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Philippines First Sustainable Recovery DPL (P178634)

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Report No: PGD401

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$ 750 MILLION TO

REPUBLIC OF THE PHILIPPINES  
FOR THE

PHILIPPINES FIRST SUSTAINABLE RECOVERY DEVELOPMENT POLICY LOAN

May 16, 2023

Macroeconomics, Trade and Investment Global Practice  
Finance, Competitiveness and Innovation Global Practice  
East Asia And Pacific Region

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Republic of the Philippines

**GOVERNMENT FISCAL YEAR**

*January 1 – December 31*

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of May 10, 2023)

Currency Unit: Philippine peso

US\$1.00 = PHP 55.55

**ABBREVIATIONS AND ACRONYMS**

|                 |   |       |   |
|-----------------|---|-------|---|
| ADB             | Asian Development Bank                                  | IMF   | International Monetary Fund                           |
| ARTA            | Anti-Red Tape Authority                                 | IPCC  | Intergovernmental Panel on Climate Change             |
| ASA             | Advisory services and analytics                         | IRR   | Implementing Rules and Regulations                    |
| ASEAN           | Association of Southeast Asian Nations                  | IT    | Information technology                                |
| BIR             | Bureau of Internal Revenue                              | JMC   | Joint Memorandum Circular                             |
| BOP             | Balance of Payments                                     | LCC   | Life cycle cost                                       |
| BOT             | Build-Operate-Transfer                                  | LCCA  | Life cycle cost analysis                              |
| BSP             | Bangko Sentral ng Pilipinas                             | LCR   | Low carbon, resilient                                 |
| BTr             | Bureau of the Treasury                                  | LGU   | Local government unit                                 |
| BTMS            | Budget and Treasury Management System                   | MAGA  | Material Adverse Government Action                    |
| CCC             | Climate Change Commission                               | MSME  | Micro, small, and medium enterprises                  |
| CCDR            | Country Climate and Development Report                  | NEDA  | National Economic and Development Authority           |
| CES             | Clean Energy Scenario                                   | NGA   | National government agencies                          |
| CGA             | Contract granting authority                             | NPL   | Non-performing loans                                  |
| CL              | Circular letter   | NREP  | National Renewable Energy Program                     |
| CO <sub>2</sub> | Carbon dioxide  | NSWMC | National Solid Waste Management Council               |
| COA             | Commission on Audit                                     | NTA   | National tax allotment                                |
| COVID           | Coronavirus disease                                     | NTM   | Non-tariff measures                                   |
| CPF             | Country partnership framework                           | ODA   | Official development assistance                       |
| CREATE          | Corporate Recovery and Tax Incentives for Enterprises   | OE    | Obligated enterprises                                 |
| CREVI           | Comprehensive Roadmap for the Electric Vehicle Industry | OECD  | Organization for Economic Cooperation and Development |
| CSE             | Common use supplies and equipment                       | OLS   | Ordinary least squares                                |
| CY              | Current year  | PA    | Prior actions   |
| DA              | Department of Agriculture                               | PAP   | Programs, activities, and projects                    |
| DAO             | Department Administrative Order                         | PCB   | Program convergence budgeting                         |
| DC              | Department Circular                                     | PCIC  | Philippines Crop Insurance Corporation                |
| DBM             | Department of Budget and Management                     | PDMF  | Project Development and Monitoring Facility           |

|       |   |          |   |
|-------|---|----------|---|
| DENR  | Department of Environment and Natural Resources       | PDO      | Project Development Objectives                      |
| DOE   | Department of Energy                                  | PDP      | Philippine Development Plan                         |
| DOF   | Department of Finance                                 | PEFA     | Public Expenditure and Financial Accountability     |
| DOTr  | Department of Transportation                          | PEP      | Philippine Energy Plan                              |
| DPF   | Development policy financing                          | PFM      | Public Financial Management                         |
| DPL   | Development policy loan                               | PFRAM    | PPP Fiscal Risk Assessment Model                    |
| DTI   | Department of Trade and Industry                      | PhilGEPS | Philippine Government Electronic Procurement System |
| EAP   | East Asia Pacific                                     | PHP      | Philippine peso                                     |
| EO    | Executive Order                                       |          | Passive Income and Financial Intermediary Taxation  |
| EPR   | Extended Producer Responsibility                      | PIFITA   |   |
| EV    | electric vehicle                                      | PIP      | Public Investment Program                           |
| EVIDA | Electric Vehicle Industry Development Act             | PPI      | participation in infrastructure                     |
| FDI   | Foreign Direct Investment                             | PPIA     | Philippine Plastics Industry Association            |
| FIT   | Feed-in tariffs                                       | PPP      | Public private partnership                          |
| FMIS  | Fiscal management information system                  | PRO      | Producer Responsibility Organization                |
| FX    | Foreign exchange                                      | PS       | Procurement Service                                 |
| FY    | Fiscal year   | PSA      | Public Service Act                                  |
| GAA   | General Appropriations Act                            | PS RA    | Procurement Service Republic Act                    |
| GCRF  | Global Crisis Response Framework                      | RAS      | Reimbursable Advisory Services                      |
| GDP   | Gross domestic product                                | RSBSA    | Registry System for Basic Sectors in Agriculture    |
| GEAP  | Green energy auction program                          | RE       | Renewable energy                                    |
| GHG   | Greenhouse gas  | REA      | Renewable Energy Act                                |
| GNI   | Gross national income                                 | RWAN     | Rice Watch Action Network                           |
| GOP   | Government of the Philippines                         | SCD      | Systematic Country Diagnostic                       |
| GPP   | Green Public Procurement                              | SEC      | Securities and Exchange Commission                  |
| GPPB  | Government Procurement Policy Board                   | SPP      | Sustainable Public Procurement                      |
| GPRAM | General preferred risk allocation matrix              | SUP      | Single use plastic                                  |
| GRID  | Green, resilient, inclusive development               | TA       | Technical assistance                                |
| GRS   | Grievance Redress Service                             | TRAIN    | Tax Reform for Acceleration and Inclusion Act       |
| GW    | Gigawatt  | TSO      | Technical Support Office                            |
| IBRD  | International Bank for Reconstruction and Development | TCO      | Total Cost of Ownership                             |
| IC    | Insurance Commission                                  | US\$     | United States dollar                                |
| ICC   | Investment Coordination Committee                     | VAT      | Value-added tax                                     |
| ICE   | Internal Combustion Engine                            | WB       | World Bank  |
| ICT   | Information and communication technology              | WBG      | World Bank Group                                    |

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**REPUBLIC OF THE PHILIPPINES**

**PHILIPPINES FIRST SUSTAINABLE RECOVERY DPL**

**TABLE OF CONTENTS**

|   |           |
|---|-----------|
| <b>SUMMARY OF PROPOSED FINANCING AND PROGRAM .....</b>                  | <b>3</b>  |
| <b>1. INTRODUCTION AND COUNTRY CONTEXT .....</b>                        | <b>5</b>  |
| <b>2. MACROECONOMIC POLICY FRAMEWORK.....</b>                           | <b>7</b>  |
| 2.1. RECENT ECONOMIC DEVELOPMENTS.....                                  | 7         |
| 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY .....                | 11        |
| <b>3. GOVERNMENT PROGRAM .....</b>                                      | <b>18</b> |
| <b>4. PROPOSED OPERATION .....</b>                                      | <b>19</b> |
| 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION .....         | 19        |
| 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS .....          | 21        |
| <b>5. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY .....</b> | <b>40</b> |
| 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS .....    | 41        |
| <b>6. OTHER DESIGN AND APPRAISAL ISSUES .....</b>                       | <b>41</b> |
| 5.1. POVERTY AND SOCIAL IMPACT .....                                    | 41        |
| 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS .....   | 45        |
| 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....                        | 48        |
| 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY .....                    | 50        |
| <b>7. SUMMARY OF RISKS AND MITIGATION .....</b>                         | <b>51</b> |
| <b>ANNEX 1: POLICY AND RESULTS MATRIX .....</b>                         | <b>53</b> |
| <b>ANNEX 2: FUND RELATIONS ANNEX .....</b>                              | <b>57</b> |
| <b>ANNEX 3: LETTER OF DEVELOPMENT POLICY.....</b>                       | <b>61</b> |
| <b>ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE .....</b>     | <b>64</b> |

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

|            |              |                                     |
|------------|--------------|-------------------------------------|
| Project ID | Programmatic | If programmatic, position in series |
| P178634    | Yes          | 1st in a series of 2                |

**Proposed Development Objective(s)**

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

**Organizations**

Borrower: DEPARTMENT OF FINANCE

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

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

|                        |               |
|------------------------|---------------|
| <b>Total Financing</b> | <b>750.00</b> |
|------------------------|---------------|

**DETAILS**

|  |        |
|--|--------|
| International Bank for Reconstruction and Development (IBRD) | 750.00 |
|--|--------|

**INSTITUTIONAL DATA**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Overall Risk Rating**

Moderate

**Results**

| Indicator Name   | Baseline                                     | Target                                       |
|--|--|--|
| 1. Annual average foreign investment in Public Service Sectors (percent of GDP).   | 0.55 percent of GDP (2017-2022 average)      | 0.76 percent of GDP (2023-2025 average)      |
| 2. Time needed to reach final decision on PPPs by the ICC (Investment Coordination Committee) from receipt of a complete and compliant project proposal (months).                                  | 29.9 months (2022)                           | 12 months (2025)                             |
| 3. Annual average development cost of investment in solar projects (percent of GDP).   | 0.02 percent of GDP (2017-2022 average)      | 0.06 percent of GDP (2023-2025 average)      |
| 4. Share of electricity generation from renewable energy (percent).  | 22 percent (2021)                            | 28 percent (2025)                            |
| 5. Cumulative green jobs supported with incentives under the Green Jobs Act since 2023, jobholders disaggregated by sex.   | 0 (2022)                                     | 4,000 (2025)                                 |
| 6. Sustainability-related lending (loans to promote Renewable Energy and Energy Efficiency) by Domestic Systemically Important Banks (D-SIBs) (US\$ billion)                                       | PHP 232 billion or (US\$ 4.3 billion) (2022) | PHP 255 billion (or US\$ 4.7 billion) (2025) |
| 7. New sustainable finance instruments (e.g., green bonds, sustainability bonds, sustainability-linked bonds) issued by domestic companies in line with the sustainable finance taxonomy (percent) | 0 percent (2022)                             | 100 percent (2025)                           |
| 8. Recovery of plastic packaging as share of amount introduced into the market by Obligated Enterprises (OEs), Collectives, and Producer Responsibility Organizations (PROs) (percent).            | 0 percent (2022)                             | 40 percent (2025)                            |
| 9. Share of submitted EPR implementation programs with component on gender equality (percent).   | 0 percent (2022)                             | 5 percent (2025)                             |
| 10. Share of electric vehicles in the annual purchases of new cars by National Government Agencies (percent).  | Less than 1 percent (2022)                   | At least 10 percent (2025)                   |
| 11. Share of the 10 non-CSEs (Common use supplies and equipment) have become mandatory under the GPP (percent).  | 0 percent (2022)                             | At least 40 percent (2025)                   |
| 12. Financial resilience of Philippine Crop Insurance Corporation (PCIC) measured by compliance with Insurance Commission (IC) regulation.   | Not compliant (2022)                         | Compliant (2025)                             |



**IBRD PROGRAM DOCUMENT FOR A PROPOSED  
FIRST SUSTAINABLE RECOVERY DEVELOPMENT POLICY LOAN TO THE REPUBLIC OF THE PHILIPPINES**

**1. INTRODUCTION AND COUNTRY CONTEXT**

1. **This program document proposes the first operation in the amount of US\$ 750 million of a programmatic series of two Development Policy Loans (DPL) supporting a sustainable economic recovery.** The Program Development Objectives (PDOs) and pillars of the operation are to support Government of the Philippines' (GOP) reforms to: 1) accelerate the economic recovery and boost long-term growth; and 2) protect the environment and improve climate resilience. Pillar 1 includes reforms to attract private investment in infrastructure and renewable energy (RE) and promote green jobs and investments. Pillar 2 supports reforms to enhance plastic waste management, promote green transport and procurement, and strengthen the resilience of the agriculture sector.

2. **Consistent and robust economic growth from 2012 to 2019 has enabled a large part of the population to escape poverty.** The Philippines, a lower middle-income country, has been one of the most dynamic economies in the East Asia Pacific (EAP) region, with GNI per capita more than tripling over the past two decades to US\$3,550 in 2021. Poverty incidence sharply declined from 25.2 percent in 2012 to 16.7 percent in 2018, while inequality fell with the Gini index declining from 46.5 to 42.3 from 2012-2018. However, this was partially reversed by the COVID-19 pandemic, as growth contracted significantly in 2020. The economy has rebounded strongly in the years since, expanding at 5.7 percent and 7.6 percent respectively in 2021 and 2022, buoyed by resilient domestic demand and a recovery in the external environment.

3. **Advancing transformational economic reforms remains an imperative to not only accelerate but also sustain the economic recovery and boost long-term growth.** Despite the strong rebound from the pandemic, the economy faces external and domestic risks that can hamper its growth momentum. High global commodity prices, disruption of global supply chains, and tightening global financial conditions have contributed to rising inflation, weaker exchange rates, and tighter monetary policy in the Philippines. The higher interest rate environment, whose impact on credit growth comes with a lag, risks dampening private investments at a time of narrower fiscal space. Reforms to attract the necessary private investments and investing in the green economy and RE can unlock new sources of economic growth.

4. **Climate change poses major risks to growth and development in the Philippines and will affect the country's ability to meet its development goals and pursue green, resilient, and inclusive development.** The country is exposed to frequent natural disasters and thus prone to the impacts of climate change, which cause severe economic and fiscal shocks and threaten the country's socioeconomic development. Without mitigation action, climate change will impose substantial economic and human costs, affecting the poorest households the most. The World Bank's 2022 Philippines Country Climate and Development Report (CCDR) estimates that the economic damages in the country could reach up to 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040. All sectors will be affected, with capital-intensive sectors likely to suffer most from extreme events and agriculture suffering the most from slow-onset trends, while the private sector will be severely affected by both. Adapting to the risks of climate change, including extreme events and slow-onset problems, is thus critical for the long-term development goals.



5. **Although the Philippines is a relatively low emitter of greenhouse gases (GHGs), emissions are expected to rise substantially over the next decade.**<sup>1</sup> The overall share of fossil fuels in the primary energy supply increased from 60 to 67 percent from 2010 to 2019 due to the rapid growth of coal-fired power generation and sustained growth in oil demand from transport. The energy sector accounts for about half of total emissions, while agriculture is the second largest source, accounting for a quarter. Transport is the biggest fossil fuel-consuming sector – and the largest source of air pollution, causing an estimated 66,000 premature deaths a year – with GHG emissions likely to quadruple by 2050 under current scenarios and policies. Plastic waste management is also a growing problem in the country, which is among the top five emitters of plastic waste in the ocean, causing marine pollution and flood risks in drainage infrastructure.

6. **The Philippines also continues to face a complex range of structural challenges limiting its long-term growth potential.** While GNI per capita more than tripled over the past two decades, median incomes have increased at a much slower rate than GDP, and the pace of quality job creation has remained inadequate. To achieve its long-term vision of *AmBisyon Natin 2040*, the Philippines will need to overcome its longstanding constraints and challenges to sustain high levels of growth, increase quality job creation as well as strengthen climate and ecosystem resilience. Among these are (i) limited market competition in several key sectors as regulations create high barriers to entry; (ii) underinvestment in infrastructure, (iii) low foreign direct investment (FDI) resulting in part from regulatory restrictions, and (iv) low growth in the agriculture sector, in part due to the country’s vulnerability to natural disasters and weakness of relevant institutions.<sup>2</sup>

7. **To steer the Philippine economy back on its high-growth trajectory post-pandemic, facilitate the transition to a low carbon economy as well as strengthen climate and ecosystem resilience, the GOP is committed to deliver the reform priorities outlined in the Philippine Development Plan (PDP) 2023–2028.** The PDP calls for fundamental transformations across economic, institutional, environmental, and social sectors, with the overarching goals of reinvigorating job creation and accelerating poverty reduction towards a prosperous, inclusive, and resilient society. Among the main priorities outlined in the plan to invigorate growth are ensuring macroeconomic stability; promoting trade and investment; enhancing competition and improving regulatory efficiency; increasing employment opportunities; and expanding and upgrading critical infrastructures. To promote low-carbon, climate and ecosystem resilient growth, the GOP has developed a comprehensive set of policies and strategies in the PDP across low carbon economy transition and ecosystem resilience as well as climate and disaster risk resilience, which mirror the recommendations in the CCDR. These priorities will be underpinned by several cross-cutting strategies, including strategies to enhance connectivity and increase partnerships with the private sector, in which FDI will be harnessed as a key enabler of the country’s long-term climate actions.

8. **The proposed DPL series is expected to support the government’s reform efforts in accelerating the economic recovery, boosting long-term growth, and protecting the environment and improving climate resilience.** To steer the economy back on its high-growth trajectory in a fiscally constrained environment, Pillar 1 of proposed DPL series is focused on supporting ongoing government reforms to increase FDI in solar and wind energy as well as overall demand for RE, attract private investment in public infrastructure and improve the public-private partnership (PPP) framework. These reforms would help lay the foundation for realizing the country’s long-term development aspirations by facilitating a transition to a low-carbon economy and achieving greater energy security while reducing energy costs and harnessing

<sup>1</sup> The 2022 CCDR projects an increase in the GHG emissions from 234 MtCO<sub>2</sub>e in 2020 to 399 MtCO<sub>2</sub>e in 2030.

<sup>2</sup> World Bank, 2019, Systematic Country Diagnostic (SCD) of the Philippines.



private investment to upgrade critical public infrastructures. Pillar 2 supports reforms to enhance plastic waste management, promote adoption of electric vehicles (EVs), mainstream green procurement, and reduce climate-related fiscal risks from the agriculture sector. Collectively, these reforms would contribute to the Philippines' climate change mitigation and pollution management, and improve its resilience to climate risks.

9. **The reforms supported by the proposed DPL series are in line with the Bank's 2019-2023 Country Partnership framework (CPF) and corporate priorities.** The Prior Actions contribute to the objectives of the CPF, namely 5) Promote regulatory reforms to enhance competitiveness; 6) Improved efficiency of public service sectors in selected areas; 7) Improved income opportunities in agriculture; and 10) Increased resilience to natural disasters and climate change. They are also tagged to Pillar 4: Strengthening Policies, Institutions and Investments for Rebuilding, and Pillar 3: Strengthening Climate Resilience of the Global Crisis Response Framework (GCRF). The reforms are aligned with the green, resilient, and inclusive development (GRID) framework and aim to contribute to climate change mitigation and adaptation and to attract private investment.

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

11. **The macroeconomic policy framework is adequate for the purpose of the proposed operation.** The growth outlook is positive, anchored on buoyant domestic activities, a recovering services sector, and a sustained infrastructure investment push. The Bangko Sentral ng Pilipinas (BSP) has responded to rising inflation with monetary tightening, consistent with its inflation-targeting objective and responsive to global interest rate movements. Under its helm, the country has accumulated adequate foreign exchange reserves that provide a cushion against the impact of global shocks. It is expected to maintain a market-determined exchange rate regime as the first line of defense against external shocks. On fiscal policy, the authorities have publicly laid out its medium-term expenditure plan, reflecting a steadily declining fiscal deficit until 2028. Finally, the government's commitment to accelerate the pace of structural reforms as part of the recovery will further promote competitiveness and support growth. National government debt is sustainable owing to the expected growth recovery and fiscal consolidation.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

12. **The post-pandemic recovery is underway, as strong domestic demand outweighed external headwinds.** The economy grew by 7.6 percent in 2022 (5.7 percent in 2021). The substantial reduction in COVID-19 cases facilitated a full economic reopening which removed the stringent containment measures that were in place for nearly two years. The reopening led to the release of pent-up demand, which fueled the return of domestic activity, improved employment outcomes, and recovery of household incomes. The



strong domestic recovery tempered the impact of global headwinds from Russia's invasion of Ukraine, high global commodity prices, softening merchandise exports, and tightening global financing conditions. On a seasonally adjusted basis, output for 2022 has surpassed its pre-pandemic level, although the pace of recovery has been slower than some regional peers.

13. **The economic reopening buoyed domestic activity, fueling robust private consumption growth and the recovery of the services sector, which drove the economic recovery.** On the supply side, the reopening benefitted the services sector and drove growth in the wholesale and retail trade, tourism, and tourism-related sectors such as transportation, accommodation, and food services. Private construction activities drove industry growth, although decelerating global demand for goods weighed on exports and manufacturing. Meanwhile, the tepid performance of agriculture continued owing to typhoons, rising input costs, and low productivity. On the demand side, private consumption supported economic activity despite high inflation, driven by improved employment outcomes, steady remittances, and a recovery in household incomes. Meanwhile, net exports contributed negatively to growth, amid a slowdown in merchandise exports, and robust import growth which supported the domestic recovery (Table 1).

14. **The BSP tightened monetary policy, as the combination of global inflationary pressures and high domestic food inflation threatened to de-anchor inflation expectations.** Headline inflation averaged 5.8 percent in 2022 and peaked at 8.6 percent in January 2023. It has since slowed down to a still-high level of 6.6 percent in April 2023, well above the 2-4 percent target of the BSP. High inflation was fueled by elevated food prices, driven by domestic food supply shortfalls, and housing, water, and utilities due to elevated power and water rates, and higher rent. Moreover, the economic recovery has fueled demand-side price pressures as the output gap turns positive, with core inflation averaging 7.8 percent in the first four months of 2023. To reduce the impact of increasing global commodity prices, the government provided fuel subsidies to vulnerable sectors and temporarily lowered the tariff rates for the importation of key agricultural commodities and coal. In addition, the BSP has raised the key policy rate by 425 basis points to 6.25 percent.

15. **The current account deficit widened from 1.5 percent of GDP in 2021 to 4.4 percent in 2022.** This was driven by a wider trade deficit, which increased from 9.8 percent of GDP in 2021 to 13.3 percent of GDP in 2022. Strong merchandise import growth amid recovering domestic activity and rising global inflation outweighed and soft merchandise export growth fueled by external headwinds (e.g., tepid demand from China, overall weakness in global activity). To finance the current account deficit, the financial account recorded net inflows of 3.1 percent of GDP in 2022 due primarily to external borrowing and trade credits. Meanwhile, foreign direct investment (FDI) inflows fell from 3.0 percent of GDP in 2021 to 2.3 percent of GDP in 2022 amid fears of a global economic slowdown, high inflation, and tighter financing conditions. The combination of rising interest rate differential between the U.S. and the Philippines, capital outflows, and sharp increase in the current account deficit led to a 9.6 percent depreciation of the Philippine peso against the US dollar in 2022. Meanwhile, gross international reserves fell from 9.7 months of imports in December 2021 to 7.2 months in December 2022. The decline in reserves was fueled by exchange rate intervention by the BSP, as the peso reached a record low in end-September, and the National Government's payment of its foreign currency debt obligations.



**Table 1. Supply and Demand-side Contributions to Growth**

|   | 2019       | 2020        | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       |
|---|------------|-------------|------------|------------|------------|------------|------------|------------|
|   | Actual     |             |            |            | Projected  |            |            |            |
| <b>Real GDP growth, at constant market prices</b> | <b>6.1</b> | <b>-9.5</b> | <b>5.7</b> | <b>7.6</b> | <b>5.6</b> | <b>5.9</b> | <b>5.9</b> | <b>6.0</b> |
| Private Consumption                               | 4.3        | -5.8        | 3.1        | 6.1        | 4.2        | 4.5        | 4.7        | 4.4        |
| Government Consumption                            | 1.1        | 1.3         | 1.1        | 0.8        | 1.0        | 1.1        | 1.2        | 1.1        |
| Capital Formation                                 | 0.9        | -9.1        | 3.9        | 3.7        | 2.0        | 2.6        | 3.1        | 3.2        |
| Exports, Goods and Services                       | 0.8        | -4.7        | 2.2        | 3.0        | 2.0        | 2.2        | 2.4        | 3.0        |
| Imports, Goods and Services                       | 1.0        | -8.7        | 4.5        | 4.9        | 3.6        | 4.5        | 5.5        | 5.7        |
| Statistical Discrepancy                           | 0.0        | 0.0         | 0.0        | -0.9       |            |            |            |            |
| <b>Real GDP growth, at constant factor prices</b> | <b>6.1</b> | <b>-9.5</b> | <b>5.7</b> | <b>7.6</b> | <b>5.6</b> | <b>5.9</b> | <b>5.9</b> | <b>6.0</b> |
| Agriculture                                       | 0.1        | 0.0         | 0.0        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        |
| Industry  | 1.7        | -4.0        | 2.5        | 2.0        | 1.5        | 1.6        | 1.7        | 1.8        |
| Services  | 4.3        | -5.5        | 3.3        | 5.5        | 4.0        | 4.2        | 4.1        | 4.2        |

Sources: Government of the Philippines for actual data and World Bank for projections.

Note: Numbers may not add up due to rounding errors or statistical discrepancy.

16. **The fiscal deficit narrowed as the government exceeded its revenue collection targets while unwinding pandemic support.** The deficit eased from 8.6 percent of GDP in 2021 to 7.3 percent in 2022. Public spending declined from 24.1 percent of GDP in 2021 to 23.4 percent in 2022 as current operating expenditures fell due to the government reducing pandemic support. Meanwhile, revenue collection rose to 16.1 percent of GDP in 2022 (15.5 percent over the same period in 2021), driven by a surge in tax collections amid the domestic recovery. The Bureau of Customs exceeded its collection target amid stronger demand for imported goods, higher excise tax collections due to elevated global commodity prices, and more stringent anti-smuggling measures. Despite the large deficit and peso depreciation, national government debt increased only moderately from 60.4 percent of GDP at end-2021 to 60.9 percent of GDP as of end-2022 (Table 2) benefitting from fast growth and low real interest rates. However, national government debt remains significantly higher than the 39.6 percent of GDP recorded prior to the COVID-19 pandemic in 2019. The debt-portfolio mix is mainly from domestic sources (68.6 percent), and medium- and long-term (97.0 percent) as of end-2022.



Table 2. Key Economic Indicators

|  | 2020   | 2021  | 2022 1/ | 2023      | 2024 | 2025 | 2026 |
|--|--------|-------|---------|-----------|------|------|------|
|  | Actual |       |         | Projected |      |      |      |
| <i>In percent of GDP, unless otherwise stated.</i> |        |       |         |           |      |      |      |
| <b>Growth and inflation</b>                        |        |       |         |           |      |      |      |
| Gross domestic product (percent change)            | -9.5   | 5.7   | 7.6     | 5.6       | 5.9  | 5.9  | 6.0  |
| Inflation (period average)                         | 2.4    | 3.9   | 5.8     | 5.7       | 3.6  | 3.0  | 3.0  |
| <b>Savings and investment</b>                      |        |       |         |           |      |      |      |
| Gross domestic savings                             | 11.2   | 12.1  | 12.0    | 11.3      | 11.0 | 10.4 | 10.3 |
| Gross domestic investment                          | 21.4   | 22.3  | 22.9    | 23.3      | 24.5 | 26.2 | 27.7 |
| <b>Public sector</b>                               |        |       |         |           |      |      |      |
| National government balance                        | -7.6   | -8.6  | -7.3    | -6.0      | -5.1 | -4.1 | -3.9 |
| Primary balance                                    | -5.5   | -6.4  | -5.0    | -3.6      | -2.6 | -1.3 | -1.1 |
| Total revenue (government definition) 2/           | 15.9   | 15.5  | 16.1    | 15.8      | 15.8 | 16.0 | 16.2 |
| Tax revenue  | 14.0   | 14.1  | 14.6    | 14.3      | 14.3 | 14.4 | 14.5 |
| Total spending (government definition) 2/          | 23.5   | 24.1  | 23.4    | 21.8      | 21.0 | 20.1 | 20.1 |
| National government debt 3/                        | 54.6   | 60.4  | 60.9    | 61.3      | 62.0 | 61.5 | 61.0 |
| <b>Balance of payments</b>                         |        |       |         |           |      |      |      |
| Total exports                                      | 33.1   | 33.0  | 32.1    | 30.5      | 30.6 | 31.4 | 32.4 |
| Total Imports                                      | 29.9   | 34.6  | 36.1    | 35.4      | 36.7 | 38.2 | 40.0 |
| Remittances  | 9.2    | 8.9   | 8.9     | 8.9       | 9.0  | 9.1  | 9.1  |
| Current account balance                            | 3.2    | -1.5  | -5.4    | -4.2      | -3.5 | -3.0 | -2.9 |
| Foreign direct investment                          | 1.9    | 3.0   | 2.3     | 2.4       | 2.6  | 2.8  | 2.9  |
| Portfolio Investment                               | 0.5    | -2.6  | 1.3     | 1.1       | 1.0  | 0.8  | 0.7  |
| <b>International reserves</b>                      |        |       |         |           |      |      |      |
| Gross official reserves (billions of dollars) 4/   | 110.1  | 108.8 | 96.1    |           |      |      |      |
| Gross official reserves (months of imports) 5/     | 12.3   | 9.7   | 7.3     |           |      |      |      |
| <b>Foreign Exchange</b>                            |        |       |         |           |      |      |      |
| US dollar (end-of-period)                          | 48.0   | 50.8  | 56.1    |           |      |      |      |
| US dollar (average)                                | 49.6   | 49.3  | 54.5    |           |      |      |      |

Sources: Government of the Philippines for actual data and World Bank for projections.

1/ Balance of payments indicators are estimates.

2/ Revenues defined as "all cash inflows of the national government treasury which are collected to support government expenditures but do not increase liabilities." Expenditures defined as "are obligations that the government incurs that must be paid during or after the year when they were incurred."

3/ Including borrowing for the Bond Sinking Fund.

4/ Including gold.

5/ Defined as the total of goods and services imports and primary income that can be financed by reserves.

17. **Bank lending to the private sector expanded and the financial system has been broadly stable with adequate capital and sufficient buffers.** Amid economic reopening, private credit grew by 10.8 percent in December 2022, up from 3.8 percent in the same period last year and surpassing the increase in borrowing



reported in March 2020. The banking sector's overall capital adequacy ratio remains stable at about 17 percent, well above the BSP's regulatory threshold of 10 percent. On asset quality, the banking system's gross non-performing loan (NPL) ratio has been steadily declining since the peak of the pandemic (4.5 percent in July and August 2021) to 3.3 percent as of January 2023, though still above the 2.0 percent level in end-2019. The overall liquidity of the banking sector is sufficient to absorb funding shocks with a liquidity coverage ratio of 185.7 percent of end-December 2022. Banking sector profitability continued to improve and has now surpassed pre-pandemic levels: return on equity of the sector stood at 11.8 percent in Q4 2022 compared to 9.0 percent in Q4 2021 and return on assets at 1.4 percent compared to 1.1 percent in Q4 2021. The government deployed a broad range of financial sector policy measures<sup>3</sup> to withstand the impact of the pandemic. As of 2023, most temporary relief measures introduced during the COVID-19 pandemic have already lapsed save for those that incentivize lending to MSMEs.<sup>4</sup> Loans to MSMEs represent a small share of the overall loan portfolio (0.01 percent of the Total Loan Portfolio as of September 2022). Forward-looking indicators of asset quality have deteriorated: restructured loans to total loans increased from 0.41 percent in January 2020 to 2.6 percent in December 2022. However, the banking sector appears to have sufficient buffers as the level of provisioning stands at 106.3 percent of NPLs as of January 2023.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **While the economy outperformed expectations in 2022, growth will moderate over the medium-term averaging 5.8 percent in 2023-26.** Over the medium-term, growth will remain anchored on domestic demand, an increase in investment amid the passage of recent reforms, and a public investment program that remains supportive of economic recovery. However, growth is expected to decelerate to 5.6 percent in 2023 as domestic demand is expected to moderate in the near term, amid persistently high inflation and continued monetary policy tightening. Private consumption growth will weaken in 2023, as pent-up demand fades and as inflation is expected to remain above target at 5.7 percent in 2023, while monetary policy tightening continues. In addition, tighter financing conditions and elevated uncertainty from a weak external environment will dampen private credit growth and subdue investments. While public investments will remain high, public investment growth is expected to moderate slightly in line with fiscal consolidation as the public infrastructure program declines from the actual level of 5.8 percent of GDP in 2022 to an average of 5.1 percent in 2023-25. Moreover, global growth is expected to slow in 2023, reflecting synchronous policy tightening aimed at containing high inflation, the deterioration of financial conditions, and disruptions due to Russia's invasion of Ukraine.

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<sup>3</sup> As of December 2021, around 57 monetary, payment system, liquidity, and prudential measures were deployed to support the system's resilience to withstand the impact of COVID-19. These included lowering of reserve requirements to 12 percent and inclusion of Small and Medium-Scale Enterprise (SME) loans in the calculation of reserve requirements; a 60-day loan moratorium on all bank loan repayments that expired in March 2021, and a strong form of forbearance that delays the recognition of NPLs and rolls forward provisioning for five years.

<sup>4</sup> As of mid-2022, BSP internal analysis suggests that the expiration of the remaining forbearance measures is unlikely to cause a significant increase in the level of NPL. The relief measures that were extended until end June 2023 include the reduced credit risk weight for current loans to MSMEs and the utilization of loans to MSMEs as alternative form of compliance with the reserve requirements.



19. **The impact of the investment reforms can offset the reduction in post-pandemic potential growth.** Firm closures have contributed to permanent income losses.<sup>5</sup> Some surviving firms face impaired balance sheets and are deferring productive investments. Disruption in education and a higher incidence of malnutrition among the poor are eroding human capital and hurting people’s future earning potential. The pandemic has had an adverse impact on the economy, lowering the long-term growth potential to a projected 5.7 percent, on average, in 2020–29, below the pre-pandemic estimate of more than 6.0 percent. The challenge is to limit the scarring by capitalizing on growth opportunities such as the acceleration of digitalization and implementing a catch-up plan to mitigate the adverse socio-economic impacts of the pandemic. The reforms supported by this operation are expected to improve the Philippines’ potential growth by facilitating an increase in private investment<sup>6</sup> and provide funding to climate adaptation and mitigation measures which could reduce fiscal risks associated with natural disasters.

20. **The current account balance is expected to remain in deficit over the medium term financed by net FDI inflows and external borrowing.** Import growth is expected to remain elevated over the medium term, as the authorities remain committed to the public infrastructure investment agenda. External demand for merchandise exports is expected to moderate in 2023 amid a sharp slowdown in global activity, with better prospects in 2024-25, as global growth steadily improves. However, services exports will remain robust due to the recovery of international tourism and strong growth in the Business Process Outsourcing sector. Growth of remittance inflows is projected to moderate to 3.0 percent in the medium term amid the deceleration in global activity. The current account deficit is expected to be financed primarily by net FDI inflows as well as net portfolio inflows and international bond issuances. After approving key investment laws, the government is preparing regulations to implement the reforms to attract more FDIs into the country.

**Table 3. External Financing and Sources (2020 – 2025)**

|                                    | 2020                   | 2021       | 2022        | 2023        | 2024        | 2025        |
|------------------------------------|------------------------|------------|-------------|-------------|-------------|-------------|
|                                    |                        | Actual     |             |             | Projections |             |
|                                    | <i>In billion US\$</i> |            |             |             |             |             |
| <b>Financing requirement</b>       | <b>-7.9</b>            | <b>6.4</b> | <b>20.9</b> | <b>21.9</b> | <b>20.3</b> | <b>18.9</b> |
| Current account deficit            | -11.6                  | 5.9        | 17.8        | 19.4        | 17.9        | 16.9        |
| General government amortization    | 1.2                    | 1.2        | 1.0         | 2.4         | 2.4         | 2.0         |
| Net Errors and Omissions           | 2.5                    | -0.8       | 2.0         | 0.0         | 0.0         | 0.0         |
| <b>Financing sources</b>           | <b>-7.9</b>            | <b>6.4</b> | <b>20.9</b> | <b>21.9</b> | <b>20.3</b> | <b>18.9</b> |
| Net FDI                            | 6.8                    | 12.0       | 9.2         | 11.0        | 13.5        | 15.5        |
| Net Portfolio Investments          | 1.7                    | -10.2      | 1.2         | 5.1         | 5.1         | 4.5         |
| Net All Other Flows                | -8.9                   | 0.3        | -1.5        | -5.7        | -6.3        | -6.9        |
| Gross general government borrowing | 8.5                    | 5.6        | 4.7         | 5.7         | 6.5         | 5.0         |
| Change in reserve assets           | -16.0                  | -1.3       | 7.2         | 5.7         | 1.5         | 0.7         |

Source: Government of the Philippines for actual data and World Bank for projections.

<sup>5</sup> A 2022 World Bank Firm Survey shows that in March 2022, nearly 28 percent of firms in the Philippines remain closed due to the pandemic.

<sup>6</sup> The Philippines has received initial investment pledges of US\$13.7 billion in wind and solar energy after the implementing the reform to allow 100 percent foreign ownership in solar and wind projects. <https://solarquarter.com/2023/01/09/the-philippines-gets-13-7b-investment-pledges-from-chinese-companies-for-renewable-energy/>



21. **Monetary policy is expected to further tighten in the face of inflationary pressure and interest rate hikes in advanced economies.** Headline inflation is expected to remain elevated at 5.7 percent in 2023, before declining to within the BSP's target range of 2-4 percent by 2024. Inflation will be driven by elevated food and fuel prices arising from production challenges in the domestic food supply and exacerbated by Russia's invasion of Ukraine. The current episode of synchronous monetary policy tightening globally has led to the tightening of global financial conditions, capital outflows, and currency depreciation from emerging economies. These external challenges have channeled through the Philippines in the form of high inflation, peso depreciation, higher interest rates, and increased capital market volatility. The BSP is expected to continue to follow its mandate of price stability and tighten monetary policy to ensure inflation expectations remain anchored and within the target range.

22. **The pace of public spending is expected to decelerate in line with the medium-term fiscal consolidation program.** Although the Philippines does not have strict fiscal rules, the authorities expanded the coverage of its medium-term fiscal framework to 2028 to establish its commitment to fiscal consolidation. The Philippines has had a history of strong commitment to fiscal discipline, as its fiscal deficit averaged 2.0 percent of GDP between 2011-2019. Over the forecast horizon, the fiscal deficit is expected to decline to 3.9 percent of GDP by 2026, as the early stages of fiscal consolidation will be led by the decline in public spending. Total expenditure is expected to decline from 23.4 percent of GDP in 2022 to 20.1 percent in 2026. The reduction is driven by an anticipated decline in recurrent operating expenditure from 18.0 percent of GDP in 2022 to 15.0 percent in 2026, gradually returning to pre-pandemic levels. This decline will be driven by the unwinding of pandemic support, the impact of the national government's functional devolution to local government units (LGUs), and efforts to pursue a leaner and more efficient bureaucracy. The government is currently pursuing reforms that aim to improve the efficiency of public spending through the Budget Modernization Bill, which institutionalizes the cash-based budgeting system which aims to strengthen fiscal discipline and improve the efficiency of public spending. In addition, the Government Rightsizing Bill is currently in the legislative pipeline, which aims to create a leaner and more efficient bureaucracy by removing redundancies in functions within the government. Meanwhile, while the government remains committed to its public infrastructure investment push, as capital outlays are expected to decline from 5.9 percent of GDP in 2022 to 5.1 percent in 2026.

23. **The government's efforts to pursue fiscal consolidation through a strategic reduction in public expenditures will be complemented by efforts to improve revenue collection.** Tax revenues are expected to decline to 14.3 percent of GDP in 2023 amid slower economic growth, lower import duties due to a moderation in global commodity prices, and the second tranche of reductions in personal income taxes from the TRAIN law. Tax collections are expected to reach pre-pandemic levels in 2026, amid sustained growth, and efforts to improve tax collection through tax policy and administration reforms. In order to support its fiscal consolidation target for revenue, the government has proposed a strategic framework in the PDP. The government is expected to increase tax revenues by 0.5 percent of GDP over the medium-term through several tax policy and administration measures that are currently in the legislative pipeline. These measures include the introduction of a VAT on digital services, the new fiscal regime for the mining sector, a tax on single use plastics, the removal of excise tax exceptions on pickup trucks, and the modernization of tax administration through the Ease of Paying Taxes bill. The baseline projection currently incorporates the passage of three priority tax policy measures<sup>7</sup> is expected to increase revenues by an estimated annual

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<sup>7</sup> These measures include the bill which will impose an excise tax on disposable plastic bags, a bill which seeks to impose a value added tax on foreign digital service providers, and package 4 of the Comprehensive Tax Reform Program which will remove the tax exemption for pickup trucks, while increasing the tax rate on foreign currency deposit units to 20 percent.



average of 0.2 percent of GDP beginning in 2024. Moreover, it is projected that there will be sufficient fiscal space for the subsidies, incentives, and tax exemptions from prior actions and triggers supported by this program.

24. **Fiscal financing needs are expected to remain elevated in the short-term due to the pandemic shock, and in the medium term as the fiscal deficit remains substantial.** The financing needs are estimated to reach 12.6 percent of GDP in 2023, driven by the elevated fiscal deficit and debt amortization, before gradually declining in succeeding years. The higher amortizations from 2021 to 2022 partly reflect the repayment of non-interest-bearing short-term loans from BSP, while the sharp increase in domestic amortization in 2023 and 2024 reflects the maturity of three-year government bonds issued in 2020 and 2021. Interest payments are expected to be higher than pre-pandemic levels due to rising interest rates. Throughout the forecast horizon, the financing profile is expected to be manageable as the government plans to rely heavily on domestic financing sources (around 75 percent of total financing) with medium to long-term maturities.

25. **Although national government debt has increased significantly since 2020, the combination of fiscal consolidation and the growth recovery will keep debt levels sustainable.**<sup>8</sup> The national government debt ratio is projected to continue to increase in the short term and peak at 62.0 percent in 2024. Debt remains sustainable as the debt-to-GDP ratio is expected to revert to a downward trajectory through 2025-2026 due to fiscal consolidation and the growth recovery. Contingent liabilities have declined from 2.6 percent of GDP in 2020 to 1.8 percent of GDP in 2022. The amended BOT regulations do not change the nature of contingent risks, while the expansion of PPPs under this program are not expected to lead to greater risk to the fiscal position. The risk for the pipeline PPP is managed by contingency allocation in the budget and the realization of sellable asset value in the event of default. Recently, combined claims (under review) from project proponents for occurrences of MAGA due to actions by the government during the COVID-19 pandemic was less than 0.1 percent of GDP.<sup>9</sup> Debt composition is expected to remain stable with low shares of short-term debt and foreign-currency-denominated debt, in line with the government debt management strategy.

26. **The debt dynamics appear resilient against different shocks.** Four different scenarios were considered including shocks on the real growth rate, interest rate, real exchange rate, and the primary balance. Among these scenarios, the most significant shocks are those originating from deviations in the real GDP growth rate and the primary balance. If projected growth rates are reduced by a third or the primary deficits raised by 120 bps in the next two years, national government debt will increase to a higher path with a debt ratio peaking around 66.0 percent or 64.5 percent, respectively, in 2025 before declining in the medium run. A real exchange rate shock (i.e., five percent real exchange rate shock with a 0.25 pass-through to inflation), and an interest rate shock (i.e., 300 bps interest rate increase) would have a small impact on the debt path (Figure 1). In the worst-case scenario of combined macro-fiscal shock, the debt ratio will peak at 69.2 percent of GDP in 2025. In addition, a climate shock similar to Typhoon Haiyan<sup>10</sup> in 2024 would entail a shock to real GDP growth (0.5 percentage point (ppt) decrease), narrow the tax base, and increase public

<sup>8</sup> In the debt sustainability analysis, national government debt comprises the national government's outstanding debt from domestic and external sources. Domestic borrowings are mainly in the form of treasury bonds and treasury bills, while external borrowings are bilateral and multilateral loans, and commercial bonds such as U.S. dollar bonds, Eurobonds, Yen bonds, and peso-denominated bonds.

<sup>9</sup> Department of Finance, Department of Budget Management. 2023 Fiscal Risk Statement.

<sup>10</sup> Paragraph 29 details the potential damages caused by climate change in more detail, including the impact of Typhoon Haiyan on the Philippines.



expenditures due to reconstructions and relief costs. This would increase the primary deficit by 2 percentage points, leading to an increase in debt-to-GDP ratio to 64.3 percent, 2.3 ppt higher than the baseline.

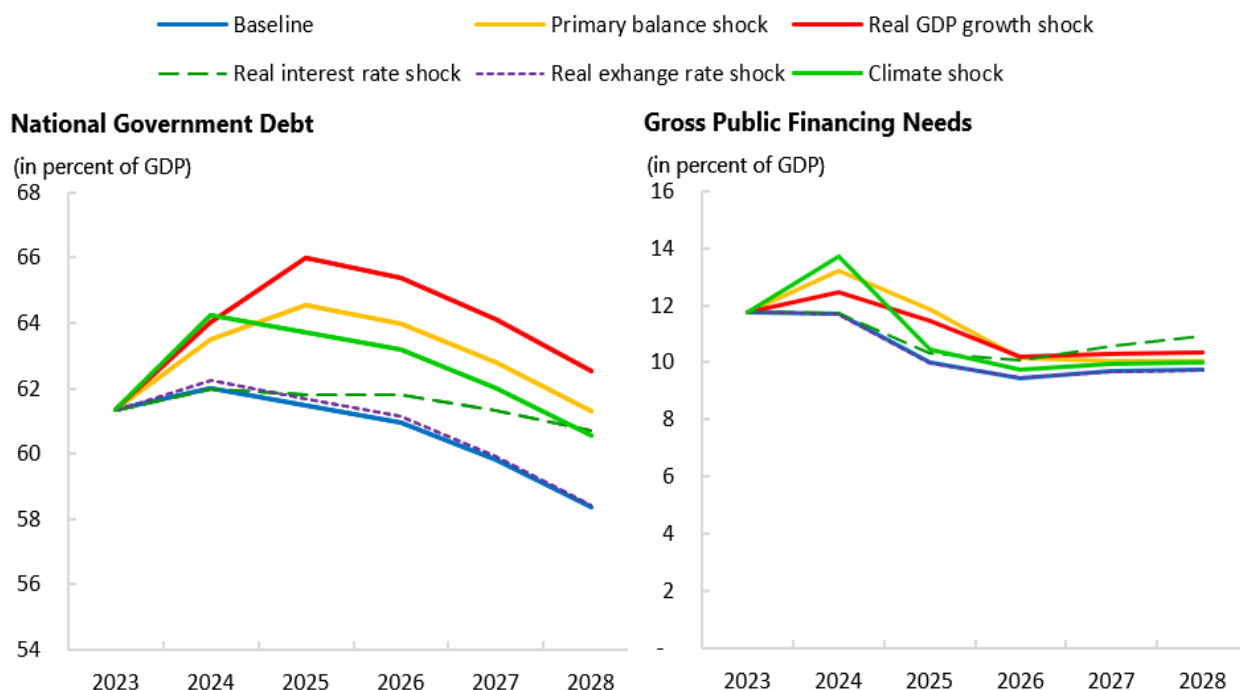
Table 4. Key Fiscal Indicators

|   | 2020   | 2021        | 2022        | 2023        | 2024        | 2025        | 2026        |
|---|--|-------------|-------------|-------------|-------------|-------------|-------------|
|   | Actual   | Estimate    |             | Projected   |             |             |             |
|   | <i>In percent of GDP, unless otherwise stated.</i> |             |             |             |             |             |             |
| <b>Overall Balance</b>                        | <b>-7.6</b>  | <b>-8.6</b> | <b>-7.3</b> | <b>-6.0</b> | <b>-5.1</b> | <b>-4.1</b> | <b>-3.9</b> |
| Primary Balance                               | -5.5   | -6.4        | -5.0        | -3.6        | -2.6        | -1.3        | -1.1        |
| <b>Total Revenues (and grants)</b>            | <b>15.9</b>  | <b>15.5</b> | <b>16.1</b> | <b>15.8</b> | <b>15.8</b> | <b>16.0</b> | <b>16.2</b> |
| <b>Tax Revenues</b>                           | <b>14.0</b>  | <b>14.1</b> | <b>14.6</b> | <b>14.3</b> | <b>14.3</b> | <b>14.4</b> | <b>14.5</b> |
| Taxes on net income and profits               | 5.8  | 5.5         | 5.3         | 5.4         | 5.4         | 5.7         | 5.8         |
| Taxes on Domestic Goods and Services          | 4.3  | 4.4         | 4.3         | 4.5         | 4.6         | 4.6         | 4.7         |
| General Sales, Turnover, or VAT               | 1.9  | 2.0         | 1.9         | 2.2         | 2.2         | 2.2         | 2.3         |
| Selected Excises on Goods                     | 1.6  | 1.6         | 1.6         | 1.5         | 1.6         | 1.5         | 1.6         |
| Selected Taxes on Services                    | 0.7  | 0.7         | 0.7         | 0.7         | 0.7         | 0.7         | 0.7         |
| Other Domestic Taxes                          | 0.1  | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Taxes on International Trade and Transactions | 3.0  | 3.3         | 3.9         | 3.4         | 3.4         | 3.3         | 3.2         |
| Other Taxes                                   | 0.8  | 1.0         | 1.1         | 1.0         | 0.9         | 0.8         | 0.8         |
| <b>Non-tax revenue</b>                        | <b>2.0</b>   | <b>1.4</b>  | <b>1.5</b>  | <b>1.5</b>  | <b>1.6</b>  | <b>1.6</b>  | <b>1.6</b>  |
| <b>Total Expenditures</b>                     | <b>23.5</b>  | <b>24.1</b> | <b>23.4</b> | <b>21.8</b> | <b>21.0</b> | <b>20.1</b> | <b>20.1</b> |
| <b>Current operating expenditures</b>         | <b>18.5</b>  | <b>18.0</b> | <b>17.4</b> | <b>16.8</b> | <b>16.0</b> | <b>15.1</b> | <b>15.0</b> |
| Personnel Services                            | 6.6  | 6.6         | 6.3         | 6.0         | 5.7         | 5.4         | 5.3         |
| Maintenance and other operating expenditures  | 4.9  | 4.5         | 4.0         | 3.7         | 3.4         | 2.8         | 2.7         |
| Subsidy                                       | 1.3  | 1.0         | 0.9         | 0.8         | 0.6         | 0.5         | 0.5         |
| Allotment to Local Government Units           | 3.5  | 3.5         | 3.8         | 3.8         | 3.6         | 3.5         | 3.5         |
| Interest Payments                             | 2.1  | 2.2         | 2.3         | 2.4         | 2.6         | 2.8         | 2.9         |
| Tax Expenditures                              | 0.2  | 0.2         | 0.2         | 0.2         | 0.1         | 0.1         | 0.0         |
| <b>Capital Outlays</b>                        | <b>4.9</b>   | <b>6.0</b>  | <b>5.9</b>  | <b>5.0</b>  | <b>5.0</b>  | <b>5.1</b>  | <b>5.1</b>  |
| Infrastructure & other capital outlay         | 3.8  | 4.6         | 4.6         | 4.0         | 4.0         | 4.2         | 4.2         |
| Equity  | 0.1  | 0.2         | 0.1         | 0.2         | 0.2         | 0.0         | 0.0         |
| Capital transfer to local government units    | 1.0  | 1.1         | 1.2         | 0.8         | 0.8         | 0.9         | 0.9         |
| <b>Net Lending</b>                            | <b>0.1</b>   | <b>0.1</b>  | <b>0.1</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |
| <b>National Government Financing (gross)</b>  | <b>15.3</b>  | <b>13.3</b> | <b>9.8</b>  | <b>12.6</b> | <b>12.5</b> | <b>10.7</b> | <b>10.1</b> |
| External (gross)                              | 4.1  | 2.9         | 2.4         | 3.0         | 2.8         | 2.4         | 1.9         |
| Domestic (gross)                              | 11.1   | 10.4        | 7.5         | 9.6         | 9.7         | 8.3         | 8.2         |
| <b>National Government Debt</b>               | <b>54.6</b>  | <b>60.4</b> | <b>60.9</b> | <b>61.3</b> | <b>62.0</b> | <b>61.5</b> | <b>61.0</b> |

Sources: Bureau of the Treasury, Department of Budget and Management, Philippine Statistics Authority, and World Bank projections.



Figure 1. National Government Debt-to-GDP Projections under Alternative Scenarios



Source: World Bank staff calculations.

Table 5. External Debt Composition (September 2022)

|                               | US\$ million   | Share of Total Debt | Percent of GDP |
|-------------------------------|----------------|---------------------|----------------|
| <b>Total External Debt</b>    | <b>107,910</b> | <b>22.9</b>         | <b>29.9</b>    |
| Monetary Authorities          | 3,679          | 0.8                 | 1.0            |
| General Government            | 56,801         | 12.1                | 15.8           |
| Banks                         | 19,071         | 4.0                 | 5.3            |
| Other Sectors                 | 28,358         | 6.0                 | 7.9            |
| Of which intercompany lending | 3,789          | 0.8                 | 1.1            |
| Long term                     | 91,532         | 19.4                | 25.4           |
| Short term                    | 16,378         | 3.5                 | 4.5            |

Source: BSP, PSA.

27. **The growth outlook faces significant downside risks.** On the domestic front, food security may be challenged given the weak agriculture sector and tighter domestic and global food commodity supplies. Future energy and food shocks brought about by protracted geopolitical conflicts and extreme weather events remain key downside risks in the foreseeable future. This could lead to persistently high inflation, which would erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. It could also lead to pressure on the government to offer additional subsidies, amid relatively tight fiscal space, although the government has avoided this so far by offering increased social protection and targeted cash transfers. With the Philippines among the world’s most disaster-prone countries, climate-related disasters risk lives and livelihoods and impose additional fiscal costs on the government.



28. **On balance, risks on the external front remain tilted to the downside, although the emergence of several upside risks could soften the global growth slowdown.** While baseline forecasts already suggest a moderation in global economic activity, the possibility of additional shocks amid synchronous monetary policy tightening by major central banks and fiscal policy tightening globally could trigger a sharper downturn in growth. The added financial stress could compound the rising fiscal and financial vulnerabilities. Moreover, these adverse developments can weaken business and consumer confidence and temper private sector investment and consumption, key drivers of growth. Under a sharper-than-expected global slowdown, external demand will continue to weaken and reverberate into weakness in manufacturing activities. On the domestic front, the threat of a prolonged episode of persistently high inflation and an acceleration in monetary policy tightening may moderate domestic demand, manifesting in weaker household consumption and capital investment growth. On the domestic front, the threat of persistently high inflation remains as the most significant downside risk to the growth outlook. Higher-than-expected inflation will likely dampen private consumption growth further, and lead to even more aggressive monetary policy tightening, which could weigh on private investment growth. However, the emergence of several upside risks could soften the global growth slowdown and provide an additional mitigating factor to recession risk. A faster-than-expected recovery from China and increased resilience in advanced economies could provide substantial positive spillovers to global activity, while faster disinflation amid a moderation in commodity prices could lead to less monetary tightening.

29. **Climate shocks, in the form of extreme weather events or slow-onset trends will continue to weigh on the country's immediate recovery and long-term inclusive growth prospects.** These climate shocks disrupt economic activities, damage infrastructure, and induce deep social disruptions. On average, annual losses from typhoons are currently estimated at 1.2 percent of GDP and as much as 4.6 percent of GDP in extreme cases like Super Typhoon Yolanda (Haiyan) in 2013. By 2030, The average estimated loss of GDP is at least 3.2 percent, rising to at least 5.7 percent by 2040. However, the impacts could be much worse, reaching 7.6 percent of GDP by 2030 and 13.6 percent by 2040.<sup>11</sup> As a result, the cost of inaction could severely undermine the Philippines' collective long-term vision to be free from poverty by 2040 and remains a constant downside risk to the country's outlook. Measures to adapt to climate change could help safeguard the country's inclusive growth prospects, potentially reducing economic losses by two-thirds. However, policies to address climate shocks can negatively impact growth, narrow fiscal space, crowd out investment, and impact productivity. For example, though adaptation measures could boost growth in both the short and long-term through increased investments in infrastructure, these measures are costly and could crowd out other investments such as in health and education. Meanwhile, mitigation measures that reduce air pollution would strengthen human capital through lower morbidity and mortality but may also increase production costs incurred by the private sector.

30. **The macroeconomic policy framework is adequate for the proposed operation.** The growth outlook is positive, anchored on domestic demand, a recovering services sector, and a public infrastructure investment agenda that will gain steam over the forecast horizon. The BSP has responded to rising inflation with monetary tightening, consistent with its inflation-targeting objective and responsive to global interest rate movements. Under its helm, the country has accumulated adequate foreign reserves that provide a cushion against the impact of global shocks. It is expected to maintain a market-determined exchange rate regime as the first line of defense against external shocks. On fiscal policy, the authorities have publicly laid out its medium-term expenditure plan, reflecting a steadily declining fiscal deficit, through a declining share of expenditures to GDP until 2026 and is expected to gradually raise revenues through tax reforms. Finally,

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<sup>11</sup> Please refer to the Debt Sustainability Analysis to see the potential impact on the fiscal space and national government debt.



the government's commitment to accelerate the pace of structural reforms as part of the recovery will further promote competitiveness and support growth. National government debt is sustainable owing to the expected growth recovery and fiscal consolidation. However, inaction on the climate adaptation agenda threatens the country's post-pandemic recovery and long-term inclusive growth prospects.

### 3. GOVERNMENT PROGRAM

31. **The GOP is committed to achieving the medium-term development objectives outlined in the PDP 2023-28.** The PDP's strategic framework is guided by *AmBisyon Natin 2040*, the long-term development aspirations of the country towards a strongly rooted, comfortable, and secure life for all.<sup>12</sup> It is organized according to three objectives a) develop and protect capabilities of individuals and families; b) transform production sectors to generate more quality jobs and produce competitive products; and c) foster an enabling environment encompassing institutions, the physical and natural environment. It also reflects the GOP's policies, strategies, and legislative priorities in line with the 8-Point Socioeconomic Agenda to address structural constraints to generating more jobs, quality jobs, and green jobs over the medium term.

32. **The PDP aims to make trade and investment strong drivers of growth.** Underlying these priorities is a commitment to promote investment, including FDI, and to facilitate stronger partnerships with the private sector, including by strengthening and facilitating PPPs to upgrade infrastructure and to maintain infrastructure investment at 5 to 6 percent of GDP. Policies enabling open and competitive markets are expected to complement these reforms, and businesses are expected to benefit from lower transaction costs, a healthy regulatory environment, and protection from anti-competitive practices.

33. **The GOP has also made commitments through the PDP to promote RE sources, strengthen green public procurement and enhance waste and plastics management.** Under the PDP, the GOP is committed to liberalize foreign ownership of renewable generation to stimulate investment towards efficient energy transition and achieve 50 percent share of RE in power generation by 2040. Concurrently, the implementation of green public procurement (GPP) will also be strengthened under the PDP as part of the broader initiative to guide consumer behavior towards sustainable products and services. To reduce air pollution from the transport sector, the GOP has institutionalized the promotion of EVs through passing the Electric Vehicle Industry Development Act (EVIDA) and made commitment in the PDP to implement the Comprehensive Roadmap for Electric Vehicle Industry (CREVI). The legislative reforms on solid waste and plastics management have also gained momentum by phasing out single use plastics (SUP) and introducing plastic bags excise tax and Extended Producer Responsibility (EPR).

34. **To accelerate climate mitigation and adaptation efforts, the GOP has developed a comprehensive set of policies and strategies in the PDP to facilitate low carbon economy transition and strengthen ecosystem and disaster risk resilience.** To enable low carbon economy transition, the GOP committed to implement the Nationally Determined Contribution (NDC) policies and measures, strengthen the private sector investments in green development, expand market opportunities for related technologies, and facilitate just transition of the workforce in a greener economy. The GOP will fast-track the development and implementation of the Green Jobs Assessment and Certification Guidelines to operationalize the Green Jobs Act and incentivize businesses to invest in green products and services. The GOP will also intensify ecosystem protection, rehabilitation, and management, as well as promote and expand natural resource-based

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<sup>12</sup> "matatag, maginhawa, at panatag na buhay sa lahat".



industries and enterprises to enhance ecosystem resilience. To enhance climate and disaster risk resilience, the GOP will boost multistakeholder partnership and strengthen the capacity of LGUs and communities in disaster prevention and preparedness, increase public awareness of risk and vulnerability, and strengthen the implementation of the National Climate Risk Management Framework.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. **The proposed DPL series aims to support the reforms of the GOP to: 1) accelerate the economic recovery and boost long-term growth; and 2) protect the environment and improve climate resilience.** The proposed operation is the first in a programmatic series of two operations. It is structured around the following two pillars corresponding to the development objectives and pillars:

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

36. **The reforms supported by the proposed DPL series are well aligned with the PDP 2023–2028.** The reforms under the DPL series will contribute to the priorities under the PDP relating to (i) promoting trade and investment; (ii) promoting competition and improving regulatory efficiency; (iii) expanding and upgrading critical infrastructures; (iv) expanding employment opportunities, and (v) accelerating climate adaptation and strengthening disaster resilience.

37. **The Philippines is highly exposed to natural disasters and climate change.** Average temperatures in the country have already increased by 0.68°C from 1951–2015. Projections made by the Intergovernmental Panel on Climate Change’s (IPCC) multi-model ensemble indicate that (a) temperatures in the Philippines will continue to increase by about 1-2°C by the end of the 21st century, depending on the climate scenario; (b) while average rainfall may not change much, variability and intensity are likely to increase; (c) extreme events will become stronger and more frequent. The northern and central parts of the country are projected to become wetter, and the southern part drier throughout the year. Without action, climate change will impose substantial economic and human costs, affecting the poorest households the most. The agriculture sector is highly sensitive to climate and geophysical hazards, and warming temperatures, extreme weather events, etc. are expected to worsen significantly by mid-century. Institutional efforts are being made to introduce and scale climate resilient agricultural practices that should help mitigate overall risks. Nonetheless, risks will be moderate given the difficulty to fully adapt to an increasingly unstable climate.<sup>13</sup>

38. **Reforms supported by the proposed DPL series are expected to strengthen resilience to natural**

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<sup>13</sup> World Bank, Climate and Disaster Risk Screening Report for this DPL, 2023.



**disasters and climate change and reduce emissions.** Estimates from the CCDR suggest that investment in new infrastructure and agriculture measures to boost climate resilience could cost about 0.7 percent of GDP but is far outweighed by the potential economic damages from climate change in the country, which could reach up to 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040 if no mitigation response is undertaken. Accelerated decarbonization (Prior Actions 3 and 4) would also reduce electricity costs over the longer term, enhancing competitiveness, while generating local co-benefits, such as reduced air pollution. Better plastic waste management (Prior Action 5) will contribute to climate change mitigation and adaptation co-benefits to the Philippines by lessening marine pollution and flood risks in drainage infrastructure. The energy transition will be complemented with energy efficiency measures—notably in transport, which is the biggest fossil fuel-consuming sector and the largest source of urban air pollution (Prior Action 6). Scaling up green public procurement will support a transition to greener production (Prior Action 7). The agriculture crop insurance reform is expected to protect the budget and farmers from climate-related risks (Prior Action 8).

39. **Reforms will also support narrowing the gender gap in the labor market.** The Philippines has attained a high standard of gender equality by regional and global standards, but significant gender gaps remain in the labor market. The World Economic Forum Gender Gap Index 2022 ranks it 19th out of 146 countries, supported by the Philippine Magna Carta for Women, a landmark law signed nearly 14 years ago seeking to eliminate discrimination against women. Nonetheless, significant weakness lies in the labor market mainly on female labor force participation (one of the lowest in the East Asia and the Pacific region), comparatively lower women earnings for every level of education, and the relatively higher risk for females from conflict and disasters. Labor Force Surveys (October and December 2022, and January 2023) data indicate that about half of working-age women participate in the labor market compared to three-quarters of men. Further, the ratio of employment to working-age population is nearly 60 percent, but only 45 percent for women, compared to 70 percent for men. Women are confined to lower skill and less productive work and are relatively more represented in vulnerable forms of employment,<sup>14</sup> including in the plastic sector. These issues are obstacles for inclusive growth and competitiveness and reduce economic opportunities for women. Skills deficits, household responsibilities, social norms and the gender wage up are the main sources of gender gaps in access to economic opportunities.<sup>15</sup> Prior Action 5 will promote gender equality in the plastic sector.

40. **This operation features core Maximizing Finance for Development (MFD)-enabling reforms under Pillar 1, coalescing on the strategic role of private investment for accelerating recovery and boosting long-term growth.** The government declared a legislative priority over reforms that engage private sector and promote PPPs. Removing binding constraints to catalyze private investment for transport, logistics, telecom, and RE carry substantive potential. According to the Organization for Economic Cooperation and Development (OECD), the market size of the logistics transport sector was approximately US\$ 11 billion in 2019, with road and maritime transport accounting for 40 and 35 percent, respectively, of freight transport sector revenue. Furthermore, estimates from the Department of Trade and Industry (DTI) suggest that the MFD-enabling potential behind the amendment of the Public Service Act to open Public Service Sectors to 100 percent foreign ownership (Prior Action 1) could be significant across telecommunications, transportation, logistics and railway sectors following the implementation of this reform. The MFD-enabling potential in public infrastructure could grow further following the amendments to the Build-Operate-Transfer Law IRRs and the updated Investment Coordination Committee (ICC) Guidelines and Procedures on

<sup>14</sup> World Bank, *Overcoming Barriers to women’s work in the Philippines*, 2022.

<sup>15</sup> Ibid.



PPP Proposals providing greater certainty in the PPP framework (Prior Action 2). New PPP investments are expected to be processed under this new regime, representing over US\$ 1 billion. MFD is also expected to increase investments by US\$ 0.2 billion annually between 2023 and 2026 in the RE sector following the removal of regulatory constraints to private investment on exploration, development, utilization, and commercialization of natural resources (Prior Action 3).

41. **The proposed DPL series benefits from successful engagements with stakeholders and implementing agencies during previous DPL operations.** The DPL series builds on lessons in successful collaboration: the Bank and the GOP used policy dialogue to identify a reform pipeline early on, and to design technical assistance and capacity building program to advance and support the program. These engagements strengthened the timeliness and quality of reforms, resulting in a robust pipeline of game-changing legal, institutional, and regulatory reforms. Moreover, as implementation is often seen as one of the key binding constraints in the Philippines, the Bank and the GOP have learned that focusing the DPL program on the actions that assist in the implementation of reforms is essential to increase impact additionality and effectiveness of the reforms in the country.

#### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

##### *Pillar 1. Accelerate the economic recovery and boost long-term growth*

42. **Reforms supported under this pillar seek to unlock the potential of infrastructure, RE, and green jobs by facilitating private investments.** Reforms under this pillar will improve performance of public service sectors by encouraging private operators to invest in infrastructure. Investment is expected to not only bring capital but also technological expertise to the Philippines. The reforms will accelerate the transition from fossil fuel to RE by removing restrictions to trade and investment and by creating demand for RE generation. DPL 1 supports complementary measures that increase demand for, and supply of, RE markets. DPL 2 will progressively build conditions for investment along its development cycle. For example, reforms in this pillar will extend the impact of national programs to specific sectors such as transport, shipping, and to local governments. In addition, to follow the liberalization of investment restrictions in RE markets, the second operation will propose to simplify the permitting and licensing for investment in renewables.

##### *Increase investment in public service sectors*

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| <p><b>Prior Action 1.</b> To increase investment in infrastructure services, the Borrower has created the legal framework to open Public Service Sectors<sup>16</sup> to 100 percent foreign ownership through the amendment of the Public Service Act (Commonwealth Act No. 146), as evidenced through the enactment of the Republic Act (RA) No. 11659 on March 21, 2022.</p> | <p><b>Indicative Trigger 1.</b> To increase investment in infrastructure services, the Borrower, through the NEDA and sector regulators, has approved the implementing regulations to open Public Service Sectors to 100 percent foreign ownership through the adoption of the General IRRs and sector IRRs.</p> |
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<sup>16</sup> “Public Service Sectors” means those sectors of the economy offering certain public services, for general business purposes, and which are identified in the Public Service Act (CA 146, as amended), Section 13(b).



43. **Public service sectors in the Philippines suffer from high costs, which reduces productivity of economic sectors that rely on backbone service inputs.** Firms operating in the Philippines experience costly, lower quality of transport, rails, ports, airports roads and warehousing than firms operating in the region. Evidence of market power is strong in transport, with an average price cost margin of 40 percent, much higher than peers. The cost of logistics remains high at approximately 27 percent of revenue, compared to its ASEAN peers.<sup>17</sup> Moreover, the Philippines ranked 60th out of 160 countries in the 2018 Logistics Performance Index, much lower than regional peers.<sup>18</sup> Between 2010 to 2019, the Philippines received the lowest share of FDI inflows in the transportation, information and communication, and trade sectors, among ASEAN peers. When functioning well, transport and logistics services, which also extend to the realm of telecom and digital infrastructure, enhance the performance of other sectors through better interconnection. An efficient transportation and telecommunication sector will contribute to improved trade performance and economic development by lowering transaction costs and creating more customer value.

44. **Foreign equity restriction on public services, codified into law in Public Service Act of 1936, thwarted competition in public service sectors, including telecom and transport.** Investment liberalization reforms in backbone services have been held up for years. Foreign equity restrictions have been enshrined directly in the Constitution. The Philippines relies on maritime transport to move goods in both domestic and foreign markets while road transport is mainly used to move goods to and from ports and within each island. However, these sectors remain highly protected and show significant restrictions to market entry, especially for international competitors. Most restrictions to FDI in the Philippines relate to equity restrictions stemming from the foreign ownership limitation of 40 percent across multiple sectors. Foreign investment in transport operations and services is limited and domestic transport service providers dominate the industry. As a result, these key public services, have remained very concentrated, with few operators serving the domestic market. Without competitive pressure, they have little incentive to invest to reduce prices and improve the quality of services.

45. **Pressing needs for economic recovery paved the way to amendment to the Public Service Act (PSA) and revert uncompetitive dynamics prevalent in the transport and telecommunication sectors.** The COVID-19 crisis brought an opportunity to introduce a strong reform drive, resulting in the PSA amendment.<sup>19</sup> The amendment to the Public Service Act (PSA)<sup>20</sup> sets the foundational legal framework to open previously restricted sectors of the economy by allowing competition and FDI in infrastructure and services. Opening these sectors to foreign competition will improve the quality of services. It does so by creating a separate classification of public services for public utilities and critical infrastructure; without going through a Constitutional amendment. The amended PSA regulates market access for private investors, allowing up to 100 percent foreign ownership of domestic shipping, air transport, land transport, express parcel and delivery, telecommunication, water supply, and toll roads. The opening of infrastructure to foreign competition, will facilitate movement of people, goods, services, knowledge, and help firms integrate in domestic and global markets, boosting competitiveness, improving connectivity, and reducing the operational costs of firms.

46. **This DPL series supports the PSA reform through Prior Action 1 and Indicative Trigger 1 for the second DPL.** These reform actions, i.e., the issuance of the general PSA IRR (the first layer of investment

<sup>17</sup> Indonesia (21 percent), Vietnam (16 percent) and Thailand (11 percent).

<sup>18</sup> Vietnam (39th), Thailand (32nd) and Indonesia (46th).

<sup>19</sup> The “Corporate Recovery and Tax Incentives for Enterprises” CREATE Act, amended Foreign Investment Act (FIA), and the Retail Trade Liberalization Act (RTLTA)

<sup>20</sup> Republic Act No. 11659, signed into law on 21 March 2022,



standards), and sector-specific regulatory frameworks (the second layer of requirements) complete the PSA amendment reform. The general IRR will provide the basis for the National Economic and Development Authority (NEDA)’s oversight in the implementation of the PSA amendment at the sectoral level through its principles of transparency, non-discrimination, and regulatory simplicity in the application of the law. The general IRR will reduce investor uncertainty about definitions of national security, critical infrastructure, and principles of investment reciprocity across nations. However, a robust regulatory regime that promotes competition in public service sectors is a necessary condition for foreign equity liberalization to take its full effect in terms of service costs and quality. The sector IRRs will play a key role in promoting a level playing field for new entrants in telecom, logistics and transport sectors. These sectors impose high barriers to entry, including substantive capital requirements at the outset, and significant network effects. To this end, the sector IRR will specify investment requirements for service standards, including operational licenses, permits, and systems for verifying and inspecting service quality and performance.

47. **Expected results:** The successful implementation of the IRR for the PSA amendment and the sector IRRs is expected to increase the annual average foreign investment in Public Service Sectors from US\$ 2.1 billion (PHP 109 billion or 0.55 percent of GDP) (2017-2022 average) to US\$ 3.9 billion (PHP 203 billion or 0.76 percent of GDP) (2023-2025 average) (Result Indicator 1).

**Attract private investment in public infrastructure**

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| <p><b>Prior Action 2.</b> To attract private investment in public infrastructure and increase certainty in the PPP framework the Borrower has: (a) amended the Build-Operate-Transfer Law IRRs; and (b) approved the Guidelines and Procedures on Processing PPP Proposals for NEDA Board/ Investment Coordination Committee (ICC) Evaluation and Approval, as evidenced by the Certification of NEDA Board Approval of such Guidelines and Procedures on November 24, 2022.</p> | <p><b>Indicative Trigger 2.</b> To increase access to resources for transparent and better prepared PPPs at the local levels, the Borrower, through the Philippines PPP Governing Board, has established a window, with supporting resources, business plan and guidelines, within the Project Development and Monitoring Facility (PDMF) for local PPPs through a resolution.</p> |
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48. **Public-Private Partnerships are a key legislative priority for expanding infrastructure under the PDP, but the operating environment has not been conducive to PPPs over the past years.** The PDP has codified the importance of PPP for improving infrastructure and attracting foreign investment in its strategy framework. The administration seeks to sustain spending in transport connectivity and public mass transport systems, downstream natural gas, RE and energy efficiency. To maintain infrastructure investment at 5 percent of GDP while halving the fiscal deficit by 2025, the Government needs to build market confidence and attract private participation in infrastructure (PPI). However, the environment for PPPs has deteriorated for years. Recent trends show a decline in the number of PPPs registered, when compared to the levels attained between 2010 and 2016.<sup>21</sup> Recently, the imbalance between risks and rewards in PPPs has resulted in renegotiation and cancellation of PPPs in procurement, causing strain between the government and

<sup>21</sup> Although 2022 data show an uptick compared to the recent past, with several projects reaching financial closure, mostly in transport.



private investors.

49. **Revisions to the IRR (April 2022 revisions) of the Build-Operate-Transfer (BOT) Law tried to correct imbalances in PPP contracts, but they have also rendered PPPs unattractive to market participants.** According to the World Bank's Benchmarking Infrastructure Development database, which reviews the quality of PPP as well as traditional public infrastructure procurement frameworks, the Philippines' PPP procurement framework ranks the highest across the region in 3 of the 4 broad areas benchmarked, including PPP preparation which covers fiscal treatment of PPPs. Compared to peers, the country framework ranks average in the management of unsolicited proposals, which is being addressed by a revision to the legal framework for PPPs (see below). However, in April 2022, the government introduced new requirements for PPP approval, seeking to rectify terms that were deemed disadvantageous to the government and the public. The new requirements sought to prevent the abuse of directly negotiated PPPs and close off loopholes such as those found in joint venture schemes. These measures delimited the application of Material Adverse Government Action (MAGA) only to acts of the executive; exempted regulatory acts from being subject of arbitration; added steps in the approval process that were unclear and duplicative; and, required approval of the financing agreement for the project by the government. In sum, these provisions raised significant challenges to project bankability given they were inconsistent with legal precedent and international norms on PPPs.

50. **The revision to the IRR (November 2022 revisions) (Prior Action 2) and a new set of guidelines for the evaluation and approval of PPP Proposals will clarify the approval procedures, requirements, and decision-making policy and shorten the processing timeline for PPP evaluation.** The revised IRR will improve the April 2022 IRR and align the PPP regulation to international standards, promoting a predictable environment for investors and lenders, and improving the appetite for PPP project financing. Furthermore, the new guidelines will set out the requirements and decision-making policies of PPP approvals in detail, translating the revised IRR into ICC and NEDA Board procedures. The ICC Guidelines mandate service standards for each approval step, where there was none before, and so, improving certainty in the processing time for PPPs, which under the previous administration averaged nearly 30 months. The IRRs and guidelines confirm the commitment of the government to consider consumer welfare as a key consideration in the review process and approval of PPP projects. There are several PPP projects pending review at the time of the updated ICC Guidelines that are now expected to be processed under this new regime, which collectively represent over US\$1 billion in investments.

51. **Together, the reversal of the April 2022 IRR and the promulgation of the NEDA Board/ICC Guidelines improves market orientation and eliminates ambiguity from the previous framework.** Redressing the restrictions and uncertainty created by the previous IRR and process will increase the likelihood of successfully executing the government's PPP pipeline, which includes several sectors representing billions of dollars in (economic and social) infrastructure investments, some of which directly reduce GHG emissions, such as mass transportation.

52. **DPL 2 will complement the revised IRR and new guidelines by allowing local government units to access assistance for enhanced preparation of PPP evaluation.** A resolution from the Philippines PPP Governing Board (PPPGB) will establish a Project Development and Monitoring Facility (PDMF) for local PPPs. This facility will support access for local governments to technical, legal, and financial advisory resources to better prepare PPP projects, while introducing standardization and innovation so that PPPs can be procured within prompt timelines more suitable to local dynamics. This resolution supports implementation of the revised 2022 IRR by empowering local governments to design and execute the PPP projects. It will also allow contracting authorities such as electricity cooperatives to use transparent and competitive approaches to



mobilize private investment in local infrastructure.

53. **Further reforms to strengthen the PPP framework are in the pipeline.** The administration also announced the updating of the framework for PPPs (the BOT Law), as a priority legislative agenda. Some necessary revisions to the PPP framework cannot be fixed through regulations and must be enacted through law. A new PPP law is expected to provide a unified framework for PPPs and joint ventures between government and the private sector; introduce clearer mechanisms for managing fiscal and contingent liability risks within PPPs; strengthen the policies on unsolicited proposals to promote competition; and update approval thresholds to bring them to current conditions. Going forward, it is important to balance incentives to attract private sector investment with the interests of consumers.

54. **Expected result.** The reform is expected to reduce the period needed to reach final decision on PPPs by the ICC from receipt of a complete and compliant project proposal from an average of 29.9 months in 2022 to 12 months by 2025 (Result Indicator 2).

***Increase share of renewable energy (RE) in power generation***

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| <p><b>Prior Action 3.</b> To increase foreign direct investment in solar and wind energy, the Borrower, through the DOE, has amended Rules and Regulations Implementing the Renewable Energy Act to remove the 40 percent foreign equity cap on exploration, development, utilization and commercialization of natural resources, as evidenced by the DOE Department Circular DC 2022-11-0034.</p> | <p><b>Indicative Trigger 3.</b> To increase foreign direct investment in solar and wind energy, the Borrower has streamlined permitting processes for renewable energy investment through a regulation.</p> |
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55. **The share of fossil fuels in power generation has increased, driving the growth of the carbon footprint in the Philippines over the past decade.** The share of coal-fired power generation increased from 34 percent to 55 percent between 2010 and 2019, while the share of RE fell from 26 to 21 percent over the same period. This trend highlights the fast-growing carbon footprint of energy consumption and heightens energy security concerns, with imports accounting for 80 percent of the coal consumption for power generation in 2021. Furthermore, the Government estimates that electricity demand will increase at the rate of about 6.6 percent per year, driven by factors including population growth rising standards of living and growth in manufacturing, with the overall electricity demand to triple by 2040.

56. **The Philippines possesses substantial potential for RE generation, but investment in solar and wind energy generation has stalled.** Investment in RE has become commercially viable compared to coal-generated electricity generation, as the unit costs of electricity generation from solar photovoltaic (PV) and on-shore wind have declined rapidly over the last decade. Yet, as of 2020, the total installed generation capacity from solar and onshore wind energy stood at 1.5 gigawatt (GW), a fraction of the 250 GW technical potential of wind (onshore and offshore) and 80 GW of solar.<sup>22</sup> Critical constraints often mentioned by key stakeholders, including the private energy producers, are: the 40 percent foreign equity cap on RE investment, lack of off-takers to commence commercial operation, the complicated and lengthy permitting processes, grid-related issues, and the relatively small and cautious feed-in-tariff (FIT) program. Delays in the

<sup>22</sup> Achieving this solar energy potential would require about 0.5 percent of the country’s land area.



processing and approval of energy projects have been noted as a key detriment by RE project developers and investors. Processing and approval of energy projects takes an average of 1,876 calendar days with 359 signatories from 74 agencies required (PDP).

57. **The Government set an ambitious target of 50 percent of RE in total power generation by 2040 and has started to pursue reforms to implement it.** In the National Renewable Energy Program (NREP) 2020-2040, the Government set a target to increase the share of RE from 21 percent of total generation in 2020 to 50 percent by 2040. The increased focus on RE is pursued in parallel to slowing the expansion of coal-fired power generation capacity from 2026 onwards, as stated in the Philippine Energy Plan (PEP) 2020-2040. A clean energy transition will require solar energy to become the dominant source of electricity generation, with a substantial growth in onshore and offshore wind energy. Achieving these targets will require a significant increase in capital investment in solar and wind technologies, requiring a strong policy framework and subsequent regulations that improve an enabling environment for investment in RE. In the PDP, the Government recognizes its role to provide market incentives that can enable a transition to cleaner energy. Specifically, the Government stated its plan to pursue liberalization of foreign ownership of RE generation, deepen a market demand for RE by increasing a quota for electricity distribution and supply utilities to purchase RE, and streamlining the permitting processes for new power generation, transmission, or distribution projects. The Government is also exploring the introduction of carbon pricing instruments as a cost-effective measure to encourage the transition to clean energy and raise state revenues. To address the delays in processing and approval of energy projects, the Government also established the Energy Virtual One-Stop Shop (EVOSS) in 2021, an online system aimed at streamlining the permitting processes of power generation, transmission, and distribution projects.<sup>23</sup>

58. **Achieving the 50 percent RE target by 2040 requires a substantial increase in foreign direct investment (FDI) in RE.** Increasing FDI will be critical to not only bridge the financing gap but also to facilitate the transfer of technology and management know-how in construction, operation, and maintenance involved in RE infrastructure. This is particularly the case for floating solar and offshore wind. These technologies are still expensive compared to ground-mounted solar PV and onshore wind. However, prior to this reform, the IRR of the Renewable Energy Act (REA) of 2008 stipulated that RE projects were reserved to Filipino citizens, corporations, or associations representing at least 60 percent of total capital, resulting in a 40 percent limitation on foreign equity. A review of investment conditions in Indonesia, Vietnam, Malaysia, and Thailand reveals that the reform introduced in the Philippines is consistent with the regional practice. Equity restrictions for RE projects are rare, and solar and wind energy projects show no caps for foreign ownership. These countries typically impose only licensing requirements and sometimes require the presence of joint ventures between local and international investors, which promotes transfer of know-how for investments in RE.

59. **Removing the 40 percent foreign equity cap imposed on businesses engaged in the RE investment removes a critical binding constraint to attract more FDI into the RE projects (Prior Action 3).** This reform was implemented through an amendment of the IRR of the REA and will benefit especially the development of floating solar and offshore wind energy projects. Timing to facilitate entry of foreign investors is of essence, as several Association of Southeast Asian Nations (ASEAN) countries are jockeying to attract the necessary expertise, know-how and capital investment, considering FDI liberalization under the Regional Comprehensive Economic Partnership (RCEP).

60. **Indicative Trigger 3 for the second DPL will streamline permitting processes for RE, another key**

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<sup>23</sup> Following an enactment of Republic Act No. 11234 otherwise known as the “Energy Virtual One-Stop Shop (EVOSS) Act” of 2019.



**constraint to increasing FDI on solar and wind energy.** The Government established the Energy Virtual One-Stop Shop (EVOSS) in 2021 to streamline permitting processes involving 17 government agencies for new energy infrastructure projects. Full implementation of the EVOSS will entail issuance of additional regulations that revise existing procedures within various government agencies and/or establish new permitting processes for nascent RE technologies such as offshore wind and floating solar. There is also an ongoing effort led by the Anti-Red Tape Authority (ARTA) to streamline permitting processes and requirements in the LGUs for energy infrastructure investments, including generation, transmission, and distribution of RE. These measures are logical sequels to lifting restrictions on FDI, lowering another significant constraint to accelerating investment in RE.

61. **Expected Results.** This reform is expected to increase annual average investment (as measured by the development cost of investment) in solar projects from US\$ 95 million (or 0.02 percent of GDP) (2017-2022 average) to US\$ 284 million (or 0.06 percent of GDP) (2023-2025 average) (Result Indicator 3). While the reform is also expected to increase investment in offshore wind electricity generation, the lead time from approval to investment is longer than the time horizon of the result framework, so these were not included in the result indicator.

**Prior Action 4.** To increase demand for renewable energy, the Borrower, through the DOE, has increased the minimum annual incremental generation required to be sourced from renewable energy resources from 1% to 2.52% starting 2023 for Mandated Participants,<sup>24</sup> as evidenced by the DOE Department Circular DC2022-09-0030.

62. **To achieve the RE target, the Government increased the mandatory annual increment for RE's share in power generation (Prior Action 4).** Stimulating demand remains a necessary step to scaling up RE deployment and meet the government's ambition. To ensure achievement of national RE target of 50 percent by 2040 stated in the National Renewable Energy Program 2020-2040, the mandatory RE market share in the Renewable Portfolio Standard was increased from a minimum annual increment of 1 percent to 2.52 percent by 2023 and onwards. Under the previous minimum annual increment regime, the RE share was projected to remain roughly constant at around 21 percent. This mandate applies to electricity distribution and supply companies.

63. **Moreover, the DOE also introduced the Green Energy Auction Program (GEAP).** It successfully auctioned about 1.6 GW of solar and onshore wind in June 2022 at significantly lower prices than the prevailing FIT, a major step forward in moving to competitive bidding for large scale grid-connected solar and wind power.

64. **Expected result.** The reform is expected to increase the share of electricity generation from RE, as monitored by the Department of Energy, from 22 percent in 2021 to 28 percent in 2025 (Result Indicator 4).

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<sup>24</sup> "Mandated Participants" means electric power industry participants which are mandated to comply with the RPS annual requirement which includes entities enumerated in Rule 3, Section 11 of this RPS On-Grid Rules.



*Create more green jobs and direct more investment to green activities and services*

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| <p><b>Indicative Trigger 4.</b> To support green jobs creation, the Borrower, through the Climate Change Commission (CCC), has launched an assessment and certification system for green jobs under the Green Jobs Act of 2016 by issuing Green Jobs Guidelines under a Joint Memorandum Circular (JMC).</p> | <p><b>Indicative Trigger 5.</b> To mobilize sustainable finance, the Borrower, through the Financial Sector Forum, has issued the Sustainable Finance Taxonomy Framework based on international principles, as evidenced through a BSP Circular, a SEC Memorandum Circular, and an IC Circular.</p> |
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65. **Indicative Trigger 4 will support the creation of green jobs by implementing the regulatory framework of the Green Jobs Act.** The quality of the transition to a low carbon economy depends on how the workforce adapts to the new reality, particularly among vulnerable groups. To implement the Green Jobs Act and make fiscal incentives respond to a just transition, which is inclusive of SMEs, the government is enacting the Green Jobs Assessment and Certification System and Guidelines. These guidelines will define the standards for green products, services, and jobs, and outline the process for companies to obtain the tax incentives for generating and sustaining green jobs, which includes both new jobs and existing jobs that comply with the green jobs certification. They will also ensure interoperability between the sustainable finance taxonomy and incentives and improve efficiency in the use of fiscal incentives.

66. **Indicative Trigger 5 will support the introduction of a sustainable finance taxonomy for the financial sector.** The development of green financial markets can play a central role in facilitating investments in the short run and a transition toward more sustainable economies in the long run. However, in the Philippines, sustainable financial markets remain relatively under-developed: only US\$2.8 billion (about 0.8 percent of GDP) was raised through green corporate bonds and syndicated loans between 2018 and 2021. In addition, a marked gap in climate-related information hampers investments in sustainability in the Philippines. About 70 percent of surveyed banking institutions in the Philippines cited the limited availability and complexity of climate-related information as core challenges for sustainable investing. This challenge stems from the absence of clear, consistent, and globally accepted definitions, and consequently, of reporting, disclosures, and data analytics, as well as from lack of internal resources for capacity building, both of which contribute to increased uncertainty and heightened greenwashing risks. Hence, an important next step is to push forward with an effective implementation of taxonomies and disclosure standards to improve overall market transparency and enhance trust in sustainable financial markets. The sustainable finance taxonomy will clarify what constitutes green investments, a critical step to unlock financing. The taxonomy will facilitate investment screening criteria, ensuring interoperability of several policy and market definitions for investments and building credibility among investors through national standards. Both Indicative Triggers follow the CCDR recommendation to accelerate the development and use of a harmonized taxonomy of sustainable finance and investments.

67. **Expected results.** These reforms are expected to lead to the following: an increase in the cumulative green jobs supported with incentives under the Green Jobs Act since 2023, jobholders disaggregated by sex, from 0 in 2022 to 4,000 in 2025 (Result Indicator 5); and for sustainable finance taxonomy: Sustainability-related lending (loans to promote Renewable Energy and Energy Efficiency) by Domestic Systemically Important Banks (D-SIBs) will increase from PHP 232 billion (or US\$ 4.3 billion) in 2022 to PHP 255 billion (or US\$ 4.7 billion) by 2025 (Result Indicator 6) and new sustainable finance instruments (e.g., green bonds, sustainability bonds, sustainability-linked bonds) issued by domestic companies in line with the sustainable finance taxonomy will increase from 0 percent (2022) to 100 percent (2025) (Result Indicator 7).



**Pillar 2. Protect the environment and improve climate resilience**

68. **This pillar seeks to support reforms to protect the environment and improve climate resilience.** The reforms seek to enhance plastic waste management through reduction, recovery, and recycling, including a mandate for large enterprises to fulfill plastic recovery targets. The reforms also focus on promoting green transport by increasing the share of EVs in the transport sector. In particular, the reform supports the development of EVs as a feasible mode of transportation for the government sector. Implementing the Green Public Procurement Roadmap is also supported to encourage more production and consumption of green goods and services through public procurement. Finally, improving the financial conditions of the Philippine Crop Insurance Corporation will help mitigate climate-related risks to the government budget and strengthen insurance to farmers.

**Enhance plastic waste reduction, recovery, and recycling**

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| <p><b>Prior Action 5.</b> To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower has: (a) enacted the Extended Producer Responsibility Act (Republic Act No. 11898); and (b) through its Department of Environment and Natural Resources (DENR), issued accompanying IRRs, mandating large enterprises to recover up to 80 percent of plastic packaging waste by 2028 and to submit EPR programs describing a component on gender equality.</p> | <p><b>Indicative Trigger 6.</b> To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower, through the Department of Environment and Natural Resources, has provided guidance requiring EPR Program registration, compliance monitoring and evaluation, including on gender equality, and enforcement, through the issuance of a Department Administrative Order (DAO).</p> |
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69. **Plastic waste pollution is a problem in the Philippines.** The Philippines, together with China, Indonesia, Thailand, and Vietnam, accounts for 55 to 60 percent of plastic waste entering the ocean. About 1.7 million tons of post-consumer plastic waste is generated in the Philippines each year, and it is estimated that only 28 percent of recyclable plastic waste is actually recycled; the balance leaks into the environment or is disposed of as a part of the mixed waste stream. The volume of plastic waste leaking into the environment could double over the current levels by 2040 under the business-as-usual scenario.

70. **Waste collection and recycling capacity is limited.** The primary government-mandated infrastructure for the recovery of recyclables and processing of biodegradables is Material Recovery Facility (MRF). Though all barangays must establish their own MRF, out of the 1,710 barangays of Metro Manila, only 334 or about 20 percent have their own MRFs. On recycling capacity, the gap between total plastic resins consumed and formal capacity to recycle the same is equivalent to 902,400 tons per year or 85 percent. Even when accounting for the informal industry, which reportedly may recycle almost as much as the amount processed by formal recyclers, the missing capacity is still significant at 70 percent of resins consumed. The Philippines is only able to formally recycle/process 15 percent of post-use plastics compared to up to 27 percent in Thailand and up to 58 percent in Malaysia.

71. **A reduction in the production of plastics and better management of waste is expected to benefit both climate change mitigation and adaptation.** Throughout their lifecycle, plastics have a significant carbon



footprint and emit 3.4 percent of global greenhouse gas emissions.<sup>25</sup> Moreover, the Philippines is highly exposed to climate hazards like floods. Plastic waste can easily clog urban canals and drainage, exacerbating floods during extreme events. The abundance of plastic debris leads to a faster and denser blockage and will therefore lead to a more sudden backwater increase. A study conducted in a highly polluted urban area in Indonesia observed that plastics can cause as much as 1 meter of additional water level increase in heavy rains within the first hour.

72. **The EPR Law aims to enhance resources conservation and recovery through extended producer responsibility mechanism as a practical approach, focusing on plastic waste reduction, recovery, and recycling.** The reforms direct the development of environment-friendly products, and promote sustainable consumption, and production. The EPR Law and its IRR is expected to promote greater waste reduction, reuse, and recycle. Per EPR Law, the financial burden of waste management is shifted to the obliged enterprises (OEs),<sup>26</sup> thereby reducing the need for public finance required for collection, segregation, disposal, and cleanup of packaging product waste created by OEs. Pursuit for higher recovery rates combined with increased opportunity for public-private partnership ventures for improved technology or capacity of facilities will increase recycling rates. The reform advances the implementation of the National Plan of Actions for the Prevention, Reduction and Management of Marine Litter (May 2021) which specifies EPR as a key measure to achieve the goal of zero waste to Philippine waters by 2040. It also complements the implementation of ordinances passed by 489 LGUs which ban or regulate the use of plastic bags.

73. **The Law covers large enterprises and sets ambitious plastic recovery targets.** OEs are obligated to implement EPR. These producers of products generating plastic packaging waste are now responsible for managing waste generated throughout the life cycle of a product, especially its post-consumer or end-of-life stage. They are likewise mandated to establish or phase-in EPR measures for plastic packaging to achieve efficient management of plastic packaging waste, reduced production, importation, supply, or use of plastic packaging deemed low in reusability, recyclability or retrievability, and plastic neutrality through efficient recovery and diversion schemes. MSMEs are not covered by the EPR Law but are encouraged to practice EPR voluntarily. Product producers are expected to recover up to 80 percent of their plastic packaging waste by 2028.

74. **The Law authorizes the granting of incentives for outstanding and innovative projects and imposes fines for non-compliance.** Rewards will be provided to entities that have undertaken outstanding and innovative projects, technologies, processes, and techniques in plastic management. The EPR Law outlines an incentive scheme for entities to develop or undertake an effective SWM, including recovery and diversion of the plastic product footprint. Meanwhile, large fines are imposed for non-compliance with the EPR Law. The EPR Law sanctions OEs with fines ranging from PHP 5 to 20 million for failure to comply with the law. In case of failure to meet the targets, the OEs shall pay the same fines set in the law, or a fine twice the cost of recovery and diversion of the footprint or its shortfall, whichever is higher.

75. **The Department of Environment and Natural Resources (DENR) has established a National Framework for EPR to promote reduce, recover, and recycle the use of plastics along the product life cycle.** The Framework provides details on reduction of plastics and non-environment friendly products as part of production processes, including guidance on reusability, recyclability or retrievability and proper disposal of waste. It will also extend its guidance to include requirements for plastic packaging. The EPR program

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<sup>25</sup> OECD (2022).

<sup>26</sup> Obligated enterprises are large enterprises whose total asset value exceeds PHP 100 million (US\$ 1.7 million) and that generate packaging waste.



includes a 5-year plan with targets, and options to organize implementation by Producer Responsibility Organization (PRO), and an audit system to determine compliance with the EPR Law and their own EPR programs.

76. **This reform will also support policies to promote gender equality in employment in the plastic sector, which can contribute to narrow gender gaps in economic opportunities.** Women's greater concentration than men's in lower paying and vulnerable jobs extends to the plastic sector. Plastic manufacturing and plastic waste management could provide greater opportunities for female workers. Although employment data for the sector is limited, there is evidence that women in the Philippines are less likely to be in employment in plastic production compared to men; and when they do, they are in lower paid and often more hazardous work.<sup>27</sup> The same applies to the waste management sector, where women are more likely than men to be informal waste pickers, including sorting plastic, rather than formal workers and junk shop owners.<sup>28</sup>

77. **The EPR implementation program includes a focus on improving women's involvement in the plastic waste management sector.** It includes a gender equality component, expected to cover, among others, specific measures by large enterprises and their partners to improve the working environment and provide targeted skills development to protect, attract and improve employment for women within the plastic sector, with efforts towards formalization and increased payment. It is estimated that about 3,000 firms will submit EPR programs to DENR, a significant proportion producing plastic waste, though precise data on waste footprint or recovery will not be available until DENR's accounting systems for the EPR program is fully operational. It is expected that, initially, 5 percent of the submissions of EPR programs by OEs (or around 150) will include gender equality components. In the plastic production manufacturing alone, in 2017 there were indications of close to 25,000 employees, the vast majority men; the potential to include more women was identified in a 2022 World Bank assessment.<sup>29</sup>

78. **Indicative Trigger 6 supports a key component of the implementation of the EPR Law.** As mandated by the EPR Law the DENR will provide guidance requiring EPR Program registration, compliance monitoring and evaluation, including on gender equality, and enforcement. The OEs would be provided guidance on measures to take to meet the recovery requirements, for verification of the results and formal registration of such plans with the EMB.

79. **Expected result.** The reforms supported by Prior Action 5 and Indicative Trigger 6 will lead to the establishment of a compliance monitoring and evaluation system in DENR for verification of the annual EPR program implementation, including gender equality components. The reforms will target the recovery of 40 percent, by amount, of plastic packaging introduced into the market by OEs, Collectives, and (PROs) by 2025 (Result Indicator 8). Prior Action 5 is also expected to have a positive effect on women's involvement and their respective working conditions in the plastic sector. Results indicator 9 captures the commitment to increase the share of submitted EPR implementation programs with component on gender equality to 5 percent. Such component will include specifications around better working conditions for women and targeted measures to improve their economic opportunities in the sector.

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<sup>27</sup> World Bank, Marine Plastic Management in Southeast Asia: The Gender Dimensions, 2022.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.



**Promote green transport**

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| <p><b>Prior Action 6.</b> To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the DOE, has issued IRRs to implement the Republic Act No. 11697, otherwise known as the Electric Vehicle Industry Development Act of 2022.</p> | <p><b>Indicative Trigger 7.</b> To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the Department of Energy, has published a relevant issuance requiring and enabling the government agencies to buy a specified percentage of EVs in their new vehicle purchases.</p> |
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80. **Transport is the biggest fossil fuel-consuming sector and the largest source of urban air pollution.** Within the transport sector, land transport, especially road transport, accounts for 87 percent of the total emissions. Estimates from the CCDR suggest that emissions from the sector will quadruple by 2050 under current scenarios and policies. Low-carbon transport, notably through electrification, would reduce GHG emissions, and bring significant local benefits, particularly lower air pollution and the consequent lowering adverse impacts on health. Such a shift would also enhance energy security by lowering the dependence on imported fossil fuels.

81. **The GOP recognizes electrification of transport as a critical element for transitioning to a low-carbon economy.** The intent to pursue the shift towards EVs has been espoused in the National Transport Policy 2018, the PEP 2020-2040 and the PDP 2023-2028, yet the aspiration has remained mostly elusive.<sup>30</sup> The low interest of users in EVs is attributable to the higher Total Cost of Ownership (TCO) and upfront capital cost in comparison to the Internal Combustion Engine (ICE) vehicles, more predominantly in the higher capacity vehicles; lack of familiarity and confidence in the technology; paucity of charging infrastructure; insufficient after-sales support; and lack of prompt availability of replacement parts. In addition to these factors, the shift to EVs in the public transport sub-sector was constrained by the shortfall or uncertainty of robust franchise arrangements; budgetary support from the GOP; and sunk investments in the existing fleets. On the supply side, domestic production of EVs has been limited to small-capacity vehicles, including e-tricycles, e-motorcycles and e-jeepneys, typically at small scale or following build-to-order approach.

82. **The Electric Vehicle Industry Development Act (EVIDA)<sup>31</sup> is an ambitious reform aimed at addressing critical supply and demand side constraints to increasing the share of EVs in the transport sector.** The Act envisions to achieve multiple policy objectives, most notably ensuring the country’s energy security and independence, providing an enabling environment for the development of EVs, and promoting and supporting innovation in and use of clean, sustainable, and efficient energy, and inclusive and sustainable industrialization including through support to attract investments and upgrade the country’s participation in regional and global value chains. The Act and IRRs are expected to provide new impetus to the goal of promoting EVs as they provide for several measures for removing multiple supply and demand side barriers. These measures include inter alia use of (i) fiscal and non-fiscal incentives to bring down the cost of

<sup>30</sup> During 2010-20, there were only 12,965 registered EVs, accounting for 0.1 of the total registered vehicles in the country; furthermore, more than 90 percent of them comprised of small capacity vehicles, viz., electric tricycles (e-trikes, 55 percent) and e-motorcycles (37 percent). Sources: Land Transportation Office data, the PEP 2020-2040; and <https://businessmirror.com.ph/2022/02/03/bigger-philippine-participation-in-growing-ev-industry-pressed/>

<sup>31</sup> Republic Act No.11697, lapsed into the law in May 2022, and the IRRs of the Act have been promulgated in September 2022.



acquisition of EVs and incentivizing their use; and (ii) mandates to increase the share of EVs in the corporate and government fleets to at least 5 percent and (iii) the availability of EV Charging Stations at specified public and private locations. The fiscal incentives envisaged under IRR, for example, are aimed at encouraging (a) manufacture and assembly of EVs, EV Charging Stations (EVCS), batteries and parts and components importing; (b) establishment and operations of EVCS and related support infrastructure; (c) importation of completely built units of EVs and EVCS, and capital equipment and components used in the manufacture or assembly of EV and EVCS; and (d) encouraging utilization of EVs by providing discounts from the payment of the motor vehicle user’s charge. Some of the envisaged measures have already come into force, and more are expected to be fully defined and operationalized soon, mainly through the proposed Comprehensive Roadmap for the Electric Vehicle Industry (CREVI).

83. **This DPL series supports the development of EVs as an attractive and feasible mode of transportation, especially for the government sector.** Prior Action 6 supports the creation of the legal framework to provide an enabling environment for the development of EVs as an attractive and feasible mode of transportation through the EVIDA and promulgation of its Implementing Rules and Regulations (IRR). Indicative Trigger 7 focuses specifically on adoption of EVs in the government sector: To achieve the overall goal of at least 5 percent share of EVs in the Government fleet envisaged under EVIDA, the Borrower issued the Executive Order requiring and enabling the government agencies to buy a specified percentage of EVs in their new vehicle purchases. A clear commitment and action from the government to adopt EVs for its own use is expected to have a substantive demonstration effect as well as add to the acceptability of similar EV share mandates for the fleets in other major transport segments, e.g., corporate, public transport, tourism.

84. **Expected result.** The reform is expected to increase the share of EVs in the annual purchases of new cars by National Government Agencies from less than 1 percent in 2022 to at least 10 percent by 2025 (Result Indicator 10).

***Encourage more production and consumption of green goods and services through public procurement***

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| <p><b>Prior Action 7.</b> To incentivize public procurement of green goods, the Borrower, through the Government Procurement Policy Board (GPPB) has updated the GPP Roadmap by: (a) providing for a monitoring system based on green tagging; and (b) upgrading of green specifications; through GPPB Resolution No. 08-2022.</p> | <p><b>Indicative Trigger 8.</b> To incentivize public procurement of green goods, the Borrower, through the GPPB, has issued a Resolution adopting at the very least, five (5) product categories, that may cover building materials, Information and Communication Technology (ICT), food and catering services, training facilities/hotels/venues, and motor vehicles.</p> |
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85. **To achieve the objective of implementing green public procurement, the GOP updated and improved its GPP implementation.** The GPP Roadmap harmonized green practices into existing procurement processes. The Roadmap initially selected 20 products —10 Common-Use Supplies and Equipment (CSEs) and 10 non-Common-Use Supplies and Equipment (non-CSEs). The selection of the 20 products was based on the following criteria, i.e., market readiness, environmental impact, cost implications, practicability, support to Government environmental objectives, and support to the local economy. The GPPB adopted green



specifications for the CSEs and non-CSEs. It mandated the Procurement Service<sup>32</sup> to centrally procure the CSEs and started a pilot for the non-CSEs, expecting to move to mandatory use of GPP for selected ones by all procuring entities (PEs). The green technical specifications address key environmental impacts per product. It adopted an approach to purchase energy efficient models with a restricted amount of hazardous constituents to address resource consumption during the production phase, energy consumption during the use phase, harmful emissions, and waste generation on packaging and end-use. The product must be designed for recycling, longer life, and promotion of take back options. The adoption of these green technical specifications supports the enforcement of sector policies relevant for sustainable development such as energy, water and material efficiency, waste reduction, pollution and emission prevention including climate change mitigation, greening the supply chains, among others.

**86. A review of the execution of the GPP Roadmap by the GPPB-Technical Support Office (GPPB-TSO) from 2020 to 2022 showed progress but also unveiled implementation challenges.** The review showed an increase in the total amount of prioritized CSEs procured according to GPP criteria from PHP 164.6 million in 2020 to PHP 225 million in 2021. Nevertheless, it revealed that only seven of the ten mandatory CSEs were reported to be procured. Concerning the implementation of non-CSEs, a gradual increase in the number of PEs adopting the green technical specifications was reported; however, the expected implementation of the 10 prioritized non-CSEs by the PEs under the pilot was not achieved as planned. Based on the share of total government spending, GPP products only accounted for 0.14 percent and 0.4 percent in 2020, and 2021, respectively. The review unveiled issues with the monitoring system to measure the implementation and impact of the prioritized CSEs and non-CSEs. These monitoring issues adversely impacted GPPB's analysis of the compliance and performance of GPP initiatives. Moreover, PEs reported operational, technical, and institutional challenges in adopting green technical specifications in procurement for non-CSEs, including the lack of knowledgeable end-user representatives or units to conduct GPP; the absence of GPP experts in the procuring entity; the need for guidelines in the identification of green specifications; the need for more training on GPP; and the need to increase awareness of the PEs in the procurement of green products.

**87. Areas for improvement in the GPP Roadmap have also been identified in the CCDR.** These include the need for strong linkages between different Government institutions and agencies involved in implementing the GPP Roadmap; the need to establish proper monitoring, assessment, and reporting mechanisms or tools on the impact of the GPP initiatives; and the need to expand the scope of the adopted market-based approach to include the procurement of civil works and infrastructure projects in the GPP Roadmap.

**88. The GPPB Resolution No. 08-2022, supported by Prior Action 7, addresses the key challenges to the implementation of the GPP Roadmap.** This Resolution addresses all but one of the aforementioned implementation challenges (the inclusion of works and infrastructure procurement). It also initiates steps towards expanding the scope of the Government's GPP through establishing and enforcing a systematic monitoring system and a regular reporting on the implementation of the prioritized CSE and non-CSE items. This includes using green tagging<sup>33</sup> in Procurement Projects<sup>34</sup> through the Philippine Government Electronic Procurement System (PhilGEPS) to monitor the efforts toward sustainable consumption of green products. In addition, the Resolution provides for a mechanism to review the effectiveness of the CSE items, and the possible change or upgrade of their specifications. Finally, the Resolution also establishes a mechanism to

<sup>32</sup> The central procurement arm of the Government.

<sup>33</sup> Green tagging is the practice of identifying, measuring, and monitoring the use of Green Procurement in Procurement Projects.

<sup>34</sup> *Procurement Project, defined under GPPB Circular No. 06-2019 dated 17 July 2019, refers to a specific or identified procurement covering goods, infrastructure projects, or consulting services.*



incentivize the implementation of GPP of non-CSEs within PEs, through the designation of the GPP focal points. These focal points are tasked to monitor the implementation of the GPP Roadmap, advocate the inclusion of green specifications, and assist the GPPB-TSO in the review of the GPP Roadmap, among others. The designation of the focal points also promotes stronger linkages between Government institutions and agencies implementing the GPP Roadmap and the GPPB-TSO.

89. **Indicative Trigger 8 will support further reforms to enhance and foster the GPP Roadmap implementation towards expanding its scope by covering broader categories of goods and services mainly used by the Government.** Green technical specifications will be developed for the 5 product categories to be included in a well-established green directory. This will be further achieved by creating a well-established directory of green technical specifications and considering the related asset management aspects. The GPP reform would also further be strengthened with the Government’s plan of using life cycle cost (LCC)<sup>35</sup> in procurement planning and contract management for goods and infrastructure projects through the development and issuance of a manual on technical specifications and costing using LCC for goods and infrastructure projects with the view of introducing LCC in the evaluation or selection criteria later through the amendment of the law.

90. **Expected result.** These reforms are expected to lead to a further expansion of the GPP, indicated by an increase in the share of 10 mandatory non-CSEs from 0 percent in 2022 to at least 40 percent in 2025 (Result Indicator 11).

***Protect budget and farmers from climate-related contingent liabilities***

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| <p><b>Prior Action 8.</b> To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, has directed the Insurance Commission (IC) to conduct annual examinations of the Philippine Crop Insurance Corporation (PCIC)’s affairs, financial condition, and its method of business, as evidenced by Department Order No. 038-2022 and Circular Letter No. 2022-35.</p> | <p><b>Indicative Trigger 9.</b> To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, will strengthen targeting of premium subsidies, introduce new insurance products appropriate for vulnerable smallholder farmers, and strengthen PCIC coverage and operations, as evidenced by submission to Congress of the amended PCIC Charter.</p> |
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91. **Agricultural insurance can play an important role in climate change adaptation in the Philippines.** Climate variability and hazards are projected to adversely impact agriculture, livestock, and fisheries supply chains, leading to low and volatile growth of the sector. Smallholder producers, especially female farmers, are among the most vulnerable. The Philippines ranks fourth most affected by extreme weather events from 2000 to 2019 (Eckstein and others, 2021).<sup>36</sup> Agricultural insurance can help farmers transfer their increasing (due to climate change) risk of crop failure to (re)insurance markets. If properly designed and targeted, it can

<sup>35</sup> One of the critical approaches introduced in green procurement is life cycle perspective thinking. It represents a holistic approach that allocates life cycle management tools to assist decision-making at development and project stages, including green and sustainable product development, production, green procurement, and final disposal.

<sup>36</sup> The Philippine Statistics Authority (PSA) estimates the damage from natural extreme events and disasters from 2010 to 2019 at around US\$ 9 billion with 63 percent damage in agriculture. Most disasters are meteorological like typhoons, floods, and droughts that negatively affect the production of staple crops, livestock, and fisheries.



stabilize farm income, reduce poverty, and ensure a climate safety net for food producers.

92. **Moreover, agriculture insurance could be a safety net and financial lifeline especially for women farmers.** Female farmers are constrained in participating in production/post-harvest activities and value adding opportunities due to limited access to credit and financial services, technology, and other productive resources.<sup>37</sup> When faced with disaster events, women farmers have limited options for financial recovery. The local labor market in rural areas does not provide flexible working opportunities for women as compared to men who can switch from agriculture to construction, quarrying activities, and other forms of manual labor. Agriculture insurance can be a financial lifeline for women farmers. For instance, the payouts after 2019 and 2021 typhoons have allowed women farmers to pay for food and other household expenses following the disruption in farm livelihoods.<sup>38</sup> There is a documented gap among farmers (18 percentage points) and fisherfolks (36 percentage points) (October 2021 data), primarily since male heads of families allowed to register as farm owners. It will be important to address this gender gap.<sup>39</sup>

93. **Despite high premium subsidies, only one third of farmers are insured and their protection is insufficient, while operations of PCIC require major changes.** In the Philippines, agricultural insurance is offered mainly by a public-owned Philippines Crop Insurance Corporation (PCIC). Insurance products offered by PCIC are not suitable for most insured farmers and fisherfolk; for example, most of its clients are subsistence farmers with 0.5 to 1.0 ha plots and its indemnity-based agricultural insurance products are not suitable.<sup>40</sup> The sum insured is low and even insured farmers cannot recover all their loss; after climate disasters, these losses will fall on the private sector or the government as reinsurer of last resort. Premium subsidies are not well targeted, with eligibility covering all farmers with less than 7 hectares regardless of actual needs, meaning that the fixed subsidy budget cannot provide adequate protection to the most vulnerable. PCIC faces multiple operational challenges. Its risk management is insufficient with PHP 75.0 billion (US\$ 1.52 billion) liabilities in 2021 and almost no reinsurance protection. PCIC has no competitors: private insurers cannot offer agricultural insurance because of significant barriers to entry.<sup>41</sup>

94. **PCIC's ineffective risk management poses large fiscal risks to the government and risk of unpaid claims to insured farmers and fisherfolk.** The PCIC has never been supervised by the IC. Its capital requirements, investments, accounting, and risk management procedures were defined differently from private sector commercial insurance companies in the Philippines. This led to insufficient risk management with almost no reinsurance protection.<sup>42</sup> Since solvency capital requirements were first set, PCIC's exposure has grown ten-fold, and a catastrophic event is likely to result in significant losses that PCIC will be unable to

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<sup>37</sup> Food and Agriculture Organization (FAO), Country Gender Assessment of Agriculture and the Rural Sector in the Philippines, 2018.

<sup>38</sup> Hermoso, Ma. Krizette Mesina, 2023. 'Typhoon insurance shelters Filipino farmers', Up Front, 2 February. Accessed 3 February 2023.

<sup>39</sup> Rice Watch Action Network (RWAN), 2022. Enhancing Gender Outcomes of Different Rice-Related Agencies through Gender Analysis of Rice Supply Chain and Advocacies, End-of-Project Report to PCAF, pp. 9-10.

<sup>40</sup> Most of PCIC clients are subsistence farmers with 0.5 to 1.0 ha plots and PCIC's indemnity-based agricultural insurance products are not suitable.

<sup>41</sup> For example, private insurers are not eligible for government premium subsidies, and they are liable for taxes on their products (12 percent VAT + 12.5 percent DST/stamp duty and municipal tax are charged on insurance products offered by private insurers).

<sup>42</sup> International experience shows how dangerous it is to be inadequately reinsured. For example, in 2011, Mexico experienced a widespread and severe freeze event (at least 1 in 50 years return period) which led to an average market loss ratio of 262 percent and a 337 percent loss ratio for the self-insured crop funds (*fondos*). AGROASEMEX, a sole reinsurer of *fondos*, incurred a stop loss reinsurance loss ratio of more than 1,200 percent with losses in excess of US\$1 billion. AGROASEMEX was largely under-reinsured and had to be re-capitalized by the Mexican government to avoid bankruptcy (World Bank 2013. Mexico: Agriculture Insurance Market Review, June 2013).



cover.

95. **The government plans to improve the provision of agricultural insurance for Filipino farmers.** These reforms aim to: (1) increase the value for money of government subsidies and protect government's fiscal balance; (2) improve the adequacy and quality of protection of farmers against climate disasters; and (3) strengthen efficiency of operations of agricultural insurance in the Philippines. These reforms are built around two key elements, reflected through the Prior Action and the Indicative Trigger. The government is also working towards broader reforms to the agricultural insurance sector to be introduced subsequently through changes to the Agricultural Insurance Bill.

96. **Prior Action 8 supports the reform to direct the Insurance Commission (IC) to audit PCIC's financial health and solvency to mitigate government's fiscal risk and protect the insured farmers from the impact of climate-related disasters.** Placing PCIC under IC supervision aims to bring PCIC in line with insurance market best practice and standards. This means compliance with solvency, minimum capital, and reinsurance requirements and quarterly and annual audit and reporting requirements in line with other non-life insurers. This will strengthen PCIC's financial health, which mitigates climate-related disaster risks to the budget and to insured farmers.

97. **The Indicative Trigger 9 supports a further reform to improve financial protection of smallholder farmers against climate-related hazards by amending PCIC Charter.** The PCIC Charter provides the mandate for the PCIC and sets out rules and processes for its operations. Last updated in 1995, it is not in line with best practices and has gaps regarding products PCIC can offer (traditional indemnity-based products), targeting of premium subsidies (covering all farmers with up to 7 ha plots), risk management (e.g., reinsurance) and other key functions of PCIC, and objectives of insurance cover.

98. **Expected result.** The expected result is increased financial resilience of PCIC measured by its compliance with IC regulations by 2025 from no compliance in 2022. IC regulations are designed to protect customers and government, ensure better value of PCIC products and services to farmers, and that the company remains solvent and makes better use of funds (Result Indicator 12). This means more certain and quicker payouts to farmers, and protection of the public balance sheet. Given that the majority of PCIC's clients are smallholder farmers registered in the RSBSA, this reform will protect some of the most vulnerable farmers against climate shocks. A set of ancillary actions on effectiveness of RSBSA could increase the positive impact of this reform (particularly the reform planned under the indicative trigger) by improving de facto targeting of vulnerable smallholder farmers through nationwide implementation of farmer registry. This could provide a more inclusive and equitable insurance to vulnerable farmers, especially female farmers, affected by climate-related hazards.



Table 6. DPF Prior Actions and Analytical Underpinnings

| Prior Actions  | Analytical Underpinnings  |
|--|---|
| <b>Pillar 1. Accelerate the economic recovery and boost long-term growth</b>   |   |
| <p>1. To increase investment in infrastructure services, the Borrower has created the legal framework to open Public Service Sectors to 100 percent foreign ownership through the amendment of the Public Service Act (Commonwealth Act No. 146), as evidenced through the enactment of the Republic Act No. 11659 on March 21, 2022.</p>  | <p>The WBG. 2022. FDI Screening and National Security Review: International Trends and Lessons of Experience benchmarked the level of restrictiveness to FDI, indicating sectors, such as telecom and transport, as highly restricted vis-à-vis regional peers. The screening made the case for reform to remove restrictions on the basis that the Philippines experienced low level and rates of FDI share versus regional peers, revealing how limitations to foreign equity in previously restricted public service sectors contributed to the lagging performance of the Philippines. The WBG &amp; OECD 2022 Product Market Regulations in the Philippines approached to the reform from the angle of competition (or lack of thereof), offering a granular analysis of the degree of concentration and the regulatory framework in each of the sectors subject to restrictions. These analyses strengthen the case of advocacy for the PSA amendment reform, and its IRR. The study also provided a basis for estimating the potential impact in investment generation from the introduction of this reform in each of the sectors. The World Bank also supported the PSA amendment IRR through legal reviews and analysis of specific sector regulations and the comparative narrative of similar regulations introduced in peer countries. These international references for definitions of national security, public services, and public utilities enabled the drafting of the PSA amendment IRR.</p> |
| <p>2. To attract private investment in public infrastructure and increase certainty in the PPP framework the Borrower has: (a) amended the Build-Operate-Transfer Law IRRs; and (b) approved the Guidelines and Procedures on Processing PPP Proposals for NEDA Board/ Investment Coordination Committee (ICC) Evaluation and Approval, as evidenced by the Certification of NEDA Board Approval of such Guidelines and Procedures on November 24, 2022.</p> | <p>2020 World Bank PPIAF COVID19 Rapid Response Technical Advisory on PPPs found the need to improve the fiscal commitment and contingent liability management and reporting in PPPs and introduced to GOP the PPP Fiscal Risk Assessment Model (PFRAM).</p>  |
| <p>3. To increase foreign direct investment in solar and wind energy, the Borrower, through the DOE, has amended Rules and Regulations Implementing the Renewable Energy Act to remove the 40 percent foreign equity cap on exploration, development, utilization and commercialization of natural resources, as evidenced by the DOE Department Circular DC 2022-11-0034.</p>   | <p>2021 IFC report, “Ctrl-Alt-Delete: A Green Reboot for Emerging Markets”, suggested that substantial capital investments are needed for accelerated decarbonization of the power sector. Increasing FDI is critical to bridging the financing gap, yet a 40 percent cap on foreign ownership on solar and wind energy projects limits the amount of FDI that can be channeled into developing RE infrastructure, as noted in the WBG 2022 Philippines Country Climate and Development Report. This is of particular concern for developing the Philippines’ rich offshore wind resources, which require not only a substantial level of financing but also technology and management know-how in construction, operation, and maintenance from advanced economies.</p>  |
| <p>4. To increase demand for renewable energy, the Borrower, through the DOE, has increased the minimum annual incremental</p>   | <p>Clean energy transition pathways were analyzed in the Bank Policy Note, “Philippine Energy Transition: Towards a Secure, Affordable and Clean Energy Future” and the WBG 2022 Philippines Country Climate and Development</p>  |



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| <p>generation required to be sourced from renewable energy resources from 1% to 2.52% starting 2023 for Mandated Participants, as evidenced by the DOE Department Circular DC2022-09-0030.</p>   | <p>Report (CCDR). To accelerate decarbonization of the power sector, the share of electricity generation from solar and other RE sources will need to grow substantially. A mandatory minimum share of RE in the energy supply is among the policies and regulations that would help the Philippines to achieve this goal.</p>  |
| <p><b>Pillar 2. Protect the environment and improve climate resilience</b></p>   |   |
| <p>5. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower has: (a) enacted the Extended Producer Responsibility Act (Republic Act No. 11898); and (b) through its Department of Environment and Natural Resources (DENR), issued accompanying IRRs, mandating large enterprises to recover up to 80 percent of plastic packaging waste by 2028 and to submit EPR programs describing a component on gender equality.</p> | <p>WBG. 2022. Philippines: Plastic Diagnostics. Field and Remote Sensing, River Monitoring, and Microplastics Assessments; and Reducing Plastic Waste in the Philippines: An Assessment of Policies and Regulations to Guide Country Dialogue and Facilitate Action.</p> <p>Market Study on Plastics Circularity Opportunities and Barriers. Combatting the Plastic Waste Crisis in the Philippines-Implementing Extended Producer Responsibility with Lessons Learned from Korea</p> <p>The study confirms the focus of EPR law on plastic packaging, as over 60 percent of the waste detected was single use plastic packaging. The Assessment of Municipal SWM Plans and Implementation shows limited financial and technical capacity of LGUs to effectively collect, segregate and recycle waste. The Market Study presents EPR as a feasible option to increase recycling in the country and shares prioritized actions for the government to improve plastic recycling and unlock its material value. The lessons learned from Korea study lays out recommendations on important elements for the Philippines to focus on during EPR implementation such as governance framework, financial flows, and operationalization.</p> <p>WBG. 2022. Marine Plastic Management: The Gender Dimensions. The study provides evidence of women’s employment in plastic production and waste management, including plastic recycling. It points to high rates of vulnerable employment for women compared to men, and opportunities for women workers in the sector.</p> |
| <p>6. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the DOE, has issued IRRs to implement the Republic Act No. 11697, otherwise known as the Electric Vehicle Industry Development Act of 2022.</p>   | <p>The 2022 World Bank report, “Electricity Mobility Development for Public Transport in the Philippines,” assessed the existing EV ecosystem in the Philippines and developed policy options to accelerate EV uptake in the public transport sector. The report’s recommendations on demand- and supply-side policy options to promote low-carbon mobility and clean energy transition through the growth of the e-mobility sector were integrated into the final draft of the EVIDA.</p>  |
| <p>7. To incentivize public procurement of green goods, the Borrower, through the Government Procurement Policy Board (GPPB) has updated the GPP Roadmap by: (a) providing for a monitoring system based on green tagging; and (b) upgrading of green specifications; through GPPB Resolution No. 08-2022.</p>   | <p>MAPS, Philippines CCDR, 2020/2021 Data collection for SDG Indicator 12.7.1 of the UNEP, Philippines Country Report: Current Status of Green Public Procurement (GPP) Implementation of the Switch Asia Regional Policy Advocacy.</p> <p>WBG. 2022. Philippines Country Climate and Development Report (CCDR).</p> <p>The report shows the need for upgrading the Philippines GPP Roadmap: strong linkages between different Government institutions and agencies involved in implementing the GPP Roadmap; proper monitoring, assessment, and reporting mechanisms or tools on the impact of the GPP initiatives; and to expand the scope of the adopted market-based approach to include the</p>  |



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|  | procurement of civil works and infrastructure projects in the GPP Roadmap.   |
| <p>8. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, has directed the Insurance Commission (IC) to conduct annual examinations of the Philippine Crop Insurance Corporation (PCIC)'s affairs, financial condition and its method of business, as evidenced by Department Order No. 038-2022 and Circular Letter No. 2022-35.</p> | <p>WBG. 2022. A study on Reforming Agricultural Insurance in the Philippines: Review and Roadmap. The study provides an overview of agricultural insurance in the Philippines and provides a roadmap for reforms. It underscores such challenges as insufficient number of farmers covered, not well-focused government subsidies with large and consistently growing premium subsidy budget, multiple technical and operational challenges in the PCIC including inadequate risk management, barriers for private sector entry and inadequate insurance products for farmers. It recommends a set of comprehensive reforms in a legal and policy environment, operations of agricultural insurance in the Philippines, and products offered to farmers.</p> <p>World Bank “Technical Assistance to the Department of Agriculture’s upgrading of the Farmer and Fisher Registry” aimed at upgrading of the current Registry System for Basic Sectors in Agriculture (RSBSA) to develop a comprehensive Farmer and Fisher Registry for the Philippines. The report recommends fully mainstreaming RSBSA for subsidy targeting by PCIC to increase the positive impact of the PCIC reform.</p> |

## 5. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

99. **The reforms supported by this DPL are well aligned with the 2019–2023 Country Partnership Framework (CPF) for the Philippines and the WBG twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner.** The reform actions in this proposed operation will contribute to the development objectives of the CPF; namely 5) Promote regulatory reforms to enhance competitiveness; 6) Improved efficiency of public service sectors in selected areas; 7) Improved income opportunities in agriculture; and 10) Increased resilience to natural disasters and climate change.

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

101. **The program is consistent with the WBG crisis response framework for supporting green, resilient, inclusive development (GRID) and the Global Crisis Response Framework (GCRF), which sets the World Bank’s operational response to multiple current crises.** Prior Actions 1 (PSA amendment), 2 (BOT Law IRRs), 3 and 4 (RE equity cap and RE mandate), 5 (EPR Law), 6 (EV adoption), and 7 (green procurement) are tagged under GCRF Pillar 4: Strengthening Policies, Institutions, and Investments for Rebuilding. Prior Action 8 (agriculture crop insurance) is tagged under Pillar 3: Strengthening Climate Resilience.



#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

102. **The GOP has actively consulted with key stakeholders in the formulation of policy actions for promoting investment in RE under this DPF.** The tasked working groups and commissions have typically reached out to key implementing agencies during the process of drafting. Once an advanced draft is ready, the lead agency provided open access of updates and modified drafts through the agency websites, social media pages of agencies, with clear instructions on how and where to send comments and register for stakeholder meetings. The leadership of the executive agency made a presentation of the flagship reforms in bilateral and multilateral meetings of the President, and at key business conferences. For example, to support increased private sector investment, especially in RE, the DOE engaged with private representatives, inter-agency consultations, and the National Renewable Energy Board to clarify provisions of the proposed amendments to IRRs of the REA and NREP.

103. **The GOP followed a similar approach to advance investment, and public procurement reforms.** The National Economic Development Authority (NEDA) conducted multiple consultations in the drafting of the Public Services Act, as amended, IRR. The Public Private Partnership (PPP) Center followed a similar methodology to consult with public and private stakeholders in the revisions to the 2022 IRRs of the BOT Law and ICC Guidelines. For consultations on reforms to protect the environment and improve climate resilience, DENR, led by the regional offices of the Environmental Management Bureau (EMB), embarked on hybrid (in-person and virtual) clustered consultations for Luzon, Visayas and Mindanao. In the case of green procurement, the SPP/GPP Committee, composed of public sector representatives, engaged with private entities to present and seek feedback in the drafting process. On the EVIDA IRR, the DOE, together with the DOTr and other NGAs held a series of hybrid clustered and nationwide/plenary public stakeholder consultations in August 2022.

104. **The Bank is collaborating with development partners to prevent work redundancy and ensure coordination of support.** The authorities and the Bank have coordinated with other development partners in the reform areas. The Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), and the German Agency for International Cooperation (GIZ) are also working on agricultural insurance, focusing mainly on the development of alternative insurance products. USAID supported the DOE and DOTr in the conduct of the EVIDA IRR consultations. The ADB has also been supporting efforts in sustainable public procurement and extended producer responsibility. UNDP is supporting DENR on the implementation of the EPR Law. GIZ supported GPPB on the development of an M&E system for green procurement. The Bank and the ADB are coordinating on support for the Public Service Act reforms.

## 6. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

105. **The reforms supported by the DPL's Prior Actions will generally have positive long-term poverty and distributional effects, depending on how well the government manages the reforms, but some could be negative short-term impacts.** Some of the proposed PAs will lead to short-term increases in poverty and inequality. Thus, crucial policy interventions and complementary reforms will be needed to ensure the



intended and desired long-term effect of improving incomes—especially of those in the bottom of the distribution. The reforms will affect the income distribution through two main channels: first, changes in prices in goods and services will affect household incomes, and second, transformations in the labor market will affect workers—both via transitory churning and via structural change in the long run. The ensuing paragraphs will describe how the reforms supported under each of the three pillars would positively contribute to positive poverty and social impacts.

106. **Pillar 1: Accelerate the economic recovery and boost long-term growth.** The 4 PAs under this Pillar are expected to increase investments in public service sectors, RE and accelerate the development of green jobs in the labor market. This is envisioned to be achieved by loosening restrictions on the inflow of FDI and by removing anti-business provisions to promote public-private partnerships in infrastructure development. The influx of investments is expected to boost growth and create more jobs—green, or otherwise—and to decrease prices of goods and services (e.g., electricity) through increased competition and technical efficiency. The reforms may then lead to increased economy-wide productivity which can lead to increased wages, household incomes and overall standards of living.

107. **However, each Prior Action under Pillar 1 may have different poverty and distributional effects depending on the time horizon.** The jobs generated and potential decrease in prices made possible by the influx of investments as a result of reforms under Pillar 1 will be positive to poverty and inequality reduction.

108. **Prior Actions 1 on the PSA amendment and 2 on the BOT Law IRRs will likely lead to a significant positive effect on poverty and inequality.** This will come from improved business conditions that will encourage foreign and domestic businesses to invest, create jobs, and bring in improvements in technology.

109. **Prior Action 3 on the RE equity cap will have positive poverty and distributional benefits.** Liberalizing FDI in RE may have positive distributional benefits with minimal destruction of jobs because foreign capital has minimal crowding out in the RE space. The jobs generated and potential decrease in prices made possible by the influx of investments will be salutary to poverty and inequality. A recent empirical cross-country study shows that the RE spending multiplier is systematically higher than the non-eco-friendly energy multiplier at the short and long-term horizons. This is explained by the higher labor-intensity of clean energy spending compared to carbon-based fuel spending, and the fact that RE investment tends to induce more domestic spending, for example, upgrading the electrical grid.<sup>43</sup>

110. **For Prior Action 4 on the RE mandate, significant and negative poverty and distributional effects may be felt in the short term, but these can be mitigated, while lower energy prices will benefit the poor in the long run.** According to the CCDR, the widespread adoption of renewables in the long run will lead to lower cost of electricity supply as the reduction in fuel costs will offset the capital cost increase in renewable investments and as the cost of renewable technologies continues declining. But in the short run, if the National Renewable Energy Target is met by policies designed to hasten the energy transition (such as generous subsidies), the cost of electricity supply may increase and hurt households and business. However, if this transition is well-managed (e.g., introducing greater competition in RE investments through auctions), then supply costs can decrease as cost-competitive renewable investments flow in. In addition, there should be safeguards against policies meant to encourage renewables which may inadvertently hurt the poor. For instance, net metering policies under revenue decoupling can increase electricity rates for the poor if the

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<sup>43</sup> Nicoletta Batini, Mario di Serio, Matteo Fragetta, Giovanni Melina, and Anthony Waldron, “Building Back Better: How Big Are Green Spending Multipliers?”, IMF Working Paper No. 2021/087. March 2021. <https://www.imf.org/en/Publications/WP/Issues/2021/03/19/Building-Back-Better-How-Big-Are-Green-Spending-Multipliers-50264>



fixed costs of utilities will be shifted to non-solar users, which are primarily poorer households.<sup>44</sup> A well-managed transition into renewables that does not place an unnecessary burden of high energy prices on households—coupled with the health co-benefits of pollution mitigation—can bring sustained long-term benefits to the poor. The government has already put in place a lifeline tariff (Republic Act 11552) to mitigate short-run effects of increasing short term prices in electricity. This targeted subsidy particularly benefits marginalized end-users such as beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps).

**111. Pillar 2: Protect the environment and improve climate resilience.** Under this Pillar, the reforms are aimed at improving environmental outcomes by mandating firms to be responsible to recover plastic waste, for the government to encourage GPP and to encourage the development of the EV industry. These first two sets of reforms incentivize businesses to shift towards packaging and products that cause minimal harmful environmental impacts. However, at worst, this shift may cause short-term adjustments in production processes that can possibly lead to increased prices, or job losses. The promotion of the EV industry through the EVIDA may lead to short term adjustments and losses—especially in the more vulnerable transportation sector—if reforms are not sequenced properly and if there will be excessive government subsidies. Hence, these economic costs should be balanced with the environmental benefits from these reforms.

**112. Prior Action 5 on the EPR Law can have a significant and negative effect in the short term, which can be mitigated through education and training, but with likely long-term distributional benefits.** It may have short-run adverse impacts especially if the added cost to firms impacts employment and lead to higher prices of goods for consumers. The plastics industry can also be directly affected. The Philippine Plastics Industry Association, Inc. (PPIA) estimates that around 600,000 workers are part of the industry either involved directly in the production of plastic products or through other upstream and downstream industries, although the EPR Law only applies to large firms generating packaging waste.<sup>45</sup> In the context of shifting to “greener” jobs in the long run, however, recent estimates point to a potential increase of around 4 million more jobs compared to a business-as-usual scenario where there are no active policies meant to promote the shift towards a greener economy.<sup>46</sup> To ameliorate the short-term impact on job loss and poverty, social protection programs must be complemented with continuous education and training—especially those geared towards reskilling and retraining. Moreover, the transition of employment across industries and occupations could be managed with improved employment facilitation services, and labor market surveillance, by DOLE and the local governments. Finally, unemployment insurance programs can help ameliorate the impact of income drops due to the labor market transition. The government is aware of these risks and is receiving support from the Bank on estimating the economic and distributional impact of this reform, while other development partners are providing technical assistance to selected LGUs to increase awareness on the potential changes in plastic production and management-related jobs and to support with the transition.

**113. Prior Action 6 on EV adoption may have negative short-run effects, which can also be ameliorated through worker training, but it shows high potential for sustained poverty reduction and employment generation in the long term.** Negative short-run effects are possible, especially if proper complementary reforms in the transportation sector are absent. This could happen, for example, with the shift to e-vehicles for public transportation. Recent estimates show that 118,000 families (or 590,000 individuals) in Metro

<sup>44</sup> See, for instance, <https://energyathaas.wordpress.com/2021/06/01/rooftop-solar-inequity/>

<sup>45</sup> <https://www.philippineplastic.com/supply%20chain%20linkages.html>

<sup>46</sup> Abrigo, M., D. Ortiz, A. Orbeta, and G. Llanto. 2021. “Greening the Philippine employment projections model: New estimates and policy options.” PIDS Discussion Paper Series No.2021-26. Quezon City: Philippine Institute for Development Studies.



Manila depend on the jeepney sector.<sup>47</sup> In the short run, shifting from traditional jeepney to an electric jeepney (Philippine Utility Vehicle) will cost PHP 1.3 million, PHP 500,000 above the purchase cost of a traditional jeepney.<sup>48</sup> This is unaffordable to most jeepney drivers with maximum gross daily earnings of PHP 2,500 (excluding expenses on fuel and maintenance). Hence, the law foresees targeted fiscal and non-fiscal incentives and financing from financial institutions may be warranted to offset these high upfront costs. Forthcoming implementing regulations will provide this incentives framework. Moreover, the shift towards charging stations, which can be done *in situ* in homes and businesses, may jeopardize retail petroleum-related jobs in the short run (e.g., gasoline attendants, cashiers). In the long-term, however, there can be potential for sustained poverty reduction and employment generation, provided that policies will encourage directed technological change that is country-appropriate. There are also new employment opportunities in different upstream and downstream manufacturing and service-related industries. However, these jobs may require specialized education and training, which could be difficult for the poor to access.<sup>49</sup> The law expects the government to set up a human resource development component to help workers affected by potential job losses and to promote employment for the poor to benefit from the development of the EV industry. Forthcoming implementing regulations will provide this framework.

**114. Prior Action 7 on green procurement will have negligible negative short-run effects but can lead to positive long-term effects if green industries can be supported and developed.** The pool of eligible firms that supply products and services that can satisfy GPP requirements may be shallow and thus will have minimal impact on procurement policies of the government. At worst, eligible firms that supply these greener products and services may be more expensive due to specialized technology. In the long term, provided that emerging technologies can make greener alternatives more cost-competitive, firms can enjoy the twin benefits of environmentally friendly products at lower prices. The government and households will gain if this transition takes place. Moreover, as mentioned in PA 5, there is a potential to create 4 million additional jobs if the shift towards a greener economy is supported. If improvements in green procurement contribute towards supporting this shift towards a green economy, then lower prices, higher wages, and productivity through the development of specialized skills will have the potential to increase household incomes.

**115. Prior Action 8 on crop insurance will have a very small positive impact on poverty and inequality, but this can be amplified with ancillary reforms.** However, if this PA is part of a larger package of reforms intended to create a more efficient, well-designed crop insurance scheme with significant private sector participation, this will have positive effects on poverty and inequality in the long run. The reform, meant to ensure fiscal soundness of the PCIC, may lead to increased efficiency in operations that will ensure faster and more adequate payouts to farmers in times of disaster. However, the impact of this reform alone will have a very small effect on poverty and inequality as only 1.7 million farmers out of the 8.8 million smallholder farmers and fisherfolk have benefited from different PCIC programs.<sup>50</sup> Complementary reforms are needed for improved penetration and targeting of farmer-beneficiaries such as improving the Registry System for Basic Sectors in Agriculture (RSBSA). However, the scope for crop insurance to protect rural household incomes will be wider when the private sector is encouraged to enter the market. What the government can do is address market failures especially concerning information and coordination. Since farmers have private information regarding their risk profile, the government can help in providing high-quality yield data.

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<sup>47</sup> Biona, J. B. M., Mejia, A., Tacderas, M. A., Cruz, N., Dematera, K., & Romero, J. (2017). Alternative Technologies for the Philippine Utility Jeepney. A cost-benefit study. <https://doi.org/10.13140/RG.2.2.21019.57128>

<sup>48</sup> Kritz, B. (2018). Electric vehicles to dominate in Philippines' jeepney modernization. Motion Digest Network.

<sup>49</sup> [https://www.bls.gov/green/electric\\_vehicles/](https://www.bls.gov/green/electric_vehicles/)

<sup>50</sup> <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidsdps1938.pdf>



Moreover, it can also facilitate financial literacy for farmers. The PCIC, in particular, can also aid in data collection to help in the design of insurance products. The PCIC can also facilitate the participation of the private sector by expanding its role as a reinsurer for other firms willing to offer agricultural-related insurance. With the government and private sector complementing each other, crop insurance can be a potent tool to reduce vulnerability of farmers and rural households.

**116. On the areas where the reforms supported by the DPL are likely to increase poverty or worsen distribution, careful attention should be paid to ameliorate these adverse effects.** First, there must be a strong presence of adequate safety nets to mitigate adverse impacts on households, firms, and communities. For instance, cash transfers to temporarily cushion the impact of increasing prices for vulnerable sectors should be considered. Second, there must be enhanced regulatory support to ensure that markets will function well. For instance, the Energy Regulatory Commission (ERC) capacity and powers should be enhanced so that timely reviews and regulatory resets can be conducted to reflect the responsiveness of price movements to current conditions. Moreover, the Philippine Competition Commission (PCC) can be capacitated to detect and avert possible abuse of dominance in the sectors covered. The Department of Labor and Employment (DOLE) can also enact labor market policies to mitigate the effects of excessive labor churning such as unemployment insurance. Finally, proper implementation mechanisms and institutional support must be in place to guarantee that the reforms will benefit the greatest number.

**117. Constant monitoring, either through just-in-time analysis or through more detailed studies should be undertaken in the DPL's life cycle to evaluate impacts on households, firms, and communities.** For instance, microsimulations can be used to do evaluate distributional impacts. Specialized surveys can also be commissioned to complement publicly available official statistical or administrative data. These types of studies should be done periodically to evaluate the short term and the long-term effects of the reforms.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

**118. The reforms supported under the DPL are not likely to have significant negative effects on the environment, forest, and other natural resources.**

**119. The Philippines has an adequate policy framework to address potential environmental risk and impact.** The Philippine Environmental Impact Statement System (PEISS)<sup>51</sup> and its IRRs, the Department Administrative Order (DAO) 2003-30 to guide PEISS implementation, requires the compliance of every project, which significantly affects the quality of the environment. The environmental impact assessment process recognizes direct and indirect environmental impacts, including issues under other laws such as those pertaining to forest, protected areas and ecosystem services, wildlife and fishery, air quality, conservation and protection of fresh and marine water, toxic substances and hazardous waste, mineral resources, climate change, etc. The PEISS requires the identification of a wide range of measures to avoid, minimize, mitigate, and compensate adverse impacts caused by a project, including alternatives to project location, technology, and resources. It also requires including mitigation measures monitoring plans and corresponding institutional management, and financial arrangements for implementation. All projects that can potentially cause any form of significant negative impact to the environment are regarded as

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<sup>51</sup> Presidential Decree 1586



environmentally critical and are therefore required to secure an Environmental Compliance Certificate (ECC), which are subject to monitoring, validation, and evaluation/audit for performance assessment.

120. **PEISS follow-up actions and enforcement can be improved to enhance the delivery of environmental results effectively for development projects.** The Bank is working closely with DENR and other related agencies on possible capacity building for streamlining PEISS implementation to meet the new concepts of Environmental, Social, and Governance (ESG), through knowledge sharing for enhancing the effectiveness of the EIA process. The necessity to move towards ESG implementation effectiveness is also in light of the GOP positioning the Philippines as a prime destination for climate- and ESG-related foreign investments in its PDP 2023-2028. In this regard, GOP is committed to establishing an ESG Investment Task Force composed of the public sector (NEDA, DENR, DTI, DOF, CCC, etc.), private sector, academia, and other social partners. They are expected to support strengthening institutional capacity for DENR and related agencies to minimize environmental footprint in investment project.

121. **The majority of reforms supported under the first DPL will likely lead to positive environmental outcomes on the environment, forests, or other natural resources.** Prior Actions 3 to 7 are expected to have significant positive effects. Prior Action 8 is expected to have negligible negative environmental effects. Prior Actions 1 and 2 are expected to have negative environmental effects, but the effects can be partly mitigated through the implementation of the country's existing environmental policy framework.

122. **Prior Actions 3 and 4 on transitioning to low-carbon energy production will lead to net positive environmental outcomes.** The Philippine CCDR estimates GHG emissions to rise from 234 MtCO<sub>2e</sub> in 2020 to 399 MtCO<sub>2e</sub> in 2030. The energy sector is the single largest contributor to GHG emissions in the Philippines, accounting for 54 percent of total emissions. The CCDR emphasizes the benefit from an energy transition toward low- and zero-carbon alternatives, including significant benefits from reduced air pollution. The policy decision to remove 40 percent capital restriction to liberalize FDI investment on solar and wind energy will lead to scale up of RE, a reduction of dependence on coal-fired power generation and lower GHG emissions over time. However, the development of solar power may have negative effects on the environment and natural habitats, as large solar power plants require clearing of land for construction with potential long-term effects on native biodiversity. This can be addressed by local land planning to identify and classify appropriate land for solar power development. In addition, the development of rooftop solar could cut the demand for land. Offshore wind facilities need larger areas compared to land-based wind farms. DOE is working with related agencies, including LGUs, on marine spatial planning for proper planning and siting of the facilities to minimize potential impacts of offshore and land-based wind generation. This could help avoid and minimize impacts on marine wildlife and habitat.

123. **The Philippines can mitigate the potential negative environmental effects from RE development through its existing policy framework.** Potential environmental effects from RE development are addressed through the PEISS process and environment laws pertaining to protected areas, biodiversity, fishery, toxic substances, and hazardous wastes. The disposal of hazardous waste from solar and offshore wind power plants are required to follow the Toxic Substances and Hazardous and Nuclear Waste Control Act that regulates the importation, manufacture, processing, sale, distribution, use, and disposal of these forms of waste. The "Renewable Energy Safety, Health, and Environment Rules and Regulations" issued by DOE (2012) provide guidance and requirements on safety and protection against hazards to health and address environmental concerns such as air, land, and water pollution during the operation of RE facilities.

124. **The newly adopted EPR Law and its accompanying IRRs (Prior Action 5) will have positive environmental effects.** It will enhance resource conservation and recovery through extended producer



responsibility. It is expected to promote greater waste reduction, reuse, and recycling, whereby less plastic waste will leak to the environment and to the oceans. The policy also brings climate change mitigation and adaptation co-benefit to reduce GHG emissions and flood risks caused by plastics blocking drainage infrastructure.

**125. Prior Action 6 on promoting the development and use of EVs through the EVIDA will bring environmental benefits, provided the GOP has regulations and guidelines in place to prevent and minimize potential related adverse effects.** The Philippine CCDR identifies transport as the biggest fossil fuel-consuming sector and the largest source of urban air pollution. The CCDR estimates the emissions from the transport sector will quadruple by 2050 under the current scenarios and policies. The transition to low-carbon electrified transport is expected to reduce GHG emissions and bring significant local benefits, particularly lower air pollution for urban areas. This is also expected to lead to lowering adverse impacts on health. The reform provides an enabling environment for manufacturing and assembling of EVs, charging stations and related parts which will likely have potential adverse impacts to the environment.

**126. The same law tasks DENR and DTI with the formulation of mitigating policies.** Currently, there is a lack of technical guidelines for construction or installation of charging stations, knowledge on battery recycling technology and standards and regulations on EV battery reuse. DENR is tasked by the EVIDA to promulgate rules and guidelines on the recycling and disposal of EVs, charging stations and related equipment, parts, and components, and batteries consistent with the Toxic Substances and Hazardous and Nuclear Waste Control Act. They are also assigned to establish guidelines for accurate characterization, disposal and handling of waste involving EVs, charging stations and related equipment, parts and components and batteries. DOE needs to introduce minimum energy performance and other technical parameters for EV and technical standards and parameters for EV batteries. DTI is tasked to coordinate with DENR to develop a program of manufacturing and recycling standards for EV batteries and facilities. All these rules, guidelines and standards are expected to ensure the implementation of the Policy Action will not likely cause significant environmental effects.

**127. Prior Action 7 on upscaling the implementation of green public procurement will likely lead to a positive environment outcome.** GPP seeks to purchase goods, works and services with a reduced environmental impact through their product life cycle. It contributes to address, for example, (i) waste through specification of processes or packaging that can be reused and recycle of materials; (ii) soil, water, and air pollution through specification of chemical and hazardous substance uses; (iii) GHG emissions through specification of carbon dioxide footprint; and (iv) energy and resource efficiency through indication of energy and material use. GPP enables purchasers to make informed choices and performs their role in the green transition. It also helps raise environmental awareness by identifying both positive and adverse environmental impacts of products.

**128. Prior Action 8 on the agriculture crop insurance reform is not expected to have significant environmental effects.** Agricultural insurance, where it is linked to seasonal production credit, enables farmers to purchase and apply higher levels of improved seeds, fertilizer, and plant protection chemicals. The process of intensification is typically driven by increased use of fertilizers and other chemical inputs, which leads to negative environmental effects. However, where agricultural insurance is introduced as part of an embedded packaged program with inputs and technical assistance and education for farmers in soil and water conservation measures (e.g., zero tillage and green mulching), insurance can introduce discipline by putting a price on risk and to motivate farmers to move out of high-risk crops into lower-risk crops that are more suited to the local environment. Such integrated measures actively seek to reduce adverse environmental effects and to introduce sustainable farming practices. Agricultural intensification could lead



either to decreased land under cultivation owing to higher crop yields or to increased land under cultivation owing to higher profitability, demand increases, and output price responses. Experience in other countries shows that agricultural insurance can contribute to reduced land under cultivation by increasing output and income and profits per unit area. The Bank's Philippine Rural Development Project Scale-up is providing support for agriculture insurance and promotion of improved inputs, climate-smart technologies, and innovations that are expected reduce adverse environmental effects.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

129. **PFM Environment: The PFM narrative has a strong underpinning that captures the strengths and weaknesses identified in the 2016 PEFA assessment.** The GOP has significantly improved its PFM at the national level over the past decade and continues to be a strong performer in the region. The 2016 Public Expenditure and Financial Accountability assessment indicated that three of the seven PFM pillars (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment. The financial statements of government agencies are audited annually. There were no major qualifications on the DOF annual financial statements in the most recent years, and most matters raised in previous years' audit reports were fully or partly addressed. The national government budget is made available to the public online through the DBM website, from the budget proposal stage (the National Expenditure Program) up to the time it is signed by the President of the Philippines and made effective through the passage of the General Appropriations Act (GAA).

130. **The GOP continues to make strides in PFM reform.** The WBG Second and Third Philippines Development Policy Loan to Foster More Inclusive Growth (2014) supported the formulation and adoption of a Unified Accounts Code Structure to be used across budgeting, accounting, and reporting. A Treasury Single Account has been implemented and the Bureau of Treasury (BTr) is working to expand its coverage. The previous DPL for improving fiscal management included actions to strengthen budget preparation, cash management and adoption of the Budget and Treasury Management System (BTMS) as the basis for a single national government financial information system. It is to be noted, however, that the use, rollout, and further development of the BTMS was indefinitely suspended effective August 1, 2021, in view of changes in the strategic direction of the envisioned Integrated Financial Management Information System (IFMIS) under the Public Financial Management (PFM) Reform Roadmap. It was reactivated pursuant to PFM Committee Resolution No. 1-20221 dated December 19, 2022. To improve budget predictability and execution, the GOP gradually tightened the validity period for obligations since 2019 when an annual cash budget was adopted. The adoption of cash appropriations effectively limited the validity of obligations to the year funds are appropriated. The Budget Reform Bill is one of the priority bills of the current administration and there is a renewed commitment and support to pass the bill. Passage of the law is being considered as one of the triggers in the second operation of the sustainable recovery DPL series.

131. **The Government of the Philippines has made great strides during the last two decades towards strengthening the country's public procurement system particularly through the adoption of the public procurement Republic Act (RA) 9184 in January 2003.** Several measures were taken under this law to address systemic procurement corruption, including inter alia the mandatory use of public bidding, periodic monitoring, and evaluation of the performance of the procurement system through the Agency Procurement Compliance and Performance Indicator system and the mandatory use of the Philippine Government Electronic Procurement System (PhilGEPS) electronic procurement's feature of bid and contract award



notification. It also established Government Procurement Policy Board (GPPB) as the public procurement regulatory and normative body, initiated the professionalization of public procurement practice, collaboration with Civil Society Organizations as procurement observers, and the promotion of sustainability through the introduction of the Green Public Procurement Roadmap in 2017. However, many challenges remain to be addressed in further reforms, especially with respect to eligibility and rules of participation, procurement approaches for optimal value for money and sustainable procurement, independent complaints review body, and modernization of PhilGEPS operational functionalities for increased efficiency. A comprehensive assessment of the Philippines public procurement system using the revised Methodology for Assessing Procurement Systems (MAPS) has been jointly conducted by the GPPB-TSO, the World Bank, and Asian Development Bank. The assessment's recommendations, which were validated with the key public procurement stakeholders on May 17, 2021, are expected to guide the government in prioritizing the reform activities needed to enhance the effectiveness of the public procurement system in supporting government policy objectives and improve the efficiency in public services delivery while achieving value for money with good governance under a transparent environment towards sustainable development.

132. **To hasten project implementation and to effectively implement the government's initiative on implementing a cash budgeting system, the conduct of advance procurement has been strengthened and institutionalized through administrative issuances.** Transparency, being one of the governing principles in public procurement, has been at the forefront of various procurement reform initiatives of the government such as the posting of critical procurement information not only on the PhilGEPS website but also on the websites and official social media platforms of government agencies in the Executive department, and the development and the posting of blacklisting orders by the agencies in GPPB portal. One positive impact of the COVID-19 pandemic is the full implementation of agencies of various digital transformation initiatives launched by the GPPB pre-pandemic, such as the use of digital signature and use of videoconferencing and similar technology in the conduct of meetings/conferences. Pending the modernization of the PhilGEPS, electronic bid submission has likewise been allowed so as not to impede procurement activities during the COVID-19 pandemic. The PhilGEPS is currently undergoing its modernization with the virtual store and merchants' registry already in-placed. The electronic bidding feature, which includes an online platform for the creation of the annual procurement plan, purchase requests, e-bulletin, e-bid submission, online conduct of post-qualification, online purchase order/contract management, and online filing of requests for reconsideration and protest, is under pilot implementation. The full implementation of PhilGEPS will start gradually in 2023 with the National Capital Region first and then the rest of the regions.

133. **The BSP foreign reserves control environment is based on domestic assessments.** The Philippines does not have an active IMF program to develop safeguard assessments.<sup>52</sup> The BSP is also not subject to international audit. Its financial statements are audited by the Commission on Audit (COA). The World Bank and the IMF have been relying on the audited financial statements released by the COA. The auditor's opinions in the BSP-audited financial statements related to calendar years 2019 to 2021 are unmodified (unqualified). However, the audit opinion contains an "Emphasis of Matter" paragraph relating to deviation from Philippine Accounting Standards 1 on the presentation of financial statements on income and expenses in CY2021. The paragraph reflects the auditor's judgment that the matter is fundamental to users' understanding of the financial statements. The auditor's opinion is not modified in respect to the matter emphasized and remained unmodified.

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<sup>52</sup> The IMF has provided TA to BSP such as the Monetary and Capital Markets Department's TA program, and the Central Banking Operations and Strategy's TA program, which supports the BSP in enhancing its capacity to manage foreign reserves effectively.



134. **The proceeds of the DPL will be deposited in US dollars in a deposit account at the BSP that forms part of the FX reserves** once the loan becomes effective and the World Bank is satisfied with i) the progress achieved by the GOP in carrying out the program, ii) the adequacy of the GOP macroeconomic policy framework, and iii) submission of withdrawal application in required format in US dollar. Immediately after disbursement of the loan, the GOP will ensure that the loan amount is promptly accounted for in the GOP budget system in the General Fund, and thereby is available to finance budget expenditures. The GOP will provide a written confirmation to the World Bank within 30 days that this accounting and transfer has been completed, including the exchange rate applied to convert the loan proceeds into Philippine peso, and the name and number of the government's bank account in which the funds have been deposited and that the exact amount was received in the account. Disbursements of the loan will not be linked to any specific purchases, and no procurement requirements have to be satisfied, except that the borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank loan proceeds, as defined in the General Conditions for IBRD Financing: Development Policy Financing, dated December 15, 2018 (revised on April 1, 2021, January 1, 2022, and August 1, 2022). If any portion of the loan is used to finance excluded expenditures as so defined in the General Conditions, the World Bank has the right to require the GOP to promptly, upon notice from IBRD, refund the amount equal to such payment to the World Bank. Amounts refunded to the World Bank will be cancelled from the loan.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

135. **The DOF is the main WBG counterpart for budget support operations, including the proposed operation.** Policy dialogue and monitoring and evaluation of the program supported by this DPL series also extend to the Department of Energy- (Energy Utilization Management Bureau), Anti-Red Tape Authority, Department of Transportation, Public-Private Partnership Center, National Economic and Development Authority, Department of Trade and Industry, Government Procurement Policy Board, Department of Environment and Natural Resources (Environmental Management Bureau), Department of Labor and Employment, Bangko Sentral ng Pilipinas, Department of Agriculture, Climate Change Commission, and Bureau of Treasury. The GOP has designated the DOF's International Finance Group as the WBG's main counterpart in the policy dialogue and monitoring of the operation.

136. **Indicators selected to monitor progress toward achievement of the PDOs reflect defined areas of action and correspond to the expected outcomes of the PAs.** They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. The Pillars and result indicators in the policy framework are aligned with government priorities. Since the policy targets are aligned with regular programs of the relevant agencies, their reporting mechanisms will be used.

137. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as PAs or tranche release conditions under a WB Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaints to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the WB's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's



attention, and WB Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 7. SUMMARY OF RISKS AND MITIGATION

138. **The overall risk is moderate.** The institutional capacity for implementation and sustainability, and the stakeholder risks are substantial, while political and governance, macroeconomic, sector strategies and policies, technical design of program, fiduciary, and environment and social risks are moderate.

139. **The institutional capacity for implementation and sustainability risk is substantial.** This operation proposes a series of reforms that require inter-agency coordination, making their success dependent on institutional capacity. For example, NEDA leads the design of the IRRs for the PSA reform (Prior Action 1), yet its successful implementation implies harmonization of definitions, and consistency of provisions, across the 17 sector regulators whose mandate will be affected by the reform. Similarly, the amendment to the BOT law calls for coordination and institutional capacity at the subnational level, to allow LGUs to execute the PPP projects at the local level. The EPR Law (Prior Action 5) and EVIDA (Prior Action 6) reforms also require substantial inter-agency coordination. The Bank will provide technical assistance to support the agencies involved in these reforms.

140. **Stakeholder risk is substantial, as there are strong political economy forces resisting sector liberalization reforms.** There is a risk that the reform to open public service sectors to foreign investment (Prior Action 1) will face resistance from domestic incumbents, interested in preserving the status quo. Private interest groups may attempt to derail the reform drive to resist foreign competition in liberalized public service sectors through the judiciary, for example, by introducing legal challenges to either keep the telecom sector under the label of *public utilities* or preserve the domestic shipping lines under the category of *critical infrastructure*, appealing to concerns of national security. Similarly, domestic incumbents can also bring challenges to the removal of foreign equity cap on exploration, development, utilization, and commercialization of solar, and wind energy (Prior Action 4) based on the existing limitations of foreign ownership and exploitation of natural resources enshrined in the constitution, but which do not apply to RE resources. Despite the consultations held for the EPR Law (Prior Action 5) and the EVIDA (Prior Action 6) reforms held, these are complex reforms with many private sector stakeholders. To mitigate these risks, the laws foresee subsidies and tax incentives to encourage participation. It will be important that the central government agencies, DOF and NEDA, play a coordinating and advocacy role to keep the reforms on track. To this effect, the Bank will remain engaged on these reforms, convene, and share knowledge with stakeholders who have shown an interest in removing restrictions in these sectors, and in bringing foreign expertise and capital to boost their performance. In addition, the Bank will provide technical assistance to assist NEDA and the DOE in implementing sector regulations that will promote competition and level the playing field.



**Table 7. Summary Risk Ratings**

| <b>Risk Categories</b>  | <b>Rating</b> |
|---|---------------|
| 1. Political and Governance                                     | ● Moderate    |
| 2. Macroeconomic  | ● Moderate    |
| 3. Sector Strategies and Policies                               | ● Moderate    |
| 4. Technical Design of Project or Program                       | ● Moderate    |
| 5. Institutional Capacity for Implementation and Sustainability | ● Substantial |
| 6. Fiduciary  | ● Moderate    |
| 7. Environment and Social                                       | ● Moderate    |
| 8. Stakeholders   | ● Substantial |
| 9. Other  | ● Low         |
| <b>Overall</b>  | ● Moderate    |

Note on environment and social risks: There are allegations of forced labor in the production of solar panels and components. This DPF focuses on policies and institutional reforms in the Philippines. DPF proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.



**ANNEX 1: POLICY AND RESULTS MATRIX**

| Prior actions and Triggers  |   | Results   |   |   |
|---|---|---|---|---|
| Prior Actions for DPL 1   | Indicative Triggers for DPL 2   | Indicator Name  | Baseline                                | Target                                  |
| <b><i>Pillar 1. Accelerate the economic recovery and boost long-term growth</i></b>   |   |   |   |   |
| 1. To increase investment in infrastructure services, the Borrower has created the legal framework to open Public Service Sectors <sup>53</sup> to 100 percent foreign ownership through the amendment of the Public Service Act (Commonwealth Act No. 146), as evidenced through the enactment of the Republic Act No. 11659 on March 21, 2022.  | 1. To increase investment in infrastructure services, the Borrower, through the NEDA and sector regulators, has approved the implementing regulations to open Public Service Sectors to 100 percent foreign ownership through the adoption of the General IRRs and sector IRRs.   | 1. Annual average foreign investment in Public Service Sectors (percent of GDP).  | 0.55 percent of GDP (2017-2022 average) | 0.76 percent of GDP (2023-2025 average) |
| 2. To attract private investment in public infrastructure and increase certainty in the PPP framework the Borrower has: (a) amended the Build-Operate-Transfer Law IRRs; and (b) approved the Guidelines and Procedures on Processing PPP Proposals for NEDA Board/ Investment Coordination Committee (ICC) Evaluation and Approval, as evidenced by the Certification of NEDA Board Approval of such Guidelines and Procedures on November 24, 2022. | 2. To increase access to resources for transparent and better prepared PPPs at the local levels, the Borrower, through the Philippines PPP Governing Board, has established a window, with supporting resources, business plan and guidelines, within the Project Development and Monitoring Facility (PDMF) for local PPPs through a resolution. | 2. Time needed to reach final decision on PPPs by the ICC (Investment Coordination Committee) from receipt of a complete and compliant project proposal (months). | 29.9 months (2022)                      | 12 months (2025)                        |
| 3. To increase foreign direct investment in solar and wind energy,  | 3. To increase foreign direct investment in solar and wind energy, the Borrower   | 3. Annual average development cost of   | 0.02 percent of GDP                     | 0.06 percent of GDP                     |

<sup>53</sup> “Public Service Sectors” means those sectors of the economy offering certain public services, for general business purposes, and which are identified in the Public Service Act (CA 146, as amended), Section 13(b).



| Prior actions and Triggers  |   | Results  |   |   |
|---|---|--|---|---|
| the Borrower, through the DOE, has amended Rules and Regulations Implementing the Renewable Energy Act to remove the 40 percent foreign equity cap on exploration, development, utilization and commercialization of natural resources, as evidenced by the DOE Department Circular DC 2022-11-0034.                          | has streamlined permitting processes for renewable energy investment through a regulation.  | investment in solar projects (percent of GDP).   | (2017-2022 average)   | (2023-2025 average)   |
| 4. To increase demand for renewable energy, the Borrower, through the DOE, has increased the minimum annual incremental generation required to be sourced from renewable energy resources from 1% to 2.52% starting 2023 for Mandated Participants, <sup>54</sup> as evidenced by the DOE Department Circular DC2022-09-0030. |   | 4. Share of electricity generation from renewable energy (percent).  | 22 percent (2021)   | 28 percent (2025)   |
|   | 4. To support green jobs creation, the Borrower, through the Climate Change Commission (CCC), has launched an assessment and certification system for green jobs under the Green Jobs Act of 2016 by issuing Green Jobs Guidelines under a Joint Memorandum Circular (JMC). | 5. Cumulative green jobs supported with incentives under the Green Jobs Act since 2023, jobholders disaggregated by sex. | 0 (2022)  | 4,000 (2025)  |
|   | 5. To mobilize sustainable finance, the Borrower, through the Financial Sector Forum, has issued the Sustainable Finance Taxonomy Framework based on  | 6. Sustainability-related lending (loans to promote Renewable Energy and Energy Efficiency) by                           | PHP 232 billion (or US\$ 4.3 billion) (2022) <sup>(a)</sup> | PHP 255 billion (or US\$ 4.7 billion) (2025) <sup>(a)</sup> |

<sup>54</sup> “Mandated Participants” means electric power industry participants which are mandated to comply with the RPS annual requirement which includes entities enumerated in Rule 3, Section 11 of this RPS On-Grid Rules.



| Prior actions and Triggers  |  | Results   |  |   |
|---|--|---|--|---|
|   | international principles, as evidenced through a BSP Circular, a SEC Memorandum Circular, and an IC Circular.  | Domestic Systemically Important Banks (D-SIBs) (US\$ billion).<br><br>7. New sustainable finance instruments (e.g., green bonds, sustainability bonds, sustainability-linked bonds) issued by domestic companies in line with the sustainable finance taxonomy (percent).                     | 0 percent (2022)                         | 100 percent (2025)                        |
| <b>Pillar 2. Protect the environment and improve climate resilience</b>   |  |   |  |   |
| 5. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower has: (a) enacted the Extended Producer Responsibility Act (Republic Act No. 11898); and (b) through its Department of Environment and Natural Resources (DENR), issued accompanying IRRs, mandating large enterprises to recover up to 80 percent of plastic packaging waste by 2028 and to submit EPR programs describing a component on gender equality. | 6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower, through the Department of Environment and Natural Resources, has provided guidance requiring EPR Program registration, compliance monitoring and evaluation, including on gender equality, and enforcement, through the issuance of a Department Administrative Order (DAO). | 8. Recovery of plastic packaging as share of amount introduced into the market by Obligated Enterprises (OEs), Collectives, and Producer Responsibility Organizations (PROs) (percent).<br><br>9. Share of submitted EPR implementation programs with component on gender equality (percent). | 0 percent (2022)<br><br>0 percent (2022) | 40 percent (2025)<br><br>5 percent (2025) |



| Prior actions and Triggers   |   | Results  |                            |                            |
|--|---|--|----------------------------|----------------------------|
| 6. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the DOE, has issued IRRs to implement the Republic Act No. 11697, otherwise known as the Electric Vehicle Industry Development Act of 2022.  | 7. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the Department of Energy, has published a relevant issuance requiring and enabling the government agencies to buy a specified percentage of EVs in their new vehicle purchases.   | 10. Share of electric vehicles in the annual purchases of new cars by National Government Agencies (percent).                              | Less than 1 percent (2022) | At least 10 percent (2025) |
| 7. To incentivize public procurement of green goods, the Borrower, through the Government Procurement Policy Board (GPPB) has updated the GPP Roadmap by: (a) providing for a monitoring system based on green tagging; and (b) upgrading of green specifications; through GPPB Resolution No. 08-2022.  | 8. To incentivize public procurement of green goods, the Borrower, through the GPPB, has issued a Resolution adopting at the very least, five (5) product categories, that may cover building materials, Information and Communication Technology (ICT), food and catering services, training facilities/hotels/venues, and motor vehicles.                                     | 11. Share of the 10 non-CSEs (Common use supplies and equipment) have become mandatory under the GPP (percent).                            | 0 percent (2022)           | At least 40 percent (2025) |
| 8. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, has directed the Insurance Commission (IC) to conduct annual examinations of the Philippine Crop Insurance Corporation (PCIC)'s affairs, financial condition, and its method of business, as evidenced by Department Order No. 038-2022 and Circular Letter No. 2022-35. | 9. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, will strengthen targeting of premium subsidies, introduce new insurance products appropriate for vulnerable smallholder farmers, and strengthen PCIC coverage and operations, as evidenced by submission to Congress of the amended PCIC Charter. | 12. Financial resilience of Philippine Crop Insurance Corporation (PCIC) measured by compliance with Insurance Commission (IC) regulation. | Not compliant (2022)       | Compliant (2025)           |

Notes: (a) at exchange rate prevailing on April 10, 2023.



ANNEX 2: FUND RELATIONS ANNEX

PRESS RELEASE NO. 22/409



## IMF Executive Board Concludes 2022 Article IV Consultation with the Philippines

November 28, 2022

**Washington, DC** : The Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation [1] ([file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#\\_ftn1](file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#_ftn1)) with the Philippines and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

Following a sharp contraction in 2020, the Philippine economy rebounded in late 2021, growing by 5.7 percent. Growth accelerated further to 7.8 percent in the first half of 2022, spurred by strong domestic demand and private investment, as the Omicron wave proved to be less severe than anticipated and improved vaccination rates supported mobility. Both headline and core inflation increased in 2022—to 6.9 and 5.0 percent (year-on-year) respectively in September—surpassing the upper band of the government’s inflation target range of 2–4 percent. The current account swung from a surplus to a deficit in 2021, and the deficit has widened further in the first half of 2022, amid higher commodity prices, and the recovery in domestic demand. The banking system has shown resilience during the pandemic, emerging from the downturn with sufficient liquidity and capital buffers.

The outlook for 2023 is more challenging due to unsettled conditions in major advanced economies, and real GDP is expected to slow from 6.5 percent in 2022 to 5 percent in 2023. Medium-term economic growth is forecast at about 6.3 percent. Inflation is expected to rise to 5.3 percent in 2022, then to decline modestly in 2023, supported by a moderation in commodity prices, and converge to the mid-point of the band in 2024, as tighter monetary policy keeps inflation expectations anchored. The current account deficit is expected to increase to 5 percent of GDP in 2022 but decline to about 1.7 percent of GDP over the medium term. With a difficult global environment weighing heavily on the economy, the economic outlook is subject to significant downside risks, where policy tradeoffs between supporting output on the one hand and reducing inflation and safeguarding the external position on the other, would become more acute.

**Executive Board Assessment [2]** ([file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#\\_ftn2](file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#_ftn2))

In concluding the 2022 Article IV consultation discussions with the Philippines, Executive Directors endorsed the staff’s appraisal, as follows:

Sustained reforms and disciplined macroeconomic policies proved decisive in steering the Philippines out of a sharp pandemic-induced recession, but the outlook is overshadowed by a more uncertain global environment. Underpinned by very sound fundamentals, the economy is recovering at a swift pace, credit growth has picked up, and the banking system has shown resilience, coming out of the pandemic with sufficient liquidity and capital buffers. However, a difficult global environment is weighing heavily on the Philippine economy. Amid US dollar strength, high commodity prices, and tightening global financial conditions, inflation has increased sharply, the external position has weakened, and fiscal space has narrowed.

Calibrating the policy mix to preserve macroeconomic stability, enhancing fiscal and financial resilience, and accelerating structural reforms are critical to sustain the recovery. Monetary and fiscal policy are aligned in the right direction to support external and domestic balance. A tightened policy stance will keep inflation expectations anchored and help alleviate pressure on capital outflows and the exchange rate. Exchange rate flexibility remains important as a shock absorber against the backdrop of a persistent terms of trade shock and a wider current account deficit. Policies will have to remain nimble, carefully balancing growth and price stability objectives, while managing limited fiscal buffers, preserving financial stability, and ensuring external sustainability.



The BSP's prompt action to fight inflation is welcome, but further monetary tightening may be needed to keep inflation expectations well anchored. The current policy stance remains accommodative, and BSP should aim at bringing the policy rate close to the neutral real rate to securely bring inflation within the target range. Should inflation pressures continue to rise, the BSP should respond with a tighter policy stance. Similarly, if inflation proves less persistent, or if significant downside risks to growth materialize, monetary policy tightening would need to be recalibrated. Clear communication about inflation and the BSP's policy intentions can help reduce uncertainty and improve policy transmission.

Higher downside risks to growth and rising interest rates warrant close monitoring of financial stability risks. Despite some improvement in profitability and debt servicing capacity, the pandemic has increased risks in NFCs, which may face renewed challenges with rising interest rates.

These risks can be amplified through "mixed" conglomerate structures that include NFCs and financial institutions, and in sectors with a relatively high debt burden. To enhance resilience, the BSP's capacity to conduct financial stability risk assessments and the bank resolution framework should be strengthened. In addition, with the recovery underway, regulatory forbearance measures should be allowed to lapse as scheduled.

Enhanced AML/CFT effectiveness is critical to support a swift and successful exit from the FATF list. Key items under the Philippines AML/CFT Action Plan include risk-based AML/CFT supervision of high-risk sectors, and access to beneficial ownership information by competent authorities. Separately, prioritizing amendments to the bank secrecy law will enhance the BSP's supervisory powers, strengthen AML/CFT effectiveness and reduce vulnerabilities to corruption.

Fiscal consolidation over the medium-term should be underpinned by stronger revenue mobilization and cost-effective government spending. While the near-term fiscal stance is appropriate, an accelerated pace of consolidation in the medium-term would allow the government to signal its intent to put debt on a firmly downward trajectory. There is ample scope to enhance revenue mobilization, which can underpin a faster medium-term fiscal consolidation, while securing resources for the authorities' social and development plans. Augmenting the medium-term fiscal program with explicit fiscal anchors and a medium-term revenue strategy would further support fiscal credibility and debt sustainability.

The coordinated use of fiscal, monetary, and exchange rate policies can help alleviate policy tradeoffs under downside risk scenarios. Monetary policy should be the first line of defense against persistent inflationary pressures. Under a scenario of disruptive market conditions and tightening FX liquidity, the use of FXI can mitigate a sharp and disorderly exchange rate depreciation, alleviate inflation, and reduce some of the pressure on monetary policy. If growth falls below the baseline, fiscal policy can be deployed to support the economy by slowing the pace of fiscal consolidation, though this could come at the cost of higher inflation and interest rates, and a higher debt burden over the medium-term.

Ambitious development goals call for further reforms to raise productivity, boost competitiveness, and enhance social development. Infrastructure and education gaps that have been made worse by the pandemic should be addressed as a priority. Recently passed legislations which aim to attract FDI are welcome, but effective implementation will be key. Ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement would facilitate access to imports and stimulate export diversification. Efforts to enhance food security and strengthen agricultural performance should focus on raising productivity and promoting new investments in the sector. Further progress in digitalization and better harnessing the benefits of a digital economy will also support growth and social objectives and strengthen governance.

Climate change policies will benefit from an integrated strategy that includes a carbon pricing scheme, innovative private sector financing, and support from development partners. The authorities are committed to addressing the impacts of climate change and greening the economy. In this regard, financing the Nationally Determined Contribution (NDC) target will benefit from the introduction of carbon pricing, developing policies to address its distributional implications, and accelerating efforts to incentivize green financing. With limited government resources, additional financial support from development partners and the private sector is essential to attract foreign investors, increase the share of renewables in the energy mix, and develop climate-resilient infrastructure.

[1] (file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#\_ftnref1)  
Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] (file:///Q:/COM/MR/Press%20Releases/2022/PR22409-%20Philippines-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20with%20the%20Philippines.docx#\_ftnref2)  
The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.



| Table 1. Philippines: Selected Economic Indicators, 2019–2024 |      |       |      |       |       |       |
|---|------|-------|------|-------|-------|-------|
|   | 2019 | 2020  | 2021 | 2022  | 2023  | 2024  |
|   |      |       |      | Proj. | Proj. | Proj. |
| (Annual percentage change, unless otherwise indicated)        |      |       |      |       |       |       |
| National account  |      |       |      |       |       |       |
| Real GDP  | 6.1  | -9.5  | 5.7  | 6.5   | 5.0   | 6.0   |
| Consumption   | 6.3  | -5.3  | 4.7  | 7.4   | 6.5   | 6.5   |
| Private   | 5.9  | -8.0  | 4.2  | 7.5   | 6.2   | 6.3   |
| Public  | 9.1  | 10.5  | 7.1  | 6.7   | 7.8   | 7.5   |
| Gross fixed capital formation                                 | 3.9  | -27.3 | 9.9  | 17.2  | 9.9   | 10.3  |
| Final domestic demand   | 5.7  | -10.5 | 5.7  | 9.4   | 7.3   | 7.3   |
| Net exports (contribution to growth)                          | -0.2 | 4.0   | -2.4 | -4.6  | -3.2  | -2.5  |
| Real GDP per capita   | 4.6  | -10.7 | 4.3  | 5.1   | 3.7   | 4.7   |
| Output gap (percent, +=above potential)                       | -0.1 | -8.5  | -3.2 | -0.1  | 0.0   | 0.0   |
| Labor market  |      |       |      |       |       |       |
| Unemployment rate (percent of labor force)                    | 5.1  | 10.4  | 7.8  | 5.7   | 5.4   | 5.1   |
| Underemployment rate (percent of employed persons)            | 13.8 | 16.2  | 15.9 | 14.3  | ...   | ...   |
| Employment  | 1.9  | -6.1  | 11.7 | 4.9   | 2.4   | 1.6   |
| Price   |      |       |      |       |       |       |
| Consumer prices (period average)                              | 2.4  | 2.4   | 3.9  | 5.3   | 4.3   | 3.1   |
| Consumer prices (end of period)                               | 2.4  | 3.3   | 3.1  | 5.8   | 3.7   | 3.0   |
| Core consumer prices (period average)                         | 3.4  | 3.4   | 3.0  | ...   | ...   | ...   |
| Residential real estate (Q4/Q4)                               | 10.4 | 0.8   | 4.9  | ...   | ...   | ...   |
| Money and credit (end of period)                              |      |       |      |       |       |       |
| 3-month PHIREF rate (in percent) 1/                           | 3.1  | 1.3   | 1.5  | ...   | ...   | ...   |
| Claims on private sector (in percent of GDP)                  | 48.0 | 52.0  | 49.9 | 49.9  | 51.1  | 52.4  |
| Claims on private sector                                      | 7.8  | -0.2  | 3.8  | 11.6  | 11.4  | 12.3  |
| Monetary base   | -3.0 | 5.1   | 5.8  | 15.9  | 9.4   | 10.3  |
| Broad money   | 9.8  | 8.7   | 8.0  | 11.0  | 9.9   | 9.7   |



|   |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|
| Public finances (in percent of GDP)   |        |        |        |        |        |        |
| National government overall balance 2/  | -3.4   | -7.6   | -8.6   | -7.6   | -6.1   | -5.2   |
| Revenue and grants  | 16.1   | 15.9   | 15.5   | 15.2   | 15.4   | 15.8   |
| Total expenditure and net lending   | 19.5   | 23.5   | 24.1   | 22.8   | 21.6   | 20.9   |
| General government gross debt   | 37.0   | 51.6   | 57.0   | 59.2   | 60.9   | 60.8   |
| Balance of payments (in percent of GDP)   |        |        |        |        |        |        |
| Current account balance   | -0.8   | 3.2    | -1.5   | -5.0   | -4.1   | -3.6   |
| FDI, net  | -1.4   | -0.9   | -2.5   | -2.0   | -2.0   | -2.0   |
| Total external debt   | 22.2   | 27.2   | 27.0   | 26.6   | 26.4   | 25.8   |
| Gross reserves  |        |        |        |        |        |        |
| Gross reserves (US\$ billions)  | 87.8   | 110.1  | 108.8  | 94.1   | 88.7   | 83.9   |
| Gross reserves (percent of short-term debt, remaining maturity)   | 396.5  | 524.6  | 522.8  | 446.0  | 402.1  | 361.8  |
| Memorandum items:   |        |        |        |        |        |        |
| Nominal GDP (US\$ billions)   | 376.8  | 361.8  | 394.1  | 402.2  | 426.2  | 459.9  |
| Nominal GDP per capita (US\$)   | 3,512  | 3,326  | 3,576  | 3,602  | 3,769  | 4,015  |
| GDP (in billions of pesos)  | 19,518 | 17,952 | 19,411 | 21,690 | 23,597 | 25,798 |
| Real effective exchange rate (2010=100)   | 105.4  | 111.2  | 111.1  | ...    | ...    | ...    |
| Peso per U.S. dollar (period average)   | 51.8   | 49.6   | 49.3   | ...    | ...    | ...    |
| Sources: Philippine authorities; World Bank; and IMF staff estimates and projections.   |        |        |        |        |        |        |
| 1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.  |        |        |        |        |        |        |
| 2/ IMF definition. Excludes privatization receipts and includes deficit from restructuring of the previous Central Bank-Board of Liquidators. |        |        |        |        |        |        |

## IMF Communications Department

### MEDIA RELATIONS

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**ANNEX 3: LETTER OF DEVELOPMENT POLICY**



Republic of the Philippines  
**DEPARTMENT OF FINANCE**  
Roxas Boulevard Corner Pablo Ocampo, Sr. Street  
Manila 1004

**DAVID R. MALPASS**

President  
World Bank Group  
Washington, D.C.

**SUBJECT: Philippines First Sustainable Recovery Development Policy Loan (PSR DPL1)**

Dear **President MALPASS**:

On behalf of the Government of the Philippines (GPH), we would like to provide an update on the Philippine economy and our reform efforts to accelerate economic recovery, protect the environment and improve climate resilience. In this context, we express our interest in obtaining a budget support program loan from the World Bank - International Bank for Reconstruction and Development (WB-IBRD) through the Philippines First Sustainable Recovery Development Policy Loan (PSR DPL 1) in the amount of USD750 million.

Prior to the pandemic, the Philippine economy grew by an average of 6.3 percent per year in 2010-2019, as a result of strong macroeconomic fundamentals, a supportive policy environment, favorable external conditions, and the cumulative effects of structural reforms. This contributed to an acceleration in the pace of poverty reduction. In 2020, however, our economy suffered the sharpest decline in decades. Although the economy rebounded in 2021 and 2022, the economic fallout of the COVID-19 crisis, coupled with increased spending on pandemic response and recovery measures, has led to the significant widening of fiscal deficits, and increased national government debt to 60.9 percent of GDP as of end-2022. Even as the economy recovers, firms and households continue to feel the lingering effects of the pandemic.

The recently launched Philippine Development Plan (PDP) 2023-2028 outlines the key strategies for deep economic and social transformation to reinvigorate job creation, boost competitiveness, and promote critical trade and investment, to ultimately steer the economy back on a high-growth path and restore the gains achieved in poverty reduction. Accelerating climate action and strengthening disaster resilience, underpinned by the Philippines' Nationally Determined Contribution submitted to the United Nations Framework Convention on Climate Change, will continue to be core priorities under the PDP 2023-2028—recognizing the importance of protecting development gains in the context of the country's vulnerability to natural disasters. As fiscal prudence is paramount to the realization of these goals, the Government is also implementing fiscal consolidation measures under its first-ever 2022-2028 Medium-Term Fiscal Framework (MTFF), which include tax policy and administration as well as expenditure reforms. Under this Framework, the Government is committed to (i) reduce the debt-to-GDP ratio to 51.1 percent by 2028; (ii) reduce the deficit-to-GDP ratio to 3 percent by 2028; and (iii) maintain high infrastructure spending at 5 to 6 percent of GDP annually.

Amid this economic, social, and environmental context, we look forward to the Bank's support through the PSR DPL series, which is designed to consist of two subprograms and aims to bolster the GPH's reforms to: (i) accelerate the economic recovery and boost long-term growth; and (ii) protect the environment and improve climate resilience.



**Pillar 1: Accelerate the economic recovery and boost long-term growth**

The GPH has undertaken measures to increase investment in infrastructure, through notable reforms liberalizing certain industries and removing restrictions, with the goal of encouraging private trade and investment. Among these reforms include the enactment of Republic Act No. 11659 on March 21, 2022, amending the Public Service Act (Commonwealth Act No. 146) to allow up to 100 percent foreign ownership of some public services from the list of sectors previously restricted to 60 percent Philippine ownership. Among the key sectors liberalized, expected to foster infrastructure services investment, are air and land transport, telecommunications, water supply, and roads. This reform shall be further threshed out through the adoption of general and sector-specific Implementing Rules and Regulations (IRR) to operationalize the guidelines.

The provisions regarding Material Adverse Government Action and arbitration under the IRR of Republic Act No. 6957 or the Build-Operate-and-Transfer Law (as amended), have also been revised to further attract private investment in public infrastructure and increase the certainty in the public-private partnership (PPP) framework. Relatedly, the National Economic and Development Authority (NEDA) Board has approved the updated Guidelines and Procedures on PPP Proposals to streamline the Investment Coordination Committee (ICC) evaluation and approval processes. The GPH will undertake further reforms in this area to improve the preparation of PPPs at the local level including through the establishment of a window, with supporting resources, business plan and guidelines, within the Project Development and Monitoring Facility for local PPPs.

Further, the 40 percent foreign equity cap on exploration, development, and utilization of renewable energy has been removed, through the Department of Energy's (DOE) amendment of the existing IRR of Republic Act No. 9513 or the Renewable Energy (RE) Act, which is expected to drive an increase in foreign direct investment (FDI) on solar and wind energy. To raise the RE share in power generation, the DOE has also set the mandatory national renewable energy target of 50 percent by 2040 through an amendment of the National Renewable Energy Program (NREP) and increased the mandatory RE market share in the Renewable Portfolio Standard from a minimum annual increment of 1 percent to 2.52 percent starting in 2023. To further increase investment in renewable energy, the GPH will further streamline green investment approval and permitting processes.

Meanwhile, the GPH is also setting up policy frameworks to create more green jobs and direct more investment to green sectors. The Climate Change Commission (CCC) is developing an assessment and certification system for green jobs, pursuant to Republic Act No. 10771 or the Green Jobs Act. To facilitate green financial flows, the Financial Sector Forum, an inter-agency body composed of the Philippine financial regulators, is in the process of developing the Sustainable Finance Taxonomy Framework based on international principles.

**Pillar 2: Protecting the environment and improving climate resilience**

The GPH has also taken concrete steps to promote sustainable management of the environment and to invest in climate resilience as an urgent priority for the Philippines. To enhance plastic waste management, Republic Act No. 11898 or the Extended Producer Responsibility (EPR) Law has been enacted. Through the law and its IRR issued by the Department of Environment and Natural Resources (DENR), large enterprises are mandated to recover up to 80 percent of plastic packaging waste by 2028. In furtherance of this reform, the GPH is developing guidance requiring EPR Program registration, compliance monitoring and evaluation, including on gender equality, and enforcement, to encourage the achievement by obliged enterprises of the mandated



recovery targets under the law.

To ensure the Philippines' energy security and lessen its dependence on imported fuel for the transport sector, the GPH has created the necessary legal framework to promote the production and adoption of electric vehicles (EVs), through Republic Act No. 11697 or the Electric Vehicle Industry Development Act (EVIDA), and to implement the Comprehensive Roadmap for the Electric Vehicle Industry (CREVI). As a follow-up reform to implement part of the EVIDA, the GPH is developing a program whereby government agencies will be required to purchase a specified percentage of EVs in their new vehicle purchases.


Moreover, to incentivize public procurement of green goods, the Government Procurement Policy Board (GPPB) has updated the Green Public Procurement (GPP) Roadmap, which initiates steps towards expanding the scope of GPP through establishing and enforcing a systematic monitoring and regular reporting mechanism on its implementation in certain prioritized items. This includes using green tagging in Procurement Projects through the Philippine Government Electronic Procurement System (PhilGEPS) to monitor the efforts toward the sustainable consumption of green products. The GPPB will further enhance and foster the implementation of the GPP Roadmap by expanding its scope to cover broader categories of goods and services mainly used by the GPH.

Finally, recognizing the important role played by agricultural insurance in climate change adaptation in the Philippines, the GPH has taken measures to ensure the appropriateness of government subsidies and the adequacy of the protection to farmers against climate disasters, as well as to strengthen the efficiency of agricultural insurance operations in the country. Specifically, the GPH has included the Philippine Crop Insurance Corporation (PCIC) under the financial oversight of the Insurance Commission (IC) to better regulate its financial condition, method of business, and general affairs. Further reforms are aimed at amending the PCIC Charter, which will improve financial protection of smallholder farmers against climate-related hazards.

The GPH is firmly committed to implement the program of reforms and initiatives under the PSR DPL series, which will steer the Philippines back to its high-growth trajectory and enable economic and social transformation for a more prosperous and resilient society, in pursuit of the country's vision as enshrined in the *AmBisyon Natin 2040*. These reforms will amplify the country's climate mitigation and adaptation efforts and attract substantial investment that will drive economic recovery and boost long-term growth.

The GPH greatly values the relentless support provided by the Bank over the years to finance the country's development priorities and the provision of technical assistance across a wide range of reforms. We look forward to your continued engagement and support in the coming years.

Very truly yours,

  
**BENJAMIN E. DIOKNO**  
Secretary of Finance  
MAY 10 2023





**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

| Prior Actions   | Significant positive or negative environment effects | Significant poverty, social or distributional effects positive or negative                      |
|---|--|---|
| <b><i>Pillar 1. Accelerate the economic recovery and boost long-term growth</i></b>   |  |   |
| 1. To increase investment in infrastructure services, the Borrower has created the legal framework to open Public Service Sectors to 100 percent foreign ownership through the amendment of the Public Service Act (Commonwealth Act No. 146), as evidenced through the enactment of the Republic Act No. 11659 on March 21, 2022.  | No   | Significant and positive effect   |
| 2. To attract private investment in public infrastructure and increase certainty in the PPP framework the Borrower has: (a) amended the Build-Operate-Transfer Law IRRs; and (b) approved the Guidelines and Procedures on Processing PPP Proposals for NEDA Board/ Investment Coordination Committee (ICC) Evaluation and Approval, as evidenced by the Certification of NEDA Board Approval of such Guidelines and Procedures on November 24, 2022.                       | No   | Significant and positive effect   |
| 3. To increase foreign direct investment in solar and wind energy, the Borrower, through the DOE, has amended Rules and Regulations Implementing the Renewable Energy Act to remove the 40 percent foreign equity cap on exploration, development, utilization and commercialization of natural resources, as evidenced by the DOE Department Circular DC 2022-11-0034.   | Yes, significant positive effects                    | Significant and positive effect in the short and long term                                      |
| 4. To increase demand for renewable energy, the Borrower, through the DOE, has increased the minimum annual incremental generation required to be sourced from renewable energy resources from 1% to 2.52% starting 2023 for Mandated Participants, as evidenced by the DOE Department Circular DC2022-09-0030.   | Yes, significant positive effects                    | Significant and negative effect in the short term. Significant positive effect in the long term |
| <b><i>Pillar 2. Protect the environment and improve climate resilience</i></b>  |  |   |
| 5. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower has: (a) enacted the Extended Producer Responsibility Act (Republic Act No. 11898); and (b) through its Department of Environment and Natural Resources (DENR), issued accompanying IRRs, mandating large enterprises to recover up to 80 percent of plastic packaging waste by 2028 and to submit EPR programs describing a component on gender equality. | Yes, significant positive effects                    | Significant and negative effect in the short term. Possible long-term distributional benefits   |
| 6. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the DOE, has issued IRRs to implement the Republic Act No. 11697, otherwise known as the Electric Vehicle Industry Development Act of 2022.   | Yes, significant positive effects                    | Possible negative effect in the short term. Possible long-term distributional benefits          |
| 7. To incentivize public procurement of green goods, the Borrower, through the Government Procurement Policy Board (GPPB) has updated the GPP Roadmap by: (a) providing for a monitoring system based on green tagging; and (b) upgrading of green specifications; through GPPB Resolution No. 08-2022.   | Yes, significant positive effects                    | Very small or negative effect in the short term. Possible long-term distributional benefits     |
| 8. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, has directed the Insurance  | No   | Very small short-term/long-term effects of this reform in                                       |



|  |  |  |
|--|--|--|
| Commission (IC) to conduct annual examinations of the Philippine Crop Insurance Corporation (PCIC)'s affairs, financial condition and its method of business, as evidenced by Department Order No. 038-2022 and Circular Letter No. 2022-35. |  | isolation. Possible long-term positive effects with complementary reforms. |
|--|--|--|