



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 21-Aug-2020 | Report No: PIDC29067



**BASIC INFORMATION**

**A. Basic Project Data**

Country Philippines	Project ID P170914	Project Name Second Philippines Promoting Competitiveness and Enhancing Resilience Development Policy Loan (P170914)	Parent Project ID (if any) P170052
Region EAST ASIA AND PACIFIC	Estimated Board Date Dec 15, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of the Philippines	Implementing Agency Department of Finance		

**Proposed Development Objective(s)**

The DPL series aim to support the Government of the Philippines in: i) promoting competitiveness and ii) enhancing resilience.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	600.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	600.00
World Bank Lending	600.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

**Despite its sound macroeconomic framework and strong reform program, the resilience of the Philippines is being tested by the COVID-19 pandemic.** Prior to the pandemic, the economy grew by an average of 6.3 percent per year in 2010-2019, as a result of strong macroeconomic fundamentals, favorable external conditions, and the cumulative effects



of structural reforms. This contributed to poverty reduction, with the poverty incidence falling from 26.6 percent in 2006 to 16.6 percent in 2018.<sup>1</sup> At the start of 2020, the economy was set to continue its strong growth momentum due to a sustained public investment expansion, a recovering external environment, and supportive conditions for domestic consumption. However, COVID-19 struck and cases began to increase in March, compelling the government to impose strict lockdown measures on March 16 while taking steps to build up health system capacity. The containment measures restricted movement of people, interrupted supply chains, and disrupted economic activity, resulting in income losses for firms and workers. As a result, the economy contracted by 0.7 percent, year-on-year, in the first quarter of 2020, and the contraction deepened to 16.5 percent in the second quarter, driven by contractions in private consumption and investment growth.

**This proposed Development Policy Loan (DPL) will support the government of the Philippines' recovery effort from the social and economic impact of the COVID-19 pandemic while advancing structural reforms on competitiveness and resilience.** A sustained and balanced economic recovery will put the government's medium-term ambition to boost inclusive growth, accelerate poverty reduction, and strengthen resilience, back on track. However, amid an unprecedented health and economic crisis, the government faces substantial financial need to sustain the implementation of its reform agenda, as domestic and global growth is expected to contract in the short-term, with increasing downside risks to a deeper recession in the medium-term. Nevertheless, the government is committed to staying the course of effectively implementing reforms while maintaining fiscal sustainability, with the financial and technical support from the World Bank and other development partners.

**While the government's immediate priority is to flatten the infection curve, promoting competitiveness while enhancing resilience to shocks will help to get the country back on its inclusive growth path.** The Philippines continues to experience a sustained increase in COVID-19 cases, undermining attempts to re-open the economy and resulting in expectations of more permanent income loss and closure of businesses. Beyond the socio-economic impact of the pandemic, the lack of market competition plays an important role in the Philippines' stubborn income inequality, which might be exacerbated during the current pandemic as small and medium enterprises (SMEs) are less resilient to shocks. In addition, the Philippines is the third most vulnerable country in the world to natural disasters and climate change which affect the poor the most.<sup>2</sup> Therefore, prioritizing reforms to promote competitiveness and enhancing resilience to shocks would be crucial to get the country back to the inclusive growth path.

#### Relationship to CPF

**The reforms supported by this DPL are fully aligned with the Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF).** The CPF covering 2019-2023 focuses on three development objectives: (i) job creation; (ii) improving human capital; and (iii) building resilience to conflict and natural disasters, which remain relevant in the current context. Cross-cutting themes include governance and digital transformation. This operation is fully aligned with the objectives of the CPF by supporting reforms towards improving business climate, promoting competitiveness, facilitating digitalization of the economy and government service provision, and strengthening financial inclusion, which are needed reforms to boost the quality of job creation. The DPL series also support reforms to enhance fiscal resilience through higher tax revenue collection effort. In addition, the DPL supports the government's efforts to strengthen disaster and climate risk management, directly aligned with the third objective of the CPF.

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<sup>1</sup> According to national poverty line reported by the Philippine Statistics Authority.



### C. Proposed Development Objective(s)

**The proposed DPL series supports the government on the areas of promoting competitiveness and enhancing resilience.**

The proposed operation is the second in a series of three operations designed to support critical policy and institutional reforms, and their implementation to achieve the government's development objectives by: (i) promoting competitiveness through lowering trade cost and ease of doing business, lowering entry barrier in telecom sector, liberalizing rice importation; and (ii) enhancing country's fiscal, social, and financial resilience to shocks through increasing revenue collection, strengthening resilience of payment systems, introducing a national ID, and institutionalizing disaster risk finance strategy.

#### Key Results

**The policy matrix of this operation has been updated to support government priority reforms that contribute to both economic recovery and structural reforms to achieve long term inclusive growth.** The COVID-19 pandemic has caused disruptions in government operations by diverting the attention from the implementation of some reforms supported by the DPL series to manage the urgent health crisis. However, the pandemic has also fast-tracked some structural reforms that would help SMEs and citizens to transition to the new normal, which will be supported by this operation. Therefore, the set of policy actions supported by the second and third operations of this series were adjusted to increase their responsiveness to the new reality. Pillars on promoting competitiveness and enhancing resilience will remain, which are crucial for rebuilding better and to help the country to return to its inclusive growth path. Key policy measures under the previous pillar of 'enhancing fiscal sustainability' (featured in series 1) were merged with the 'enhancing resilience' pillar in this DPL, as increased excise taxes fit well under the fiscal resilience of the pandemic response program. In addition, new policy measures for trade facilitation and digital infrastructure investment reforms were added (under 'promoting competitiveness' pillar). Trade integration and market linkages have been identified as key areas for promoting accelerated economic recovery<sup>3</sup> and building digital capabilities in the Philippines will enable adaptation to COVID resilient business models and firm-level innovation.

### D. Concept Description

**This operation supports key institutional and policy reforms that are being undertaken by the government as guided by PDP Plan 2017 - 2022 and the 0+10 point socioeconomic agenda, while recognizing important policies by the government to help the Philippines enhance its resilience and accelerate recovery amid the COVID-19 pandemic.** The DPL is structured around the following pillars and contains eight prior actions:

- **Pillar 1: Promoting competitiveness. PDO:** Promoting competitiveness through a set of cross-cutting reforms in areas of (i) agriculture and trade policy, (ii) ease of doing business, and (iii) promoting competition and investment in telecom. Prior actions are: (i) through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service, (ii) through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implemented Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032), (iii) through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve custom

<sup>3</sup> Economic transformation requires addressing different drivers of productivity, which include integration, reallocation and upgrading (JET presentation to the WBG board, June 2020), while keeping the economic fundamentals strong for a resilient recovery from a shock such as COVID-19.



management and reduce trade costs, and (iv) through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) and has initiated and made progress in updating the farmer registry system for basic sectors in agriculture (RSBSA) to implement the Rice Liberalization Act (RA No. 11203)..

- **Pillar 2: Enhancing resilience. PDO:** Enhancing fiscal sustainability through increasing revenue and strengthening fiscal resilience to natural disasters through improved risk management and enhanced response systems, while strengthening social resilience by improving social program delivery and improved access to digital payments. Prior actions are: (i) through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of UHC, (ii) as evidence by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited, and monitored, set of sites and target populations to prepare for mass registration, (iii) through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the Bangko Sentral ng Pilipinas has operationalized the regulatory framework for (a) defining the coverage of payment system operators and (b) defining the oversight framework and payment systems designations to implement NPSA (RA No. 11127), and (iv) as evidenced by GAA 2020, the Bureau of Treasury has pre-arranged the required funding the national indemnity insurance program to institutionalize the Disaster Risk Financing (DRF) strategy.

## E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The DPL supports actions that are expected to have largely positive effects on poverty and income distribution in the short term, and overall positive effects over the medium and long term.** Annex 4 summarizes the analysis carried out on the potential effects of the reforms supported under the operation. While some measures may have immediate negative impact on some portion of the population (i.e. rice farmers), the majority of actions are of an institutional nature and will be broadly neutral on poverty in the short term. In the long term, competition will help to create more and better jobs, benefitting the poor and vulnerable groups the most. Expanded mobile and broadband coverage will help to reduce digital divide and allow everyone to access to digital economy. Trade facilitation reforms are expected to improve country's competitiveness, lower trading costs are expected to benefit the SMEs the most as they are proportionally more affected than large firms. Reforms under the resilience pillar will improve service delivery through the use of a foundational ID and better national payment system which are expected to improve the welfare of the poor derived from improved accessibility and delivery of public services including the social protection programs. Reforms to increase revenue will allow new investment in physical and human capital, ultimately benefiting the entire population. Reform aimed at strengthening financial resilience to natural disasters and climate change are also expected to improve welfare of the poor in the long term as they are less resilient to natural disasters and will therefore benefit more from faster post-disaster financial response.

### Environmental, Forests, and Other Natural Resource Aspects

**The environmental impact of the reform actions supported by the DPL are estimated to be positive overall.** Ongoing World Bank operations and ASA are working with the government to address technical barriers to enable the adoption of risk informed approaches to development, including through the integration of climate change and disaster risk assessments in public investment projects and environmental risk and impact assessments. For example, the strengthening of the financial sector mechanisms for Climate and Environmental Risks has been incorporated in the



current Financial Sector Assessment Program (FSAP) 2019. Arrangement of dedicated funding for asset rehabilitation will support the provision of sufficient funding for reconstruction to ensure that public investment projects can be carried out more rapidly and to the required level of design as set out in government environmental impact assessment and disaster management system requirements.

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**APPROVAL**

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**Approved By**

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