



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-Jun-2023 | Report No: PIDA35843



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Philippines	P179361	Philippines First Digital Transformation Development Policy Financing (P179361)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	21-Sep-2023	Finance, Competitiveness and Innovation	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Philippines	Bureau of the Treasury (BTr), Land Registration Authority (LRA), Bangko Sentral ng Pilipinas (BSP), Department of Finance (DoF), Department of Budget and Management (DBM), Civil Aeronautics Board (CAB), Philippine Competition Commission (PCC), Department of Trade and Industry (DTI), National Economic and Development Authority (NEDA), Department of Information and Communications Technology (DICT), Intellectual Property Office of the Philippines (IPOPHL)		

Proposed Development Objective(s)

The program development objective (PDO) of this programmatic operation is to support Government reforms to foster an enabling environment for greater digital technology adoption by (a) improving digital transformation of government and digital infrastructure policies, (b) expanding financial inclusion through digital finance and (c) boosting business growth in digital services.

Financing (in US\$, Millions)

SUMMARY

Total Financing	600.00
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DETAILS

Total World Bank Group Financing	600.00
World Bank Lending	600.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

The proposed operation in the amount of US\$ 600 million is the first of a programmatic series of two Development Policy Loans (DPL) that aims to assist the Government of the Philippines (GoP) to foster an enabling environment for the adoption of digital technologies and to boost inclusive and resilient economic growth. The program aims to support the GoP's reform agenda in accelerating digital transformation and is structured around three pillars aiming to (A) improve digital government service delivery, and pro-competition infrastructure policies; (B) expand financial inclusion for individuals and firms through digital finance; and (C) boost business growth in digital services. The DPL series builds on the nation's long-term vision articulated in "AmBisyon Natin 2040", and the recently launched Philippine Development Plan 2023-2028 to achieve inclusive growth.

Economic recovery that is resilient and inclusive requires the Philippines to focus on new development drivers, including digitalization. The Philippines, a lower-middle-income country, has experienced significant growth over the past two decades. The gross national income per capita has tripled to \$3,640 in 2021 and poverty rates declined from 25.2 percent in 2012 to 17.8 percent in 2021.¹ However, the COVID-19 pandemic has had a negative impact on the country's development, with a 9.5 percent decline in GDP in 2020. This has resulted in long-term scars, including human capital losses, disrupted learning, and reduced physical capital accumulation. To achieve resilient and inclusive economic recovery, the Philippines needs to focus on new development drivers, particularly digitalization. Embracing digital technologies is crucial for productivity-led growth. Additionally, the country faces significant risks from climate change, as it is exposed to frequent natural disasters² that are worsened by climate change. The World Bank's 2022 Philippines *Country Climate and Development Report* (CCDR) estimates that economic damages in the Philippines could reach up to 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040. Therefore, adapting to climate change risks, both in terms of extreme events and long-term challenges is essential for the country's long-term development goals.

Digitalization has the potential to drive productivity led growth by reducing operating costs for firms and enhancing their resilience and preparedness for future crises. Firstly, it can improve the efficiency and transparency of government services, empowering individuals who were previously distant from decision-making centers. Secondly, digital finance plays a crucial role in promoting financial inclusion and empowering women. Thirdly, digitalization enables new and emerging firms to enter markets through disruptive innovations, thereby boosting overall productivity. Lastly, digital platforms and services contribute to building resilience and preparedness for future crises, as well as mitigating and adapting to climate change.³ This includes adopting resilient technologies, such as energy efficient machinery and equipment, and implementing early warning systems for extreme weather events.

The macroeconomic policy framework is adequate for 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 implemented monetary policy tightening measures, consistent with its inflation-targeting objective and responding to global interest rate movements. On fiscal policy, the government has publicly laid out the country's medium-term expenditure plan, which indicates a decreasing share of expenditures relative to GDP. Public debt

¹ World Bank poverty line of \$3.65 a day at 2017 Purchasing Power Parity (PPP)

² At least 60 percent of its total land area and close to 74 percent of its population are exposed to multiple natural hazards, including hydrometeorological events such as typhoons, floods, storm surges, tsunamis, and landslides.

³ World Bank Development Committee paper, 2022



is sustainable owing to the expected growth recovery and fiscal consolidation.

Relationship to CPF

The reforms supported by this DPL are fully aligned with the World Bank's Country Partnership Framework (CPF). The CPF covering 2019-2023 focuses on three development objectives: i) job creation, ii) improving human capital, and iii) building resilience to conflict and natural disasters, which remain relevant in the current context. Crosscutting themes include governance and digital transformation, a theme this operation focuses on. Digitalization of government services and processes will enable inclusive and efficient public service delivery. Increased competition in the telecom sector would increase access and decrease connectivity costs, opening opportunities to households and increasing private sector productivity. Reforms in digital finance that are supported by this operation contribute to the CPF objectives of improving access to finance for individuals and firms, bridging credit gaps with accessible and affordable financial services (e.g., digital payments, and insurance). Improved competitiveness through increased market access, competition, and technological know-how fosters private sector-led growth and, hence, job creation. Improved digital platforms and services also offer great potential for building resilience and preparedness against future crises and for mitigating and adapting to climate change.

C. Proposed Development Objective(s)

The program development objective of this programmatic operation is to assist the Government in fostering an enabling environment for the adoption of digital technologies to boost inclusive and resilient economic growth.

Key Results

The DPL series is expected to achieve the following results:

- **Pillar A:** Decreased fragmentation between government agencies and increased efficiency of public service delivery to citizens and businesses, increased public financial management efficiency through the use of modern technology in core government operations, the expanded ability of the government to make informed decisions based on timely digital data and analytics, and lower costs of, increase access to, and improve quality of broadband services.
- **Pillar B:** Increased volume of digital payments and increased consumer trust in digital financial services.
- **Pillar C:** Provision of a trustworthy ecosystem for consumers, online merchants, and platforms; strengthened competition enforcement in digital markets; strengthened enabling digital services ecosystem; protecting and enforcing intellectual property; and increased supply of skilled workers for the digital economy.

D. Project Description

Pillar A. Improve digital government service delivery, and pro- competition infrastructure policies by supporting reforms that: (i) promote an inclusive, effective, and efficient government services delivery through a whole-of-government approach to digitalization, interoperability, and related institutional arrangements; (ii) promote financial resilience to climate related disasters through digitalizing public asset information; and (iii) promote competition in network infrastructure markets.

Pillar B. Expand financial inclusion for individuals and firms through digital finance by supporting reforms that: (i) promote wide-scale adoption of digital payments by consumers and businesses; and (ii) promote easy, affordable, and secure access to digital financial services by consumers and businesses.



Pillar C. Boost business growth in digital services by supporting reforms that: (i) promote the uptake of e-commerce by consumers and businesses; (ii) promote competition in digital markets; (iii) promote higher value-added services in digital creative industries; and (v) strengthen industry-led skills development.

The reform program is consistent with the WBG crisis response framework for supporting green, resilient, inclusive development (GRID), the Global Crisis Response Framework (GCRF), and Maximizing Finance for Development and Private Capital Enabled (PCE). Aligned with the GRID framework and the second, third, and fourth pillars of the GCRF, this operation supports reforms that address immediate and long-term barriers to a growth path that will deliver broad-based inclusive and resilient recovery. The operation is 'Private Capital Enabling (PCE)' and supports private capital-enabling policy reforms. This operation supports several reforms aimed at promoting equal access to and use of digital technologies by women.

E. Implementation

Institutional and Implementation Arrangements

The DOF is the main World Bank counterpart for budget support operations, including the proposed operation. Policy dialogue and monitoring and evaluation of the program supported by this DPL also extends to a large and diverse set of counterparts including the PCC, DICT, CAB, ARTA, DBM, NEDA, BSP, SEC, IC, DTI, IPOPHL, NTC, and the BTr, which is an agency of the DOF. The GoP has designated the DOF International Finance Group as the WB's main counterpart in the policy dialogue and monitoring of the operation.

Indicators selected to monitor progress toward achievement of the PDO reflect defined areas of action and correspond to the expected outcomes of the Prior Actions. 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 program'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.

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

Poverty and Social Impacts

The reforms articulated in this DPL's Prior Actions are likely to have positive poverty and distributional effects. The proposed operation focuses mainly on improving efficiency in transactions through digitalization (among government agencies, businesses, and individuals) as well as improving the government frameworks, processes, information systems, and regulations that underpin the development of the digital ecosystem. The reforms in Pillar A will have significant positive effects on poverty reduction by expanding access to digital services to the poor, creating opportunities, and increasing resilience against natural disasters and other shocks that specially affect the poor. Reforms under Pillar B will have significant positive effects on poverty reduction by increasing the availability of and access to funds through increased outreach, financial market products, and long-term saving. For Pillar C, increasing the competitiveness of digitally led industries is expected to benefit poorer consumers and entrepreneurs. Increasing the supply of digital skills is also expected to have positive social impacts and help bridge the digital divide in the Philippines.



Environmental, Forests, and Other Natural Resource Aspects

The policy reforms supported under the DPL will likely bring positive effects on the environment, forest, and other natural resources. The reforms to promote efficient and inclusive government service delivery through the digitalization of government operations and improved digital infrastructure policies will likely lead to positive environmental outcomes. The expansion of financial inclusion for individuals and firms through digital finance will likely bring positive environmental effects. The reform that seeks to promote e-commerce uptake will likely increase the environmental footprint, but it can be partially mitigated through the country’s robust environmental policy framework.

G. Risks and Mitigation

The overall program risk rating is rated moderate. The institutional capacity for implementation is the key risk rated substantial using the Systematic Operations Risk-rating Tool. The macroeconomic risk and the political economy and governance challenges are rated as moderate. The institutional capacity risk is rated as substantial given the large number of implementing agencies involved and the complexity of the implementation of supported policy actions. Measures to mitigate these risks are outlined below. The potential benefits of the proposed operation outweigh the residual risks and warrant IBRD’s assistance.

The risks around institutional capacity is rated as substantial. The implementation of the reforms supported by this DPL series requires strong collaboration among a large number of implementing agencies, including regulators, and close coordination by the DoF as the executing agency. This requires a solid policy dialogue with each counterpart to make sure there is full alignment on the achievement of the program. The proposed reforms require intense technical work to guarantee their completion and the sustainability of their results. The DPL mitigates this risk by providing strong technical support to each implementing agency under a parallel advisory service and analytical program in close coordination with the international development partners.

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APPROVAL

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Approved By

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