Knowledge solutions Partnerships
Sector / Subsector	Education / Technical and vocational education and training Public sector management / Economic affairs management
Gender Equity and Mainstreaming	Effective gender mainstreaming
Description	The coronavirus disease (COVID-19) pandemic has had an unprecedented and potentially long-term impact on the labor market in the Philippines. Although the unemployment rate has eased since peaking in April 2020, the labor market recovery remains uneven and emerging new jobs appear to be of lower quality. In response, on 1 May 2021, the government launched the National Employment Recovery Strategy (NERS), 20212022 to improve access to employment, livelihood, and training opportunities and to support existing and emerging businesses to create sustainable employment opportunities in light of the pandemic-induced job losses. The program will help the government implement the NERS and aims to achieve key targets (highlighted in the box). The program adopts a programmatic approach using policy-based loans for two subprograms to support sustainable business and labor market recovery in the post-pandemic era. Subprogram 1 establishes the foundation of the program through amendments to key legislation and pilot initiatives. Subprogram 2 will focus on the implementation and expansion of these reforms, so that they form a permanent part of the national job creation framework.

Project Rationale and Linkage to Country/Regional Strategy	Macroeconomic context. The Philippines economy was severely impacted by the COVID-19 pandemic. Its gross domestic product (GDP) shrunk by 9.5% in 2020, and unemployment peaked at 17.6% of the labor force in April 2020 during the most severe lockdown to contain the spread of the virus. The economy is on a recovery path, with 5.7% GDP growth in 2021 and a 7.4% year-over-year growth rate in the second quarter of 2022. The economic growth rate is projected to rise to at least 6.5% in 2022, underpinned by rebounds in investments and household consumption. The unemployment rate eased to 6.0% of the labor force (2.93 million people) in May 2022. Progress in vaccinating the population against COVID-19 and further relaxation of mobility restrictions have helped restore consumer and business confidence. Notwithstanding downside risks from higher oil and commodity prices stemming from the Russian invasion of Ukraine and continuing trade and supply disruptions (footnote 3), the general direction of macroeconomic conditions and macroeconomic policies of the Government of the Philippines is satisfactory. The Philippine economy is expected to grow by 6.3% in 2023, while the debt ratio is expected to improve as the government unwinds fiscal support provided during the pandemic and as economic recovery accelerates. Despite the rise in the debtGDP ratio to meet the pandemic-induced stimulus programs, the government's debt burden is expected to remain sustainable over the medium term. Prior to the COVID-19 pandemic, prudent fiscal management provided adequate fiscal resources. The fiscal deficit averaged 2.4% of GDP during 20152019. However, expansionary fiscal policy to cushion the socioeconomic impact of the pandemic and support economic recovery drove the deficit to 7.6% of GDP in 2020 and to 8.6% of GDP in 2021. The fiscal deficit is expected to be 7.6% of GDP in 2022 to accommodate continuing support to economic recovery, before declining to 6.1% of GDP in 2023 and 5.1% in 2024 and reaching 3.0% by 2028 as the government pursues fiscal consolidation. The Medium-Term Fiscal Framework, 20222028 is the government's blueprint to reduce the fiscal deficit, promote fiscal sustainability, and enable robust economic growth. The Philippine labor market was hit hard by the COVID-19 pandemic. Prior to the COVID-19 pandemic, the Philippines was experiencing its longest ever period of economic and job expansion. Wage and salary employment in private establishments grew at a remarkable rate of 4.6% annually on average during 20152019 to reach 51.5% of total employment in January 2020. The sharp recession in 2020 and subsequent business closures resulted in job losses in the private sector, lowering wage employment in private establishments to 47.1% of total employment in December 2021. Consequently, employment has shifted to lower-quality jobs, with an additional 3.3 million people engaged in the informal sector, raising its share of total employment from 39.4% in January 2020 to 43.4% in December 2021. Informal employment comprises mainly self-employed, unpaid family workers, and domestic help in private households. Informal workers not only have limited access to skills training and social protection and are likely to be exposed to occupational hazards, but their earnings tend to be low and unstable. Government agencies have helped to absorb job seekers by expanding public sector employment by almost 500,000 workers since the pandemic began. Job losses underestimate the employment impact of the pandemic because there were significant reductions in working time. Even for those who remained employed, there was an increase in part-time employment as firms limited operations given the uncertainties and resorted to reductions in working hours to preserve employment relationships. In addition, self-employed workers had to abide by curfews, lockdowns, and other constraints on their activities. As a result, there were massive losses in working hours including job losses and reductions in incomes. The sector impact of the pandemic fell on jobs that require human interaction and involve tasks that cannot be done remotely. Low-skilled workers represented 25.6% of job losses in the Philippines. Agriculture, manufacturing, and accommodation and food services were the hardest hit. Sales and services workers, a middle-skill occupational category, accounted for another quarter of job losses in the country. Even prior to the pandemic, there has been higher demand for middle- and high-skilled occupations since 2010. Many of the jobs lost during the pandemic are not likely to come back as the pre-pandemic shift towards medium- and high-skilled jobs will accelerate. There is evidence that the pandemic's interaction with technology may have accelerated trends such as digitalization, automation, and nearshoring and reshoring, with major implications for skills demand. The pandemic, thus, could have lasting impacts on labor demand, through accelerating structural changes linked to automation, the shift to a digital economy, and changing business processes and workplaces. The Fourth Industrial Revolution will also continue this shift from routine to nonroutine and analytical work. The Philippine labor market was the hardest hit of the Southeast Asian countries. Prior to the pandemic, the employmentpopulation rate in the Philippines (58.7% in the fourth quarter of 2019) was lower than that of its regional peers64.0% in Indonesia, 66.8% in Malaysia, 66.3% in Thailand, and 74.5% in Viet Nam during the second half of 2019. All countries saw a decline in their employment rate in 2020, but the Philippines suffered the sharpest decline. Similarly, the unemployment rate, while lower than its peak, was at 8.7% in the first quarter of 2021, which was considerably higher compared to Indonesia (3.9%), Malaysia (4.8%), Thailand (1.4%), and Viet Nam (2.1%). Labor force participation has been persistently lower in the Philippines compared to other countries in the region, which is mainly because of a lower participation rate among women. In 2019, the women's labor force participation rate (LFPR) was 47.6% compared to 74.8% for men. The pandemic further eroded this to 45.9% for women and 73.1% for men as of 2020. One of the major reasons for the consistently lower female LFPR is marriage and/or child-bearing responsibilities, where women are still largely expected to stay at home. The overall LFPR in the Philippines is lower than that of other countries in the region. Prime-age adults, particularly women, have been the most negatively affected, while the youth remain among the most disadvantaged. Prime-age (25-54 years old) and mature adults' (55 years old and above) share of total unemployment increased from 57.3% in January 2020 (1.4 million people out of 2.4 million) to 71.0% by December 2021 (2.3 million people out of 3.3 million). Women's share of total unemployment increased from 36.8% (879,000 people out of 2.4 million) to 43.7% (1.4 million people out of 3.3 million) over the same period. Prime-age and mature adults are at substantial risk of long-term unemployment because they may not have the skills to easily transition to new jobs. Meanwhile, the lack of childcare support further undermines women's retraining and employment opportunities. The youth (15-24 years old) were hit hard because of disruptions in education and training and delayed school-to-work transition. In 2020, the percentage of youth not in employment, education, or training rate was 24.1% (28.1% for women), the highest in Southeast Asia. Youth also suffered a disproportionate share of job losses at the height of the pandemic's impact on the labor market. Women were more likely to exit the labor force following job loss than men. Informal workers, self-employed workers, temporary and casual workers, and migrant workers were among the most vulnerable groups. The pandemic's shock to the economy created a long-lasting negative impact on modern private sector employment, phenomenon known as hysteresis. In effect, temporary large shock from the pandemic might produce a persistently lower employment rate even after the economy has started to grow. As a result, it is expected that the labor market will experience a significant adjustment over the next 5 years. There are three transmission channels of this negative impact on wage employment. First, there are more job seekers, including people who lost their jobs, school dropouts, and new labor market entrants. The longer that laid-off workers and new labor market entrants remain unemployed and not in training, the more likely they are to become less employable because of lost skills. Second, the pandemic has triggered a large reallocation of jobs across sectors. The hardest-hit sectors are those dependent on personal contact, such as accommodation, travel, and food services. In contrast, the sectors that have recovered quickly and show positive job growth are those that tend to absorb lower shares of labor, such as communications and technology, and several higher-skilled services sectors. This divergence will increase skills mismatches in the labor market as workers do not transition easily between sectors, given the differences in required skills and experience. Third, companies are modifying their business models to rely more on technology and automation, thereby reshaping the types of skills demanded. Further, climate change is expected to have significant impacts on the functioning of the labor market in the Philippines through economic and welfare losses, damage to health and labor productivity, and forced labor migration. Binding constraints. There are three key binding constraints on effectively facilitating the post-COVID-19 labor market adjustment and creating quality employment: (i) limited coverage of labor market programs for job seekers, displaced workers, and vulnerable female workers; (ii) pandemic-induced skills mismatches and weak institutional links between training and employment; and (iii) a restrictive post-pandemic business and investment framework for a job-rich recovery. Limited coverage of labor market programs to meet post-pandemic employment needs. In 2020, there was a lack of a coordinated policy response to address the changes brought about by the pandemic to the Philippine labor market, including the accelerated adoption by businesses of new technologies. A coordinated response from all key government agencies was needed to facilitate recovery through (i) creation of a policy environment that encourages employment generation and access to livelihoods, (ii) improved employability of workers laid off during the pandemic, and (iii) measures to support existing and emerging businesses for job creation. Active labor market programs are critically important to help young people, displaced workers, and women reenter the labor market. Public employment services are efficient conduits for matching job seekers with employers. While mitigating the impact of business cycle fluctuations on the labor market, there is a need to address structural issues that limit creation of good quality jobs in the private sector. Although the Asian Development Bank (ADB) has helped the Philippines develop and implement innovative labor market programs since 2014, cyclical nature of unemployment (and employment) requires continued engagement on the part of the ADB and the government of the Philippines to improve labor market outcomes for Filipino workers. The pandemic and the subsequent labor market adjustment require active labor market programs to adapt and expand, and be responsive to business needs, so that displaced workers can be easily reintegrated into the labor market. According to the 2020 Labor Force Survey, public employment services were used by few job seekers, with only 7.5% of job seekers using public employment service offices (PESOs) to search for jobs. Instead, most job seekers found employment through relatives or friends (39.0%) and independent efforts (33.0%). Continuing the institutionalization of PESOs at local government units, combined with making investments in the capacity development of PESO staff, is key to expanding the coverage of employment facilitation services. It is also important to expand the range of active labor market programs to cater for different demographic groups and the needs of employers. This includes expanding the JobStart Philippines (JSP) program for at-risk youth, developing programs for the specific needs of prime-age and mature displaced workers, developing programs to meet the needs of women (including childcare assistance), and developing new ways to deliver workplace skills development to assist workers and job seekers through the labor market adjustment. Pandemic-induced skills mismatches and weak institutional links between training and employment. There are four key underlying factors that contribute to this development constraint. First, there is a lack of sector-based skills frameworks to better address the mismatch between demand and supply. The Technical Education and Skills Development Authority (TESDA) provides publicly funded training but faces challenges to keep pace with rapid technological advancement and changing industry needs. Second, the coordination between the public and the private sectors on skills development remains weak. Collaborative research on identifying skills gaps and timely forecasts of future skills demand should contribute more to the technical and vocational education and training (TVET) policy and programs. International evidence shows that publicprivate coordination through national and regional skills boards can be effective conduits for improving market-relevant skills development. Third, there are limited partnerships between the public and private sectors in developing and delivering TVET programs that are relevant to the demands of employers. Many of the publicly funded TVET institutes underinvest in equipment and provide outdated curricula. Fourth, the pandemic has exposed the lack of skills training programs relevant for displaced prime-age workers and programs custom-made for women reentering the labor market. Restrictive post-pandemic business and investment framework for a job-rich recovery. In the past 10 years, the government has taken an incremental approach to improving the investment climate, including reinvigorating publicprivate partnerships in 2011, enacting a competition law in 2015, and introducing the Build Build Build infrastructure development program in 2017. However, the business investment framework, which remains highly restrictive across the following four areas compared to regional peers, has constrained the Philippines' long-term economic growth trajectory. First, there are prohibitive restrictions on foreign investment in the services sector, including a 40% ceiling on foreign equity ownership in public services and substantial minimum paid-up capital requirements for foreign investors. The retail trade segment has been highly restricted against foreign retailers and investors because of cumbersome prequalification requirements. Second, the tax system is inefficient and deters quality investments. The corporate tax rate remains high at 30%, partly because generous fiscal tax incentives undermine the tax base as incentives are not well targeted and not performance based. Third, business regulatory compliance, including to register and operate a business, incurs high costs and often involves cumbersome administrative requirements, which hurt micro, small, and medium-sized enterprises (MSMEs) in particular. Fourth, fostering innovation in the Philippines business and industry is challenging, mainly because of lack of linkages between innovative firms and R&D institutions such as universities and technology resource centers. Other key constraints to innovation is that MSMEs lack financial capital required for innovative activities; and lack of talent is a constraint affecting both MSMEs and large firms. Strategic alignment. The program is aligned with the government's NERS and the updated Philippine Development Plan, 20172022. The program is aligned with ADB's country partnership strategy for the Philippines, 20182023 under the third strategic pillar on investing in people. It will contribute to ADB Strategy 2030's operational priorities on addressing remaining poverty and reducing inequalities; accelerating progress in gender equality; tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and strengthening governance and institutional capacity.
Impact	

Project Outcome	
Description of Outcome	
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects
Environmental Aspects
Involuntary Resettlement
Indigenous Peoples
Stakeholder Communication, Participation, and Consultation
During Project Design
During Project Implementation

Responsible ADB Officer	Khatiwada, Sameer
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Human and Social Development Division, SERD
Executing Agencies	Department of Finance

Timetable	
Concept Clearance	30 Jun 2022
Fact Finding	28 Jul 2022 to 08 Aug 2022
MRM	19 Aug 2022
Approval	26 Jan 2023
Last Review Mission	-
Last PDS Update	26 Jan 2023

Loan 4289-PHI

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	500.00	Cumulative Contract Awards			
ADB	500.00	-	0.00	0.00	%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	-	0.00	0.00	%

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