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ADB

Country Partnership Strategy

August 2018

Philippines, 2018–2023 —High and Inclusive Growth

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 July 2018)

Currency unit	–	peso (₱)
₱1.00	=	\$0.01884
\$1.00	=	₱53.09000

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BBB	–	Build, Build, Build
CCM	–	climate change management
CPS	–	country partnership strategy
DRM	–	disaster risk management
GDP	–	gross domestic product
LGU	–	local government unit
NEDA	–	National Economic and Development Authority
NEET	–	not in employment, education, or training
ODA	–	official development assistance
PCC	–	Philippine Competition Commission
PDP	–	Philippine development plan
PPP	–	public–private partnership
PSA	–	Philippine Statistics Authority
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

Vice-President	Stephen Groff, Operations 2
Director General	Ramesh Subramaniam, Southeast Asia Department (SERD)
Director	Kelly Bird, Philippines Country Office, SERD
Team leader	Joven Balbosa, Principal Country Specialist, SERD
Team members	Oscar Badiola, Programs Officer, SERD
	Alely Bernardo, Financing Partnerships Specialist, SERD
	Robert Booth, Public Management Specialist, SERD
	Alix Burrell, Principal Investment Specialist, Private Sector Operations Department
	Aekapol Chongvilaivan, Country Economist, SERD
	Shannon Cowlin, Energy Specialist, SERD
	Thuy Trang Dang, Water Resources Specialist, SERD
	Rikard Elfving, Senior Financial Partnerships Specialist, Office of Cofinancing Operations
	Pratish Halady, Principal Public–Private Partnership Specialist, Office of Public–Private Partnership
	Sameer Kamal, Urban Development Specialist, SERD
	Shuji Kimura, Transport Specialist, SERD
	Gary Krishnan, Country Specialist, SERD
	Laurence Levaque, Social Development Specialist (Gender and Development), SERD
	Thierry Liabastre, Senior Natural Resources and Agriculture Specialist, SERD
	Cristina Lozano, Senior Trade Specialist, SERD
	Teresa Mendoza, Economics Officer, SERD
	Jeffrey Miller, Principal Transport Specialist, SERD
	Lynette Perez, Senior Education Specialist, SERD
	Hanif Rahemtulla, Senior Public Management Specialist, Sustainable Development and Climate Change Department
	Markus Roesner, Principal Transport Specialist, SERD
	Jason Rush, Principal Operations Communication Specialist, SERD
	Azusa Sato, Health Specialist, SERD
	Karin Schelzig, Principal Social Sector Specialist, SERD
	Stephen Schuster, Principal Financial Sector Specialist, SERD
	Gerard Servais, Senior Health Specialist, SERD
	Marie-Helene Sibille, Urban Development Specialist, SERD
	Witoon Tawisook, Principal Transport Specialist, SERD
	Takeshi Ueda, Principal Natural Resources and Agriculture Specialist, SERD
	Adrien Veron-Okamoto, Transport Specialist, SERD
	Dulce Zara, Senior Regional Cooperation Officer, SERD
Peer reviewers	Edimon Ginting, Director, Economic Research and Regional Cooperation Department (ERCD)
	Rana Hasan, Director, ERCD

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COUNTRY AT A GLANCE

Economic	2013	2014	2015	2016	2017
2017 GDP (\$ billion, current)	271.8	284.6	292.8	304.9	313.6
GDP per capita (\$, current)	2,760.3	2,842.9	2,878.3	2,950.9	2,989.0
GDP growth (% , in constant prices)	7.1	6.1	6.1	6.9	6.7
Agriculture	1.1	1.7	0.1	(1.2)	4.0
Industry	9.2	7.8	6.4	8.0	7.2
Services	7.0	6.0	6.9	7.5	6.8
Gross domestic investment (% of GDP)	20.0	20.6	21.2	24.4	25.1
Gross domestic saving (% of GDP)	15.8	16.9	15.3	15.1	15.2
Consumer price index (annual % change)	2.6	3.6	0.7	1.3	2.9
Liquidity (M2) (annual % change)	33.5	10.5	9.1	13.3	11.6
Overall fiscal surplus (deficit) (% of GDP)	(1.4)	(0.6)	(0.9)	(2.4)	(2.2)
Merchandise trade balance (% of GDP)	(6.5)	(6.1)	(8.0)	(11.7)	(13.1)
Current account balance (% of GDP)	4.2	3.8	2.5	(0.4)	(0.8)
External debt service (% of exports of goods and services)	8.2	6.3	5.6	7.0	6.2
External debt (% of GDP)	28.9	27.3	26.5	24.5	23.3
Poverty and Social	2011	2015			
Population (million)	94.2	104.9 [2017]			
Population growth (annual % change)	1.7	1.6 [2017]			
Maternal mortality ratio (per 100,000 live births)	221.0	114.0			
Infant mortality rate (below 1 year/per 1,000 live births)	22.0	21.0 [2017]			
Life expectancy at birth (years)	67.8	68.3			
Adult literacy (%)	92.6 [2000]	96.3			
Primary school gross enrollment (%)	108.1 [2009]	113.0			
Child malnutrition (% below 5 years old)	20.2	21.5			
Population below poverty line (%)	25.2 [2012]	21.6			
Population with access to safe water (%)	84.8 [2010]	82.8			
Population with access to sanitation (%)	92.5 [2010]	93.7			
Environment	2013				
Carbon dioxide emissions (million metric tons)	103.9 [2015]				
Carbon dioxide emissions per capita (tons)	1.0				
Forest area (million hectares)	15.8 [2014]				
Urban population (% of total population)	44.3 [2016]				
ADB Portfolio (active loans and grants)^a					As of 17 August 2018
Total number of loans and grants					
Sovereign					13
Nonsovereign ^b					5
Total loan and grant amount (\$ million) ^c					
Sovereign					2,710.6
Nonsovereign					253.7^d
Disbursements					
Disbursed amount (\$ million)					1,412.1
Disbursement ratio (%)					52.1

() = negative, [] = latest year for which data are available, ADB = Asian Development Bank, GDP = gross domestic product, M2 = broad money.

^a Covers financing for projects and programs, including policy-based lending.

^b Includes loans, equity, and guarantees.

^c Net of droppages and cancellation.

^d Data as of 30 June 2018.

Sources: ADB estimates; ADB. 2017. *Key Indicators for Asia and the Pacific 2017*. Manila; ADB. 2018. *Basic 2018 Statistics*. Manila; UNDP. 2016. *Human Development Report 2016: Human Development for Everyone*. New York; Philippine Statistics Authority; Bangko Sentral ng Pilipinas; and World Bank. [World Development Indicators](#) (accessed 1 June 2018).

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** The Philippines is among the fastest growing economies in Southeast Asia and is on track to achieving its target of becoming an upper middle-income country by 2022. However, while national poverty incidence fell from 25.2% of the population in 2012 to 21.6% in 2015, the poverty rate translated to almost 22 million poor people and is still high for a middle-income country. Further, household income inequality in the Philippines is among the highest in Southeast Asia. Wide income disparities across the country's regions indicate that the benefits of economic growth have been distributed unevenly.

2. To sustain high growth and make it more inclusive, the Philippines needs to increase investments in climate-resilient infrastructure significantly to improve connections between regions, communities, and people, and to raise competitiveness. Investments in urban development are needed to address infrastructure deficits in large cities because of rapid population growth and urbanization. A greater focus on local economic growth and development in Mindanao and the Visayas is necessary to address wide income disparities across regions. This will require further structural transformation of local economies, facilitated by strong local institutions that effectively transform competitive business environment, foster innovation, and deliver public services. Creating innovative approaches to disaster risk finance and insurance to protect local public assets is integral to supporting local economic development. Increasing social investments in the bottom half of the population will make growth more inclusive. Key policy areas include education, labor market activation programs, access to health services and quality childcare, financial inclusion, and social protection.¹

3. **ADB strategic objectives and priorities.** To address these challenges, the country partnership strategy (CPS), 2018–2023 of the Asian Development Bank (ADB) for the Philippines will support policy reforms, institutional capacity development, and financing investments that promote high and inclusive growth. ADB operations in the Philippines rest on three strategic pillars: (i) accelerating infrastructure and long-term investments, (ii) promoting local economic development, and (iii) investing in people. The CPS lays out a program of priority activities to support each of these pillars and promotes rebalancing ADB financing toward infrastructure projects in support of the government's Build, Build, Build (BBB) infrastructure program.² ADB will seek to strengthen the links between sovereign and nonsovereign programs to promote innovative approaches to long-term financing for infrastructure, social investments, and disaster risk management (DRM). The CPS mainstreamed gender equality, private sector development, governance, and environmentally sustainable development throughout the three strategic pillars. ADB will carry out pilot initiatives to support the government and the private sector in dealing with the potential impacts of the fourth industrial revolution—the advance of robotics and artificial intelligence—on the future of work.³ It will work toward identifying initiatives to enhance regional integration and knowledge generation and sharing. ADB designed the CPS to align closely with the seven priorities of Strategy 2030.⁴

4. **Alignment with government development plan.** The CPS priorities align with AmBisyon Natin 2040, the government's long-term development plan; and the medium-term Philippine

¹ Inclusive and Sustainable Growth Assessment (accessible from the list of linked documents in Appendix 3).

² [Build, Build, Build Philippine Infrastructure Transparency Portal](#); and Government of the Philippines, Department of Finance (DOF). 2018. "[Build, Build, Build](#)" to roll out 75 projects worth \$35.5B. News release. 23 January.

³ The Fourth Industrial Revolution refers to the fourth major industrial period since the first Industrial Revolution of the 18th century. This latest industrial revolution is expected to see the adoption of robotics and artificial intelligence by industry and services with potential disruptive effects to the labor market.

⁴ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

development plan (PDP), 2017–2022.⁵ Under the PDP, the government has targeted real gross domestic product (GDP) growth of 7%–8% per year, with GDP per capita increasing from \$3,550 in 2015 to \$5,000 by 2022.⁶ To sustain this growth, infrastructure spending is targeted to increase to 7.4% of GDP by 2022, up from 4.5% in 2016. The PDP targets national poverty incidence at 14.0% of the population by 2022.

5. **ADB value addition.** To increase ADB’s impact, the CPS will consolidate lending activities into larger programmatic approaches and increase synergies across ADB operations, including coordination with private sector operations and facilitation of public–private partnerships (PPPs), to provide flexible responses to government needs and priorities through sovereign and nonsovereign support. ADB will add value to the financing it provides by helping the government design, prepare, bring to the market, and implement priority public investment projects under the government’s BBB program through large-scale capacity development technical assistance (TA). As the CPS rebalances the lending portfolio toward infrastructure projects, ADB will look for more cofinancing opportunities with other development partners to increase synergies in adopting global technology, innovation, and know-how for areas such as managing complex infrastructure projects and social investments. Through policy support and capacity development, ADB will also add value by introducing green finance and municipal finance and promoting local economic development.⁷ ADB will ensure knowledge and innovation are an integral part of its lending and technical support operations.

II. COUNTRY DEVELOPMENT CONTEXT

6. **Strong macroeconomic fundamentals.** The Philippines is enjoying its longest economic expansion in more than 50 years, with economic growth averaging 6.2% yearly during 2011–2017. Household consumption has been an important contributor to economic growth, supported by higher wage employment, remittances, and low interest rates. A strong increase in private and public investments has also contributed significantly to this expansion. The fixed investment rate rose from 19.6% of GDP in 2012 to 25.0% of GDP in 2017.

7. This economic expansion, unlike in earlier episodes since the 1960s, has occurred within a strong macroeconomic environment of a balanced current account, declining national government debt, and relatively low inflation despite global financial volatility. Remittances and revenues from the business process outsourcing industry provide healthy support for the country’s account balance. Fiscal consolidation in 2010 and stronger revenue collection efforts and conservative spending from 2010 to mid-2016 reduced the national government debt to 42.1% of GDP by the end of 2017, the lowest debt level since 1996. The Philippines’ success in managing fiscal policy and risks led to investment grade sovereign credit ratings in 2013 from all three major credit rating agencies: Moody’s Investors Service, Fitch Ratings, and Standard & Poor’s. The fiscal space created from these reforms has allowed the government to raise infrastructure spending and keep the budget deficit to 2.4% of GDP in 2016 and 2.2% in 2017. However, economic growth has downside risks. External risks are related to a slowdown in global growth, such as sharply rising commodity prices, financial market volatility, and increasing trade protection. Domestic risks are related to a delayed rollout of the government’s BBB program.

⁵ Government of the Philippines, National Economic and Development Authority (NEDA). 2016. [AmBisyon Natin 2040](#). Pasig; and Government of the Philippines, NEDA. 2017. [Philippine Development Plan, 2017–2022](#). Pasig.

⁶ Figures in United States dollars are in purchasing power parity terms, using the Atlas method.

⁷ Green finance refers to financial investment and other finance flowing into environmental and other sustainable development projects. It includes climate finance, but not limited to it. Municipal finance refers to bonds and other debt instruments issued by a local government and usually used to raise capital for improving infrastructure and other aspects of a city or municipality.

8. **Poverty.** The poor have benefited from strong economic expansion and the government's priority social assistance programs. The 2015 Family Income and Expenditure Survey showed that per capita income in the poorest 30% of the population grew 24.3% from 2012 to 2015.⁸ This growth surpassed the 15.8% average for all income groups and the 12.0% rate for the richest 20% of the population. Consequently, national poverty incidence declined from 25.2% of the population in 2012 to 21.6% in 2015, against the meagre 1.1% drop in 2009–2012, but is still high for a middle-income country.

9. **Household income inequality.** With faster growth in the per capita incomes of the poor, measures of household income inequality showed modest improvements during 2012–2015. The Gini coefficient—a common measure of inequality—fell from 0.46 in 2012 to 0.44 in 2015. This indicates that household income inequality in the Philippines continues to be among the highest in Southeast Asia (Gini coefficients are 0.39 for Indonesia and 0.38 for Viet Nam). Poverty data from the Family Income and Expenditure Survey suggest that poor families in the Philippines have fewer productive endowments than nonpoor families.⁹ Poor families are also more likely to live in provinces vulnerable to natural disasters and intermittent armed conflict.

10. **Wage employment generation.** Robust employment growth, with half a million nonfarm wage jobs created annually since 2012, has helped lower the poverty rate. Even so, growth in wage employment has been unable to absorb all of the 800,000 new job seekers entering the labor market each year; reduce the rate of one in four youth not in employment, education, or training (NEET); or cut the absolute number of workers crowded into the low-productivity, lower-earning informal sector and other forms of precarious employment. Lifting the rate of wage employment growth is critical to reducing poverty and household income inequality.

11. **Infrastructure deficit.** Current levels of public and private investment in infrastructure are insufficient to meet the government's goal of reaching upper middle-income status by 2022.¹⁰ Infrastructure gaps are major bottlenecks for foreign investment and higher economic growth. The World Economic Forum's Global Competitiveness Report (2017–2018) ranked the country's infrastructure competitiveness 97th out of 137 countries surveyed, well behind regional peers Malaysia (22nd), Thailand (43rd), and Indonesia (52nd).¹¹ This situation is the result of historically low public infrastructure investment and insignificant private participation in infrastructure, making Philippine public capital stock one of the lowest among the members of the Association of Southeast Asian Nations (ASEAN) at 35.0% of GDP in 2013, against the ASEAN average of 72.0% of GDP.¹² Spending has picked up strongly since 2013, but remains insufficient for the Philippines to sustain economic growth and catch up with regional peers in infrastructure competitiveness. The government's BBB infrastructure program aims to redress this infrastructure deficit. The estimated investment needs of the government's BBB program for 2017–2022 are estimated at approximately \$152 billion, covering physical connectivity (expressways, railways,

⁸ Government of the Philippines, Philippine Statistics Authority (PSA). 2016. [Average Family Income in 2015 is Estimated at 22 Thousand Pesos Monthly \(Results from the 2015 Family Income and Expenditure Survey\)](#). News release. 24 October.

⁹ Household endowments refer to physical (land and fixed capital assets), financial, and human capital assets held by household members. These assets are directly related to household income and poverty status. In 2011, for example, the average years of schooling was 7.5 years for people in the poorest 20% of households and 13.1 years for those in the richest 20% of households.

¹⁰ A. Corpuz. 2016. *Infrastructure, Urbanization, and the Filipino 2040 Vision*. Manila: ADB (working paper presented as input to the preparation of AmBisyon Natin 2040). Unpublished.

¹¹ K. Schwab, ed. 2017. [The Global Competitiveness Report, 2017–2018](#). Geneva: World Economic Forum.

¹² T. Komatsuzaki. 2016. [Improving Public Infrastructure in the Philippines](#). *IMF Working Paper*. No. 16/39. Washington, DC: International Monetary Fund.

airports, seaports, and interisland bridges); urban development (transport and traffic systems, clean water, and sewerage management); and water resource management (river basin and flood control). Substantial infrastructure gaps remain in Mindanao and the Visayas. Weaknesses in infrastructure policy; institutional capacity constraints in developing urban, regional, and sector infrastructure plans and preparing projects; and slow project implementation have contributed to the low public capital stock situation. Insufficient private sector participation in infrastructure and the lack of long-term infrastructure financing also constrain higher infrastructure investments.

12. Underspending on infrastructure also crowds out long-term private investment because of poor connectivity between regions, markets, and people. Lack of healthy domestic competition, inefficiencies in the tax policy regime, and insufficient alternative sources of long-term financing (such as green finance solutions) also adversely affect the attractiveness of job-generating investments in the Philippines. The Global Competitiveness Report (2017–2018), for instance, ranked the Philippines 103rd out of 137 countries on goods market efficiency (weak domestic competition). The mandate of the Philippine Competition Commission (PCC), established in 2016 through legislation, is to foster competition and fair business practices. Still in its infancy, the PCC needs long-term capacity development to implement its mandate effectively. The fourth industrial revolution will also influence the type of investments made, the kind of emerging industries and the shape of future of work in the country, suggesting an integrated approach to investment policy, industrial policy, and skills development is necessary.

13. **Regional income disparities.** Notwithstanding the downward trend in national poverty incidence, 20 provinces along the eastern seaboard and in Mindanao and the Visayas have 40%–72% poverty rates (footnote 1). The lack of high-quality infrastructure has discouraged private investments, raised production and distribution costs, and led to inefficient public service delivery to communities in these severely lagging provinces. These same regions are vulnerable to natural hazards such as extreme weather events, and some areas face intermittent armed conflict, which has impeded agricultural productivity, rural income predictability, and food price stability.

14. **Social exclusion.** Increasing social investments in the bottom half of the population will make growth more inclusive. Access to quality education, particularly at the secondary level, continues to be a key constraint to creating a competitive workforce. The national net enrollment rate for secondary schools, while improved, remain low at 68.2% in 2015. Improved cohort survival rates for secondary schooling still indicated that about 21% of students dropped out nationally (2010–2014 average). As with the infrastructure gap, underinvestment in education is greater in the Autonomous Region in Muslim Mindanao and in the Zamboanga Peninsula, resulting in poor education outcomes. For example, in 2012 the net enrollment rate for secondary schools was 32.0% in the Autonomous Region in Muslim Mindanao and 56.6% in the Zamboanga Peninsula.¹³ Shortages in classrooms, laboratories, and equipment persist despite recent investments. Quality challenges include lack of specialized teachers and the need to build systems to monitor and evaluate learning outcomes.

15. The slow and uncertain school-to-work transition for high school graduates creates anxiety for them and reflects weak links between education and training systems and the labor market. It also reflects a widening skills mismatch, as employer demand continues to shift toward hiring college-educated and highly skilled workers. Technology and innovations, including artificial intelligence, threaten to worsen the skills mismatch. The low skills trap, or the low demand and supply of skills, in the poor regions of Mindanao and the Visayas worsens poverty and needs to

¹³ Government of the Philippines, PSA. 2017. [2017 Philippine Statistical Yearbook](#). Quezon City.

be addressed through investments in education and infrastructure.¹⁴ Women with up to high school education have a lower labor force participation rate than other groups and are overrepresented in NEET. Increased availability of labor market activation programs to help job seekers, out-of-school youth, and displaced workers—especially women—find decent employment and access lifelong skills training could help address these inequalities.

16. Reproductive health care is related to young women’s situation in the labor market. Unmet needs for family planning have led to high teenage pregnancy and birth rates and increased prevalence of HIV/AIDS. For instance, the teenage fertility rate rose from 58.9 out of 1,000 births in 2013 to 62.7 in 2015.¹⁵ Limited access to sex education and sexual and reproductive health services remains a major issue, even more so for the youth and poor women in rural and remote areas.¹⁶

17. Financial inclusion is low in the Philippines, despite having an internationally recognized regulatory framework for inclusive finance. Only 31% of adults held an account at a formal financial institution in 2014, compared with 36% in Indonesia, 78% in Thailand, and 81% in Malaysia.¹⁷ Formal financial institutions disproportionately exclude lower-income households, with only 18% of adults from the bottom 40% income quintiles holding an account. The constraints to increased financial inclusion relate to institutional and policy impediments to access to finance, such as incomplete financial infrastructure and the limited scale and outreach of financial service providers (microfinance institutions and rural banks). The lack of Islamic financial services, especially in Mindanao, is a barrier to inclusion for a large segment of the population in that region.

18. The country has made significant strides in extending social assistance and protection programs, but opportunities remain to achieve greater development impact and strengthen the resilience of poor households. The rapid expansion of the conditional cash transfer program to 4.4 million households nationwide contributed significantly to poverty reduction, but benefit levels remain low, coverage has not been extended to newly identified poor families, and supply-side challenges persist. The social pension does not reach all poor senior citizens in need, and there is no unemployment insurance to provide income security for workers during job-to-job transitions.

19. **Governance.** Since 2008, the government has implemented a series of public financial management reforms. Along with fiscal consolidation, these reforms helped create fiscal space and allowed increased budget allocations to social sector and infrastructure spending. In 2016 and 2017, the government introduced efficiency measures to address underperformance in spending outturns. As a result, the underspending rate (the difference between the approved budget and actual spending) declined sharply from an average of 13.3% of budget allocations in 2014–2015 to 2.4% in 2017 (excluding interest payments). The government is implementing several reforms to improve public expenditure management and raise national tax revenue collections, including shifting from the commitment-based budget system to a cash-based budget in 2019; and a series of tax policy reforms to raise excise taxes, reduce personal income and corporate taxes, and consolidate tax exemptions. While substantial progress continues to be made nationally, the government needs to do more to improve the quality of public service delivery by local government units (LGUs). This includes expanding reforms and capacity development to local planning and public expenditure management and developing municipal finance.

¹⁴ Organisation for Economic Co-operation and Development and ADB. 2017. [OECD Reviews on Local Job Creation: Employment and Skills Strategies in the Philippines](#). Paris.

¹⁵ World Bank. [World Development Indicators Database](#). Adolescent Fertility Rate (accessed 1 June 2018).

¹⁶ Government of the Philippines, PSA. 2016. [Women and Men in the Philippines](#). Quezon City.

¹⁷ A. Demirguc-Kunt et al. 2015. [The Global Findex Database 2014: Measuring Financial Inclusion around the World](#). Policy Research Working Paper. No. 7255. Washington, DC: World Bank.

20. **Climate change and disaster vulnerability.** The Philippines is one of the world's most disaster-prone countries and one of the most likely to be economically affected by disasters.¹⁸ Up to 60% of the total land area is exposed to multiple natural hazards and 74% of the population is vulnerable to natural hazards. Disaster risk modeling indicates that the country faces annual average losses of ₱43.5 billion from earthquakes and ₱133.2 billion from tropical cyclones.¹⁹ Damage from these disasters has contributed to poverty and the poor's persistent vulnerabilities.

21. The impacts of climate change and disasters adversely affect sectors that are strategically important for economic growth, such as agriculture, water resources, transportation, energy, and urban development. These impacts are increased because of limited advance financial planning for post-disaster response by national and local governments to provide timely relief, early recovery, and reconstruction interventions. Disaster and climate risk in the Philippines is set to increase in the medium term because of improper development that has left communities and their assets increasingly exposed to natural hazards. Among the poor, women are particularly vulnerable to the impacts of climate change because of social and economic factors. While the government has undertaken proactive measures to strengthen climate change management (CCM) and disaster resilience by putting in place legislative, policy, institutional, and financing mechanisms, implementation challenges exist largely because of the lack of public awareness on CCM; inadequate capacity for mainstreaming CCM and disaster resilience in sector and local development planning and investments; and insufficient post-disaster financing solutions for national government agencies, provinces, cities, municipalities, and individuals.

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from Previous Strategy

22. **Country partnership strategy final review and validation.** The CPS, 2018–2023 builds on lessons identified by the final review of the CPS, 2011–2016²⁰ and its validation by the Independent Evaluation Department.²¹ The final review confirmed that improved economic growth, combined with better governance, has underpinned progress in poverty reduction. However, it also reported that poverty incidence remains high and fragile for a middle-income country and that development efforts in some regions, especially in Mindanao and the Visayas, need to be elevated.

23. The CPS final review validation highlighted additional lessons observed from the previous strategy, which include the (i) need for continual capacity building and TA support for an extended period; (ii) importance of government ownership in program design and use; (iii) need for policy-based lending dealing with local governance to be supplemented with significant capacity development assistance and investments in local infrastructure to increase effectiveness in addressing regional issues and development constraints; (iv) need for careful consideration of

¹⁸ United Nations Office for Disaster Risk Reduction. 2015. [Global Assessment Report on Disaster Risk Reduction, 2015—Making Development Sustainable: The Future of Disaster Risk Management](#). Belley, France. The report ranked the Philippines 5th among the 15 most vulnerable countries, in terms of the impact of disaster risk seriously undermining its capacity to develop across multiple dimensions.

¹⁹ Based on the catastrophe risk model developed with World Bank support by AIR Worldwide for the Government of the Philippines.

²⁰ ADB (Southeast Asia Department). 2016. Request for Validation of the Philippines Country Partnership Strategy Final Review. Memorandum. 10 June.

²¹ Independent Evaluation Department. 2017. [Philippines: Country Partnership Strategy Final Review Validation, 2011–2016](#). Manila: ADB.

conflict, geography, and ethnicity and culture in planning development efforts as in the case of delivering programs in Mindanao; and (v) importance of local presence when undertaking complex operations in difficult circumstances.

24. The CPS final review validation also recommended a more focused and programmatic approach in a limited number of business lines related directly to priority national programs, in areas where ADB has a proven record of adding value and working well with partners. ADB can further strengthen government ownership of institutional and policy reforms by encouraging open and transparent engagement with civil society on reform issues and focusing strongly on performance orientation for both ADB and government-wide operations. Investments delivered at the local level also need a fresh approach, such as developing multisector support in the poorest areas with a focus on boosting local governance capacity and unraveling institutional constraints. The country's eastern seaboard and southern regions will benefit from ADB's continued efforts to promote regional cooperation and integration by linking public and private sector operations to help develop economic corridors and clusters.

B. National Development Strategy

25. **Long-term vision.** ADB continues to support the National Economic and Development Authority's formulation of AmBisyon Natin 2040, which aims to ensure strategic continuity across government administrations for key programs addressing growth, development, and poverty reduction. It states: "By 2040, the Philippines is a prosperous middle class society where no one is poor. People live long and healthy lives and are smart and innovative. The country is a high-trust society where families thrive in vibrant, culturally diverse, and resilient communities."²² The government successfully launched AmBisyon Natin 2040 with support from an executive order signed by President Rodrigo R. Duterte. AmBisyon Natin 2040 and the government's 10-point socioeconomic agenda provide the framework and guiding principles for the PDP, 2017–2022.²³

26. **Medium-term development plan.** The PDP, 2017–2022 is the first medium-term plan anchored on AmBisyon Natin 2040 and aims to lay a strong foundation for inclusive growth, a high-trust society, and a globally competitive economy. It focuses on raising the country's potential growth trajectory and reducing poverty incidence and income inequalities. Its objectives will be achieved by accelerating investments in building climate-resilient infrastructure and regional connectivity; promoting environmental sustainability; strengthening governance; promoting domestic competition; and improving access to quality education, health, financial services, and transformative social protection. These are supported by the cross-cutting themes of attaining a just and lasting peace; and ensuring security, public order, and safety. The government plans to create more jobs for young people, promote the ease of doing business, reform tax policies, modernize agriculture, and address traffic congestion in Metro Manila and other urban centers.

C. Role of Development Partners

27. The Philippines' official development assistance (ODA) lending portfolio as of December 2016 amounted to \$15.6 billion, consisting of 66 loans worth \$12.21 billion (78% of the total portfolio) and 400 grants worth \$3.39 billion (22% of the total). Japan was the biggest source of loans, with a 45% share (\$5.47 billion) of the overall loan portfolio, followed by the World Bank with 25% (\$3.04 billion) and the Asian Development Bank (ADB) with 24% (\$2.88 billion). For ODA grants, the three leading providers were the United States with 40% (\$1.3 billion), Australia

²² Government of the Philippines, NEDA. 2016. [AmBisyon Natin 2040](#). Pasig, p. 3.

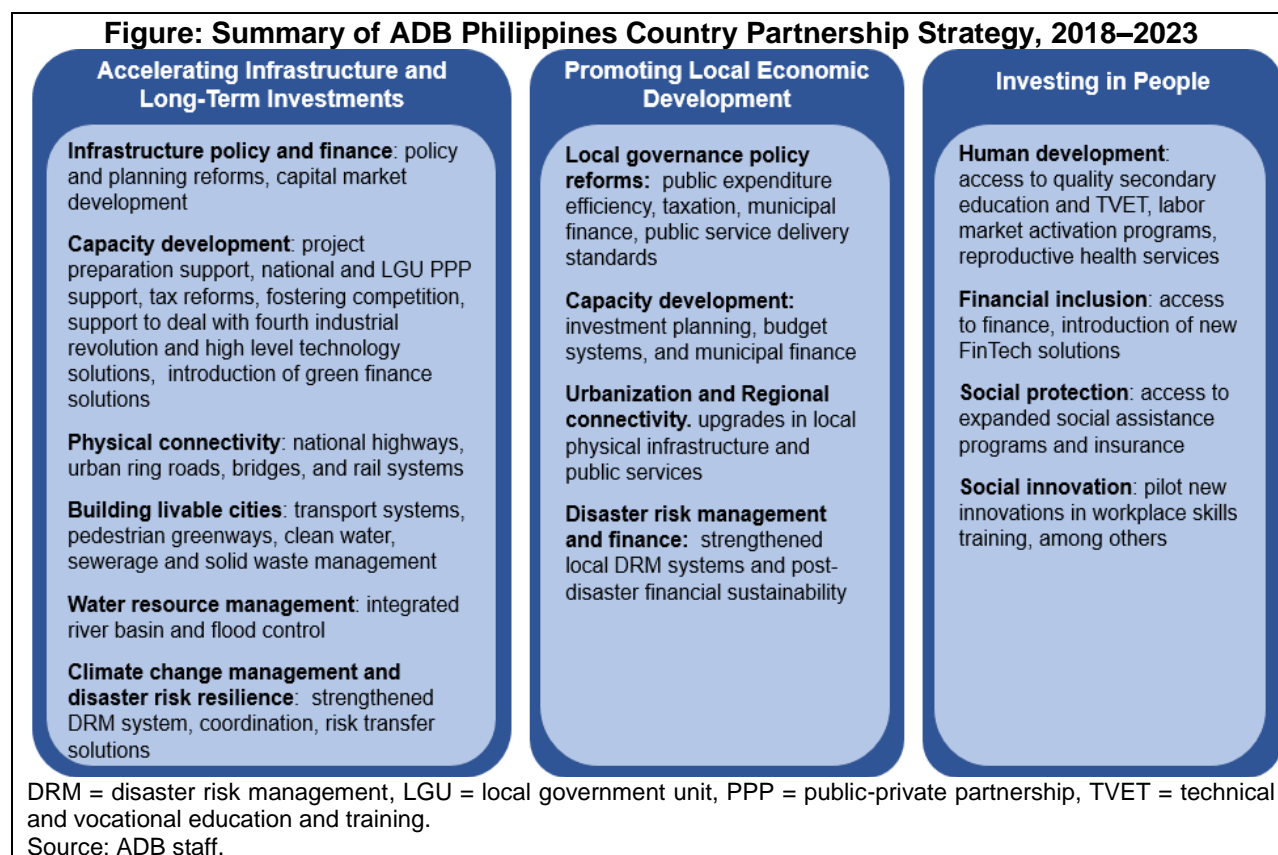
²³ Government of the Philippines, NEDA. 2017. Foreword to [Philippine Development Plan, 2017–2022](#). Pasig.

with 25% (\$824 million), and the United Nations system with 11% (\$382 million). In terms of loan sector distribution, infrastructure had a 56% share, social reform and community development had 22%, and governance and institutions development had 13%. With respect to grants, the social reform and community development sector received a 36% share, while the governance and institutions development had 25% and infrastructure development had 17%.²⁴

28. ODA has become an important financing resource to achieve accelerated infrastructure investment and to improve the effectiveness and efficiency of public goods and services delivery. Development partners have increased efforts to coordinate activities. ADB is exploring possible synergies in (i) infrastructure development; (ii) water resource management; (iii) good governance and the effective delivery of public goods and services; (iv) inclusive finance, including financial technology; and (v) disaster risk financing.

D. ADB's Strategic and Thematic Objectives and Public and Private Sector Operational Priorities

29. **Country partnership strategy objective.** ADB will support government priorities in the PDP to promote high and inclusive growth. ADB support will focus on three strategic pillars: (i) accelerating infrastructure and long-term investments, (ii) promoting local economic development, and (iii) investing in people (Figure).



30. **Strategic focus and programmatic approach.** ADB will focus its support within each operational sector, targeting larger investments in a smaller number of subsectors. This approach

²⁴ Government of the Philippines, NEDA. 2017. [ODA Portfolio Review Report 2016](#). Manila.

aims to make resource use more efficient and will be supported by strengthened staff capacity and increased experience in the targeted subsectors, procurement, safeguards, and financial management using the One ADB approach as a guiding principle. ADB selected the focus areas based on the government's strategic direction and priorities, including rebalancing ADB investments to infrastructure in support of the government's BBB program and local economic development; lessons from past operations; and proven record in social development, local governance, public finance, and capital markets. The selected focus areas are also aligned with the seven priorities of ADB's Strategy 2030 including addressing poverty and inequality, tackling climate change, enhancing resilience, and sustainability, making cities more livable, accelerating governance and institutional capacity, and accelerating gender equality (footnote 4).²⁵ By combining policy reforms, capacity development, and ADB-financed investments, the sustainability of targeted outcomes and benefits to communities and people will be ensured in the medium to long term. ADB will draw on its experience in Asia and the Pacific and long-term commitment to the Philippines as it builds on its role as a key government partner in identifying critical development initiatives; and mobilizing the right mix of finance, international practice, knowledge, and innovation to realize the country's socioeconomic agenda throughout all regions of the Philippines. This experience and commitment will be valuable in supporting subnational conflict situations, particularly in the southern Philippines.

31. Fostering operational efficiencies. ADB will enhance its value addition and increase impact by strengthening links between sector operations and increasing private sector participation to promote innovative approaches to long-term financing for infrastructure, social investments, and DRM. For example, ADB will provide (i) multisector support for promoting local economic development by linking investments in physical connectivity with its livable cities and post-disaster financing initiatives; and (ii) public financial management support in LGUs using sovereign and nonsovereign operations and PPP transaction advisory services, while leveraging private participation in projects. ADB will identify synergies in country programming, country portfolio reviews, and project and program designs, as well as through regular meetings across sector divisions and departments and with national and local government agencies, and better tracking of project implementation facilitated through ADB's Philippines Country Office.

32. Pillar 1: Accelerating infrastructure and long-term investments. ADB's strategy will focus on climate-resilient infrastructure development to meet expanding demand; better connect regions, communities, and people; and raise competitiveness. The three elements to ADB's strategy are infrastructure policy and finance, capacity development, and ADB-financed infrastructure projects. ADB will continue to support reforms to improve public infrastructure policy and planning and to assist in the development of infrastructure master plans. ADB will continue to support the government with capital market reforms and will explore innovative approaches to increase the availability of long-term infrastructure finance, including introducing green finance solutions. Focus will be given to institutional capacity development to strengthen the government's capability to deliver its infrastructure targets. This support will involve knowledge transfers to oversight and implementing agencies in project preparation, implementation, and monitoring. ADB will continue to support the Philippines' Public-Private Partnership Center in expanding the pipeline of viable PPP projects, enhancing governance, and developing LGU capacity to prepare and deliver PPP projects at the local level. Support will be provided to incorporate climate-resilient and climate-adaptive technologies and know-how in infrastructure projects. These efforts will allow ADB to rebalance its financing priorities toward infrastructure projects. ADB will continue to explore investment opportunities in physical connectivity (national expressways, urban ring roads, bridges, and rail systems); livable cities (multimodal transportation solutions to traffic

²⁵ Details on the Strategy 2030 alignment is described in a supplementary appendix that is available upon request.

management in highly urbanized cities, pedestrian green walkways, clean water, and sewerage management and solid waste management); and water resource management (integrated river basins and flood control).²⁶ Nature-based solutions will complement infrastructure investments, such as in water resource management.

33. Infrastructure investments will crowd in long-term private investments and will be supplemented by ADB capacity support to the PCC for fostering healthy domestic competition. ADB will continue to support the government on tax policy reforms. It will also work to identify initiatives to deal with the potential impacts of the fourth industrial revolution on industry and services and on the future of work. ADB will work with the government to develop national programs to strengthen the DRM system and risk transfer solutions.

34. ADB will include measures to ensure that these investments benefit the underserved communities and demographic groups by making infrastructure and services (including public spaces) accessible, affordable, and safe for women, children, the elderly, and people with disabilities. ADB's increased focus on infrastructure development intends to drive growth in agriculture, trade, commerce, and industry; facilitate mobility to access knowledge, jobs for both women and men, health, and education; and multiply the social and economic facilities necessary to counteract poverty, gender inequalities, and social exclusion.

35. **Pillar 2: Promoting local economic development.** ADB's strategy will build on the National Spatial Strategy of the PDP, 2017–2022, which aims to enhance the sustainability and regional integration of urban and rural communities. The focus will be on supporting economic development in the country's lagging regions, especially in Mindanao and the Visayas, and improving linkages to facilitate ASEAN integration. The four elements to ADB's strategy are (i) local governance policy reforms, (ii) capacity development support to LGUs for operationalizing reforms, (iii) urbanization and regional connectivity, and (iv) localized DRM and finance.

36. Building on reforms advanced under the previous CPS, ADB will continue to support local governance reforms to strengthen local public financial management, local revenue generation, enhance LGU creditworthiness, and develop municipal finance for better service delivery and infrastructure investments. To operationalize these reforms, ADB will provide support for capacity development assistance to LGUs identified under the building livable cities initiative in pillar 1. ADB will work closely with the government to address structural weaknesses in key government units to ensure culture-sensitive and gender-responsive governance policies are formulated and to allow regionally integrated local development planning. ADB will design this to include building local government capacity in coordinated development planning; program and project implementation; institutionalized monitoring and evaluation; collection, analysis, and use of sex-disaggregated data for planning and decision making; and improved resilience to climate change risks and natural hazards.

37. ADB will explore opportunities for sovereign and nonsovereign lending. It will also leverage private sector financing for local infrastructure projects that align with promoting livable cities and connectivity between cities and towns within local growth corridors in Mindanao and the Visayas. In this regard, efforts will be directed toward identifying measures to increase competitiveness within and across the administrative regions of Mindanao and the Visayas through the promotion and support of emerging domestic and international trade opportunities. This support will also reinforce job creation efforts. Consistent with protecting development from natural disasters, ADB will support the government in implementing initiatives under the Philippine Disaster Risk Finance

²⁶ ADB. [ADB's Vision of Livable Cities](#).

and Insurance Strategy, which identified ADB as a partner for risk transfer solutions for LGUs.²⁷ ADB will continue to work with the government to identify initiatives to support strengthening environmentally sustainable development, integrated with disaster risk reduction, post-disaster recovery and livelihood programs, and climate change adaptation.

38. **Pillar 3: Investing in people.** ADB's strategy on social development will focus on increasing social investments in the bottom half of the population to reduce poverty and household income inequality. This means ADB will design policies and programs to strengthen peoples' skills and capacities and to support them in participating fully in decent employment and social life. The four elements to ADB's social investment assistance are human development, financial inclusion, social protection, and social innovation. Human development means actively enabling every Filipino, notably the most disadvantaged, to participate fully in society, including having a job. Key policy areas include access to (i) quality secondary education and labor market activation programs and (ii) reproductive health care and information and quality childcare. Increasing the benefits from human development will help provide more Filipinos with access to financial services and products. Social protection refers to programs and policies that protect against the risks and needs of households engaged in the informal sector, as well as those associated with old age, unemployment, housing, and vulnerabilities to pollution, extreme weather and disaster events. Social innovation means developing new ideas, services, and models to address social issues. It invites input from public and private stakeholders, including civil society, to improve social services.

39. Under human development, ADB support will build on ongoing reforms to secondary education and labor market activation programs. ADB will continue to support reforms to lift net enrollment rates and school completion rates in secondary education nationally, and specifically in Mindanao. This support will involve assisting in completing the rollout of grades 11 and 12 under the K–12 reforms, improving financing to secondary education, and strengthening public financial management for better service delivery in education. Investments in secondary education will include (i) providing a sufficient supply of public secondary schools that meet minimum service standards and are resilient to climate and disaster risk, and (ii) enhancing management systems to implement and monitor secondary education programs. Increased attention will be provided to ensuring that improved access to quality vocational education at secondary and tertiary levels is competency-based, certified, and driven by private sector demand, with higher female representation.

40. ADB will continue to support the government in improving and expanding labor market activation programs targeting young job seekers, out-of-school youth, and displaced workers to find quality employment and increase female representation. In line with its social innovation approach, ADB will pilot test an enterprise-led learning network project—an innovative financing model for training workers in sectors with skill shortages through enterprise-led models. ADB will give increased attention to regions identified to be in a low skills trap during the rollout of the labor market activation program. This initiative will also contribute to programs dealing with the fourth industrial revolution. ADB will explore the feasibility of PPP arrangements in education and labor market programs for better delivery of services. Complementing these efforts, ADB will explore ways to support an increase in access to sexual and reproductive health by providing health care services, family planning, and information at the local level, especially among at-risk youth.

²⁷ Government of the Philippines, DOF. 2015. [Disaster Risk Financing and Insurance Strategy of the Philippines](#). Powerpoint presentation prepared for the 13th Asia-Pacific Economic Cooperation Senior Finance Officials Meeting, Bagac. 11–12 June.

41. Under financial inclusion, ADB will support the government in including more poor families in the financial system by addressing policy and structural impediments to financial inclusion, such as the lack of a unique national identification system, absence of a secured transaction registry, inadequate retail payments system, and lack of credit information. ADB will assist rural banks and microfinance institutions in expanding their reach to the rural poor through new products and services and financial literacy. It will also focus on exploring ways to introduce new financial technology solutions to addressing financial exclusion.

42. Under social protection, ADB will support government efforts to mitigate current and future vulnerabilities for at-risk groups. It will not only target the poor but also the elderly, people with disabilities, indigenous communities, and other disadvantaged groups. Support will include financing for the expansion of the government's conditional cash transfer program to the newly poor, linking beneficiaries to financial inclusion programs, and working with the government to implement and expand an affordable old-age pension for the elderly in poverty or at risk of poverty. Consistent with our social innovation approach, ADB will explore with the government the feasibility of developing a fiscally sustainable unemployment insurance for workers during job-to-job transitions. In doing so, ADB will draw on successful models implemented in other middle-income countries.

43. **Cross-cutting themes.** ADB mainstreamed gender equality, private sector development, governance, and environmentally sustainable development across the three pillars of the CPS. It will embed targets covering these four cross-cutting themes in its operations and has included them in the CPS results framework. ADB will prepare quality gender action plans for programs and projects with defined and measurable targets and will make sure that adequate resources are provided to support the implementation of the gender action plans. Specific focus will be on young women. For example, programs and projects will target increasing secondary school net enrollment rates for girls and their share in science, technology, engineering, and math courses; reducing NEET rates; increasing financial inclusion, access to social assistance programs, and access to better reproductive health information and services; and improving women's access to economic opportunities. ADB operations will focus on promoting private sector participation in infrastructure, public, and social services; and supporting private sector operations. Specific focus will be on capital markets and infrastructure, Philippines cities disaster insurance, building livable cities, and fourth industrial revolution. ADB will mainstream governance in all three pillars by promoting healthy competition, efficient tax policy and administration, PPPs in infrastructure, and local governance reforms and capacity development; and embedding public financial management in programs and projects. ADB will promote environmentally sustainable development through several channels. Infrastructure investments will be climate resilient and climate adaptive. ADB will adopt nature-based approaches to promote environmentally sustainable development, such as in water resource management and related physical infrastructure projects; increase its focus on disaster risk and CCM at national and local government levels; and develop sustainable disaster financing modalities. ADB will support the government in achieving socioeconomic development goals through low-carbon development and will help the government achieve its nationally determined contribution commitments through knowledge and technology transfers and capacity building of key stakeholders.²⁸ ADB will continue efforts to increase the resilience of vulnerable communities to disasters and climate change risks by linking community-level resilience-building measures to wider investments in

²⁸ The Instrument of Accession for the Paris Agreement was signed by President Rodrigo Duterte on 28 February 2017, adopted by the Senate on 14 March 2017, accepted by the United Nations Framework Convention on Climate Change on 23 March 2017, and entered into force on 22 April 2017. The nationally determined contributions aim to convey mitigation as a function of adaptation, which is the country's anchor climate action strategy.

community-driven development and comprehensive land use planning. ADB recognizes that while agriculture and natural resources, urban development, transport, and energy are vulnerable to climate change and disasters, they also offer opportunities for implementing adaptation and DRM measures and strategies.

E. Priorities for Knowledge Support

44. **Knowledge management.** Philippine aspirations to become upper middle income by 2022 highlight the important role ADB should play in supporting policy reforms and encouraging innovation through targeted knowledge solutions. The Government of the Philippines frequently faces complex public policy concerns typical of a middle-income country. In requesting knowledge support for these concerns, the Philippines expects demand-led knowledge and the delivery of knowledge products and services that are embedded in the CPS and ADB operations, so that they have measurable impact and align with the country's emerging strategic directions. ADB's country knowledge plan, 2018–2023 for the Philippines (Appendix 2) highlights the role of ADB staff in generating high-quality analytical and knowledge support for the government and the role of the country director as knowledge custodian. The country knowledge plan identifies five main operationally relevant priorities for ADB knowledge production and dissemination: (i) climate and disaster-resilient infrastructure, (ii) local economic development, (iii) social innovations, (iv) gender equality, and (v) 4.0 industrial revolution. ADB will seek to foster knowledge partnerships with other development partners and knowledge institutions, including think tanks and universities, in knowledge production and dissemination.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

45. The Philippines is a regular ordinary capital resources-only ADB developing member. ADB proposes a sovereign lending program of \$7.8 billion, or \$2.0 billion annually, for 2018–2021.²⁹ Total indicative lending for 2018–2023 is projected at \$11.0 billion. The government is aware that processing will be subject to financing availability. The annual allocation can be leveraged using official and commercial cofinancing. The use of credit enhancement products—e.g., guarantees, guarantee syndication, and loan syndication products—can mobilize private sector capital and ADB will explore these when considering commercial cofinancing options. ADB will continue to provide TA to help the government prepare and implement projects, execute reforms, and strengthen institutional capacity in line with the CPS sector and thematic priorities.

B. Implementation Priorities

46. **Building on achievements in key sectors.** ADB has demonstrated the capacity to work effectively with the government in delivering programmatic support for public sector management and education. It will continue to support these sectors using programmatic approaches. ADB is also looking to develop effective clusters of support in the poorest areas that will emphasize boosting local government capacity in planning, implementation, monitoring and evaluation, and public expenditure management; and local government support for community development. Public sector management and social development interventions are expected to contribute directly to the government's national results targets.

²⁹ ADB. Forthcoming. Country Operations Business Plan: Philippines, 2019–2021. Manila.

47. **Regional focus on Mindanao and Visayas.** The higher incidence of poverty in Mindanao and the Visayas and large regional income disparities give a strong rationale for ADB to scale up its operations in these areas. Effective development in Mindanao is contingent on the capacity of regional and local governments to plan and implement investment projects, and needs significant medium- to long-term efforts to raise the capacity for effective development assistance. ADB's increased presence provides new opportunities to expand national and regional linkages with coordinated support to facilitate commercial investments in economic corridors and clusters. Initial experience suggests that more explicit linking of public sector projects (e.g., roads) increases private sector interest in investing in ports and logistics services. The enhanced synergy between public and private sector initiatives promotes international and subnational linkages and multiplies local employment opportunities.

48. **Efficient delivery of development support.** ADB will continue efforts to explore ways to reduce transaction costs by increasing the share of development assistance delivered through the national system where agencies demonstrate readiness capacity. ADB is closely monitoring the performance of a project that uses a results-based lending modality in the Philippine education sector.³⁰ Lessons from this experience will feed into future development support to take advantage of established national public delivery mechanisms in other sectors. ADB will likewise explore new opportunities in delivering development assistance through LGUs as performance monitoring, financial management, and accountability mechanisms are strengthened. Regardless of the modality, the government attaches high priority to ensuring that all interventions include a strong focus on institution building needs.

49. **Private sector operations.** ADB's nonsovereign operations will continue to be aligned with priority areas for the Philippines and will be mainstreamed across the CPS three strategic pillars. ADB will explore and consider projects that (i) leverage infrastructure finance, including introduction of green finance; (ii) improve infrastructure and other aspects of cities and municipalities, including delivery of treated water, sewerage and sanitation services; (iii) encourage the use of renewable energy or help the country transition to a low-carbon economy; (iv) increase the delivery of quality health care and education; and (v) promote agribusiness models that contribute to increased agricultural productivity, the inclusion of smallholder farmers in value chains, food safety, and sustainable natural resource use.

50. **Collaboration with development partners.** Opportunities to collaborate with Japan International Cooperation Agency and the Asian Infrastructure Investment Bank exist in the area of infrastructure. Enhanced partnership with the World Bank to support the government's National Community-Driven Development Program may also be explored. ADB is also collaborating with the World Bank on developing disaster risk finance and insurance products (footnote 26). Among the country's bilateral partners, the governments of Australia and Canada are active cofinanciers of programs to advance PPP reforms in the Philippines. Canada is also an active partner in the Philippines' school-to-work programs. France will continue to be an active cofinancier of programs advancing local governance reforms; and ADB will explore with France on further opportunities to collaborate in public sector management, financial inclusion, infrastructure, and water resource management. ADB will also explore opportunities with other development partners in cofinancing projects in local economic development and disaster risk finance and insurance initiatives. Opportunities to participate in policy dialogue with government agencies and other development partners, especially on the direction of development assistance in Mindanao, are increasing.

³⁰ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan to the Republic of the Philippines for the Senior High School Support Program*. Manila.

C. Monitoring of Results

51. ADB will monitor CPS implementation using the country partnership strategy results framework, which it will update annually during country portfolio review missions and country programming missions.³¹ Sector specialists will compile the sector outcome data in collaboration with the sector agencies. ADB will systematically monitor the gender equality results of projects classified *gender equity* and *effective gender mainstreaming*. ADB will monitor the continued alignment of the CPS with government objectives. It will use the updated results framework to confirm and modify the CPS and the country program.

D. Risks

52. **Absorption.** The government needs to maintain annual spending of at least 5.0% of GDP for infrastructure development (7.3% by 2022). ADB needs to make sure that project readiness and proper due diligence are not compromised by the accelerated processing timelines of a higher number of infrastructure investment projects. ADB recognizes capacity constraints in the government agencies tasked to manage the elevated number of infrastructure development initiatives, as well as within ADB's staffing resources in these sectors. ADB engagement needs awareness of and responsiveness to the elevated financing requirements for infrastructure development; opportunities for multiple financing modalities that encourage increased private sector participation; a multidisciplinary team approach (e.g., combining planning, engineering, public financial management, safeguards, and environment specialist skills); and technical and capacity support needed by the government to deliver its development targets effectively.

53. **Transparency and accountability.** The government has taken important initiatives to professionalize public financial management within LGUs. Reforms include (i) increasing transparency and accountability through the enactment of the Full Disclosure Policy;³² (ii) improving budget planning based on performance indicators, monitored in part by civil society; and (iii) establishing performance-based competitive incentive structures (i.e., the Performance Challenge Fund) for good local governance in financial management. ADB has identified opportunities to build on these reforms. The government must formalize the process of unifying budget documents and methodologies across the national and local governments and expand the bottom-up budgeting process. It must increase efforts to provide civil society with more effective feedback mechanisms and to raise the capacity of local officials to implement reforms and prioritize initiatives to ensure women benefit from the reforms and participate in the process.

54. **Climate and other natural hazards and risks.** Disasters triggered by natural hazards pose serious threats to the Philippines' socioeconomic development. The poor and vulnerable populations feel the impacts of disasters disproportionately through the loss of lives, livelihoods, assets, and well-being. With climate change, the increase in temperature and changes in precipitation patterns and hydrological regimes are expected to worsen the country's existing vulnerabilities and affect key sectors of growth, thereby threatening sustainable development.³³ If efforts to reduce poverty and sustainable development in the Philippines are to be sustained, investments across sectors—agriculture, water resources, transport, energy, urban development, social protection, finance—should factor climate change and disaster risk considerations.

³¹ The country partnership strategy results framework is in Appendix 1.

³² Government of the Philippines. [Full Disclosure Policy Portal](#). In July 2016, the Office of the President issued Executive Order No. 2, s. 2016, which mandates freedom of information to enhance transparency and accountability in the executive branch.

³³ United Nations Framework Convention on Climate Change. 2015. [Republic of the Philippines: Intended Nationally Determined Contributions](#).

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Impact Indicators with which the CPS is Aligned				
1. Overall poverty rate will decline from 21.6% in 2015 to 14.0% in 2022 2. Per capita income will increase from \$3,550 in 2015 to \$5,000 in 2022 3. Unemployment will decline from 5.5% in 2016 to 3.0%–5.0% in 2022				
CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Accelerating infrastructure and long-term investments	Infrastructure policy and finance	Access to economic opportunities increased	Percentile ranking in the Global Infrastructure Competitiveness Ranking improved in 2022 (2016 baseline: 97)	Ongoing portfolio Ongoing sovereign projects (as of 30 June 2018): Number: 6 Amount: \$821 million Planned operations and contribution: Sovereign Lending: \$3,525 million of regular OCR and \$1,003 million of cofinancing for 2018–2021 Grant: \$5 million from the Urban Climate Change Resilience Trust Fund in 2018
	Institutional capacity development	Spending on public infrastructure increased	Public infrastructure spending increased to 7.4% of GDP in 2022 ^a (2017 baseline: 5.4%)	
	Infrastructure investments	Strategic infrastructure implemented	Passenger trips via rail in Metro Manila (as share of total passenger trips via rail, cumulative) increased to 19% (2014 baseline: 11%) Percentage of households with access to safe water supply increased to 95.16% by 2022 (2014 baseline: 85.50%) Percentage of households with access to basic sanitation increased to 97.46% by 2022 (2014 baseline: 94.10%)	
		Local and foreign investments increased	Total approved investments reached ₱6,195 billion by 2022 (2016 baseline: ₱729 billion)	
Promoting local economic development	Local governance reforms	Culture-sensitive and gender-responsive governance policies formulated and implemented	Fully functional national governance index created by 2022 (with gender-sensitive indicators where relevant)	Ongoing portfolio Ongoing sovereign projects (as of 30 June 2018): Number: 5 Amount: \$492 million Planned operations and contribution: Sovereign Lending: \$2,710 million of regular OCR for 2018–2021
	Local government capacity development	Seamless service delivery achieved	Percentile ranking in the Worldwide Governance Indicators for regulatory quality improved to 60% by 2022 (2015 baseline: 53%)	
		Administrative governance enhanced	Percentile ranking in the Worldwide Governance Indicators for government effectiveness improved to 60% by 2022 (2015 baseline: 58%)	
	Urbanization and regional connectivity	Effective integration of rural areas to growth centers promoted	Poverty incidence in Region 12 (SOCCSKSARGEN) reduced to 15.25% by 2022 (2015 baseline: 30.50%)	
	Localized disaster risk management and finance	Local climate change adaptation and disaster risk reduction measures strengthened	Adaptive capacity and resilience index developed and integrated in existing monitoring systems by 2022	

CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Investing in people	Human development	Quality, accessible, relevant, and liberating basic education for all achieved	Mean years of schooling increased to 11.3 by 2022 ^b (2014 baseline: 8.9) Completion rate for junior high school increased to 78.48% by 2022 (2015 baseline: 73.97%)	Ongoing portfolio Ongoing sovereign projects (as of 30 June 2018): Number: 4 Amount: \$1,097 million Planned operations and contribution: Sovereign Lending: \$1,800 million of regular OCR for 2018–2021 Grant: \$3 million in 2018 and \$5 million in 2019 from the Japan Fund for Poverty Reduction
		Income-earning ability increased	Percentage of youth NEET reduced to 15%–18% by 2022 (2015 baseline: 22.7% total, 29% women, 17% men) Women's labor force participation increased to 51.3% in 2022 (2015 baseline: 49.3%)	
		Demographic transition accelerated, and demographic dividend maximized	Proportion of adolescents who have begun childbearing reduced to 6% in 2022 (2013 baseline: 10.1%) Youth unemployment rate reduced to 8% in 2022 (2016 baseline: 13.5% total, 12.7% men, 14.9% women)	
	Financial inclusion	Effectiveness of financial inclusion initiatives strengthened Access to economic opportunities by small farmers and fisherfolk increased	Number of access points per 10,000 adults exceeded 10.0 by 2022 (2016 baseline: 9.2) Percentage of adults with an account at a formal financial institution (as a share of total adult population) exceeded 22% by 2022 (2015 baseline: 22%) Share of small farmers borrowing from formal credit sources to total farmers availing credit increased to 68% by 2022 (2015 baseline: 62%)	
Social protection	Social protection expanded	Total government spending in SP to the national budget increased by 2022 (2015 baseline: 6.12%)		
Social innovation	Drive for innovation increased	Total government spending in social protection as a proportion of GDP increased in 2022 (2015 baseline: 6.1%)		

ADB = Asian Development Bank; CPS = country partnership strategy; GDP = gross domestic product; NEET = not in employment, education, or training; OCR = ordinary capital resources; SOCCSKSARGEN = South Cotabato, Cotabato, Sultan Kudarat, Sarangani and General Santos City.

^a Although the Philippine Development Plan, 2017–2022 does not include a gender-sensitive outcome indicator for infrastructure, it indicates that “access and other support facilities for marginalized sectors (senior citizens, persons with disabilities, women, etc.) will be integrated in the design of transport infrastructure projects” (page 302).

^b Average number of years of education received by people ages 25 years and older, converted from education attainment levels using official durations of each level. (Source: Human Development Report)

Sources: Asian Development Bank; and Government of the Philippines, National Economic and Development Authority. 2017. [Philippine Development Plan 2017–2022](#). Pasig.

COUNTRY KNOWLEDGE PLAN

A. Knowledge Needs

1. Philippine aspirations to become an upper middle-income country by 2022 highlight the increasingly important role the Asian Development Bank (ADB) should play in supporting policy reforms and encouraging innovation through targeted knowledge solutions. The Philippines has gained solid growth momentum in recent years, with average gross domestic product growth of 6.2% from 2011 to 2017, accelerating from 4.7% growth in 2000–2010 and 3.0% in the 1990s. To sustain strong growth to achieve this goal, the Government of the Philippines needs to overcome the challenges of addressing very complex public policy concerns typical of a middle-income country in areas related to infrastructure and competitiveness, taxation, capital markets, social development, employment, local economic development, environment sustainability, and climate change and disaster risk management. In requesting knowledge support for these concerns, the Philippines expects demand-led knowledge and the delivery of knowledge products and services, which are embedded in ADB’s country partnership strategy (CPS), 2018–2023 for the Philippines and ADB operations so that they have measurable impacts aligned with the country’s emerging strategic directions.

2. Knowledge has a critical role to play in addressing the Philippines’ complex challenges. The action plan for the Midterm Review of Strategy 2020 reemphasizes knowledge solutions as one of the key drivers of change whereby ADB can support its developing members through a combination of attractive financing, strategic partnerships, and high-quality knowledge as a way to maximize and accelerate development effectiveness.¹ The development of knowledge solutions is guided and supported by the Knowledge Management Directions and Action Plan 2013–2015, with four main goals: (i) prioritizing and implementing knowledge solutions; (ii) enriching the quality of ADB and developing member country knowledge capabilities for development effectiveness; (iii) advancing ADB’s knowledge assets, information systems, and communications; and (iv) empowering and resourcing high-quality knowledge solutions.²

3. This country knowledge plan, 2018–2023 provides an opportunity for comprehensive dialogue with the government on knowledge needs and ensures that the knowledge solutions provided by ADB are driven by demand and linked clearly to the CPS priorities. The plan also offers the oversight and management of knowledge solutions and for monitoring and evaluation of knowledge activities.

B. Scope of ADB’s Planned Knowledge Operations

4. The evolving development contexts have been shaped by (i) the widespread social and economic damage caused by Typhoon Yolanda;³ and (ii) the signing of the Comprehensive Agreement on the Bangsamoro, which provides opportunities to accelerate development in Mindanao.⁴ Thus, the country knowledge needs have evolved into a combination of themes that will contribute more effectively to the goal of achieving inclusive growth in the face of emerging environmental and economic challenges.

¹ ADB. 2014. [Midterm Review of Strategy 2020: Action Plan](#). Manila.

² ADB. 2013. [Knowledge Management Directions and Action Plan \(2013–2015\): Supporting “Finance++” at the Asian Development Bank](#). Manila.

³ Internationally known as Typhoon Haiyan.

⁴ Government of the Philippines, Office of the Presidential Adviser on the Peace Process. 2014. [The Comprehensive Agreement on the Bangsamoro](#).

5. Knowledge work will continue to focus on analytical and advisory support for preparing lending operations, capacity development, and lessons learned from monitoring and evaluating operations and developing and initiating government reform initiatives and innovations. The thematic assessments that were prepared to support the CPS, 2018–2023 identified four strategic directions for knowledge support of the Philippine knowledge needs: (i) sustainable, climate-, and disaster-resilient infrastructure; (ii) local economic development, governance, and regional cooperation; (iii) social innovations; and (iv) gender equality.

6. Table A2 summarizes the four strategic directions, which build on the knowledge foundation already in place and the anticipated knowledge needs.

Table A2: Strategic Directions of Country Knowledge Needs

Strategic Direction	Knowledge Foundation	Knowledge Needs 2018–2023^a
Sustainable, climate-, and disaster-resilient infrastructure	<p>Access to international practice and technology transfer for resilient and high-capacity transport and other infrastructure</p> <p>Knowledge base for guiding PPP development and systems for gathering and disseminating knowledge on PPP experiences</p> <p>Expanded knowledge solutions for sustainable urban transport, renewable energy, and water supply and solid waste management</p>	<p>Knowledge solutions and capacity development for infrastructure planning, design, implementation, and monitoring</p> <p>Knowledge building for PPP delivery, including capacity development for PPP implementers</p> <p>Knowledge solutions for climate-resilient urban infrastructure, renewable energy solutions, and social and institutional development for sustainable transport</p> <p>Institutional capacity development for urban infrastructure</p>
Local economic development, governance, and regional cooperation	<p>Knowledge solutions for public sector procurement, results-based management, gender equity, and local good governance including fiscal decentralization; initial development planning lessons from Mindanao</p> <p>Capacity development of financial institutions in support of capital market development</p> <p>Knowledge products and solutions to develop and implement policies, programs, and projects related to BIMP-EAGA and ASEAN</p>	<p>Knowledge solutions in support of government reform of local government finance and decentralization and capital market reforms</p> <p>Knowledge products on performance-informed and/or results-based budgeting systems in the bureaucracy</p> <p>Capacity development in support of development planning in Mindanao and studies for development of the South Central Mindanao Growth Corridor</p> <p>Knowledge solution for clarification of roles between LGUs and health insurance in financing health services</p> <p>Knowledge solutions for enhancing capacities to design and implement RCI priorities and improve institutional linkages between BIMP-EAGA and ASEAN</p> <p>Knowledge product on disaster risk insurance</p>
Social innovations	Demand-led knowledge support for decision making and further expansion of the social protection system	Knowledge support for the conditional cash transfer and social pension programs (targeting, delivery, benefit levels, capacity development for implementers)

Strategic Direction	Knowledge Foundation	Knowledge Needs 2018–2023 ^a
	<p>Knowledge-focused initiatives to address the critical gap between secondary and tertiary education and needs of the economy</p> <p>Development of knowledge on social innovations as market-based solutions to reduce poverty and solve social and environmental issues</p>	<p>Knowledge solutions for secondary education reform (voucher system, PPP projects, and demand-driven TVET) and capacity development for the Department of Education and TESDA</p> <p>Knowledge solutions for employment (youth training systems, labor market studies, rural enterprise development); knowledge products in support of Jobstart Philippines; and capacity development for the Department of Labor and Employment</p> <p>Knowledge products and events on social entrepreneurship (institutional support systems, economic analysis, legal framework, policy discussions)</p>
Gender equality	Knowledge base for promoting gender equality and mainstreaming gender in different sectors	<p>Gender perspective integrated in knowledge solutions and capacity development where relevant (e.g., infrastructure planning and design, urban infrastructure, social protection, secondary education and TVET, employment, finance, ASEAN integration)</p> <p>Best practices shared on gender mainstreaming in sectors</p> <p>Knowledge product on women's and men's time use and their share in unpaid care and domestic work</p>

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, BIMP-EAGA = Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, LGU = local government unit, PPP = public–private partnership, RCI = regional cooperation and integration, TESDA = Technical Education and Skills Development Authority, TVET = technical and vocational education and training.

^a The list of anticipated needs is not exhaustive and cannot include additional demand that will certainly arise as the implementation of ADB assistance goes forward.

Source: Asian Development Bank.

C. Areas of Collaboration with Partners

7. ADB will work closely with development partners and local stakeholders to enhance the relevance and impact of its knowledge support. As the Philippines' lead development partner, ADB will support closer coordination of sector and thematic analysis, policy dialogue, and sector reforms. ADB used the country knowledge strategy and plan, 2012–2015 for the Philippines to identify broad areas with potential for collaboration.⁵ ADB will use the preparation of the annual list of indicative knowledge publications and events as a structured opportunity to discuss new opportunities for collaboration with external partners.

⁵ ADB. 2012. *Country Operations Business Plan: Philippines, 2013–2015*. Country Knowledge Strategy and Plan, 2012–2015 (accessible from the list of linked documents in Appendix 2). Manila.

D. Resource Allocation

8. The country director of ADB's Philippines Country Office will be the knowledge custodian. The resident country economist will serve as the knowledge focal point for the Philippine country program and will work closely with sector and thematic group specialists across ADB in carrying out knowledge-related work in the Philippines. The knowledge focal point will pay careful attention to extracting knowledge from ongoing operations, especially where valuable lessons have been learned from project implementation. Technical assistance will be a key modality for knowledge support and will be financed from internal resources and supplemented, whenever feasible, by ADB-administered trust funds and other external sources.

E. Knowledge Competence

9. The NEDA board officially approved the Philippine development plan (PDP), 2017–2022 on 20 February 2017.⁶ The PDP is the first medium-term plan to be anchored on the national long-term vision, *AmBisyon Natin 2040*.⁷ The PDP were guided by the administration's 10-point socioeconomic agenda and is informed by inputs from the cross-section of stakeholders and the public.⁸

10. The long-term vision is based on in-depth thematic and sector analyses and consultations with Filipinos on their goals and aspirations for themselves and the country. It underscores the building of a responsive and agile economy to create more high-quality jobs, raising investments in infrastructure, social services, education and technology, and citizen-centered governance and institutions. The vision provides a guide and anchor for long-term development planning to ensure the continuity of policies and programs.

11. ADB has supported the program through the preparation of thematic studies in key areas of development, including health, education, employment, infrastructure, environment, and governance. These studies provide evidence-based assessments and help frame long-term strategies. ADB, in coordination with NEDA, has also conducted workshops convening experts from industry and academe, as well as youth representatives. The outcomes of the studies and workshops served as inputs to the PDP and the CPS.

⁶ Government of the Philippines, NEDA. 2017. [Philippine Development Plan, 2017–2022](#). Pasig.

⁷ Government of the Philippines, NEDA. 2016. [AmBisyon Natin 2040](#). Pasig.

⁸ Government of the Philippines, Department of Health. [10-Point Socioeconomic Agenda of the Duterte Administration](#).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=PHI-2018>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan