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PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB7550

Operation Name	Third Philippines Development Policy Loan
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	March 30, 2014
Estimated Date of Appraisal	June 2, 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}*	Whether DPL 3 is the last in a DPL 1-3 program, or whether the series can/should be extended to a DPL 1-5 program.

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. Indeed, elite capture and corruption have proven highly corrosive not only to public service delivery, but more fundamentally to the overall political and economic performance of the Philippines. 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. 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 government continues to be committed on delivering on its priority reforms initiatives notably those focusing on boosting public and private investments, improving governance, and fighting corruption. At the same time, the government has taken actions to increase its fiscal space through both strengthen tax and customs administration, and the passages at the end of 2012 of an alcohol and tobacco tax reform (yielding an additional 0.3% of GDP in revenue per annum). 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 extreme poverty reduction and shared prosperity. Growth topped 6.6 percent in 2012, and continues 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. Unfortunately, this was not accompanied by significant gains in poverty reduction and employment creation. The most recent 2012 figures showed persistent poverty levels at 27.9 percent, a slight decline from the 28.6 percent recorded in 2009. 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 constrains a sustained and inclusive growth trajectory. A significant body of analytical work has identified the challenges for achieving a trajectory of inclusive growth in the Philippines. But reform implementation needs to focus on (i) meeting public infrastructure gaps, including to confront 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 notably 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 earthquakes and Typhoon Yolanda have underscored the extreme vulnerability of notably the Philippines poor to natural disasters.

II. Proposed Objective(s)

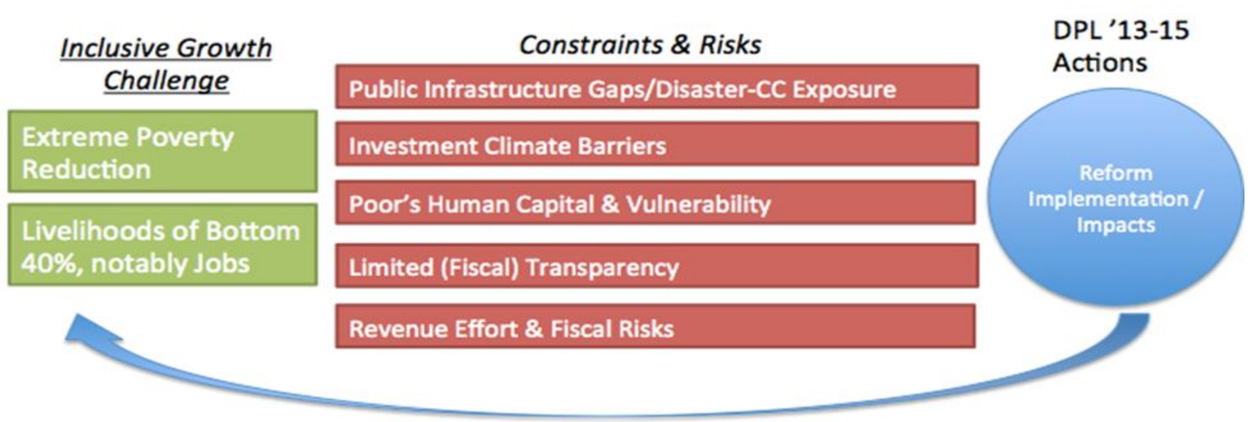
The program's development objective (PDO) is to support sustained and inclusive growth and job creation. The means to achieving this are through increasing physical and human capital investment; tackling regulatory barriers in land, labor, and capital markets; all in a context of ensuring fiscal sustainability and boosting fiscal governance 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 (iv) consolidating fiscal sustainability through revenue mobilization and risk management. The operation is the third among a series of [five] programmatic DPLs supporting government reforms through 2015.

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 prioritized and sequenced on annual tracks for the remainder of the Aquino administration through mid-2016. They focus on tackling the binding constraints for an inclusive growth trajectory. Notably they push 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 businesses costs. Through job creation and inclusive growth, these reforms promise to have significant impact on reducing extreme poverty and sharing prosperity of the bottom 40 percent of the Philippines population.

III. Preliminary Description

The program series has been aligned to supporting inclusive growth priorities through the end of the Aquino administration in 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 2013, the current proposed program both sees this initial phase through and serves to consolidate reforms with two additional annual operations.

Figure 1: Meeting the Inclusive Growth Challenge in the Philippines



Each of the five pillars targets a medium term results objective. Pillar 1 aims to double public infrastructure spending from the current 2.5 percent of GDP by 2016. A key emphasis of the pillar is to enhanced the prioritization of key infrastructure programs across the Philippines with a view of reducing extreme poverty and promoting shared prosperity, with a special emphasis on strengthening climate change and mutli-hazard resilience (including "build back better" after Yolanda. Pillar 2 seeks to strengthen private investment. Pillar 3 promotes the use of a national household targeting lists for strengthening human capital and reducing the vulnerability of the poof. Pillar 4 seeks to promote budget transparency and credibility. Pillar 5 promotes tax policy and administration, and measures to mitigate fiscal risks and promote fiscal consolidation, as measures by declining tax to GDP rations.

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 notably to the bottom 40% and the extreme poor notably from a geographic perspective, with particular benefits for rural areas. Analysis shows that the poor are particularly vulnerable to weather related shows, 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 stands large positive poverty and social impact. The actions using the NHTS-PR database target investments on notably the poorest parts of the population. Enhanced targeting for health and education, notably to promote secondary school completion among poor CCT beneficiary households is likely to a significant positive impact. 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 NHTS-PR also provides for a process for households that consider themselves eligible, including through point of service inscription for health, to avail of the proxy means test.

1. **The Sin Tax reform action benefitted from PSIA analysis both in the design and implementation phase.** An [on-going] PSIA of the Sin Tax reform suggests that while the tax incidence tobacco excises is slightly regressive, the commensurate health impacts and revenues used for health programs are progressive given the impact particularly the bottom 40 percent of the population. The design of the Sin Tax saw an earmarking of fund to promoting Universal Health Care (UHC), notably health insurance for the bottom 40% of the population. The Bank has supported the design of the Sin Taxes Implementing Rules and Regulations, including cessation programs that are particularly likely to benefit the poor. On-going TA is monitoring a providing for an Implementation Results Monitoring Framework, notably monitoring tobacco consumption among the poor and by gender.

Environment Aspects

Improvements in network public infrastructure are subject to environmental safeguards. All new road construction in the Philippines is subject to DNER environmental approvals. Moreover network investments relate almost exclusively to the upgrading to road segments, rather than to the opening of new "virgin" 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 moreover environmental tourism. This emphasis is likely to enhance sustainable protection of existing natural resources.

V. Tentative financing

The IBRD loan, in an amount equivalent to US$500 million, will be disbursed in one tranche upon effectiveness.

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