

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Philippines	Project Title:	Expanding Private Participation in Infrastructure Program, Subprogram 2
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

The Philippines has made good progress in poverty reduction. Poverty incidence fell from 25.2% in 2012 to 21.6% in 2015, lifting approximately 2.5 million people out of poverty. Yet, the Philippines is still 4.4 percentage points short of achieving the Millennium Development Goal of 17.2% poverty incidence, and one in five Filipinos is still living under the poverty threshold of ₱1,813 per month. Moreover, 8.1% of the population (8.2 million people) were unable to meet their basic food needs. Poverty incidence remains particularly high in rural areas, where 75% of poor households are located. Although income inequality in the Philippines declined from 0.46 in 2012 to 0.44 in 2015 (as measured by the Gini coefficient), it remains one of the highest in the region (versus 0.40 in Indonesia, 0.38 in Thailand, and 0.38 in Viet Nam). Despite impressive economic growth in recent years, most of the economic gains accrue to the richest individuals. In 2014, the collective wealth of the country's 50 richest individuals accounted for 25.7% of the country's gross domestic product (GDP).

Reducing poverty and eliminating the vulnerabilities of large sections of the population are among the principal challenges facing the Government of the Philippines. The Philippine Development Plan (PDP), 2017–2022 has targeted reducing poverty incidence to 14% by 2022, equivalent to lifting about 6 million more people out of poverty.^a To achieve this, the plan adopts a number of broad strategic pillars, including: (i) enhancing the social fabric; (ii) reducing inequality by, among other initiatives, reducing barriers to foreign competition; (iii) increasing the nation's growth potential; (iv) providing an enabling and supportive economic environment; and (v) addressing the foundations for sustainable development by increasing infrastructure investment. To support the last pillar, the government launched a comprehensive infrastructure development program named Build, Build, Build (BBB). Embodied in the PDP, the BBB program aims to attract investments, generate jobs, and spur economic growth through infrastructure development. The program calls for an increase in public spending on infrastructure from 5.1% of GDP in 2016 to 7.4% of GDP by 2022. Parallel to public spending, the government also puts emphasis on public–private partnerships to tap private sector expertise.

The country partnership strategy (CPS) of the Asian Development Bank (ADB) for the Philippines, 2011–2016 intersects with and supports the government's efforts under the PDP to achieve high, inclusive, and sustainable growth.^b The CPS focuses on three core operational areas: infrastructure, environment, and education. In 2017, ADB and the government agreed on an operational program for 2018–2020 that extends the CPS by 1 year through the country operations business plan, 2018–2020. To increase infrastructure investments, ADB has implemented a coordinated program to increase employment and government tax revenues in turn, encourage capital market reforms, and strengthen the government's capacity to utilize public–private partnerships.

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

1. Key poverty and social issues. Reducing poverty and eliminating the vulnerabilities of large sections of the population remains one of the country's principal challenges. The reduction of 3.6 percentage points over 3 years is the fastest poverty decline in at least a decade, much more rapid than the 1.1 percentage point decrease recorded from 2009 to 2012. The subsistence incidence, or the proportion of the population whose income falls below the food threshold (which measures extreme poverty), fell by 2.3 percentage points from 10.4% in 2012 to 8.1% in 2015. However, the challenge remains significant. Even though 1.4 million poor people have already been lifted above the poverty threshold since 2009, the current poverty rate still translates to 21.9 million poor people.

Notwithstanding the downward trend in national poverty incidence, some regions in the Visayas and Mindanao recorded poverty rates of more than 35%. Lack of and poor-quality infrastructure have resulted in the inefficient delivery of services and have increased the costs of production and distribution of goods. It has also discouraged much-needed investment, which is necessary for a prospective economic area to compete. Vulnerability of these regions to natural disasters, extreme weather events, and (in some areas) intermittent armed conflict have negatively affected agricultural productivity, rural income predictability, and food price stability.

Subprogram 2 of the Expanding Private Participation in Infrastructure Program provides direct support to government reforms to achieve the goals set out under the PDP and the Public Investment Program by supporting better public infrastructure investment management and sustainable PPP investments. Improved infrastructure will help reduce the vulnerability of the poor or the likelihood that the near-poor will fall into poverty because of shocks.

2. Beneficiaries. The potential beneficiaries will be enterprises, consumers, employees, and the poor in general. Enterprises will benefit from stronger competitiveness as a result of better infrastructure provision. Consumers will gain from greater domestic competition, which will lower prices and improve service delivery (e.g., in the tourism sector because of better connectivity).

3. Impact channels. The labor market will be an important channel because more private infrastructure investments will directly and indirectly create more productive and decent jobs, such as in tourism and agriculture. Growth of promising industries such as tourism—which is labor intensive, linked to other economic sectors, and geographically spread across the Philippines—will support poverty reduction. Better infrastructure is also expected to contribute to reducing the costs of doing business and help improve overall competitiveness. Better access to services through greater infrastructure endowments is also expected in the medium term.

4. Other social and poverty issues. Addressing poverty, which is increasingly concentrated geographically, requires coordinated action from local government units in the Philippines, which account for a growing share of public expenditure. ADB's Local Government Finance and Fiscal Decentralization Reform Program supports key policy initiatives aimed at improving access to and the quality of service delivery across the country.

5. Design features. Reforms under the proposed subprogram 2 continue to assist the delivery of a financially sustainable pipeline of public-private partnership (PPP) projects by government agencies and private investors. The government has competitively tendered and awarded 12 national PPP projects totaling \$4.7 billion since the inception of the program, and this will translate into jobs and income opportunities, greater economic growth potential, and better access to services.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reforms. Overall, infrastructure sector development has been found to benefit the poor. The contribution on infrastructure is reflected in the increase in productivity and wellbeing among poor people, thus improving their access to local markets and other regions, optimizing the coverage and the quality of services offered through the improvement in education, health, transportation services, and basic sanitation. The infrastructure supply is a vital component of the incentive to national economic growth, both for its potential to generate employment and for its influence in all economy sectors. In this sense, it improves economic activity and helps reduce persistent poverty. Additionally, wide access to infrastructure contributes to reduce inequality.

2. Impacts of policy reforms on vulnerable groups. The impact of the reforms supported under the proposed program will not be specific to any given vulnerable group but will be enjoyed by the greater population. Construction jobs created under the new PPP projects are likely to benefit low-skilled workers from disadvantaged backgrounds.

3. Systemic changes expected from policy reforms. The reforms under the program will help achieve public infrastructure investments valued at 7.4% of GDP. Inadequate infrastructure endowment has long been identified as the most important constraint on growth in the Philippines. In addition, support to private sector participation in public infrastructure investment will release funds for alternative uses and transfers fiduciary risks to the private sector, with expected fiscal savings and better efficiency in service delivery.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. Key immediate stakeholders include the government through several of its departments (finance, transportation and communication, public works and highways, education, health, and agriculture), the National Economic and Development Authority, and the PPP Center. Wider beneficiaries will include infrastructure investors and financiers. Participation has been encouraged through technical assistance missions, knowledge work, and continuous policy dialogue with the government, development partners, and the private sector. Stakeholder consultations including policy dialogue with national and local governments, the private sector, and beneficiaries of selected major infrastructure projects would help strengthen the impact of the program. Engaging local governments for PPP project identification and delivery is a key strategy undertaken.

2. Civil society. Government implementing agencies for PPPs conducted consultations with civil society organizations for the identification of bankable PPP projects in relevant sectors. The Department of Social Welfare, for instance, has defined PPP as a system for cooperation for delivering basic social services to the poor, implementing development projects of the government, and instituting transparency and accountability mechanisms to fight corruption, and for this, engagement with civil society organizations is being sought.

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

Information gathering and sharing Consultation Collaboration Partnership

4. Participation plan. Yes. No. Participation of civil society is being sought through PPP implementing agencies, including national government agencies and local government units, at all stages of project identification, design, and implementation.

