PROGRAM INFORMATION DOCUMENT (PID)
Appraisal Stage

Report No.: AB7595

Operation Name	Third Philippines Development Policy Loan to Foster More Inclusive Growth
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector	General public administration sector (60%); Rural and Inter-Urban Roads and Highways (10%); Health (10%);General education sector (10%);General agriculture, fishing and forestry sector (10%)
Operation ID	P147803
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF THE PHILIPPINES
Implementing Agency	DoF, DBM, DPWH, DoT, DA, DTI, DSWD, DoH/PhilHealth, DepEd
Date PID Prepared	June 6, 2014
Estimated Date of Appraisal	June 26, 2014
Estimated Date of Board Approval	September 23, 2014
Corporate Review Decision	*Following the corporate review, the decision was taken to proceed with the preparation of the operation.*
Other Decision *{Optional}*	

I. Key development issues and rationale for Bank involvement

The Aquino administration has made good governance and inclusive growth its cornerstone reform objectives. The Social Contract with the Filipino People has served as the administration's roadmap since coming to office in mid-2010 for a number of reforms efforts aimed at overcoming the legacy of economic underperformance. Major institutional investments are taking place in public financial management systems, coupled with efforts to strengthen the demand side for information. These efforts are being tightly linked to both challenges and progress concerning priority frontline public investments & service delivery. As it enters the second half of its term, the administration continues to be committed to delivering on its priority reforms initiatives notably those focusing on boosting public and private investments, improving governance, and fighting corruption. The administration is harnessing both domestic coalitions and international mechanisms – such as the Open Government Partnership (OGP) -- to advance notable greater transparency and integrity around the use of public resources. Greater transparency and accountability will be central to transforming the relationship between government and citizens, and sustaining inclusive policies in this administration and beyond.

Macroeconomic performance has been good, but this has not adequately translated into reduction of extreme poverty and shared prosperity. Growth topped 6.6 percent in 2012, and continued apace at 7.2 percent of 2013. Fiscal consolidation has progressed to overcome the macro-economic instability that was at the forefront of the country's policy agenda in the past decade. With sustainable deficit levels and a steadily declining debt to GDP, renewed market confidence has been restored in the Philippines. All three major credit agencies have upgraded in 2013 the country's sovereign credit ratings to investment grade, with a recent further upgrade to one notch above investment grade by S&P in May 2014. Unfortunately, this growth performance was not accompanied by significant gains in poverty reduction and employment creation. Income poverty levels have remained almost unchanged since 2003 with the 2012 poverty level at 27.9%. However, latest official poverty statistics show a 3 percentage point decline in the poverty rate between the first semesters of 2012 and 2013, from 27.9 % to 24.9 %. This suggests that significant efforts of the current Government to expend economic opportunities to all Filipinos and share more broadly the fruits of economic growth, might have begun to show in poverty statistics. Still, with unemployment and underemployment persisting respectively at 7 and 20 percent in 2012, prevailing jobs creation fall short of levels needed to absorb the expanding labor force. Moreover, the Philippines is highly dependent on outmigration and remittances (10 percent of GDP); with a large part of the population still vulnerable to a variety of economic, natural disaster, and health shocks.

A number of structural challenges confront the Philippines and constrain a sustained and inclusive growth trajectory. A significant body of analytical work has identified the challenges for achieving inclusive growth in the Philippines. Reform implementation needs to focus on (i) meeting public infrastructure gaps, while taking into account the challenges from climate change and natural disaster vulnerability, (ii) addressing barriers to jobs-promoting private investment, (iii) enhancing the human capital of the poor while reducing their vulnerability to shocks, (iv) enhancing the transparency of public spending, (v) enhancing revenue effort to finance a significant scale-up of public infrastructure and social spending, while managing fiscal risks from natural disasters, public enterprises, and PPPs. The 2013 devastating Bohol earthquake and Typhoon Yolanda (Haiyan) have underscored the extreme vulnerability of the Filipinos, especially the poor, to natural disasters.

II. Proposed Objective(s)

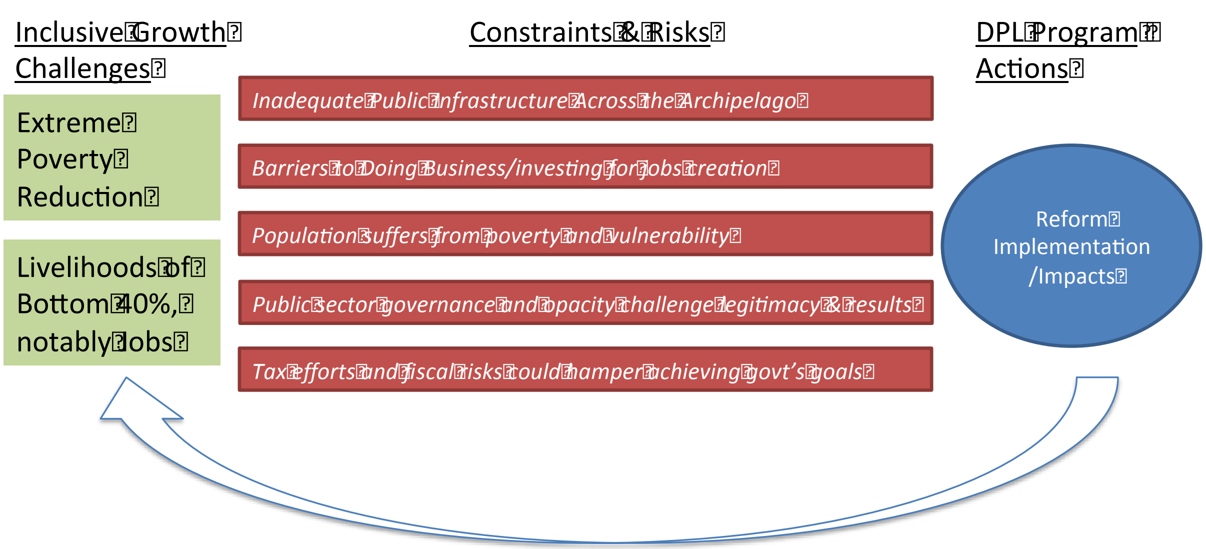
The program's development objective (PDO) is to support sustained and inclusive growth and job creation. The means to achieving this are through increasing physical and human capital investment; tackling regulatory barriers in labor, and capital markets; all in the context of ensuring fiscal sustainability, governance and transparency. The operation consists of five pillars: (i) strengthening priority public investments implementation, (ii) reducing the cost of doing business for jobs creation and poverty reduction; (iii) developing the human capital of the poor; (iv) fiscal transparency and good governance; and (v) consolidating fiscal sustainability through revenue mobilization and risk management. The operation is the third among a series of three programmatic DPLs supporting government reforms through 2014, but also looks to serve as a building block for follow-up operations for inclusive growth for 2016 and beyond the term of the current administration.

The proposed third programmatic DPL supports the implementation of the government reform program. The operation seeks to institutionalize measures underpinning the reform change agenda. Actions supported are slated for completion in mid-2014, but also identify a reform agenda targeted by the current administration through mid-2016. They focus on reforms aimed at (i) enhancing capital spending levels to match regional and income level peers; (ii) improving the quality of public investment in terms of sectoral and geographic targeting; (iii) reducing trading costs by enhancing connectivity across the archipelago; (iv) boosting investments in human capital and social protection as to overcome the low human development outcomes notably in health and education; and (iv) tackling regulatory and licensing barriers in land, labor, and capital markets that constrain private investments and raise business costs. Through job creation and inclusive growth, these reforms promise to have significant impact on reducing extreme poverty and sharing prosperity for the bottom 40 percent of the Philippines population.

III. Program Description

The program series has been aligned to suppor inclusive growth priorities through 2016. Government has made it clear that it wishes to advance actions with short term impact to reduce binding constraints to inclusive growth (see Figure 1), but above all to put in place solid foundations for inclusive growth in the next administration. The government also seeks to have cemented reforms that enhance the accountability relationships between government and citizens. While the original series envisioned three tranches through the end of 2014, the programmatic series builds the foundation for further DPL operations envisioned for 2015 and 2016.

Figure 1: Meeting the Inclusive Growth Challenge in the Philippines



The program is designed to support a policy reforms around five pillars. Each of the five pillars targets a medium term results objective and outlines key actions to be supported under the program.

Pillar 1 aims to support **Strengthening Priority Public Investment Implementation** through enhanced prioritization and close monitoring of key infrastructure programs across the Philippines, with a special emphasis on strengthening climate change and mutli-hazard resilience (including “build back better” after Yolanda. The DPL program supports institutional development actions that will not only have a significant impact towards achieving results in particular areas, but also serve as demonstration cases for broader institutional reforms towards enhanced public infrastructure delivery. Focus will be given to tourism road and rural connectivity infrastructure.

Pillar 2 seeks to support **Reducing the Cost of Doing Business for Jobs Creation and Poverty Reduction** through streamlined business processes that would reduce the cost of doing business and encourage more private investment for leading to more job creation..

Pillar 3 supports **Developing the Human Capital of the Poor** through the use of a national household targeting system for better targeting of the poor, to ensure equitable development of the human capital of the poor.

Pillar 4 seeks to promote **Fiscal Transparency and Good Governance** through support for the use of a unified account code structure and a fully-functioning Open Data portal that would support transparency in the accounting and use of public resources. .

Pillar 5 supports **Consolidating Fiscal Sustainability: Revenue Mobilization and risk Management**through revenue reforms and use of risk management tools and strategy, such as the development of a disaster risk management and insurance strategy and other specific actions to mitigate fiscal risks, including those due to climate change impacts.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The operations actions are all fundamentally designed to enhance the long-term welfare of the poor and bottom 40% of the population. For each of the proposed actions, analysis has been conducted so as to maximize the inclusive growth impact of the actions. Expanding tourism and road infrastructure across the archipelago promises to provide economic opportunities to the bottom 40% notably from a geographic perspective, with particular benefits for rural areas. Analysis shows that the poor are particularly vulnerable to weather-related shocks, including those patterns emerging from climate change, as well as those from natural disasters such as earthquakes. Improving resilience of public infrastructure, and enhancing disaster related risk management, therefore would have large positive poverty and social impact. The use of the NHTS-PR database to target investments on the poorest parts of the population will help ensure equitable social and economic opportunity for the poor. Enhanced targeting for social protection programs is expected to enhance the delivery of social services to the poor. The updating of the NHTS-PR to encompass a full rural enumeration will also overcome any previous “errors of exclusion” of the poor due to the lack of enumeration of some households.

The Sin Tax reform action benefitted from a Poverty and Social Impact Analysis (PSIA) **both in the design and implementation phase.** The PSIA suggests that while the tax incidence on tobacco excises is slightly regressive, the commensurate health impacts and revenues used for health programs are progressive given the impact particularly to the bottom 40 percent of the population. The design of the Sin Tax saw an earmarking of funds to promote Universal Health Care (UHC), covering health insurance for the bottom 40% of the population. On-going technical assistance is supporting an Implementation Results Monitoring Framework which monitors tobacco consumption among the poor and by gender.

Environment Aspects

Improvements in public infrastructure are subject to environmental safeguards. All new road construction in the Philippines is subject to DNER environmental approvals. Moreover, road network investments relate almost exclusively to the upgrading of road segments, rather than to the opening of new roads. Associated land use regulations and zoning ensure that neither increased farm production or tourism development have adverse environmental impacts. A core focus of the Philippines National Tourism Development Strategy is environmental tourism, and this emphasis is likely to ensure sustainable protection of existing natural resources.

V. Strategic Context

The Philippines Country Partnership Strategy (CPS) for FY15-18 is fully aligned with the 2011-2016 Philippine Development Plan. The CPS goals are to promote inclusive growth, reduce poverty and support shared prosperity through five engagement areas: (i) transparent and accountable governance; (ii) empowerment of the poor and vulnerable; (iii) rapid, inclusive and sustained economic growth; (iv) climate change, environment, and disaster risk management; and (v) peace, institution building, and social and economic opportunity. This operation supports policy reforms under the first 3 engagements areas.

VI. Tentative financing

The IBRD loan, in an amount equivalent to US$300 million, will be disbursed in one tranche upon effectiveness.

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