



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-Apr-2020 | Report No: PIDA29394

**BASIC INFORMATION****A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Philippines	P174120	Philippines Emergency COVID-19 Response Development Policy Loan (P174120)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	20-May-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Department of Finance	Department of Finance		

Proposed Development Objective(s)

The Development objective is to (i) mitigate the impact of covid-19 on the poor and vulnerable households and (ii) provide financial relief to affected small and medium enterprises (SMEs).

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

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

B. Introduction and Context

Country Context

The proposed emergency development policy loan (DPL) is to support the Government of Philippines' efforts to protect



the poor and the most vulnerable households and firms from the immediate impacts of the coronavirus disease (COVID-19) outbreak. The proposed operation, in the amount of US\$500 million, is a stand-alone operation aimed at supporting critical policy and institutional measures taken by the government with the support of the Bank. The Development objective is to (i) mitigate the impact of COVID-19 on the poor and vulnerable households and (ii) provide financial relief to affected small and medium enterprises (SMEs). The proposed operation is consistent with the overall engagement of the World Bank in the Philippines, as laid out in the Country Partnership Framework approved by the Board on December 2019. Protecting households and firms from the immediate impacts of the outbreak is critical for a sustainable recovery. As such, this DPL will also help the policy directions embedded in the Promoting Competitiveness and Enhancing Resilience to Natural Disasters DPL which will provide the foundations for a sustainable recovery from COVID-19.

The overall macroeconomic policy framework is considered adequate for the proposed operation. The economy remains resilient to external and domestic shocks. The BSP is committed to its inflation-targeting objective and is responsive to global interest rate movements. The country has accumulated adequate foreign exchange reserves (7.7 months of imports and 29 times of 2020 external debt amortization) that provide cushion to the impact of global shocks. It has also maintained a market-determined exchange rate regime that acts as a first line of defense against external shocks. Moreover, conservative expenditure policy in the past ten years has created important fiscal space, allowing the current expansion of fiscal stimulus to protect the country against COVID-19. The notable improvement in overall macroeconomic stability has been recognized by all three main international rating agencies and even resulted in a sovereign credit rating upgrade to BBB+ from S&P. Fitch Ratings raised the outlook for the Philippines to “positive” from “stable” in February 2020, affirming its BBB credit rating, citing the country’s sound macroeconomic framework and the ongoing fiscal reform agenda. In addition, the continued pursuit of structural reforms such as improving competitiveness of the country, supported by the ongoing DPL series, will help to further improve the macroeconomic fundamentals and support more inclusive growth

Relationship to CPF

This emergency DPL is fully aligned with the priorities of the new Country Partnership Framework (CPF) for the period of 2019-2023. The new CPF has three development objectives: (i) job creation, (ii) improving human capital, and (iii) building resilience to conflict and natural disasters. Embedded across these focus areas are the cross-cutting themes of governance and digital transformation to tackle challenges and position the country to opportunities associated with implementation and service delivery. The program development objective (PDO) of the proposed DPL is consistent with and contributes to all the three objectives as well as the cross-cutting theme of digital transformation for faster and better service delivery. In particular, by protecting poor and vulnerable households, the policy actions under the first pillar contribute to maintaining human capital and nutrition, clearly under threat with the COVID-19 crisis. In addition, these policies aimed at mitigating the economic impact of COVID-19 to poor and vulnerable families and workers supports the third CPF development objective of building resilience to natural disasters, such as the present global health pandemic. In doing so, digital solutions are being implemented for faster, more transparent and accountable service delivery. Policies aimed at providing financial relief to affected SMEs also contribute to the development objective of job creation by protecting vulnerable firms from business disruptions caused by COVID-19, avoiding massive bankruptcies in the private sector which could result in millions of job losses.

C. Proposed Development Objective(s)

The Development objective is to (i) mitigate the impact of covid-19 on the poor and vulnerable households and (ii)



provide financial relief to affected small and medium enterprises (SMEs).

Key Results

The measures supported by this proposed emergency operation are expected to improve the welfare of the Filipino people by mitigating the adverse economic impact of the COVID-19 pandemic on both firms and vulnerable individuals.

The specific measures in the first pillar focuses on measures which provide income support to the poor and vulnerable Filipinos who face losses of jobs and income as a result of the disruption to business activity due to the COVID-19 pandemic. The measures supported by the second pillar are expected to alleviate the financial burden faced by SMEs by providing financial relief and facilitating access to credit. This emergency DPL will help the Government finance part of government emergency response to COVID-19, enabling the Government to address immediate health and economic threats from the virus. Protecting households and firms from the immediate impacts of the outbreak is critical for a sustainable recovery.

D. Project Description

The proposed emergency operation supports key policy and institutional measures under two pillars. The first pillar focuses on policy actions that (i) deepen the benefits under the existing 4Ps (i.e., topping up the monthly assistance given to the 4.4 million eligible households in the program); (ii) expand the reach of social assistance to affected households that are not part of the 4Ps (13.6 million households); and (iii) assist vulnerable overseas Filipino workers (OFWs). The second pillar supports policy actions aimed at (i) alleviating the financial burden faced by formal SMEs through a temporary 2-month wage subsidy; (ii) providing additional temporary financial relief to SMEs through deferrals of tax and social security payments; and (iii) supporting business continuity by facilitating access to credit through an SMEs credit guarantee scheme.

The proposed operation focuses on mitigating the immediate impacts of the COVID-19 pandemic and subsequent quarantines measures on the poor, the vulnerable households, and the affected firms. The measures to contain the infection such as travel restrictions and quarantines severely affect workers in the informal economy (i.e. tourism, transport, agriculture, retail, construction, etc.). Other vulnerable groups include those at greater risk from the disease itself (e.g. individuals with underlying health conditions and older people), health workers providing support for disease prevention and control, young people who face higher rates of unemployment and underemployment, and migrant workers who may be unable to travel back home or go back abroad to work. In the absence of support from the Government, these families could fall into deep poverty.

Small businesses have also been hit hard by the COVID-19 outbreak and are at risk of bankruptcy in the absence of public support. MSMEs represent 99.5 percent of firms in the country. Over the past several years of strong economic growth, they have provided jobs to about two-thirds of the nation's workers and have driven to a large extent the record-low 4.5 percent unemployment rate and the country's strong performance in poverty reductions. The Luzon-wide ECQ enforced to curtail the spread of COVID-19 as well as the separate local lockdowns imposed by subnational governments have severely disrupted economic activity nationwide and exposed the vulnerability of MSMEs. According to the rapid survey conducted by the Government, 77 percent of micro and small firms, and 62 percent of medium-sized firms had to close due to the ECQ, while MSMEs who remained open experienced an average sales drop of 66.5 percent. Without strong government intervention, temporary closures may end up becoming permanent as these firms run out of working capital to finance ongoing fixed costs and risk eventually defaulting on their debt. As such, Government's assistance to the MSMEs through its various COVID-19 response programs is crucial in preventing small business owners from closing and millions of small business workers from losing their jobs.



E. Implementation

Institutional and Implementation Arrangements

The DOF is the main liaison with the World Bank on budget support operations, including the proposed operation. However, policy dialogue and monitoring and evaluation of the program supported by this DPL are shared with DSWD, DOLE, BSP, BIR, SSS, and PhilGuarantee. The Government has designated the DOF International Finance Group as the Bank's main counterparts in the policy dialogue and monitoring of the operation. Indicators selected to monitor progress toward achievement of the PDO reflect defined areas of action and correspond to the expected outcomes of the prior actions. They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. The World Bank team is currently working with the Government in designing monitoring system to track the progress and effectiveness of the stimulus packages, social protection measures in particular.

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

Poverty and Social Impacts

The emergency DPL is expected to have a positive impact in containing the expansion of poverty in the short-term, by supporting the government mitigation measures and providing additional resources towards the Government's COVID-19 response plan. Around 18 million Filipino households who are either poor or in the informal sector are extremely vulnerable to income shocks due to a potential increase in health expenditures and the loss of incomes due to the impact of COVID-19 on the Philippine economy. These individuals typically have no sources of income during the ECQ, no social security, limited savings, no access to formal financing, and are highly at risk of falling deeper into poverty. In response, Php5,000 to Php8,000 in financial support will be provided to 18 million Filipino families during the ECQ, to be delivered through a top-up of the country's 4Ps benefits, unemployment benefits through the SSS, direct transfer to affected OFWs, and other cash and in-kind supports to poor and vulnerable families currently not covered in existing programs. These support measures will help cushion the impact on poverty, by ensuring basic needs of poor and vulnerable households will be met during the ECQ despite the income losses incurred. These will prevent an increase in post-COVID poverty, as estimates show a 3.3 percentage point increase in poverty, assuming no government intervention, while incomes of informal workers and entrepreneurial activities decline by 16.7 percent (i.e., 2 month-worth) due to disruptions brought about by the lockdown. In addition, this operation is also expected to contribute to poverty reduction and shared prosperity in the medium term by supporting government efforts to protect vulnerable firms during and after the lockdown.

Environmental, Forests, and Other Natural Resource Aspects

The measures supported under the proposed DPL are not likely to have significant effects on the environment, forests, or other natural resources. Measures under the first pillar aimed to mitigate the impact of COVID-19 on the poor and vulnerable households by expanding social protection program have a primarily administrative nature, therefore, policy actions under this pillar are unlikely to either exacerbate environmental problems or contribute to their remediation. Similarly, measures under the second pillar on providing financial relief to small and medium enterprises, are also unlikely to have an impact on the environment.



G. Risks and Mitigation

The overall program risk rating is substantial. Political economy and governance challenges, macroeconomic, and weak institutional and implementation capacity are the key risks rated substantial. While the macroeconomy remains strong in the medium term, a more severe and prolonged COVID-19 outbreak may further impact economic growth and poverty reduction. A much worse outbreak that leads to an extended ECQ may risk overwhelming the Government's institutional and fiscal capacity to roll out enough health and social protection for its citizens. Moreover, the current poor state of digital infrastructure in the Philippines, especially in the public sector risks slow implementation of both household and SME protection measures. Nevertheless, the long-standing relationship and close dialogue between the Bank and the Government helps to ensure policy consistency and ownership of the reform objectives. In addition, timely technical assistance provided by the Bank team could mitigate implementation risks due to capacity constraints. Similarly, the Bank's timely provision of financial support through various programs (this operation, DRM DPL, and emergency health project) will help to mitigate macroeconomic and implementation risks as it helps to finance the unexpected financing gap that emerged from the COVID-19 outbreak.

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APPROVAL

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Approved By

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