



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 18-Apr-2019 | Report No: PIDC26815



BASIC INFORMATION

A. Basic Project Data

Country Philippines	Project ID P170052	Project Name Promoting Competitiveness and Enhancing Resilience to Natural Disasters DPL (P170052)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Nov 15, 2019	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; ii) enhancing fiscal sustainability; and iii) improving resilience to natural disasters.

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
------------------------	--------

DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. The Philippine government has established a track-record of prudent macroeconomic management and structural reforms which led to strong economic growth and solid fiscal and external balances. Thanks to strong macroeconomic fundamentals, favorable external conditions, and the cumulative effects of structural reforms, the Philippines is experiencing rapid economic growth. Since 2010, the Philippines registered its strongest and longest spout



of growth acceleration, becoming one of the best growth performers in the region: growth averaged 6.3 percent in 2010-18, second only to China, among large economies in the East Asia and Pacific region. This robust growth reflects the country's continuing efforts to strengthen macroeconomic fundamentals, favorable external conditions, and the cumulative effects of structural reforms. The rapid growth contributed to poverty reduction, with poverty incidence falling from 26.6 percent in 2006 to 21.6 percent in 2015.¹ During the same period, growth has also been pro-poor since income growth of households in the bottom 40 percent of the population increased by 2.9 percent compared to the average per capita income, which only rose by 1.6 percent.²

2. Despite this remarkable progress, more needs to be done to improve the inclusiveness of growth and enhance resilience to natural disaster. Income inequality, although declining,³ remains stubbornly high in the Philippines, one of the highest in the region. This is because despite the rapid economic growth, average real wage has been stagnant since 2000. Real wage stagnation has been found to be partly driven by lack of market competition. Cumbersome regulations that are not conducive for creating a vibrant business environment, regulations that favor incumbents in many sectors, and restrictions to foreign direct investment, all limit market competition.⁴ The country's economic prospects are also constrained by risks from natural disasters. The Philippines is the fourth most at-risk country in the world in terms of climate-related natural disasters, and they tend to affect the poor more as they are less resilient. Physical and financial preparedness as well as mitigation measures are currently weak in the Philippines, thus the need to take appropriate policy measures while securing the fiscal sustainability of the country. This calls for continued efforts in revenue mobilization and expenditure rationalization as the Government continues to boost public investment in physical and human capital.

Relationship to CPF

3. The reforms supported by this DPL are fully aligned with the ongoing Systematic Country Diagnosis (SCD) and Country Partnership Framework (CPF). The new CPF under preparation is tentatively structured around three development objectives: (i) Job creation, (ii) Improving human capital, and (iii) Building resilience to conflict and natural disasters. Governance will be a cross-cutting theme. The DPL program is fully aligned with objectives of the CPF. The DPL supports reforms towards improving business climate, promoting competition, and strengthening financial inclusion, which are long standing reforms to boost quality of job creation. Likewise, the DPL supports reforms to enhance fiscal sustainability while expanding investment in human capital. Finally, the DPL supports the support government's efforts to strengthen disaster risk management which is directly aligned with the resilience pillar of the new CPF.

C. Proposed Development Objective(s)

4. The proposed DPL series aim to support the Government of the Philippines in: i) promoting competitiveness; ii) enhancing fiscal sustainability; and iii) improving resilience to natural disasters. In particular, the promoting competitiveness pillar of the DPL series supports the Government in: (a) ensuring food security and stable prices by liberalizing the importation of rice; (b) simplifying ease of doing business by streamlining government procedures; (c) improving service delivery and increasing financial inclusion through the creation of a single official ID; and (d) attracting more FDI in key backbone services by removing regulatory constraints. The second pillar supports the Government's effort in enhancing fiscal sustainability by: (a) improving budget planning and financial

¹ According to Philippine Statistical Authority official data.

² World Bank (2018)

³ The GINI coefficient declined from 48.2 percent in 2000 to 44.4 percent in 2015, based on official government data.

⁴ World Bank (2018a), World Bank (2018b), Qian and Cruz (2019)



management; (b) increasing revenue mobilization; and (c) improving the efficiency of government-owned and controlled corporations (GOCCs). Finally, the third pillar of the DPL supports the strengthening of financial resilience to natural disasters through: (a) reducing contingent liabilities by creating a public asset registry; (b) increasing efficiency on post disaster response by expanding government's risk layering strategy; and (c) ensuring a sustainable disaster risk insurance market by improving regulatory capacity of the Insurance Commission (IC). The Government's reforms in the areas of competitiveness and resilience to natural disasters are fundamental as they address areas that have been identified as bottlenecks in increasing shared prosperity while fiscal management is needed to ensure reform continuity and sustain high inclusive growth.

Key Results

5. The wide cross-section of reforms aimed at improving competitiveness in the Philippines is expected to improve welfare of the Filipino people through a variety of channels. The specific measures supported by the DPL in the prior action on improving competitiveness is expected to lower rice prices, increase agriculture productivity in the medium to long term, simplify regulations and reduce the cost of doing business in the Philippines, increase foreign investments in key services sectors, improve access to public services and economic opportunities, and promote financial inclusion by providing a reliable and accessible payment system for greater use of digital payments. These reforms support the government's overall inclusive growth agenda directly through lower prices of basic commodities, improved service delivery, broader financial inclusion, and increased job creation.

6. Reforms on the fiscal side are aimed at both raising additional tax revenue to support the government's inclusive growth agenda while the strengthening of the budget planning, management, and monitoring system is expected to ensure that the additional revenue raised by the tax reforms will be used more effectively and transparently. The specific measures supported by the DPL in the prior action on tax policy are expected lead to higher tax revenue collection from the implementation of a fuel marking program which will generate additional revenues through improved tax administration. These reforms would increase the needed fiscal space for higher investment in physical and human capital that would ultimately help achieve more inclusive growth. Prior actions related to improvements in public financial management are expected to improve government budget planning, budget monitoring, cash management, and budget execution, resulting in more efficient and effective government programs and services. Another expected result here is that the 2019 and subsequent budgets for central government are prepared and approved based on one-year cash appropriations as opposed on the basis of expenditure obligations. This will require better planning and improved efficiency in the execution of procurement plans because payable by the end of the budget year will lapse. Better budget management and reporting would help target spending to achieve the government's goal of more inclusive growth.

7. Finally, prior actions that strengthen the management of fiscal risks in relation to the impact of natural disasters on public assets will result in better disaster risk financing, including the establishment of key institutions and risk insurance instruments. The specific measures supported by the DPL in this pillar is expected to improve public asset management to reduce contingent fiscal risks toward natural disasters, reduce the cost and shorten response time post-disasters, and increase private insurance coverage against disasters reducing public contingent liabilities. Building higher financial resilience to shocks would protect the national fiscal balance, support local governments, and protect the most vulnerable against falling back into poverty, in line with the government's objective of more inclusive growth.



D. Concept Description

8. 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. The DPL is structured around the following three pillars and contains 11 prior actions:

- **Pillar 1: Promoting competitiveness. Objective:** *Promoting competitiveness through a set of cross-cutting reforms in areas of (i) agriculture and trade policy, (ii) ease of doing business, and (iii) social and financial inclusion.* Prior actions are: (i) the government liberalized the rice sector by shifting from quantitative restriction to a tariff system to ensure food security and lower rice prices, (ii) the government has enhanced the regulatory framework to simplify ease of doing business, (iii) the government has removed constraints to attracting FDI in key public services by amending the Public Services Act, (iv) the government has created the legal and regulatory framework to create a single national ID for all citizens and resident aliens to improve service delivery, financial inclusion, and ease of doing business, and (v) the government has strengthened the institutional framework to ensure stability and effectiveness of the financial and monetary system through granting BSP explicit authority and powers to oversee the payment system.
- **Pillar 2: Enhancing fiscal sustainability. Objective:** *Enhancing fiscal sustainability through increasing revenue and improving budget planning and execution.* Prior actions are: (i) the government has strengthened national budget planning and management on a cash basis, (ii) the government has deployed an integrated financial management system for national government, and (iii) the creation of a task force for the implementation of the fuel marking program.
- **Pillar 3: Strengthening financial and physical resilience to natural disasters. Objective:** *Reducing contingent fiscal risks toward natural disasters and optimize the cost and timing of post-disaster response.* The prior actions are: (i) the government has strengthened the public asset risk financing policy and launched a comprehensive asset management reform, (ii) the government has expanded and enacted its risk layering strategy through preparing and enacting a combination of financial instruments, (iii) the government has strengthened regulation capacity to ensure a sustainable insurance market and increase private insurance coverage for natural disasters.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. Government actions supported in this DPL are expected to have positive poverty and social impacts. The analysis carried out on the potential impacts of the reforms supported under this operation suggests a positive impact on poverty and social development indicators. Measures under the promoting competitiveness such as the rice tariffication and national ID are expected to improve the welfare of the poor as they are expected to lower the price of rice, and improve public service delivery including the social protection programs. Other reforms under the fiscal sustainability pillar will improve government spending efficiency and increase revenue collection to finance new investment in physical and human capital, ultimately benefiting all population. Actions under resilience to disaster risks are also expected to improve welfare of the poor as they are less resilient to natural disasters, therefore faster physical and financial response post disasters are expected to benefit the poor more.

Environmental Impacts



10. The environmental impact of the reform actions supported by the DPL are estimated to be positive overall. The DPL operation’s proposed prior actions to improve the risk management of public assets, especially by increasing the availability of data and funds for quick asset reconstruction helps institutionalize a well-planned rehabilitation process following disasters. 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 assessments. Improved public asset information supported under this operation will feed into ongoing work to enable more risk informed development planning by the government. Arrangement of dedicated funding for asset rehabilitation will provide 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 requirements.

CONTACT POINT

World Bank

Rong Qian
Senior Economist

Borrower/Client/Recipient

Republic of the Philippines
Carlos Dominguez
Secretary, Department of Finance
cdominguez@dof.gov.ph

Implementing Agencies

Department of Finance
Mark Dennis Joven
Undersecretary
mdjoven@dof.gov.ph

Rommel Herrera
Director
rherrera@dof.gov.ph



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Rong Qian
----------------------	-----------

Approved By

Country Director:	Mara K. Warwick	21-Apr-2019
-------------------	-----------------	-------------