Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Oct-2019 | Report No: PIDA27338
The World Bank
Promoting Competitiveness and Enhancing Resilience to Natural Disasters DPL (P170052)

BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Philippines</td>
<td>P170052</td>
<td>Promoting Competitiveness and Enhancing Resilience to Natural Disasters</td>
<td>Programmatic DPL Subprogram1 (P170052)</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<td>EAST ASIA AND PACIFIC</td>
<td>17-Dec-2019</td>
<td>Macroeconomics, Trade and Investment</td>
<td>Development Policy Financing</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Republic of the Philippines</td>
<td>Department of Finance</td>
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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) strengthening financial resilience to natural disasters and climate change.

Financing (in US$, Millions)

**SUMMARY**

| Total Financing | 400.00 |

**DETAILS**

<table>
<thead>
<tr>
<th>Total World Bank Group Financing</th>
<th>400.00</th>
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<tbody>
<tr>
<td>World Bank Lending</td>
<td>400.00</td>
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Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

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. Since 2010, the Philippines registered its strongest and longest stretch 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. 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.

Despite this remarkable progress, more needs to be done to improve the inclusiveness of growth and enhance resilience to natural disasters. Income inequality, although declining, 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, 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, restrictions to foreign direct investment, and limited digital economy and digital government development, all limit market competition. Moreover, continued efforts in revenue mobilization and expenditure rationalization are crucial as the Government continues to boost public investment in physical and human capital.

Due to its geographical location, the Philippine archipelago is at high risk to a range of natural disasters, which will worsen with climate change. The Philippines has been identified as the third most vulnerable country in the world to weather-related extreme events and sea level rise. Main hazards in the Philippines include typhoons, floods, earthquakes, and volcano eruptions. Typhoon Yolanda (Haiyan), which was the strongest typhoon ever recorded, hit the Philippines in 2013 and reportedly cost about Php571.1 billion in total damage (US$ 12.9 billion) and had a devastating impact on public infrastructure, including roads, hospitals and school buildings. Climate shocks and disasters affect the poor more as they are less resilient. Physical and financial preparedness as well as mitigation measures are currently weak in the Philippines, hence the need to take appropriate policy measures while securing the fiscal sustainability of the country.

Relationship to CPF

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 focus areas: (i) investing in Filipinos, to strengthen human capital development and expand access to building blocks for a healthy and productive life; (ii) competitiveness and economic opportunity, towards unlocking constraints and expanding opportunities for job creation, livelihoods and private sector development; and (iii) promoting peace and building resilience, to address the country’s core vulnerabilities associated with conflict and natural hazards. Embedded across the 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 DPL program is fully aligned with 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 long standing reforms to improve the Philippines’ competitiveness and boost the quality of job creation. Likewise, the DPL supports reforms to enhance fiscal sustainability while expanding investment in human capital. In addition, the DPL supports the government’s efforts to strengthen disaster and climate risk management which is directly aligned with the resilience pillar of the new CPF.

C. Proposed Development Objective(s)

The proposed DPL series supports the Government on the areas of competitiveness, fiscal management, and
financial resilience to natural disasters and climate change. Government reforms in the areas of competitiveness and financial resilience to natural disasters and climate change are fundamental as they address areas that have been identified as bottlenecks to increasing shared prosperity, while fiscal management is needed to ensure reform continuity. In particular, pillar 1 supports the government in a) ensuring food security and stable prices by liberalizing the importation of rice; b) simplifying ease of doing business (EODB) by streamlining government procedures; and c) increasing access to economic opportunities through the creation of a foundational ID and better payment systems. Pillar 2 supports the government’s effort in enhancing fiscal sustainability by a) improving budget planning and financial management; b) increasing revenue mobilization; and c) reducing fiscal risks of government-owned and controlled corporations (GOCCs). Finally, pillar 3 supports the strengthening of financial resilience to natural disasters and climate change through a) reducing contingent liabilities by creating and managing a public asset registry; b) increasing the efficiency of post-disaster financing by expanding the government’s risk layering strategy; and c) enhancing regulation for private insurance market against natural disasters.

Key Results

The wide cross-section of reforms aimed at promoting 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 promoting competitiveness is expected to reduce the gap between domestic and international rice prices and boost overall agriculture productivity, reduce the cost in terms of number of days and number of procedures to start a business, improve access to public services and economic opportunities through a foundational ID system, 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.

Reforms on enhancing fiscal sustainability are aimed at both raising additional tax revenue to support the government’s inclusive growth agenda and strengthening of the budget planning, management, and monitoring system. The specific measures supported by the DPL in the prior action on tax policy are expected lead to higher tax revenue collection from the passage of the Sin Tax Reform Law, the simplification of the corporate tax system, and the minimization of contingent liabilities of GOCCs. 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 strengthen national budget planning and management on a cash basis and establish a fully integrated and comprehensive financial management system, resulting in improved budget execution and real time monitoring and planning of the government financial position. Better budget management and reporting would help target spending to achieve the government’s goal of more inclusive growth.

Finally, prior actions that strengthen financial resilience to natural disasters and climate change will result in better public asset management, a more sustainable insurance and reinsurance market, and faster and more cost-efficient disaster risk financing. The specific measures supported by the DPL in this pillar is expected to increase the share of public assets included in the asset registry, increase the compliance of private companies with new reinsurance and catastrophe/property insurance reporting requirements, and increase pre-arranged funds for disaster response. 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. Project 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. The DPL is structured around the following three pillars and contains 10 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) social and financial inclusion. Prior actions are: (i) through the Rice Liberalization Act (RA No. 11203) and Implementing Rules and Regulations, the government has liberalized the rice import market by shifting a quantitative restriction system to a transparent tariff system, (ii) through the Ease of Doing Business and Efficient Government Service Delivery Act and Implementing Rules and Regulations, the government has defined a policy framework to simplify ease of doing business (EODB), (iii) through the Identification System Act and Implementing Rule and Regulations, the government has created the legal and regulatory framework for a foundational ID system that aims to improve service delivery and financial inclusion for citizens and resident aliens, and (iv) through the National Payment System Act, the government has established the institutional legal framework with the objective of promoting the safety and efficiency of payment systems and provided the BSP with explicit authority and powers to oversee the payment system.

- **Pillar 2: Enhancing fiscal sustainability. PDO:** Enhancing fiscal sustainability through increasing revenue and improving budget planning and execution. Prior actions are: (i) through circular 2019-4, the government has mandated all national government agencies to adopt BTMS for transactions above Php1 million, and (ii) through RA 11346, the government has increased excise taxes on tobacco and increased penalties for illicit trade, effective January 1, 2020.

- **Pillar 3: Strengthening financial resilience to natural disasters and climate change. PDO:** Reducing contingent fiscal risks toward natural disasters and optimize the cost and timing of post-disaster response. The prior actions are: (i) through a referendum (DBCC resolution No 2019-4), the government has established a standing body to formulate and recommend public asset management policies, (ii) through circular 2018-57 and 2017-56, the government has strengthened regulatory and supervisory capacity of the Insurance Commission to ensure a sustainable insurance and reinsurance market, and (iii) the government has implemented its risk layering strategy by setting up a combination of financial instruments to cost-efficiently meet funding needs of disasters of different frequencies and severities.

E. Implementation

Institutional and Implementation Arrangements

The Department of Finance (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 Department of Budget Management, as well as the Bureau of Treasury (which is an attached agency of the DOF), National Economic and Development Authority, Philippine Statistics Authority, Bangko Sentral ng Pilipinas, Anti-Red Tape Authority, Department of Trade and Industry, and Department of Agriculture. The government has designated the DOF International Finance Group as the Bank’s main counterparts in the policy dialogue and monitoring of the operation. The key results indicators are prepared taking into consideration the country’s statistical system,
administrative data collection, and World Bank Group monitoring.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

**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 pillar such as the rice liberalization, establishment of the foundational ID system, and enhancements in the national payment system are expected to improve the welfare of the poor as they are expected to lower the price of rice and improve the accessibility and delivery of public services including the social protection programs. Other reforms under the enhancing fiscal sustainability pillar will improve government spending efficiency and increase revenue collection to finance new investment in physical and human capital, ultimately benefiting the entire population. Actions under the strengthening financial resilience to natural disasters and climate change pillar are also expected to improve welfare of the poor as they are less resilient to natural disasters and will therefore benefit more from faster post-disaster financial response.

In particular, rice import liberalization is expected to benefit the poor directly, although some farmers might be negatively affected in the short term. By liberalizing the importation of rice, it is expected that price of rice will decline, benefiting everyone in the country, especially the poor. However, rice is one of the main agriculture products of farmers. As the price of rice declines, rice producers (palay and farm workers and rice millers) who derive their income from rice sales will be negatively affected. However, mitigation measures are being designed. For instance, the rice liberalization act states that the RCEF will be set up to assist the farmers during the transition period by providing them machinery and equipment, credit assistance, extension services, and seed development programs, to help rice farmers to become more productive and competitive. In the long run, as more farmers move to higher value-added crops, their income will increase, further contributing to poverty reduction.

Environmental 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 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 enough 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.

G. Risks and Mitigation

**The overall risk rating of this DPL operation is substantial.** Substantial risks are derived from political economy and governance challenges, and weak institutional and implementation capacity, which if materialize could adversely impact the government’s willingness and ability to implement reforms, thereby delaying or preventing the achievement of the Program Development Objectives (PDOs). To mitigate these risks, the DPL builds on a strong dialogue with the government’s economic team and implementing agencies to ensure policy consistency and ownership of the reforms. In
addition, the new CPF envisions to provide technical assistance (TA) to support the government’s implementation of the reforms.

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<table>
<thead>
<tr>
<th>APPROVAL</th>
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<tbody>
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<td>Task Team Leader(s):</td>
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