Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 12-Nov-2023| Report No: PIDC36782

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Philippines	P180336	Philippines Second Sustainable Recovery DPL (P180336)	P178634
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EAST ASIA AND PACIFIC	May 31, 2024	Macroeconomics, Trade and Investment	Development Policy Financing

Borrower(s)	Implementing Agency
Department of Finance	Climate Change Commission, Bureau of the Treasury, Department of Agriculture, Department of Trade and Industry, Department of Transportation, Bangko Sentral ng Pilipinas, Department of Energy, Anti-Red Tape Authority, Department of Labor and Employment, Government Procurement Policy Board, National Economic and Development Authority, Public-Private Partnership Center, Department of Environment and Natural Resources

Proposed Development Objective(s)

The DPL series aims to support the Government of the Philippines' reforms to: 1) accelerate the economic recovery and boost medium-term growth; and 2) protect the environment and improve climate resilience.

Financing (in US$, Millions)

SUMMARY

Total Financing	600.00

DETAILS

Total World Bank Group Financing	600.00
World Bank Lending	600.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Advancing transformational economic reforms is vital to accelerate the economic recovery and boost long-term

growth in the Philippines. The Philippines has been one of the most dynamic economies in the East Asia Pacific (EAP) region, with GNI per capita more than tripling and poverty incidence declining sharply over the past two decades. However, this was partially reversed by the COVID-19 pandemic, as growth contracted significantly in 2020. While the economy has rebounded in the years since, there remain considerable external and domestic risks that could hamper its recovery momentum. The Philippines also faces a complex range of structural challenges limiting its long-term growth potential. Among these challenges are (i) limited market competition in several key sectors; (ii) underinvestment in infrastructure, (iii) low foreign direct investment (FDI) resulting in part from regulatory restrictions, and (iv) low growth in the agriculture sector, in part due to the country's vulnerability to natural disasters and weakness of relevant institutions.

Climate change poses major risks to growth and development in the Philippines and will affect the country's ability to meet its development goals. The country is exposed to frequent natural disasters and the impacts of climate change, which could cause severe economic and fiscal shocks and threaten the country's socioeconomic development. All sectors will be affected, with capital-intensive sectors likely to suffer most from extreme events, and agriculture suffering the most from slow-onset trends. Adapting to the risks of climate change is thus critical for long-term development goals. Although the Philippines is a relatively low emitter of greenhouse gases (GHGs), emissions are expected to rise substantially over the next decade. The energy sector accounts for about half of total emissions, while agriculture is the second largest source, accounting for a quarter. Transport is the biggest fossil fuel-consuming sector – and the largest source of air pollution – with GHG emissions likely to quadruple by 2050 under current scenarios and policies. Plastic waste management is also a growing problem in the country, which is among the top five emitters of plastic waste in the ocean, causing marine pollution and flood risks in drainage infrastructure.

The macroeconomic policy framework is adequate for the proposed operation. The growth outlook is positive, anchored on domestic demand, a recovering services sector, and a public infrastructure investment agenda that will gain steam over the forecast horizon. The government's commitment to accelerate the pace of structural reforms as part of the recovery will further promote competitiveness and support growth. The financial sector remains stable and faces no material exposure to banking sector stress abroad, while asset quality continues to improve, even with the removal of most pandemic-related forbearance measures. The BSP has responded to rising inflation with monetary tightening, consistent with its inflation-targeting objective and responsive to global interest rate movements. It is expected to maintain a market-determined exchange rate regime as the first line of defense against external shocks. On fiscal policy, the authorities have publicly laid out its medium-term expenditure plan, reflecting a steadily declining share of expenditures to GDP, and is expected to gradually raise revenues through tax reforms. Public debt is sustainable owing to the expected growth recovery and fiscal consolidation.

The reforms supported by this proposed DPL series are being implemented at the beginning of a new administration, which took office in July 2022 and has emphasized economic policy continuity. The new administration is providing reform continuity through the implementation of recently approved laws. This applies to investment, plastics, and revenue reforms. Recognizing the fiscal constraints and the need for private sector involvement in infrastructure investment, it has committed to using PPPs and is implementing improvements to the PPP framework. The World Bank has worked with both administrations to keep these reforms on the agenda and to support their implementation.

Relationship to CPF

The reforms supported by the DPL series are well aligned with the *2019–2023 Country Partnership Framework* (CPF) for the Philippines and the WBG goals of ending extreme poverty and promoting shared prosperity on a livable planet. The reform actions in this proposed operation will contribute to the development objectives of the CPF; namely promote regulatory reforms to enhance competitiveness; improved efficiency of public service sectors in selected areas; improved income opportunities in agriculture; and increased resilience to natural disasters and climate change.

The DPL complements several ongoing and planned Development Policy Financing (DPF) and Advisory Services and Analytics (ASA) work programs in the country to achieve the CPF outcomes. It follows on the recently completed DPL series on *Promoting Competitiveness and Enhancing Resilience to Natural Disasters* aimed at advancing structural reforms on competitiveness and resilience. It also complements the *Financial Sector Reform DPL series*, which supports the effort to green the financial sector through the adoption of the Sustainable Finance Framework. It also complements the DPL on *Digital Transformation* towards strengthening long-term foundations for equitable growth. Several WBG's core diagnostics, including the *Philippines CCDR*, have informed the design of this DPL's reform areas. The DPL is also aligned with the *Philippines Country Gender Action Plan FY2020-2024* priorities, in particular addressing gender gaps in labor markets.

C. Proposed Development Objective(s)

The DPL series aims to support the Government of the Philippines' reforms to: 1) accelerate the economic recovery and boost medium-term growth; and 2) protect the environment and improve climate resilience.

Key Results

The DPL series is expected to achieve the following key results:

- Pillar 1: Increased private investment in sectors targeted by the reforms, including Public Service Sectors, the renewable energy sector, and infrastructure, an increase in the number of green jobs and increased investment in green sectors.
- Pillar 2: Increased recovery of plastic waste, increased share of electric vehicles, increased use of Green Public Procurement; and increased financial resilience of Philippine Crop Insurance Corporation (PCIC).

D. Concept Description

This programmatic DPL series is structured around two pillars corresponding to the development objectives. The proposed operation is the second in a programmatic series of two operations. The pillars are comprised as follows:

- Pillar 1: Accelerate the economic recovery and boost long-term growth by supporting reforms to increase investment and productivity in public service sectors, especially domestic shipping, attract private investment in public infrastructure, increase share of RE in the energy mix, and create more green jobs and direct more investment to green activities and services.
- Pillar 2: Protect the environment and improve climate resilience through reforms to enhance plastic waste reduction, recovery, and recycling, promote green transport, encourage more production and consumption of green goods and services through public procurement, and protect the budget and farmers from climate-related contingent liabilities.

The reforms supported by this DPL series are well aligned with the forthcoming 2023 – 2028 PDP and AmBisyon Natin 2040. In particular, the reforms are well aligned with the objectives to protect the purchasing power of families through reduced energy costs; to create more jobs through promoting investment, improving infrastructure, and achieving energy security; to create green jobs through pursuing a green and blue economy. It is also aligned to government energy, investment and environment programs.

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

Poverty and Social Impacts

The reforms supported by the second operation of the DPL series are generally expected to have a positive impact on poverty and inequality reduction. The reforms will affect the income distribution through two main channels: first, changes in prices in goods and services will affect household incomes, and second, transformations in the labor market will affect workers—both via transitory churning and via structural change in the long run. Some of the proposed prior actions may have an adverse short-term impact on poverty and thus complementary interventions will be needed to ensure that the long-term welfare gains, especially in lower income households, are attained.

Environmental, Forests, and Other Natural Resource Aspects

A preliminary assessment suggests that the proposed DPL is unlikely to cause significant adverse effects on the environment, forests, or other natural resources. The government's existing policy framework provides an adequate system to address these adverse environmental effects especially through the environmental impact assessment process.

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APPROVAL

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