



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 23-Mar-2023 | Report No: PIDC34837



BASIC INFORMATION

A. Basic Project Data

Country Philippines	Project ID P179361	Project Name Philippines First Digital Transformation Development Policy Financing (P179361)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Dec 08, 2023	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) Republic of Philippines	Implementing Agency Department of Information and Communications Technology, Intellectual Property Office of the Philippines, Bureau of the Treasury, National Economic and Development Authority, Philippine Competition Commission, Department of Finance, Department of Trade and Industry, Land Registration Authority, Bangko Sentral ng Pilipinas, Department of Budget and Management		

Proposed Development Objective(s)

The program development objective of this programmatic operation is to assist the Government to foster an enabling environment for digital transformation, to boost inclusive and resilient economic growth.

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
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DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed operation in the amount of US\$ 400 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 digital transformation, 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. The proposed development objective of this DPL series is to foster an enabling environment for digital transformation, to boost inclusive and resilient economic growth.

Economic recovery that is resilient, and inclusive requires the Philippines to focus on new development drivers, including digitalization. The COVID-19 pandemic interrupted the Philippines developmental wave and has left long-term scars. GDP fell by 9.5 percent in 2020, more than for regional peers, and only recently recovered to its pre-pandemic levels. Between the human capital losses associated with poverty, interrupted learning and the subdued physical capital accumulation due to firm closures and depressed investment capacity among some surviving firms, the pandemic is estimated to have decreased the growth potential in the Philippines from 6.0 to 5.7 percent, on average, in 2020-29 (PEU, 2022). The Philippines also continues to face a complex range of structural challenges limiting its long-term growth potential. Among these are (i) limited market competition in several key sectors creating high barriers to entry; (ii) underinvestment in infrastructure; (iii) low foreign direct investment (FDI) resulting in part from regulatory restrictions, and (iv) weak labor force participation by women¹. While shifts across and within sectors and factor accumulation will continue to contribute to growth, maintaining high growth rates rely on catching up to the technological frontier.

A cornerstone for productivity-led growth is the widespread adoption of digital technologies. Digitalization has a large potential to increase productivity by reducing firms' operational costs and allowing them to reap economies of scale. First, digitalization can increase the efficiency and transparency of government services and empower its constituents, especially those previously distant from the center of decision-making. Digital platforms and services offer great potential for helping build resilience and preparedness against future crises and for mitigating and adapting to climate change (World Bank Development Committee paper, 2022). Second, digital finance is a key enabler of financial inclusion and women's empowerment. Third, aggregate productivity can be raised by facilitating new and emerging firms to enter markets through disruptive innovations. Finally, digitalization expands firms' market access as it decreases information constraints and transaction costs, which are particularly binding for micro, small, and medium enterprises (MSMEs). Higher operational efficiency and access to wider and more diversified markets, in turn, render firms more resilient against shocks.

The proposed DPL series is expected to support the government's reform efforts in accelerating economic growth through digital transformation. To improve service delivery and access to infrastructure services, Pillar A of the proposed DPL series is focused on supporting ongoing government reforms to increase transparency and efficiency of government services to citizens and firms, increase financial resilience to climate-related disasters through digitalizing public asset information and boost competition to expand internet access and service provision to improve economic opportunities and social inclusion for all Filipinos. Pillar B supports reforms to promote the wide-scale adoption of digital payments by consumers and businesses and promote easy, affordable, and secure access to digital financial services. Pillar C supports reforms to increase e-commerce trustworthiness for consumers and suppliers, foster greater competition in digital markets as well as increase logistics efficiency to foster greater e-commerce transactions in the Philippines. In addition, this pillar supports reforms to increase firm growth and investments in the creative industry and increase the provision of demand-driven digital skills.

¹ Labor force participation was 76% for men and 49% for women in the Philippines, 10% lower than EAP average 59%, in 2019. Key barriers for women's labor force participation included skills, wage gaps, care responsibilities and norms (World Bank 2022),



Relationship to CPF

The reforms supported by this DPL are fully aligned with the 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 the gaps in human capital development with accessible and affordable financial services (e.g., digital payments, and insurance). Improved competitiveness through increased market access 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 of the Philippines (GoP) to foster an enabling environment for digital transformation, 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, increased acceptance of digital payments by MSMEs, particularly women-owned MSMEs, improved efficiency of cross-border retail payments, and increased consumer trust in digital financial services.
- **For Pillar C:** Provision of a trustworthy ecosystem for consumers, online merchants, and platforms, strengthened competition enforcement in digital markets, strengthened enabling creative economy ecosystem, protecting, and enforcing intellectual property, and increased supply of skilled workers for the digital economy.

D. Concept Description

This programmatic DPL series is structured around the following three pillars and a set of objectives:



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; (iii) promote competition in network infrastructure markets through legal and policy improvements.

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 for the future of work.

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. A preliminary climate change and disaster risk screening have been undertaken during preparation, and the outcomes will inform the design of the policy actions. 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. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The preliminary assessment suggests that policy reforms supported under this DPL 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 protecting the poor against natural disasters and other shocks. Reforms under Pillar B will have significant positive effects on poverty reduction 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 preliminary assessment suggests that 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.



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APPROVAL

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24-Mar-2023