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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$ 600 MILLION TO

REPUBLIC OF THE PHILIPPINES
FOR THE

Philippines First Digital Transformation Development Policy Financing
September 1, 2023

Finance, Competitiveness and Innovation Global Practice
Governance Global Practice
East Asia And Pacific Region

Republic of the Philippines

GOVERNMENT FISCAL YEAR

July 1 – June, 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of August 31, 2023)

Currency Unit: Philippine Peso

US$1.00 = PHP 56.70

ABBREVIATIONS AND ACRONYMS

AAMPs	Agency Asset Management Plans	ICT	Information and Communication Technologies
ADB	Asian Development Bank	IDA	International Development Association
AFASA	Anti Financial Account Scamming Act	IFC	International Finance Corporation
ARTA	Anti Red Tape Authority	IFMIS	Integrated Financial Management Information System
ASA	Advisory Services and Analytics	IMF	International Monetary Fund
B2B	Business-to-Business	IP	Intellectual Property
B2C	Business-to-Consumers	ISPs	Internet Service Providers
BSFIs	BSP-supervised Financial Institutions	ITA	Internet Transactions Act
BSP	Bangko Sentral ng Pilipinas	IT-BPO	Information Technology – Business Process Outsourcing
BTMS	Budget and Treasury Management System	IT-BPM	Information Technology – Business Process Management
BTr	Bureau of the Treasury	JMC	Joint Memorandum Circular
CAB	Civil Aeronautics Board	LDP	Letter of Development Policy
CCDR	Climate Change and Development Report	LGUs	Local Government Units
CHED	Commission on Higher Education	LRA	Land Revenue Authority
CMO	CHED Memorandum Order	LTFRB	Land Transportation Regulatory and Franchising Board
COVID-19	Coronavirus disease, caused by the SARS-CoV-2 virus	MFD	Maximizing Finance for Development
CPF	Country Partnership Framework	MoU	Memorandum of Understanding
CRM	Customer Relationship Management	MSMEs	Micro, Small, and Medium Enterprises
DBM	Department of Budget and Management	MTEF	Medium-Term Expenditure Framework
DICT	Department of Information and Communications Technology	NARS	National Asset Registry System
DOF	Department of Finance	NDC	Nationally Determined Contribution
DPA	Digital Payments Act	NEDA	National Economic and Development Authority

DTI	Department of Trade and Industry	NIIP	National Indemnity Insurance Program
DWCA	Digital Workforce Competitiveness Act	NPL	Non-Performing Loan
EAP	East Asia Pacific	PCC	Philippine Competition Commission
EDS	Express Delivery Services	PCE	Private Capital Enabling
eKYC	electronic Know-Your-Customer	PCIDA	Philippine Creative Industries Development Act
ERP	Enterprise Resource Planning	PCTS	Philippine Credit Transfer System
FARA	Financial Accounts Regulation Act	PDO	Program Development Objective
EPR	Extended Producer's Responsibility	PDP	Philippine Development Plan
FDI	Foreign Direct Investment	PEMEDES	Private Express and/or Messengerial Delivery Services
G2B	Government to Business	PER	Public Expenditure Review
G2C	Government to Citizen	PFM	Public Financial Management
GCRF	Global Crisis Response Framework	PGAMP	Philippine Government Asset Management Policy
GHG	Green House Gas	PISA	Programme for International Student Assessment
GDP	Gross Domestic Product	PPP	Purchasing Power Parity
GNI	Gross National Income	PQF	Philippine Qualification Framework
GoP	Government of the Philippines	PSA	Public Services Act
GRID	Green, resilient, inclusive development	PSF	Philippine Skills Framework
GRS	WB's Grievance Redress Service	SDR	Special Drawing Rights
GTMI	Gov Tech Maturity Index	SPDS	Small-Parcel Delivery Services
HEIs	Higher Education Institutions	TESDA	Technical Education and Skills Development Authority
IBRD	International Bank for Reconstruction and Development	TVET	Technical and Vocational Education and Training
IMF	International Monetary Fund	USAID	United States Agency for International Development
IP	Intellectual Property	WB	World Bank
IPOPHL	Intellectual Property Office of the Philippines	WBG	World Bank Group
IRR	Implementing Rules and Regulations	WOG	Whole of the Government

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REPUBLIC OF THE PHILIPPINES

PHILIPPINES FIRST DIGITAL TRANSFORMATION DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P179361	Yes	1st in a series of 2

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.

Organizations

Borrower:	REPUBLIC OF PHILIPPINES
Implementing Agency:	Bureau of the Treasury (BTr), Bangko Sentral ng Pilipinas (BSP), Department of Finance (DoF), Department of Budget and Management (DBM), Civil Aeronautics Board (CAB), Commission on Higher Education (CHED), 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), Technical Education and Skills Development Authority (TESDA)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**600.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	600.00

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
Results Indicator #1: Share of government payments (by value) processed through IFMIS.	0 (2022)	50 % (2025)
Results Indicator #2: Number of systems connected through a unified E-Government portal or mobile application for improved service delivery in selected sectors	0 (2023)	10 (2025)
Results Indicator #3: Number of agencies digitally connected to and using the NARS.	0 (2022)	5 (2025)
Results Indicators #4: Cost of mobile and fixed broadband services (% of GNI per capita).	Mobile: 2.04 (2021) Fixed: 11.56 (2021)	Mobile: 2.00 (2025) Fixed: 5.0 (2025)
Results Indicator #5: Volume of digital payments over total retail payment transactions (percent).	42.1 (2022)	>52 (2025)
Result Indicator #6: Percentage increase in the number of transaction accounts onboarded (percentage increase).	229mn (2022)	>=10 (2025)
Result Indicator #7: Decrease in fraud rates (i.e., phishing, money mules and other cybercrimes) involving the use of digital financial services (basis points).	3.16bps (2022)	<=2.84 (2025)
Results Indicator #8: Contribution of eCommerce to GDP (%).	1.7% (2021)	2.5% (2025)
Results Indicator #9: Share of women-owned businesses that make online transactions (percent).	2.9% (2022)	5.5% (2025)
Results Indicator #10: Number of decisions approved involving digital markets by the PCC.	2 (2020-22)	4 (2023-24)
Results Indicators #11: Average annual growth of creative industry export, according to PSA.	4.25% (2018-2021)	6.25% (2022-2025)
Results Indicator #12: Number of higher education institutions (HEI) recognizing digital skills courses via the Philippines Credit Transfer System (PCTS) (#).	0 (School Year 2022-23)	50 (School Year 2024-25)

IBRD PROGRAM DOCUMENT FOR A PROPOSED *LOAN* TO *REPUBLIC OF THE PHILIPPINES*

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes the first operation in the amount of US$600 million of a programmatic series of two Development Policy Loans (DPL) supporting inclusive and resilient economic growth through digital transformation.** 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 and supports the government's reform agenda in accelerating digitalization. The proposed development objective of this DPL series 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.

2. **To achieve resilient and inclusive economic recovery, the Philippines requires new development drivers, particularly digitalization.** As a lower-middle-income country, the Philippines has experienced significant growth over the past two decades with tripled gross national income per capita and reduced poverty rates.[1] However, the COVID-19 pandemic caused a 9.5 percent decline in GDP in 2020 resulting in long term setbacks including human capital losses and disrupted learning. Embracing digital technologies is crucial for productivity-led growth and overcoming these challenges. Additionally, the country faces significant risks from climate change, with potential economic damages estimated at 7.6 percent of GDP by 2030 and 13.6 percent of GDP by 2040[2]. Therefore, adapting to climate change risks, is essential for the country's long-term development goals.

3. **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.

4. **Despite the accelerated use of digital technology in the Philippines, the country has not fully maximized its potential benefits.** While internet usage is high, with the average Filipino spending 10 hours a day connected to the internet, there is still a lack of investment in digital infrastructure. Outdated policies and regulatory frameworks, including the requirement of a legislative franchise[4], have hindered progress. The high cost of internet access has resulted in limited technology adoption by firms and

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[1] Poverty declined from 25.2 percent in 2012 to 17.8 percent in 2021 as per World Bank poverty line of $3.65 a day at 2017 (PPP)
[2] World Bank (2022) Philippines Country Climate and Development Report (CCDR)
[3] World Bank Development Committee paper, 2022
[4] Under the Republic Act 7925 (Public Telecommunications Policy Act), a public telecommunications entity (PTE) needs to secure a franchise, a privilege conferred by Congress.

minimal economic gains, with only 10 percent of MSMEs advanced in their digitalization (DTI 2021)[5]. Furthermore, a significant portion of the population remains unbanked, with only 51% of Filipino adults (aged 15+) having a transaction account with a financial institution (far below the regional average of 80 percent). While the market for digital skills is growing, workers' digital skills and literacy have not kept pace. The Philippines ranks 54th in digital skills[6]acquisition, indicating a lack of talent, industry-relevant training, and education.

5. **The Government of the Philippines (GoP) is prioritizing deep economic and social transformation through the Philippine Development Plan 2023-2028 (PDP), aligned with the long-term vision of AmBisyon Natin 2040.** The PDP focuses on digital transformation, with an emphasis on improving service delivery, digitalizing transactions, enhancing data privacy, and sharing, and promoting an inclusive, innovative, and resilient financial sector. The government aims to digitalize government payments, increase acceptance of digital payments by micro, small, and medium enterprises (MSMEs), and build consumer trust in digital financial services. The PDP seeks to generate high-quality jobs in the digital service sectors, develop a highly skilled digital workforce, and increase the contribution of e-commerce to the country's GDP. These reforms are expected to promote inclusion and empowerment, particularly for women.

6. **The reforms supported by the proposed DPL series are in line with the World Bank's Country Partnership Framework and corporate priorities to promote green, resilient, and inclusive development.** The Prior Actions (PAs) contribute to the objectives of the 2019–2023 Country Partnership Framework (CPF)—namely, (5) Promote regulatory reforms to enhance competitiveness; (6) Improve the efficiency of public service sectors in selected areas; and (10) Increase resilience to natural disasters and climate change. They are also aligned with Pillar 2—Protecting People and Preserving Jobs, Pillar 3—Strengthening Resilience, and Pillar 4—Strengthening Policies, Institutions, and Investments for Rebuilding Better of the Global Crisis Response Framework (GCRF) and contributes to climate change mitigation and adaptation.

7. **This operation aims to promote equal access to and use of digital technologies by women.** By accelerating the acceptance of digital payments among MSMEs (PA 4, 5), the program aims to reduce the gender gap in digital payments, where 43 percent of men made at least one digital payment compared to 34 percent for women based on latest Global Findex 2021. Recognizing skills courses in higher education (PA 8) is expected to benefit women who often have additional commitments and career interruptions, enabling them to acquire skills for flexible and home-based work and re-enter the labor force after breaks. In addition, reforms that increase access to digital markets can help women-owned enterprises and SMEs gain a larger market share (PA 5, PA 6), while improvements in the digital services ecosystem (PA 7) can also contribute to reducing the gender gap.

8. **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. On fiscal policy, the authorities have publicly laid out its medium-term

[5] "Advanced" (10 percent) using scanners, bank card readers, central servers, ERP (entity resource planning), CRM (customer relationship management), big data, automation.
[6] World Competitiveness, 2021

expenditure plan, reflecting a steadily declining share of expenditures to GDP until 2026, and is expected to gradually raise revenues through tax reforms. Public debt is sustainable owing to the expected growth recovery and fiscal consolidation.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **The post-pandemic economic recovery continued into Q1 2023, with the economy expanding by 6.4 percent year-on-year, fueled by robust domestic demand.** On the supply side, services remained the main growth engine, supported by the revival of tourism and consumer spending. Public and private construction activities also supported growth while weak external demand dampened manufacturing. On the demand side, the recovery was fueled by private consumption, driven by a strong labor market, steady remittance growth, and increased household lending. In addition, investment registered double-digit growth in Q1 2023, driven in part by increased public works and as improved business confidence, and market liquidity supported robust private investment growth. Meanwhile, net exports contributed negatively to growth owing to a slowdown in external demand.

10. **Headline inflation eases to a 16-month low in July at 4.7 percent.** Inflation continued to ease as most food commodities, particularly fish and sugar, posted slower price increases. Meanwhile, meat prices declined amid decreased consumer demand. Likewise, lower electricity rates and LPG prices, as well as slower increases in rents, pushed down non-food inflation. The continued decline in year-on-year transport inflation, owing in part to base effects, also contributed to the moderation of headline inflation. However, the year-to-date average inflation of 6.8 percent remains above the government's target range for 2023 of 2.0 to 4.0 percent. Similarly, the official core inflation, which uses the exclusion method, also went down to 6.7 percent in July from 7.4 percent in the previous month, which brings the year-to-date core inflation to 7.6 percent.

11. **The current account deficit increased by nearly threefold in 2022, driven by a wider merchandise trade deficit.** The trade deficit widened to 13.3 percent of GDP in 2022 as robust domestic activity drove strong merchandise import growth. Meanwhile, merchandise exports grew at a softer rate, dampened by lower external demand. The financial account recorded net inflows of 3.1 percent of GDP in 2022 due primarily to external borrowing and trade credits. The combination of rising interest rate differential, capital outflows, and sharp increase in the current account deficit led to a 9.5 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 7.3 months in December 2022.

12. **The fiscal deficit continued to narrow as ongoing fiscal consolidation efforts led to a reduction in public spending, containing public debt.** Public revenues declined by 1.3 percentage points of GDP in Q1 2023, from 15.9 percent in Q1 2022, as tax collections moderated amid slower GDP growth and as authorities changed the timing of VAT payments. Meanwhile, public expenditures continued to decline from its peak during the pandemic, amid ongoing fiscal consolidation efforts. As a result, the fiscal deficit narrowed to 4.8 percent of GDP in Q1 2023. Public debt stood at 61.0 percent of GDP as of March 2023, still well-above the 39.6 percent of GDP recorded in end-2019. The debt profile remains favorable, consisting of long term (78.0 percent), domestic (68.7 percent), and peso-denominated (68.2 percent) debt.

13. **The Philippine financial system remained resilient with well-capitalized banks and no material exposure to recently failed banking institutions abroad.** Asset quality continued to improve, as evidenced by the decline in the gross non-performing loan (GNPL) ratio amid robust domestic demand. Meanwhile, the NPL coverage ratio is adequate at 104.9 percent, which is higher than pre-pandemic levels, showing the stability of financial buffers in the banking sector. Bank profitability continued to show considerable improvement, surpassing pre-pandemic levels as the return on asset and return of equity ratios. As of May 2023, most temporary relief measures introduced during the COVID-19 pandemic have already lapsed save for those that incentivize lending to MSMEs.

Table 1: Key Economic Indicators

	2020	2021	2022 1/	2023	2024	2025	2026
				Projected			
	In percent of GDP, unless otherwise stated.						
Growth and inflation							
Gross domestic product (percent change)	-9.5	5.7	7.6	6.0	5.9	5.9	5.7
Inflation (period average)	2.4	3.9	5.8	5.7	3.6	3.0	3.0
Savings and investment							
Gross domestic savings	11.2	12.1	12.0	12.1	12.2	12.1	12.0
Gross domestic investment	21.4	22.3	22.7	23.3	24.1	25.1	26.2
Public sector							
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	-2.5	-1.3	-1.1
Total revenue (government definition) 2/	15.9	15.5	16.1	15.7	15.8	15.9	16.2
Tax revenue	14.0	14.1	14.6	14.3	14.2	14.3	14.5
Total spending (government definition) 2/	23.5	24.1	23.4	21.7	20.9	20.1	20.1
National government debt 3/	54.6	60.4	60.9	61.0	61.7	61.2	60.9
Balance of payments							
Total exports	33.1	33.0	35.4	33.6	33.6	34.0	34.0
Total Imports	29.9	34.5	39.8	37.5	37.0	36.9	37.0
Remittances	9.2	8.9	8.9	8.9	9.0	9.1	9.1
Current account balance	3.2	-1.5	-4.4	-3.8	-3.5	-3.0	-2.9
Foreign direct investment	1.9	3.0	2.3	2.4	2.6	2.7	2.9
Portfolio Investment	0.5	-2.6	0.3	1.1	1.0	0.8	0.7
International reserves							
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				
Foreign Exchange							
US dollar (end-of-period)	48.0	50.8	56.1				
US dollar (average)	49.6	49.3	54.5				

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

Table 2: Key Fiscal Indicators

	2020	2021	2022	2023	2024	2025	2026
	Actual		Estimate	Projected			
	In percent of GDP, unless otherwise stated.						
Overall 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	-2.5	-1.3	-1.1
Total Revenues (and grants)	**15.9**	**15.5**	**16.1**	**15.7**	**15.8**	**15.9**	**16.2**
Tax Revenues	**14.0**	**14.1**	**14.6**	**14.3**	**14.2**	**14.3**	**14.5**
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	4.5	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
Non-tax revenue	2.0	1.4	1.5	1.5	1.6	1.6	1.6
Total Expenditures	**23.5**	**24.1**	**23.4**	**21.7**	**20.9**	**20.1**	**20.1**
Current operating expenditures	18.5	18.0	17.4	16.7	15.9	15.0	15.0
Personnel Services	6.6	6.6	6.3	6.0	5.6	5.4	5.3
Maintenance and other operating expenditures	4.9	4.5	4.0	3.7	3.4	2.8	2.6
Subsidy	1.3	1.0	0.9	0.8	0.6	0.4	0.5
Allotment to Local Government Units	3.5	3.5	3.8	3.7	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
Capital Outlays	4.9	6.0	5.9	5.0	5.0	5.0	5.1
Infrastructure & other capital outlay	3.8	4.6	4.6	4.0	4.0	4.2	4.2
Equity	0.1	0.2	0.0	0.2	0.2	0.0	0.0
Capital transfer to local government units	1.0	1.1	1.2	0.7	0.8	0.9	0.9
Net Lending	0.0	0.1	0.1	0.0	0.0	0.0	0.0
National Government Financing (gross)	**15.3**	**13.3**	**9.8**	**12.5**	**12.4**	**10.7**	**10.1**
External (gross)	4.1	2.9	2.4	9.5	9.6	8.2	8.2
Domestic (gross)	11.1	10.4	7.5	3.0	2.7	2.4	2.0
National Government Debt	**54.6**	**60.4**	**60.9**	**61.0**	**61.7**	**61.2**	**60.9**

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

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **Although growth will moderate over the medium term, it will remain robust, averaging 5.9 percent in 2023-26.** In the short term, growth is expected to decelerate to 6.0 percent in 2023. Global growth is expected to slow substantially in 2023 mainly due to the impact of ongoing monetary tightening, more restrictive credit conditions, high inflation, and slower global trade growth. Domestic private consumption growth will weaken in 2023, due to elevated inflation and as pent-up demand fades, while tighter financing conditions will dampen credit growth and subdue investments. Over the medium term, growth will remain anchored on domestic demand, as inflation returns to within the target range. The medium-term outlook will be supported by increased investments buoyed by recent investment-friendly reforms. Public consumption growth is expected to moderate in line with fiscal consolidation, although the public investment program will remain supportive of the economic recovery. The reforms supported by this operation will be crucial in strengthening resilience from shocks, mitigating macroeconomic risk, and protecting long term growth.

15. **Promoting digital transformation supports economic recovery and long-term growth.** The reforms supported by this operation will help leverage digital technologies to (i) create new markets and business

models, (ii) expand financial inclusion, and (iii) improve operational efficiency and service delivery. Strengthening service delivery through digitalization enhances productivity and reduces costs. Increasing access to digital infrastructure expands market access and facilitates trade. Accelerating financial inclusion reforms bridges the digital divide, granting underserved segments access to financial services.

16. **Headline inflation will remain above the central bank target in 2023, although the pace of monetary policy tightening is expected to soften as inflation slows.** Headline inflation is projected to remain above the Bangko Sentral ng Pilipinas' (BSP) target range of 2–4 percent and average 5.7 percent in 2023 due to domestic food supply challenges. Second-round effects on wages, rent, and transport prices will contribute to high core inflation in 2023. Following a year of monetary policy tightening, the BSP is expected to temper policy tightening, as inflation is expected to fall within the target range by the fourth quarter of 2023. Inflation is projected to return to the target range in 2024-25 as authorities resolve domestic food supply challenges while demand side price pressures wane.

17. **The current account balance will narrow over the medium term due to the recovery in services exports, steady remittance inflows, and lower global commodity prices.** External demand for merchandise exports is expected to moderate in 2023 because of a sharp slowdown in global activity, with better prospects in 2024-25, as global growth recovers. Meanwhile, import growth is expected to decelerate in 2023 due to slower growth in investments and private consumption, and the reduction in global commodity prices. As a result, the current account deficit is projected to narrow to 3.8 percent of GDP in 2023 and decline further to an average of 3.3 percent in 2024-25. The current account deficit is expected to be financed primarily by net FDI inflows as well as net portfolio inflows and international bond issuances.

18. **The pace of public spending is expected to decelerate in line with the medium-term fiscal consolidation program.** The fiscal deficit is expected to narrow to 3.9 percent of GDP by 2026, driven mainly by a decline in recurrent expenditure. It mainly consists of the unwinding of pandemic support, the impact of the national government's functional devolution to local government units (LGUs) and plans to make bureaucracy leaner and more efficient. Recurrent expenditure is expected to decline by 2.4 percentage points of GDP by 2026, though still above its pre-pandemic level. Although capital outlays will decline over the forecast horizon, the government will complement public infrastructure spending with more PPPs. Preliminary analysis suggests that while fiscal consolidation will initially have a dampening effect on growth, the benefits of fiscal sustainability will lead to a higher growth compared to a 'no fiscal consolidation' scenario in the long term.[7] Meanwhile, tax revenue is expected to reach pre-pandemic levels in 2026, due to sustained growth, and tax policy and administration reforms.[8] The baseline assumes that the gradual passage and implementation of these reform will increase revenues by 0.2 percent of GDP beginning in 2024.

19. **Although public debt increased significantly since 2020, the combination of fiscal consolidation and the growth recovery will keep debt levels sustainable.** The national government debt-to-GDP ratio is projected to continue to peak at 61.7 percent in 2024 and decline thereafter due to fiscal consolidation and the growth recovery. The recent reform to expand the use of public-private partnerships (PPP) for

[7] Simulations based on the IMF's Global Integrated Monetary and Fiscal (GIMF) DSGE Model.
[8] Reforms in the legislative pipeline, including 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 are expected to increase revenue by around 0.5 percent of GDP.

infrastructure investment are not expected to lead to greater risk to the fiscal position. The risk for the PPP pipeline is managed by a contingency allocation in the budget. The 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.

Table 3: Philippines External Financing and Sources (2020 – 2026)

	2020	2021	2022	2023	2024	2025	2026
		Actual			Projections		
				In billion US$			
Financing requirement	**-7.9**	**6.4**	**20.9**	**20.3**	**20.3**	**18.8**	**20.1**
Current account deficit	-11.6	5.9	17.8	17.8	17.8	16.8	18.2
General government amortization	1.2	1.2	1.0	2.4	2.4	2.0	1.9
Net Errors and Omissions	2.5	-0.8	2.0	0.0	0.0	0.0	0.0
Financing sources	**-7.9**	**6.4**	**20.9**	**20.3**	**20.3**	**18.8**	**20.1**
Net FDI	6.8	12.0	9.2	11.0	13.5	15.5	17.9
Net Portfolio Investments	1.7	-10.2	1.2	5.2	4.9	4.6	4.3
Net All Other Flows	-8.9	0.3	-1.5	-5.7	-6.3	-6.9	-7.6
Gross general government borrowing	8.5	5.6	4.7	5.0	5.1	5.9	4.9
Change in reserve assets	-16.0	-1.3	7.2	4.8	3.0	-0.2	0.7

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

20. **The debt dynamics remain resilient against different shocks.** Four scenarios were examined, including shocks to real growth rate, interest rate, real exchange rate, and the primary balance. The most significant shocks are related to deviations in the real GDP growth rate and the primary balance. If projected growth rates are reduced by a third or the primary deficits increased by 120 bps in the next two years, national government debt will rise, with the debt ratio peaking around 65.7 percent or 64.2 percent, respectively, in 2025 before declining in the medium run. 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) have a small impact on the debt path (Figure 1). In the worst-case scenario of a combined macro-fiscal shock, the debt ratio will peak at 68.9 percent of GDP in 2025. Furthermore, a climate shock similar to Typhoon Haiyan in 2024 would increase the primary deficit by 2 percentage points, resulting in a debt-to-GDP ratio of 64.0 percent, 2.3 ppt higher than the baseline.

21. **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. In combination with potential wage hikes across the country and their second-round effects, this could lead to persistently high inflation, which would erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. The possibility of higher-than-expected global inflation, tighter global financing conditions, and escalating geopolitical tensions could cause a sharper-than-expected growth slowdown. In addition. the threat of sticky core inflation due to tight labor markets and resilient demand could lead to further monetary tightening. The risk of a sharp tightening of global financial conditions could result in capital outflows and currency depreciation in EMDEs.

22. **Climate shocks pose a significant threat to the country's immediate recovery and long-term inclusive growth prospects.** 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

with the potential to reach7.6 percent of GDP by 2030 and 13.6 percent by 2040.[9] The cost of inaction could severely undermine the Philippines' collective long-term vision to be free from poverty by 2040 creating a constant downside risk to the country's outlook. Government's efforts to strengthen disaster risk management, particularly through the reforms supported by this operation, are expected to mitigate the short and long-term impacts of disasters, climate change, and public health emergencies on human capital accumulation, economic growth, and poverty reduction. The Updated National DRRM Plan 2020-2030 prioritizes (i) generating baseline information for hazards risk assessments; (ii) using digital technology for risk informed decision-making; (iii) improving infrastructure resilience, and (iv) establishing scalable emergency surveillance.

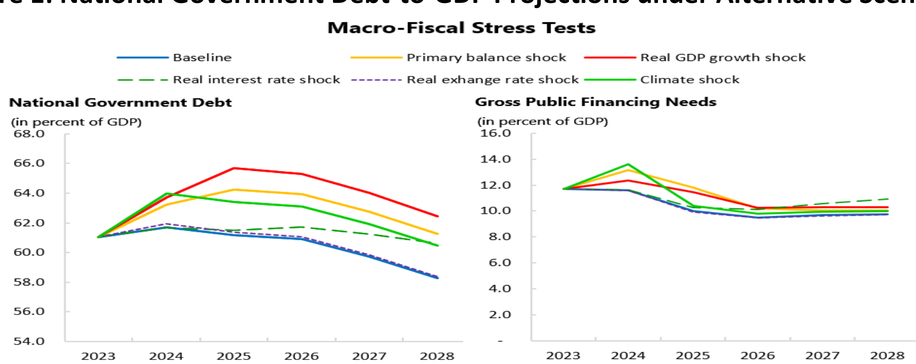
23. **The macroeconomic policy framework is adequate for the proposed operation.** The growth outlook is positive, anchored on domestic demand, a recovering services sector, and a public infrastructure investment agenda that will gain steam over the forecast horizon. The government's commitment to accelerate the pace of structural reforms as part of the recovery will further promote competitiveness and support growth. The BSP has responded to rising inflation with monetary tightening, consistent with its inflation-targeting objective and responsive to global interest rate movements. 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 share of expenditures to GDP until 2026, and is expected to gradually raise revenues through tax reforms. Public debt is sustainable owing to the expected growth recovery and fiscal consolidation.

Table 4. External Debt Composition (End-December 2022)

	US$ million	Share of Total Debt	Percent of GDP
Total External Debt	**111,268**	**37.2**	**28.4**
Monetary Authorities	3,833	1.3	1.0
General Government	59,809	20.0	15.2
Banks	19,840	6.6	5.1
Other Sectors	27,787	9.3	7.1
of which intercompany lending	4,008	1.3	1.0
Long term	94,649	31.6	24.1
Short tem	16,619	5.5	4.2

Source: BSP, PSA.

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



Source: World Bank staff calculations.

[9] Please refer to the Debt Sustainability Analysis to see the potential impact on the fiscal space and public debt.

3. GOVERNMENT PROGRAM

24. **Anchored on the longer-term vision for the country, *AmBisyon Natin 2040,* the GoP is prioritizing deep economic and social transformation through the Philippine Development Plan 2023-2028 (PDP) with a strong focus on digital transformation.** The government aims to enhance service delivery, digitalize transactions and services at national and local levels, and promote data privacy, sharing, coordination, and interoperability. With the goal to become and a more inclusive cash-light economy by 2028, the Bangko Sentral ng Pilipinas (BSP) is actively promoting digital financial inclusion, strengthening digital financial literacy and digitalization of payments through its Digital Payments Transformation Roadmap 2020-2023 and National Strategy for Financial Inclusion 2022-2028. The National Economic and Development Authority (NEDA), through the PDP, outlines strategies to promote an inclusive, innovative, and resilient financial sector by leveraging digital technologies, among others. These include improving access to financial services through digital services and encouraging efficiency and innovation in small and medium enterprise financing, microfinance and microinsurance. The PDP also anticipates an increase in the contribution of e-commerce to the country's GDP. In parallel, NEDA is working on issuing the IRRs for the Digital Workforce Competitiveness Act (RA 11972) to enhance the competitiveness of a skilled digital workforce.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. **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.** The proposed operation is the first in a programmatic series of two IBRD operations. To achieve these objectives, the programmatic DPL series is structured around three reform pillars and nine reform areas. Figure 1 in Annex 7 presents the proposed framework for the programmatic digital transformation DPL and Annex 1 presents the Policy and Results Matrix.

26. **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 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 businesses through digital finance by supporting reforms that: (i) promote wide-scale adoption of digital payments; and (ii) promote easy, affordable, and secure access to digital financial services.

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 services markets; (iii) promote higher value-added activities in digital services[10]; and (iv) strengthen industry-led skills development.

27. **This proposed program is informed by key analytical findings of World Bank Advisory Services and Analytics (ASA) programs and is well aligned with the nation's long-term vision ("AmBisyon Natin 2040") and PDP 2023–2028.** The proposed program is informed by the Philippines Economic Update (2022), joint IMF-WB 2020 FSAP Update and is supported through multi-year World Bank technical assistance programs. Table 5 lists analytical and advisory support on each of the proposed prior actions.

28. **This operation has a strong focus on "MFD-enabling" policy reforms and Private Capital Enabling (PCE) reforms.** MFD-enabling policy reforms aim to increase access to finance for small and medium enterprises (SMEs) and the underserved (PA 3 and PA 4), increase market access to SMEs (PA 5 and PA 6), and investments into digital services (PA 7). PA3, PA5, PA6, and PA7 are also PCE reforms, a subset of MFD enabled reforms.[11] Under PA 3, government institutions are developing incentive mechanisms to encourage businesses to make and receive digital government payments. PA 5 and PA 6 aim to increase competition and investments in digital services enabling a greater number of firms to access digital platforms and increase e-commerce transactions. IT 10 seeks to remove foreign equity restrictions in the logistics sector, allowing for the entry of new private investors. PA 7 and IT 12 aim to facilitate greater private capital in digital services by providing clearer valuation models of intangible capital, making it easier to secure financing against tradable assets.

29. **This DPL program is aligned with the goals of the Paris Agreement.** First, while the PDO and the reform program are not captured directly in the Philippines Nationally Determined Contribution (NDC) (submitted in 2021) and National Climate Change Action Plan (2011-18), they will not hinder the achievement of these climate goals and commitments. The reform program builds on the Philippines CCDR[12], which emphasizes the intertwined objectives of a green, resilient, and inclusive development and the importance of the digital economy in achieving this set of goals. Second, all PAs are aligned with mitigation goals; and none of the PAs is likely to result in a significant increase in GHG emissions or any persistent barriers to transition to low-GHG emissions. PA1 and PA2 contribute to a better assessment of climate risks, and, hence, may contribute to decarbonization consistent with national mitigation goals. Other PAs do not directly affect GHG emissions and are neutral from the mitigation perspective. Third, the program is considered aligned for adaptation and resilience as well, as risks from climate hazards are not likely to have an adverse effect on any of the prior actions' contribution to the PDO. Detailed review of the prior actions is presented in Annex 5.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

[10] Digital services are services that use electronic transfer of information including data and content across numerous platforms and devices like web or mobile (OECD).

[11] Most of these PCE-tagged reforms may materialize gradually given they address upstream and foundational reforms that are preconditions for investment and the measurement of monetary PCE may be more challenging. However, PCE may be more clearly attributed for IT 10, following the removal of regulatory constraints to FDI entry in the sector. While data quality is still an issue, an initial estimate of PCE in air transport services is expected to increase investments by US$ 9.6 million from 2023-2025 (post-reform), using a simplified differences-in-differences (DID) method. The team will further discuss the assumptions behind the data with relevant government counterparts during implementation.

[12] See section 2.1 Context and development priorities and objectives, page 7.

Pillar A. Improve Digital Government Service Delivery and Pro-competition Infrastructure Policies

30. **This pillar promotes more efficient public sector service delivery through digital transformation of government and accelerates telecom infrastructure deployment through pro-competitive infrastructure policy reforms.** The reforms under this pillar support (i) mainstreaming digitalization of government systems, especially through a whole of government approach, (ii) improving public asset management to increase resilience to climate-related natural disasters, and (iii) promoting pro-competitive digital infrastructure policies to facilitate increased broadband internet access and service provisioning.

Reform Area 1: Promote inclusive, and efficient government services delivery through digitalization.

Digitalizing Public Financial Management Systems

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	**Indicative Trigger 1.** To accelerate the roll out of IFMIS by spending units, the Borrower, through DBM, has made the submission of financial reports through the system an eligibility criterion for their performance-based bonus allocations as evidenced by the amendment to Administrative Order (AO) #25 XX dated XX 2024.

31. **Rationale for PA 1: Digitalization of core budget and financial management systems is key to efficient and transparent government service delivery.** The full implementation of Integrated financial management information systems (IFMIS) can enhance the efficiency of government service delivery through improved macro-fiscal management, allocative efficiency of the budget and increased accountability. The Philippines is one of the few countries in the region without a functioning IFMIS.

32. **Substance of PA 1: The reforms supported under this PA aim to further advance the operationalization of the IFMIS.** The Philippines' introduced the Budget and Treasury Management System (BTMS – the previously used term for core IFMIS modules) in 2018, aiming for full implementation within a decade[13]. The proposed policy actions seek to establish an institutional framework for the complete roll-out of IFMIS with improved features and compatibility with other PFM modules. The goal is to eliminate manual data exchange and enable consolidated financial reporting. EO No. 29 (PA 1) mandates the IFMIS roll out to all departments, national agencies, and government owned and controlled corporations (GOCCs). The indicative trigger 1 incentivizes the adoption of IFMIS by spending entities, by making the submission of their financial reports through the system an eligibility criterion for performance-based bonus allocations. The World Bank team has been providing technical assistance to Department of Budget and Management (DBM) on these reforms.

33. **Expected results:** The reforms are expected to result in increased public financial management efficiency using modern technology in core government operations with the roll out of IFMIS to large spending

[13] 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 envisaged Integrated Financial Management Information System (IFMIS) under the Public Financial Management (PFM) Reform Roadmap. The PFM Committee Resolution No. 1-2022 dated December 19, 2022, documented the initial decision of lifting the suspension.

units. This will be measured by the share of government payments (by value) processed through IFMIS to be greater than 50 percent by December 2025.

Improving Government Service Delivery through digitalization

Prior Action DPL 1	Indicative Trigger DPL2
	Indicative Trigger 2. To improve public service delivery the Borrower, through DICT, has mandated the harmonization of government digital platforms and the integration of government ICT systems infrastructure, as evidenced by the enactment of the Electronic Governance Act XX dated XX.

34. **Rationale and substance for proposed reform: WOG approach aims to enhance policymaking and service delivery by transitioning from manual and fragmented systems to automation and interoperability.** Implementing this approach can improve efficiency and transparency in government to business (G2B) and government to person (G2P) services. The Philippines lags peers like Malaysia and Thailand in the Gov Tech Maturity Index (GTMI) score for WOG approach to digital transformation[14]. The indicative trigger 2 supports the government's reforms outlined in the E-Governance Act, which focusses on planning, budgeting, operation, and maintenance of a digital government framework. The proposed Act aims to prioritize the WOG approach to digitalization and establish requirements for interoperability, data exchange, and a centralized datacenter/hybrid cloud.

35. **Expected Results:** The expected result is a reduction in the fragmentation of digital platforms and management of digital services across government agencies and the increased efficiency of public service delivery to citizens and businesses. This progress will be measured by the number of systems connected through a unified E-Government portal or mobile application for improved service delivery in selected sectors to reach the target of at least 10 by December 2025.

Reform Area 2: Promote financial resilience to climate-related disasters through digitalizing public asset information.

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated all government agencies and Instrumentalities under the executive branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	**Indicative Trigger 3**. To inform decisions on disaster resilience and financing of the critical and strategically important non-financial government assets and strengthen public asset management, the Borrower, through the DBCC and its TWG-AM, has adopted a Governance Framework for regulating the exchange of asset information and data analytics between government agencies for the NARS, as evidenced by the DOF-DBM-NEDA JMC X dated XX, 2024.

36. **Rationale for PA 2: Public assets and infrastructure resilient to climate and disaster risks can stimulate economic growth and create jobs.** The government, recognizing its responsibility as a custodian of public assets, has taken steps to ensure efficient public asset management[15] and sustainable delivery of public

[14] The Philippines is ranked 89 out of 190 economies, and 6 in ASEAN.
[15] Important in view multi-billion investments in new public assets through the Government Build, Better, More program

services, especially after climate-related disasters. Among these steps, the government through the Bureau of the Treasury, established the National Asset Registry System (NARS) to provide a comprehensive inventory of non-financial government assets to help manage government resources. Over 350,000 public assets with an approximate value of Php 2.0 trillion (US$ 36 billion)[16] were registered as of March 2023. The NARS data is now being utilized to inform climate and disaster risk financing plans and the design of the National Indemnity Insurance Program (NIIP), which is aimed at safeguarding critical and strategically important public assets from disasters such as typhoons and floods, among others. Further strengthening of NARS is needed, including ensuring regular agency asset data submission, data quality, enhancing analytical capabilities, and integrating it into asset management planning and decision-making processes across the government. This is especially crucial because the government spent an average of 4 percent of its total expenditure on disaster response and rehabilitation of public assets based on the World Bank Public Expenditure Review on disaster response and rehabilitation in 2020.[17]

37. **Substance of PA 2:** This DPL supports the expansion of the digital mapping of public asset data to NARS to all government agencies. The reform is in line with the implementation of the Philippine Government Asset Management Policy (PGAMP) by the Development Budget Coordination Committee Technical Working Group on Asset Management[18] that is supported by World Bank technical assistance. The PGAMP, which was initially rolled-out to three (3) pilot agencies[19], mandates all government agencies to collect and provide data on their strategically important and/or critical non-financial assets to the NARS, as part of their Agency Asset Management Plans (AAMPs) and link the same with agency plans and budget. The reform will be achieved in a phased approach through the adoption of DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1[20] that provided for the directive to ensure submission of quality public asset data (PA 2), through the AAMPs, and the subsequent formalization of the NARS rules and processes through the adoption of a Governance Framework (IT 3).

38. **Expected results:** The expected result is enhanced asset and decision-making by the government through timely digital data and analytics, measured by the participation of multiple agencies digitally connected to and accessing and utilizing the NARS for disaster resilience, financing and asset management. The aim is to have at least five (5) agencies digitally connected to and utilizing the NARS, as a web-based portal, by June 2025.

Reform Area 3: Promote pro-competition policy and legal improvements for connectivity and shared deployment of network infrastructure.

Prior Action DPL 1	Indicative Trigger DPL 2
	Indicative Trigger 4: To reduce cost of connectivity in hard-to-reach areas and utilize spectrum more efficiently, the Borrower, through DICT, has enhanced efficiency and

[16] As reported by the Bureau of Treasury.
[17] According to the World Bank *Public Expenditure Review 2020:* Disaster Response and Rehabilitation in the Philippines. https://openknowledge.worldbank.org/handle/10986/35064
[18] Composed of DBM, DOF through the BTr, Office of the President and NEDA.
[19] Department of Education (DepEd), Department of Health (DoH), Department of Public Works and Highways (DPWH); per DOF-DBM-NEDA JMC No. 2020-1, "*Implementation of a Philippine Government Asset Management Policy (PGAMP)",* dated 24 Sep 2020.

[20] Guidelines on the preparation, submission and policy on the processing and review of agency asset management plans (AAMPs) dated May 15, 2023.

	transparency in the allocation, assignment, and management of the radio frequency spectrum, as evidenced by enactment of the Spectrum Management Act, or equivalent legislation, by XX 2024.

39. **Rationale and substance for proposed reform: The Philippines faces several challenges in achieving affordable and reliable high-speed internet for its digital transformation.** Mobile broadband subscriptions are lower than those of regional peers, and the prices are too high for the poor[21]. Barriers to market entry and investment, including legislative franchise requirements and a lack of open access, impede the expansion of digital infrastructure and limit competition. The country's spectrum policy is outdated, designed for legacy (analog) technology, and lagging behind other East Asian countries in terms of transparent and competitive allocation of sufficient spectrum. The Affordability Drivers Index,[22] indicates a decline in the spectrum policy score for the Philippines[23], while improving for all the other 7 East Asian countries covered[24]. To capitalize on the potential of 5G technology and establish connectivity in remote areas, the Philippines needs a new policy framework that fosters the rapid deployment of new technologies and enhances wireless services. The indicative trigger 4 aims to support reforms that enhance efficiency, flexibility in spectrum management and better utilization of satellite connectivity.

40. **Expected Results:** The measures supported by this DPL program aim to enhance broadband services by reducing costs, increasing access, and improving quality through market competition through new market entrants and infrastructure investments. The target is to maintain mobile broadband costs at 2 percent of GNI per capita and decreasing fixed broadband costs from 11.6 percent of GNI per capita in 2021 to 5 percent of GNI per capita by December 2025.

Pillar B: Expand Financial Inclusion for Individuals and Businesses through Digital Finance.

41. **This pillar aims to promote broader acceptance of digital payments, strengthen trust in digital financial services and enhance efficiency and competition in digital finance infrastructure**. The proposed reforms will help the authorities expand the reach of digital financial services to the underserved and unbanked, including women, and facilitate the transition from a cash-based to a digital economy.

Reform Area 4: Promote wide-scale adoption of Digital Payments by government, individuals, and businesses.

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 3: To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to Congress, as evidenced by Senate Bill	**Indicative Trigger 5**: To promote the adoption of digital payments by government institutions, the Borrower, through BSP, has established requirements for digital payments solutions as evidenced by BSP Regulation No. xx dated xx. **Indicative Trigger 6**: To promote competition and increase efficiency in the usage of digital financial services, the Borrower, through BSP, has enhanced transparency in fees and governance of retail payment

[21] Mobile broadband subscriptions per 100 inhabitants in the Philippines are 62 percent, compared to Indonesia at 115 percent, Cambodia at 106 percent and Vietnam at 88 percent.
[22] The Alliance for Affordable Internet evaluates policy, regulation, and supply-side factors to determine their impact on reducing industry costs and improving broadband affordability.
[23] declined from 4.5 (2017) to 3.0 (2021)
[24] Thailand 5.5 to 8.5, Indonesia 5.5 to 7.0, Vietnam 3.0 to 6.0, Cambodia 3.3 to 5.5

Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	systems as evidenced by BSP Circulars No. xx dated xx. **Indicative Trigger 7**: To promote fair and open access to payments infrastructure, the Borrower, through BSP, has expanded non-banks' access to a real-time gross settlement system based on risk-based criteria, as evidenced by BSP Regulation xx dated xx.

42. **Rationale for PA 3: The widespread adoption of digital payments in the Philippines is crucial for a digital economy, reducing costs, and improving efficiency.** Currently, cash dominates over-the-counter purchases in grocery stores (95 percent), government service payments such as driver's licenses or birth certificate issuance (97 percent), government fees and penalties, such as traffic violation tickets (88 percent). Globally, the cost of handling cash can reach up to 0.1 percent of general government revenues[25]. Other indirect costs include a higher incidence of fraud and corruption, delays in delivering frontline services and higher costs of doing business.[26] Transitioning to a cashless economy would provide various benefits, especially during climate-related and natural disasters, enabling the government and the private sector to respond swiftly and efficiently**.** Digital transactions would facilitate access to assistance or insurance payouts, supporting recovery and rebuilding efforts.

43. **Substance of PA 3:** Once enacted, the Digital Payments Act (DPA) will mandate the acceptance of digital payments by government institutions, thereby promoting transparency and accountability. The proposed act aims to provide legal and budgetary support to government institutions and Local Government Units (LGUs) for adopting digital payments for collections and disbursements. Importantly, the act empowers LGUs to create incentives and extend assistance to small and micro-merchants towards the adoption of digital payments. The proposed act aims to increase transparency and security by tracking government collections and disbursements, reducing corruption and theft. The draft act is expected to be approved by December 2023 and is a priority legislation of the new administration and BSP as highlighted in the new PDP 2023-2028.[27] Indicative trigger 5 supports the effective implementation of the DPA's objectives. The BSP will issue the IRR which provides details, including but not limited to the technical requirements and principles to be observed for government agencies to adopt efficient digital payment solutions.

44. **The indicative triggers 6 and 7 support regulatory reforms to increase the efficiency of retail payments systems and promote fair and open access to payments infrastructure.** Trigger 6 supports the adoption of digital payment pricing principles to improve transparency in fees charged by financial institutions and a revised governance framework for retail payment systems. Trigger 7 supports the issuance of requirements by BSP to promote fair and open access to payments infrastructure by expanding access to real-time gross settlement system (PhilPaSS) to non-banks, such as electronic money issuers, in line with the FSAP (2020) recommendations.

45. **Expected Result:** The reforms are expected to contribute to an increase in the volume of digital payments over total retail payment transactions from 42.1 percent in 2022 to at least 52 percent by December

[25] World Bank Future of Finance (2022)
[26] Philippine businesses spend 171 hours handling payment of taxes, compared to Singapore's 64 hours and Hong Kong, Special Administrative Region of the People's Republic of China's 35 hours.
[27] To accelerate acceptance of digital payments by MSMEs, particularly by small merchants, BSP in coordination with the industry is taking measures to reduce the fee to zero for low-value payments up to PhP 500 for person-to-person and person-to-business payments.

2025.

Reform Area 5: Promote easy, affordable, and secure access to digital financial services for individuals and businesses.

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 4: To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	**Indicative Trigger 8**: To protect bank and e-wallet accounts against cybercrimes, the Borrower, through BSP, has required banks to implement security features to ensure secure access to customer accounts as evidenced by the enactment of the Anti-Financial Account Scamming Act dated xx.

46. **Rationale for Prior Action 4: Despite recent progress, nearly half of Filipino adults remain unbanked.** High cost of financial services (57 percent), distance to the nearest financial institutions (41 percent), insufficient documentation (35 percent), and lack of trust in financial institutions (24 percent) are cited by unbanked Filipinos as primary reasons for not having an account[28]. Leveraging the recent advancements in digital ID infrastructure in the Philippines could help expand access to financial services to unbanked Filipinos, including in geographically remote areas.

47. **Substance of PA 4: Enhancing the customer identification requirements through electronic Know-Your-Customer (eKYC) using digital ID will facilitate account opening and access to a broad range of financial services.** These requirements are aligned with international standards and require BSP-supervised financial institutions (BSFIs) to adopt tiered or risk-based eKYC policies and procedures for identity proofing and authentication of the digital ID system[29]. The requirement also recognizes the PhilSys-enabled eKYC as an acceptable system for eKYC using the digital ID system. In implementing eKYC, BSFIs must perform customer identification and verification processes under the same standards equivalent to a face-to-face basis and establish appropriate risk management processes. The indicative trigger 8 under DPL2 aims to protect consumers' bank and e-wallet accounts against cybercrimes. The passage of the Anti-Financial Account Scamming Act (AFASA) will protect the public from fraudulent activities of cybercriminals who target bank accounts and e-wallets. The proposed act was approved by the House in May 2023 and is under consideration in the Senate.

48. **Expected Results:** The reforms are expected to increase consumer trust in digital financial services and are measured by (i) a 10 percent increase in the number of transaction accounts onboarded by December 2025 and (ii) a 10 percent decrease in fraud rates[30] (i.e., phishing, money mules, and other cybercrimes) involving the use of digital financial services from 3.16 basis points in 2022 to 2.84 basis points by December 2025. The assessment of expected result in (i) will also consider progress in the implementation of PhilSys enabled services, including the eKYC module, by the Philippine Statistics Authority.

[28] Source: World Bank Global Findex Database (2021).
[29] Personal data protection for eKYC using the national ID is ensured through the Data Privacy Act of 2012, which includes safeguards for data collection, sharing, and storage. Measures like prior consent, limited data sharing, unique ID numbers, and mandatory assessments and testing are implemented to mitigate data protection risks.
[30] Based on BSP methodology and database of report on crimes and losses, the baseline for fraud rate is a simple average of fraud losses to value of Instapay transactions in 2021 and 2022.

Pillar C. Boost Business Growth in Digital Services

49. This pillar focuses on boosting e-commerce, attracting investments into digital services, and enhancing digital skills for businesses, particularly benefiting SMEs. Reforms within this pillar aim to establish a trustworthy e-commerce ecosystem, reduce logistics costs, strengthen competition regulation for digital markets, protect intellectual property rights, and promote the recognition of digital skills courses in higher education. These reforms aim to lower consumer prices, create opportunities for small businesses and female entrepreneurs, and bridge the digital skills gap, thereby promoting economic inclusion.

Reform Area 6: Promote uptake of e-commerce to increase market access to SMEs.

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	**Indicative Trigger 9**: To implement compliance mechanisms, the Borrower has established a trust seal framework, an online dispute resolution system, and a code of conduct through the passage of the Implementing Rules and Regulations (IRR) of the ITA. **Indicative Trigger 10**: To decrease logistics costs and facilitate e-commerce, the Borrower opened the air transportation services sector to 100% foreign ownership and improved competition in the logistics sector, through Civil Aeronautics Board as evidenced by the issuance of sector specific IRR to implement the Public Service Act, as amended (RA 11659) by XX.

50. **Rationale for PA 5:** The Philippines experienced a 20 percent increase in new online users[31] during the pandemic, leading to a doubling of the country's internet economy[32] to US$17 billion in 2021. Building trust in e-commerce through improved consumer and supplier protection and stronger enforcement tools is crucial for its expansion. Existing regulations have primarily focused on consumer protection, neglecting the rights of suppliers, merchants, distributors, and retailers since the enactment of the 2000 Electronic Commerce Act. Further, to leverage the benefits of digitalization and increased market access, Filipino SMEs need affordable and reliable logistics solutions for sourcing inputs and delivering products. Logistics costs in the Philippines are among the highest in ASEAN.[33] Restrictions on foreign equity in the logistics sector, specifically in freight transportation and express delivery services, have hindered the entry of new firms and prevented the utilization of scale economies, driving up average costs for delivery services.

51. **Substance of PA 5: The Internet Transactions Act (ITA) is expected to increase trust in e-commerce Business-to-Consumers (B2C) and Business-to-Business (B2B) transactions.** The act aims to strengthen online consumer and supplier protection by defining merchants' obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms. This entails mandating complaint resolution mechanisms (domestic and cross-border); leveraging self-regulation and co-regulation[34]

[31] Highest amongst Southeast Asian countries, compared to 10 percent in Singapore, 18 percent in Thailand, 15 percent in Malaysia, 13 percent in Indonesia (SEA E-conomy, report, 2021). The costs account for approximately 27 percent of manufacturing firms' sales in 2017, the highest in selected Southeast Asian countries (Indonesia (21.4 percent), Vietnam (16.3 percent), and Thailand (11.11 percent)).
[32] Bain's 2021 analysis: Internet Economy include Online media, Online travel, Transport and food delivery, e-Commerce (marketplaces, mall/resellers, direct to consumer) and financial services, healthcare and EdTech.
[33] World Bank, Digital Economy Report 2021.
[34] Under co-regulations, the regulatory role is shared by the government and industry.

mechanisms to reduce enforcement costs to authorities; clarifying platforms' liability in purchases; favoring a balanced relationship between sellers and platforms to limit risks; and addressing obligations and penalties of online players considering their role, size, and impact in the ecommerce ecosystem. The World Bank has provided technical assistance to DTI on these reforms. The ITA bill has been approved in the House in November 2022, is under consideration in the Senate, and is expected to be approved by December 2023**.** The set of Implementing Rules and Regulations (IRR) of the ITA (IT 9) will establish detailed technical requirements for coregulation mechanisms such as a trust seal, and dispute resolution mechanisms. The amended PSA's IRR (IT 10) will allow for changes in logistics industry regulations and the removal of foreign ownership restrictions, thereby attracting more investments and increasing competition. These developments in e-commerce are expected to particularly benefit female entrepreneurs, who dominate the majority of MSMEs owners (ADB, 2020).[35] Female sellers, for instance, are more likely to use social media platforms to complement their e-commerce activities.[36] In addition, the PSA reform removing the nationality requirements in the transport and logistics services sector supports the PCE agenda.[37]

52. **Expected Results:** The proposed ITA and its IRRs aim to create a reliable environment for consumers and online businesses. This, combined with opening the domestic logistics industry to private investment, is expected to significantly enhance e-commerce activity, increasing its share in GDP to 2.5 percent of GDP by December 2025 from the current 1.7 percent. Further, these reforms strive to promote women-owned businesses, with an aim of increasing the share of women-owned businesses that make online transactions to 5.5 percent by December 2025.

Reform Area 7: Strengthen the competition regulatory framework in digital markets.

Prior Action DPL 1	**Indicative Trigger DPL2**
Prior Action 6: To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	**Indicative Trigger 11**. To promote competition in digital markets, the Borrower, through PCC, has introduced specific provisions in antitrust tools, market definition and merger analytics on digital markets, as evidenced by Commission resolutions.

53. **Rationale for PA 6**: While the Philippines has an established competition law and institutional framework, shortcomings in its application to digital operators can hinder efficient market dynamics and innovation. Digital markets raise challenges for traditional competition enforcement tools due to a combination of strong network effects, economies of scale and scope, and digital firms' ownership of proprietary data that often result in entrenched market power of large platforms. To address such concerns, many competition authorities worldwide are updating their competition rules to better handle

[35] Promoting Transformative Gender Equality Agenda in Asia and the Pacific, Asian Development Bank, 2020.
[36] Bayudan-Dacuycuy and Sinsay (2022). Bridging Gaps, Breaking Barriers, and Building Capacities in Online Marketplaces.
[37] For this type of regulatory reform, which reduces barriers to FDI entry in specific sectors, PCE may be expected to materialize within three years of project closure, which is one of the requirements for estimating PCE.

mergers[38] and anticompetitive practices of digital operators.[39]

54. **Substance of PA 6: This DPL series is supporting the Philippine Competition Commission (PCC) in addressing challenges in digital markets through revisions to competition rules.** The PCC faces difficulties in disciplining economic concentrations in digital markets due to mergers falling below notification thresholds and slow review procedures[40]. The approval of high merger notification thresholds during the COVID-19 period exacerbated these concerns and interrupted merger control for two years. On the other hand, addressing anticompetitive practices by digital platforms, particularly abuses of dominance, has been difficult. To tackle both issues, the PCC aims to clarify its authority to review mergers involving digital operators that do not meet notification thresholds or lack overlapping activities. Additionally, the PCC will strengthen its enforcement rules to tackle abuse of dominance by digital platforms. These amendments seek to enhance the competition regulatory framework, counter anticompetitive behavior in digital markets, and mitigate negative impacts. Indicative trigger 11, promotes competition in digital markets by introducing specific provisions in antitrust tools, including market definition and merger analytics, through Commission resolutions. The World Bank team has been providing technical assistance to the PCC for these reforms.

55. **Expected Results:** The revised competition framework is expected to enable the PCC to strengthen competition enforcement in digital markets, and, in turn, foster investments and productivity growth and lower consumer prices. The PCC is expected to increase the number of actions involving digital markets to 4 by December 2025.

Reform Area 8: Promote higher value-added activities in digital services.

Prior Action DPL 1	Indicative Trigger DPL2
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries Development Act issued by DTI on November 11, 2022.	**Indicative Trigger 12**: To safeguard the value of digital content and enable private investments in creative industries, the Borrower, through IPOPHL, has allowed to remove digital content in violation of IP as evidenced through a Memorandum of Agreement on digital content copyrights protection between IPOPHL and ISPs.

56. **Rationale for PA 7: Despite their potential as an engine of innovation-driven, services-led growth, firms in digital services, face constraints to grow.** In the Philippines, the definition for creative industries covers not only creative arts, design, and media, but also some core digital services, ranging from computer programming activities to website hosting services, and software publishing[41]. Preliminary estimates by the Department of Trade and Industry (DTI) suggest that creative industries contributed to 7.3-7.5 percent of GDP in the country in 2018-2022 (about 30 percent of these are digital), 11.6 percent of total employment, and 6.57 percent of the total exports of goods and services in 2021. The sector is

[38] Challenges to merger control in digital markets include mergers of digital operators below notification thresholds, difficulties in defining markets and building counterfactuals, and assessment of the role of data and network effects.
[39] Germany updated its merger notification thresholds in 2021 to include smaller transactions, especially in digital markets, and the UK established a Digital Markets Unit to oversee a new regulatory regime for influential digital firms.
[40] This was the case of the Grab-Uber merger reviewed ex-officio under the *motu proprio* procedure in 2018.
[41] Many of the subsectors covered by PH creative industries overlap with the core subsectors in OECD's digital economy definition and measurement (OECD 2020).

still largely dominated by MSMEs – 55 percent of firms have fewer than 10 employees.[42] Many firms face limits to growth, because they have limited valuation models and monetization instruments of intangible capital that will allow them to attract investments. The lack of clarity on valuation of intangible capital (especially on digital content and data) has hindered its use as collateral in loans.

57. **Substance of PA 7: A clear definition of the creative industries sector will enable greater private capital mobilization, investments and, hence, job creation in digital services.** Under PA 7, the Creative Economy Council, through support from the Bank, is working on an updated definition and measurement of the sector. This will help clarify which firms in the creative industry may be eligible for government support programs, especially businesses that have high quality intangible capital that can be monetized. The IRR also mandates the Creative Economy Council and the Philippines Statistics Agency to maintain a satellite account to measure this sector. The DPL series aims to assist private sector firms in the digital services industry, by providing intellectual property protection and supporting their growth**.** Reforms under the DPL will focus on enforcing and protecting intellectual property rights by working with Internet Service Providers to take down infringed digital content. The reforms will also enable the use of intellectual property as collateral for accessing credit. Furthermore, these reforms will benefit women entrepreneurs by creating more opportunities in the digital services sector.

58. **Expected Results:** The outcome of the prior action will be measured by the percentage annual increase of creative industry export to 6.25 percent between 2022-25.

Reform Area 9: Strengthen industry-led skills development for the future of work.

Prior Action DPL 1	**Indicative Trigger DPL2**
Prior Action 8: To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skills courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS), as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	**Indicative Trigger 13**: To enhance competitiveness of the Philippines in digital services, the Borrower, through NEDA, has facilitated industry-led digital skills provision that incorporates gender and environmental objectives, as evidenced through the IRR of the Philippine Digital Workforce Competitiveness Act (DWCA) dated XX.

59. **Rationale for PA 8: The Government of the Philippines has launched several digital skills initiatives, but the implementation of key reforms is urgently needed as policy action remains fragmented**. The demand for digital skills surpasses the availability of skilled workers, with the IT-Business Process Outsourcing sector alone requiring 1.1 million additional employees by 2028. However, the current hiring rate is only 10-15 percent of applicants[43]. Digital jobs require a combination of technical skills and high-level cognitive abilities[44], but Filipino school children scored poorly globally in essential skills – such as reading comprehension (lowest) and mathematics and science (second lowest) – for the digital economy compared to other countries. The national Philippine Qualification Framework (PQF) introduced in 2012 is not yet fully operational, with pending steps including industry representation in the PQF's National Coordination Council and the development of guidelines for the Philippine Credit Transfer System (PCTS) to recognize the results of prior learning and non-formal training for TVET and university programs.

[42] These figures are based on the 2018 Philippines Census of Business and Industry data after applying weights, using DTI's creative industry definition.
[43] Philippine IT-BPM Industry Roadmap 2028.
[44] OECD (2022) Skills for the Digital Transition: Assessing Recent Trends Using Big Data.

60. **Substance of PA 8: The establishment of the Philippine Credit Transfer System (PCTS) is crucial for recognizing skills courses in higher education and integrating digital skills courses into formal education.** Collaborating with the private sector and skilling providers is essential to adapt to evolving technologies and changing skills requirements. There is increasing demand for flexible and modular digital skills courses to supplement traditional education and enable lifelong learning. PA 8 will support the recognition of digital courses in higher education, through a Joint Memorandum Circular between the Commission on Higher Education (CHED) and the Technical Education and Skills Development Authority (TESDA) to implement the Philippine Credit Transfer System (PCTS). This reform advances the full implementation of the PQF which is crucial for effective digital education and skilling. The World Bank has been working with CHED and TESDA to provide TA for the reforms being supported. The passage of the Implementing Rules and Regulations (IRR) for the Digital Workforce Competitiveness Act (DWCA) (IT 13) strengthens the provision of demand-driven digital skills. The Act establishes an inter-agency council to coordinate and promote the development and competitiveness of the Philippine digital workforce. It emphasizes industry-led training, private sector involvement in demand assessments, and integration of gender, inclusion, and environmental considerations for a sustainable and inclusive digital workforce.

61. **Expected Results:** The policy actions are expected to increase the supply of skilled workers for the digital economy. This is to be measured by an increase in the number of HEI institutions that recognize digital skills courses via the PCTS (from 0 to 50 HEIs by School Year 2024-25 i.e., by March 2025).

Table 5: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar A: Improve Digital Government, Administrative Systems, and Infrastructure Policies	
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	The proposed reforms are supported by an earlier policy note and TA on IFMIS and the ongoing policy and technical assistance to DBM as part of the dialogue on the DPL.
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	The proposed reforms have been supported over the past years through the WB technical assistance. This support included the development of a strategic roadmap for NARS scale-up, broader asset management reforms, scaling up of the NARS and building of its analytical capabilities, data management process, capacities to utilize IT systems, and sharing of best practices.
Pillar B: Expand Financial Inclusion for Individuals and Businesses through Digital Finance	
Prior Action 3. To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to the Congress, as evidenced by Senate Bill Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	Philippines joint IMF-WB FSAP Update (2020). The FSAP technical note on Retail Payments highlighted the need to address gaps in collections and disbursements by government institutions and expanding low-cost acceptance channels for retail payments. Financial Sector Programmatic ASA. Under the multi-year

	programmatic ASA, ongoing technical assistance is provided to BSP on development and governance of payments infrastructure.
Prior Action 4. To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	WB Philippines Economic Update 2022. The analysis recommended accelerating the adoption of PhilSys to underpin growth in digital financial services including by promulgating use-cases for the greater use of the digital ID and enabling the Know Your Customer (KYC) framework using digital ID. ASAs with the Philippines Statistics Agency and the PhilSys Inter Agency Committee for Use Cases and Authentication (chaired by BSP) design e-KYC services for PhilSys that are in line with international good practices for inclusion, personal data protection, and interoperability. In addition, ongoing technical assistance is provided to BSP on the use of digital ID in the financial sector.
Pillar C: Boost Business Growth in Digital Services	
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	WB Philippines Digital Economy Report (2020) reported that lack of adequate data protection, online supplier and consumer protection was limiting the growth in digital markets. WB 2022. The Philippines Digital Business and Markets Regulations Review highlighted gaps in the existing legal framework to increase online consumer and supplier protection. WB legal reviews provided inputs to the drafting of the draft bills of the ITA.
Prior Action 6. To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	WB Philippines Digital Economy Report (2020) highlighted the gap in the competition framework for digital markets. WB. 2022. Legal and Regulatory Review of Digital Platforms highlighted the legal gaps to ensure competition in digital markets is preserved.
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries Development Act issued by DTI on November 11, 2022.	WB legal reviews and analysis of inputs to the drafting of the IRR. TA to DTI and Philippines Statistics Agency on the definition and measurement of the creative industry (a mandate of the PCIDA-IRR) with international examples from UNCTAD, WIPO, UK, and Korea.
Prior Action 8. To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skills courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS) as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	WB Philippines Digital Economy Report (2020) highlighted the lack of digital skills as a constraint to the growth of the digital economy. WB 2023. Digital Transformation of Philippine Higher Education highlights the importance of industry-led digital skills to cater to the growing need for the private sector.

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

62. **The reforms supported by this DPL are fully aligned with the Country Partnership Framework (CPF) and its development objectives of job creation, improving human capital, and building resilience to conflicts and natural disasters.** The operation focuses on governance and digital transformation, aiming to enable inclusive and efficient public service delivery through digitalization of government services. Increased competition in the telecom sector is expected to enhance connectivity and reduce costs, benefiting households and boosting private sector productivity. Reforms in digital finance contribute to improving access to finance, bridging human capital gaps, and fostering private sector-led growth. Enhanced competitiveness by expanding market access facilitates private sector led growth, leading to job creation. Additionally, improved digital platforms and services have the potential to enhance resilience and mitigate and adapt to climate change impacts.

63. **The proposed actions and reforms are complemented by other ongoing operations.** By supporting the GoP in achieving a resilient, inclusive, and sustainable post-pandemic recovery through digital transformation, it is complementary to the second and third Philippines DPLs on "Promoting Competitiveness and Enhancing Resilience to Natural Disasters," as well as the first Philippines Sustainable Recovery DPL, which focuses on supporting the government's recovery effort. In addition, the digital finance pillar complements reforms supported under the first and second Philippines financial sector reform DPLs focusing on expanding financial inclusion for individuals and firms as well as by IFC on digital and SME finance. The reforms to increase digital connectivity complement the infrastructure support being planned under the forthcoming digital connectivity IPF.

64. **Multiple PAs within the project aim to enhance climate and environmental resilience, leading to climate Co-Benefits.** PA 1 focuses on implementing an Integrated Financial Management Information System (IFMIS) that can incorporate climate risk management components, including climate budget tagging. PA 2 strengthens national public asset management through the National Asset Registry System (NARS), which provides analytics on climate-related disasters' impact on government assets. Together, PA 1 and PA 2 create an enabling environment for climate risk management by facilitating information availability. PA 3 promotes the adoption of digital payments for government disbursements, aiding climate-vulnerable communities to quickly access funds and finance, enhancing their ability to recover from climate impacts. PA 7 offers the opportunity for firms to develop customized digital solutions that target the climate crisis through clean tech, green tech innovations, or the optimization of energy-intensive business processes, potentially yielding significant climate benefits.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

65. **The government has undertaken extensive consultations with internal and external stakeholders.** There has been broad participation in the consultation process related to the government's program supported by this operation. Various technical working groups and interagency committees have been constituted with a lead national government agency coordinating with key implementing government agencies during the drafting stage of these policies. Once there is an advanced draft, the relevant lead agency provides access to updates and drafts through agency websites and social media pages with clear instructions on how stakeholders could provide their inputs and register for virtual or in-person stakeholder consultations.

66. **The World Bank continues consultations with relevant development partners with the aim to build on strengths and prevent duplication of efforts.** Technical assistance on support for policy reforms on

logistics, digital transformation reforms is also being requested from the Asian Development Bank (ADB) and United States Agency for International Development (USAID) under their various subprograms – SPEED, BEACON, RESPOND, DELIVER. The ADB recently closed two financial sector policy loans: Inclusive Finance Subprogram 2 and Capital Market Subprogram 1. The WB, the ADB, and the DOF have had consultations to maximize synergies and development impact. At the request of DoF, the Asian Infrastructure Investment Bank (AIIB) is contributing US$400 million loan towards parallel financing for this overall reform program.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

67. **The reforms articulated in this proposed DPL are likely to have positive poverty and distributional outcomes through improved digitalization across the three pillars.**

68. **Pillar A – Improve Digital Government Service Delivery and Pro-Competition Infrastructure Policies**. This pillar aims to expand access to digital service delivery, particularly for low-income individuals and addresses the high cost [45]of broadband connectivity and regional disparities in internet access. Digitalization of critical and strategically important non-financial asset data (PA 2) and utilization of the same in asset management planning and decision-making throughout the government is expected to improve resiliency and quality of national infrastructure assets, especially during times of natural disasters, significantly benefiting the poor by ensuring the continuity of essential services. These reforms will have significantly positive effects on poverty reduction by expanding access to digital services to the poor, creating economic opportunities, and increasing resilience against climate-related natural disasters and other shocks that specially affect the poor.

69. **Pillar B – Expand Financial Inclusion for Individuals and Businesses through Digital Finance.** Despite recent progress, only 34 percent of adults in the bottom 40 percent income group have access to formal financial institutions. The majority of firms, especially micro and small businesses, rely on family and friends (42 percent), informal lenders (15 percent), and nonbank financial institutions (15 percent) for financing[46]. The reforms under this pillar focus on digital payments and consumer trust to improve financial access and inclusivity. Digital payments can improve credit scoring, delivery of social assistance, and resilience to natural disasters. However, the development of the digital payments' ecosystem is hindered by slow digitization by government agencies and small merchants. Wider acceptance of digital payments by government institutions and merchants supported by the DPA (PA 3) will address these challenges. Implementing e-KYC (PA 4) will further enhance trust in digital payments, and potentially boost transaction volumes and values. These efforts have the potential to enhance financial inclusion, increase credit availability for the poor, and contribute significantly to reducing poverty in the Philippines.

70. **Pillar C – Boost Business Growth in Digital Services.** Reforms supporting e-commerce development (PA 5) and competition in digital markets (PA 6) would lead to lower prices, increased supply, and improved access to new products, benefiting poorer consumers and entrepreneurs. Businesses in the Philippines

[45] Broadband connectivity is relatively costly, making it unaffordable to the first two income quintiles of the population.
[46] latest Philippines COVID-19 Firm Survey 2021

experienced significant declines in workforce during the pandemic[47]. These reforms, along with PA 7 in the case of digital services, also aim to enhance market access and growth potential for small and micro-entrepreneurs, directly raising living standards. Additionally, increasing the supply of digital skills is anticipated to have positive social impacts and bridge the digital divide. More than a quarter of Filipinos do not use the internet because they do not know how to, and the digital literacy gap is associated with educational attainment and household income (Talandron et al., 2019). Recognizing digital skills courses in higher education and incorporating them into the educational framework (PA 8) can boost employability and income for less privileged workers.

71. To ensure the reforms do not inadvertently worsen poverty or distributional outcomes, careful monitoring and evaluation efforts are necessary. Compliance to existing safety nets, enhanced regulatory support to ensure well- functioning markets, complementary policies (e.g., training) to enhance poverty and inequality-reducing benefits, and proper implementation mechanisms are essential to guarantee that the reforms benefit the greatest number of households, firms, and communities while effectively addressing any negative impacts.

5.2 ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

72. **The policy reforms supported under the DPL will likely bring positive effects on the environment, forest, and other natural resources.** The majority of reforms supported under the first DPL will overall generate positive environmental outcomes on the environment, forests, or other natural resources. Prior actions 1, and 2 are expected to have significant positive effects. Prior Action 5 is expected to have insignificant negative environmental effects which can be adequately mitigated through the implementation of the country's existing environmental policy framework. Prior actions 3, and 4 are expected to have positive but not significant environmental effects. Prior actions 6, 7 and 8 will have no environmental effects.

73. **Reforms promoting efficient and inclusive government service delivery through digitalization and improved digital infrastructure policies are likely to have significantly positive environmental outcomes.** The NARS will provide comprehensive data on public assets, enabling better decision-making on asset planning, investment, maintenance, and disposal. This will help assess the impact of typhoons, climate risks, and cost-benefit analysis for risk reduction, leading to improved environmental footprint through efficient use of public assets.

74. **The expansion of financial inclusion for individuals and firms through digital finance will likely bring positive, while not significant, environmental effects**. Prior actions 3, and 4 on easy, affordable, and secure access to digital financial services by consumers and businesses are expected to lead to increase in the volume of digital payments, potentially reducing use of physical cash and plastic credit cards that will likely result in lesser environmental footprint. Prior action 1 on rebooting IFMIS and connecting to several existing e-procurement and e-payment systems will also reduce use of paper in public financial management.

75. **The reform that seeks to promote e-commerce may increase environmental footprint, but the country's strong environmental policy framework can effectively mitigate it**. While the policy reform

[47] World Bank, 2023: Crisis and Recovery: *Learning from COVID-19's Economic Impacts and Policy Responses in East Asia.*

under prior action 5 is expected to reduce physical commuting and warehouses, saving energy and natural resources, it may result in overpackaging with extra plastic, cardboard and waste in landfills and ecosystems. However, the robust country policy framework, including the Philippine Environmental Impact Statement System (PEISS) and its implementing regulations, along with the Extended Producer's Responsibility (EPR) Law and its accompanying regulations, can manage potential environmental risks. The EPR Law sets targets for plastic recovery and requires large enterprises to manage plastic packaging waste throughout the product's life cycle, minimizing the negative impact of plastic waste. The policy reform is expected to have insignificant negative effect.

76. Prior action 6 seeks to strengthen the competition regulatory framework and counter anticompetitive behavior by digital operators. Prior action 7 fosters firm growth in the digital services, and prior action 8 on digital skills will likely have no or marginal environmental effects.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

77. **PFM System:** The GoP has significantly improved its PFM at the national level over the past decade. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment showed improvement in three out of the seven PFM pillars (transparency of public finances, policy-based budgeting and asset and liability management) compared to the 2010 assessment. Reforms in the management of budget resources continue to be undertaken by the GoP under the PFM reform program such as the adoption of the cash-based budgeting, Treasury Single Account and Unified Accounts Code Structure to be used across budgeting, accounting, and reporting. 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[48]. Public procurement systems have strengthened over the last two decades following the adoption of the public procurement Republic Act (RA) 9184 in January 2003. An assessment of the country's public procurement using the Methodology for Assessing Procurement Systems (MAPS) was completed in 2021 and the recommendations are guiding GoP to strengthen its public procurement systems. The national government budget is made available to the public on the DBM website. Refer to Annex 8 for details.

78. **Foreign Exchange (FOREX) Control Environment**: The BSP 2019 to 2021 audited financial statements have unqualified (clean) audit opinions and do not raise any major concerns about the FOREX control environment.

79. **Fiduciary Risk:** Based on the assessment of the PFM Systems and FOREX control environment, fiduciary risk is moderate.

80. **Disbursement and Auditing Arrangements:** Upon withdrawal, the proceeds of the DPL will be deposited in US dollars in a dedicated deposit account at the BSP, forming part of the country's official FOREX reserves. The GoP will transfer funds from the US dollar account to the treasury single account in local currency (pesos) that will be used to pay government's budget expenditure. Within 30 days of the

[48] 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 envisaged Integrated Financial Management Information System (IFMIS) under the Public Financial Management (PFM) Reform Roadmap. The PFM Committee Resolution No. 1-2022 dated December 19, 2022, documented the initial decision of lifting the suspension.

disbursement of DPL amount, the GoP will confirm receipt of these funds to the Bank. Disbursements of the loan will not be linked to any specific purchases, and no procurement requirements have to be satisfied. The DPL shall not be used for excluded expenditure as per the General Conditions for IBRD Financing dated December 15, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022. Should this be the case, the Bank will seek for a refund from the GoP, which will subsequently be cancelled from the loan.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

81. **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 extends to a large and diverse set of counterparts. These include the PCC, DICT, CAB, ARTA, DBM, NEDA, BSP, DTI, IPOPHL and the BTr. The GOP has designated the DOF International Finance Group as the WB's main counterpart in the policy dialogue and to monitoring the progress of the operation. Indicators selected to monitor progress toward achievement of the PDO correspond to the expected outcomes of the PAs. They include an appropriate mix of specific qualitative and quantified targets, which are attributable, and time-bound and are expected to enable effective monitoring of the 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, the reporting on targets will leverage agencies existing reporting mechanisms.

82. **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 World Bank 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 World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit *http://www.worldbank.org/GRS*. For information on how to submit complaints to the World Bank Inspection Panel, please visit *www.inspectionpanel.org*.

6. SUMMARY OF RISKS AND MITIGATION

83. **The overall program risk rating is rated moderate, and the risks around institutional capacity is rated substantial.** The institutional capacity for implementation is the key risk rated substantial using the Systematic Operations Risk-rating Tool (Table 6). 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. This requires a robust policy dialogue with each counterpart to make sure there is full alignment on the achievement of the program. 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.

Table 6: Summary Risk Ratings

Risk Categories	Rating
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	Moderate
9. Other	
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPL 1	**Indicative Triggers for DPL 2**	**Indicator Name**	**Baseline**	**Target**
Pillar A. Improve Digital Government Service Delivery and Pro- Competition Infrastructure Policies				
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	**Indicative Trigger 1**. To accelerate the roll out of IFMIS by spending units, the Borrower, through DBM, has made the submission of financial reports through the system an eligibility criterion for their performance-based bonus allocations as evidenced by the amendment to Administrative Order (AO) #25 XX dated XX 2024.	Results Indicator 1. Share of government payments (by value) processed through IFMIS.	0 (2022)	50% (2025)
	Indicative Trigger 2. To improve public service delivery the Borrower through DICT has mandated the harmonization of government digital platforms and the integration of government ICT systems infrastructure as evidenced by the enactment of the Electronic Governance Act XX dated XX.	Results Indicator 2. Number of systems connected through a unified E-Government portal or mobile application for improved service delivery in selected sectors.	0 (2023)	10 (2025)
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset	**Indicative Trigger 3**. To inform decisions on disaster resilience and financing of the critical and strategically important non-financial government assets and strengthen public asset management, the Borrower,	Results Indicator 3. Number of agencies digitally connected to and using the NARS.	0 (2022)	5 (2025)

Prior actions and Triggers		Results		
Management (TWG-AM), has mandated all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	through the DBCC and its TWG-AM, has adopted a Governance Framework for regulating the exchange of asset information and data analytics between government agencies for the NARS, as evidenced by the DOF-DBM-NEDA JMC X dated XX, 2024.			
	Indicative Trigger 4. To reduce cost of connectivity in hard-to-reach areas and utilize spectrum more efficiently, the borrower, through DICT, has enhanced efficiency and transparency in the allocation, assignment, and management of the radio frequency spectrum, as evidenced by the enactment of the Spectrum Management Act, or equivalent legislation, by XX 2024.	Results Indicator 4: cost of mobile and fixed broadband services (% of GNI per capita).	Mobile: 2.04 (2021) Fixed: 11.56 (2021)	Mobile: 2.00 (2025) Fixed: 5.0 (2025)
Pillar B. Expand Financial Inclusion for Individuals and Businesses through Digital Finance				
Prior Action 3. To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to the Congress, as evidenced by Senate Bill Number 811	**Indicative Trigger 5.** To promote the adoption of digital payments by government institutions, the Borrower, through BSP, has established requirements for digital payments solutions as evidenced by BSP Regulation No. xx dated xx.	Results Indicator 5: Volume of digital payments over total retail payment transactions (percent).	42.1% (2022)	>52% (2025)

Prior actions and Triggers		Results		
dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	**Indicative Trigger 6.** To promote competition and increase efficiency in the usage of digital financial services, the Borrower, through BSP, has enhanced transparency in fees and governance of retail payment systems as evidenced by BSP Circulars No. xx dated xx. **Indicative Trigger 7**. To promote fair and open access to payments infrastructure, the Borrower, through BSP, has expanded non-banks access to real-time gross settlement system based on risk-based criteria, as evidenced by BSP Regulation xx dated xx.			
Prior Action 4. To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	**Indicative Trigger 8.** To protect bank and e-wallet accounts against cybercrimes, the Borrower, through BSP, has required banks to implement security features to ensure secure access to customer accounts as evidenced by the enactment of the Anti-Financial Account Scamming Act dated xx.	Results Indicator 6: Percentage increase in the number of transaction accounts onboarded (percentage increase). Result Indicator 7: Decrease in fraud rates (i.e., phishing, money mules and other cybercrimes) involving the use of digital financial services (basis point).	229 mn (2022) 3.16bps (2022)	>=10% (2025) <=2.84bps (2025)
Pillar C. Boost Business Growth in Digital Services				
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has	**Indicative Trigger 9.** To implement compliance mechanisms, the Borrower, has established a trust seal framework, an online dispute	Results Indicator 8: Contribution of eCommerce to GDP (%).	1.7% (2021)	2.5% (2025)

Prior actions and Triggers		Results		
submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	resolution system, and a code of conduct through the passage of Implementing Rules and Regulations (IRR) of the ITA. **Indicative Trigger 10.** To decrease logistics costs and facilitate e-commerce, the Borrower opened the air transportation services sector to 100% foreign ownership and improved competition in the logistics sector, through [CAB] as evidenced by the issuance of sector specific IRR to implement the Public Service Act, as amended (RA 11659) by XX.	Results Indicator 9: Share of women-owned businesses that make online transactions (%).	2.9% (2022)	5.5% (2025)
Prior Action 6. To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	**Indicative Trigger 11**. To promote competition in digital markets, the Borrower, through PCC, has introduced specific provisions in antitrust tools, market definition and merger analytics on digital markets as evidenced by Commission resolutions.	Results Indicator 10. Number of decisions approved involving digital markets by the PCC.	2 (2020-22)	4 (2023-24)
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules	**Indicative Trigger 12.** To safeguard the value of digital content and enable private investments in creative industries, the Borrower, through IPOPHL, has allowed to remove digital	Results Indicator 11. Average annual growth of creative industry export.	4.25% (2018-2021)	6.25% (2022-2025)

Prior actions and Triggers		Results		
and Regulations of the Philippine Creative Industries Development Act issued by DTI on November 11, 2022.	content in violation of IP as evidenced through a Memorandum of Agreement on digital content copyrights protection between IPOPHL and ISPs.			
Prior Action 8. To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skills courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS) as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	**Indicative Trigger 13.** To enhance competitiveness of the Philippines in digital services, the Borrower, through NEDA, has facilitated industry-led digital skills provision that incorporates gender and environmental objectives, as evidenced through the IRR of the Philippine Digital Workforce Competitiveness Act (DWCA) dated XX.	Results Indicator 12. Number of HEI recognizing digital skills courses via the PCTS (#).	0 (School Year 2022-23)	50 (School Year 2024-25)

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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

MR. AJAY BANGA
President
World Bank Group
Washington, D.C.

SUBJECT: Philippines First Digital Transformation Development Policy Loan (DT DPL1)

Dear **President BANGA**:

On behalf of the Government of the Philippines (GPH), we would like to provide an update on the Philippine economy and our reform efforts on digital transformation. In this context, we express our interest in obtaining a budget support loan from the World Bank – International Bank for Reconstruction and Development (WB-IBRD) through the Philippines First Digital Transformation Development Policy Financing (DT DPL1). This program, rooted in the Philippine Development Plan (PDP) 2023-2028, will support our reform efforts to foster an enabling environment for greater digital adoption.

Prior to the COVID-19 pandemic, the Philippine economy grew by an average of 6.3 percent per year in 2010 to 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 strongly 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 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. Digitalization is one of the main drivers for the underlying theme of transformation in the PDP, and the GPH is committed to increasing service delivery, reinvigorating the services sector, and improving technological knowledge. To this end, the GPH has prioritized improvements in digital service delivery, digitalization of transactions and services at both the national and local levels, increasing data privacy, sharing, and coordination, as well as promotion of digital financial services to expand inclusive and innovative finance. As fiscal prudence is paramount to the realization of these goals, the Government is also implementing fiscal consolidation measures under its 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 and social context, we look forward to the Bank's support through the DT DPL series, which is designed to consist of two DPL operations, and which aims to support the GPH's reform efforts to (i) improve digital government service delivery and pro-competition infrastructure policies; (ii) expand financial inclusion for individuals and businesses through digital finance; and (iii) boost business growth in digital services.

Improve Digital Government Service Delivery and Pro-Competition Infrastructure Policies

The GPH is committed to mainstreaming the digitalization of government systems through a whole-of-government approach.

Recognizing the importance of the digitalization of our core budget and treasury management systems, the President issued Executive Order No. 29, s. 2023 which mandates the full roll-out of the Integrated Financial Management Information System (IFMIS) to all national government agencies and departments, including Government-Owned and -Controlled Corporations. The GPH is also committed to accelerate this roll-out.

Relatedly, Joint Memorandum Circular (JMC) No. 2023-1 issued jointly by the Department of Finance (DOF), the Department of Budget and Management (DBM), and the National Economic and Development Authority (NEDA) on May 15, 2023 mandates all government agencies and instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS) to strengthen public asset management and climate and disaster risk management, and to facilitate disaster risk-based budgeting. Further, the DOF, the DBM and the NEDA aims to formalize the scope, processes, and rules of the NARS through the subsequent adoption of a Governance Framework.

Ultimately, the GPH recognizes that improving public service delivery through the harmonization of government digital platforms and the integration of government Information and Communications Technology (ICT) systems infrastructure is critical to enable comprehensive digital transformation in government, and we continue to strongly pursue the enactment of the Electronic Governance Act.

Expand Financial Inclusion for Individuals and Firms through Digital Finance

Under this reform area, the GPH seeks to promote wide-scale adoption of digital payments by consumers and businesses. The passage of the Digital Payments Act (DPA), currently submitted in both houses of Congress and tagged as a priority legislation under the PDP 2023-2028, will support the acceptance of digital payments by merchants and government agencies. It will likewise increase transparency and accountability by providing adequate legal and budgetary support to government institutions and Local Government Units (LGUs) to adopt digital payments in all collections and disbursements. Once the DPA is passed, the GPH is committed to issuing implementing rules and regulations (IRRs) to achieve the objectives of the law and support its implementation, including the promotion of competition and efficiency in the use of digital financial services and cross-border payments through the enhancement of transparency in fees, governance of retail payment systems and operationalize agent registry systems.

The GPH's efforts to promote easy, affordable, and secure access to digital financial services for consumers and businesses also include enhancing the customer identification requirements through conducting electronic Know-Your-Customer (eKYC) activities using digital ID systems, which will facilitate opening of transaction accounts and customers' access to a broad range of financial services. The BSP has strengthened the eKYC requirements through the issuance of a regulation requiring BSP-supervised financial institutions (BSFIs) to adopt tiered or risk-based eKYC policies and procedures depending on the identity proofing and authentication assurance levels of the digital ID system. In this regard, we wish to note that the increase in transaction accounts onboarded may depend on the progress of the roll-out or implementation of enabled services under the Philippine Identification System (PhilSys), including the eKYC module spearheaded by the Philippine Statistics Authority (PSA), which the GPH is also committed to strongly pursue.

As the digital payment system is expanded, the GPH is likewise committed to further increase consumer trust in digital financial services through the eventual adoption of the Anti-Financial Account Scamming Act, which will aim to protect consumers' bank and e-wallet accounts against cybercrimes.

Boost Business Growth in Digital Services

In line with the priorities under the PDP 2023-2028, the GPH has expanded the reform agenda in digital services. To encourage the adoption of e-commerce, the proposed Internet Transaction Act (ITA), currently for consideration of both houses of Congress, aims to update and introduce regulations for online platforms' obligations in relation to both consumers and suppliers, which will strengthen the trustworthiness of "business to business" and "business to consumer" e-commerce transactions. Once passed, the GPH will also establish technical requirements for co-regulation mechanisms through the ITA's IRR.

Further to the objective of expanding e-commerce and decrease related logistics costs, the GPH will also issue sector-specific IRRs for Republic Act No. 11659 (the Public Service Act (PSA), as amended) that effectively liberalized the air transport and logistics industry to increase competition and investment, particularly in small parcel deliveries.

The GPH has also been seeking to foster competition in digital marketplaces. To this end, the Philippine Competition Commission has published guidelines on abuse of dominance and rules of merger procedures involving digital operators. The GPH also aims to amend the IRR of the

Philippine Competition Act to incorporate digital-specific antitrust tools.

Moreover, the GPH has also been fostering higher value-added digital services, leveraging intangible capital and the creativity of Filipinos, building on past success of the Business Process Outsourcing sector. The Philippines Creative Industries Development Act (PCIDA) IRR issued on November 11, 2022 defines which creative industry firms are eligible to government support programs, and establishes a satellite account for the Creative Economy Council and the Philippines Statistics Authority to effectively assess the industries, ultimately enabling the ecosystem for digital services. Relatedly, safeguarding the value of intellectual property over digital content in the creative industries is essential, and the GPH aims to enter into agreements with relevant providers relating to copyright protection for digital content.

Lastly, the GPH has been reforming skills provision to respond more dynamically to digital skills demanded by the economy. The JMC issued on April 14, 2023 by the Commission on Higher Education and the Technical Education and Skills Development Authority provides a basis for the implementation of the Philippine Credit Transfer System, which allows the recognition of digital skills courses in higher education. The GPH is also targeting to issue the IRR for the Philippine Digital Workforce Competitiveness Act, which is a key legislation to advance digital skills for the economy by mapping digitally the skills demand and supply, expanding the use of industry-led training through Public-Private Partnerships, and strengthening coordination between government agencies through an inter-agency council responsible for improving the Philippines digital workforce.

Conclusion

The GPH is firmly committed to implement the program of reforms and initiatives under the DT DPL1 to foster an enabling environment for digital transformation, which we firmly believe will help boost inclusive and resilient economic growth for a more prosperous and resilient society, as envisioned in the *AmBisyon Natin 2040*.

The GPH greatly values the relentless support provided by the World Bank over the years to finance the Philippines' 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
AUG 17 2023

ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar A. Improve Digital Government Service Delivery and Pro- Competition Infrastructure Policies		
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	No	Positive effects
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	Significant positive effects through improved asset planning, investment, maintenance, and disposal	Positive effects
Pillar B. Expand Financial Inclusion for Individuals and Businesses through Digital Finance		
Prior Action 3. To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to the Congress, as evidenced by Senate Bill Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	No	Significant positive effects
Prior Action 4. To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	No	Significant positive effects
Pillar C. Boost Business Growth in Digital Services		
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	Potential negative effects, adequately mitigated by the existing policy framework	Positive effects in the long-term Possible negative effects in the short-term
Prior Action 6. To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	No	Positive effects
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries	No	Positive effects that can be increased with complementary

Development Act issued by DTI on November 11, 2022.		policies
Prior Action 8. To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skill courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS) as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	No	Possible significant positive effects

ANNEX 4: Climate Change Co-Benefits

COUNTRY: The Philippines
First Digital Transformation Development Policy Financing

Climate Vulnerability Context

The Philippines is one of the countries most vulnerable to climate-related natural disasters in the world. The World Risk Report ranks the Philippines as third in disaster risk, and the Global Climate Risk Index Report ranks the archipelago as the fifth most affected country for weather-related losses—with 307 events between 1998 and 2018.[49] The Philippine Archipelago is located in the middle of the Pacific Typhoon Belt. On average, 20 tropical cyclones enter or develop within the Philippine Area of Responsibility, and 8 of them make landfall.[50] The country has seen several super typhoons over the past decade, including Typhoon Yolanda (2013) and Typhoon Odette (2021). Beyond typhoons, the Philippines faces floods, droughts, and other extreme weather-related events, such as the Southwest, Northeast monsoons, and El Niño/La Niña. Some 60 percent of the Philippines land area and 74 percent of the population are exposed to multiple hazards. Climate change is expected to make climate-related shocks more frequent and severe.

Climate change will disproportionately affect poor people in the Philippines. The World Bank's Climate Change and Development Report (CCDR) concluded that, if there were no changes made to global policies, climate change would cause GDP to be at least 3.2 percent lower by 2030 than it would have been, and at least 5.7 percent lower by 2040. The impacts could be much worse, with GDP being as much as 7.6 percent lower by 2030 and 13.6 percent lower by 2040. The analysis shows that climate shocks (whether extreme weather events or slow-onset trends) will hamper economic activities, damage infrastructure, and induce deep social disruptions. All Filipinos would be affected, but the poor and vulnerable population would be disproportionately harmed: average consumption in 2040 would fall by about 7 percent, but consumption by the poorest 10 percent of the population would fall by more than 8 percent.

Digital transformation has contributed to mitigating the human cost of climate-induced natural disasters, but much more needs to be done. The Early Warning System (EWS) has played an important role in reducing the loss of life[51]: in December 2021, 400 lives were lost because of Typhoon Rai, compared to the 6,300 deaths in 2013 from Typhoon Haiyan, which was of similar strength.[52] A range of EWS institutions and systems are in place, under the National Disaster Risk Reduction and Management Council (NDRRMC) established through the Philippine DRRM Act of 2010.[53] Even with the reduced loss of life,

[49] H.-J. Heintze, et al.," World Risk Report 2018"(Bündnis Entwicklung Hilft, Berlin, Germany, 2018); D. Eckstein, V. Künzel, and L. Schäfer, "Global Climate Risk Index 2018" (Briefing paper, Germanwatch, Bonn, Germany, 2017).
[50] World Bank," Getting a Grip on Climate Change in the Philippines" (World Bank, Washington, DC, 2013).
[51] GSMA, "Typhoon Rai Response: The Role of the Mobile Industry" (GSMA, London, 2022).
[52] Both Typhoon Haiyan and Typhoon Rai were Category 5 super typhoons, with maximum sustained winds around 280 km/h.
[53] ESW institutions and systems include the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA), the

however, economic and livelihood damages due to Typhoon Rai were still severe. Three hundred seventy-nine cities experienced power outages and interruptions; 124 cities continued to face outages for at least 1.5 months. Of the 800,000 people who preemptively evacuated, more than 300,000 were displaced, and nearly 160,000 were still in evacuation centers after 1.5 months.[54] Fragmentation of government data and systems on disaster risk, preparedness, and response; inadequate risk-informed planning and investment; limited access to and affordability of internet services by poor and vulnerable people, among other factors, are barriers to further improving resilience to climate shocks and natural disaster risks.

Project relevance to addressing climate vulnerabilities and reducing carbon footprints

Various reforms supported under this operation contribute to addressing vulnerabilities to climate shocks and disaster risks. Specifically, this operation includes a set of reforms aiming to improve the government system foundations to assess climate and disaster risks associated with public assets. These reforms will help planning and budgeting investments in risk financing, in addition to managing and protecting public assets and service delivery. These policy reforms support several government counterparts such as the Department of Finance (DOF)/Bureau of the Treasury (BTr), the Department of Budget and Management (DBM), and the National Economic and Development Authority (NEDA).

Reforms aimed at reducing the carbon footprint of information and communication technology (ICT) infrastructure contribute to climate mitigation. Specifically, promoting telecom infrastructure sharing reduces new tower construction and optimizes power consumption for radio network operations. Discontinuing the existing and avoiding the creation of new, separate data centers and servers under public entities also contribute to energy savings.

Annex Table 1: Climate Co-Benefits: Prior Actions to Support Climate Adaptation and/or Mitigation.

Prior Action	Climate Change Adaptation	Climate Change Mitigation
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the	By strengthening the climate change expenditure tagging system through expanding it beyond budget planning and enabling its effective application in budget execution and monitoring.	

Philippine Institute of Volcanology and Seismology (PHIVOLCS), DICT's Emergency Warning Broadcast System (EWBS), DOST/ASTI's Deployment of Early Warning System in Disaster-prone Areas (DEWS), among others. GSMA, "Early Warning Systems in the Philippines: Building Resilience through Mobile and Digital Technologies" (GSMA, London, 2022).

[54] NDRRMC, "Situation Report for Typhoon Odette," 2022.

Prior Action	Climate Change Adaptation	Climate Change Mitigation
Executive Order 29 issued by the President on June 1, 2023.		
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	This reform directly contributes to better adaptation of the Philippines to climate shocks. **This reform addresses the financial resilience of government assets to climate-induced disasters**. Public assets represent the biggest post-disaster spending of the government (according to the World Bank PER findings[55]). It is expected that direct losses due to typhoons will amount to Php 133.2 million each year, on average. Scientific studies suggest that typhoons in the Philippines are augmented by climate change. Heavy rainfall associated with typhoons and other weather systems may increase in both intensity and frequency under a changing climate.[56] Informed investments in risk financing or management are difficult when there is no knowledge of the location of assets, their value, and other characteristics. NARS is a critical source of data that aims to address this gap at a centralized level providing budget oversight agencies with a decision-making tool and line agencies with a tool for analytics and communication to the budget oversight agencies. **The NARS and asset management reforms target both climate- and non-climate-related disaster resilience covering both physical and financial resilience measures**. As outlined in the JMC annex, the asset management plans must include agencies' plans, investments, and gaps and their risk profiles regarding disaster risks. This should give a comprehensive view to the government of assets it owns, their criticality, and the potential impact of disasters (currently, NARS can estimate the impact of typhoons on the assets), and it should assist in planning risk reduction or preparedness measures.	

[55] World Bank, "Public Expenditure Review: Disaster Response and Rehabilitation in the Philippines" (technical report, World Bank, Washington, DC, 2020), https://openknowledge.worldbank.org/handle/10986/35064.
[56] World Bank, Climate Change Knowledge Portal: The Philippines, *https://climateknowledgeportal.worldbank.org/country/philippines/vulnerability.*

Prior Action	Climate Change Adaptation	Climate Change Mitigation
	NARS has already proved its value for risk financing. The National Indemnity Insurance Program for critical public assets (schools, hospitals, bridges, roads) was designed based on data recorded in NARS and is expected to be implemented imminently. The NIIP Program protects public assets also against typhoons and floods, which are exacerbated by climate change. This reform integrates the financial resilience of public assets and broader disaster resilience and climate-change considerations as part of government public asset management practices. This DPL supports the adoption of asset life cycle management for all public agencies and regulates the government's comprehensive annual planning—based on data. This is a major policy change (from investment into life cycle management) within the government, and financial and broader disaster resilience are critical parts of it. **This reform informs government budgeting for risk financing**. Employing the annual asset management reports and data and analytics produced by NARS, the government is expected to make better decisions about, for instance, annual allocations for insurance premiums to protect vulnerable public assets against climate shocks and allocations to agencies for public asset reconstruction after climate-induced disasters. **The NARS is already capable of producing analytics for risk reduction**. This includes producing cost-benefit analysis of (not) investing in risk reduction of schools. It also allows, through its geospatial capabilities, mapping typhoon paths and estimating how new typhoons might affect government assets. The reform supported under this DPL will help make NARS more sustainable, indicating its critical role in informing government decision-making.	
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI, has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries	**As part of the PCIDA-IRR, the Philippines government will provide support and funding** (grants, subsidized loans, and equity-based finance) to creative industry firms. The beneficiaries can include some green tech, clean tech, and climate tech firms.	Some energy-intense firms in this sector also have the potential to lower their energy consumption and GHG emissions. When these energy-intense firms apply for government

Prior Action	Climate Change Adaptation	Climate Change Mitigation
Development Act issued by DTI on November 11, 2022.		support and funding, the government can include as condition to decrease their energy use intensity. For example, manufacturing of plastic furniture, rubber shoes, pulp (paper + paperboard), and recorded media are estimated to be among the most energy-intense sectors in the country.

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objective(s): 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.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	The reform program is not directly captured in the Philippines NDCs (submitted 2021) and National Climate Change Action Plan (2011-2018) but will not hinder the achievement of the country's climate goals and commitment. The reform program builds on the Philippines CCDR[57], which emphasize the intertwined objectives of a green, resilient, and inclusive development and the importance of the digital economy in achieving this set of goals. All the Prior Actions are Paris-Aligned as per the following assessment.
Mitigation goals: assessing and reducing the risks	
Pillar Objective: ***To Improve Digital Government Service Delivery and Pro- Competition Infrastructure Policies***	
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	No
Step M3: Is the risk of the prior action	N/A

[57] See section 2.1 Context and development priorities and objectives, page 7.

introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	
Conclusion for PA 1 and PA 2:	**PA 1 and PA 2 are not likely to cause a significant increase in GHG emissions or introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways and as such is neutral from the mitigation perspective.**
Pillar Objective: ***Expand Financial Inclusion for Individuals and Businesses through Digital Finance***	
Prior Action 3. To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to the Congress, as evidenced by Senate Bill Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	
Prior Action 4. To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	No
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	N/A
Conclusion for PA 3 and PA 4:	**PA 3 and PA 4 are not likely to cause a significant increase in GHG emissions or introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways and as such is neutral from the mitigation perspective.**
Pillar Objective: ***Boost Business Growth in Digital Services***	
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	

Prior Action 6. To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries Development Act issued by DTI on November 11, 2022.	
Prior Action 8: To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skills courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS) as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	No
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	N/A
Conclusion for PA 5, PA 6, PA 7, and PA 8:	**PA 5, PA 6, PA 7, and PA 8 are not likely to cause a significant increase in GHG emissions or introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways and as such is neutral from the mitigation perspective.**
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program: The program is neutral from the mitigation perspective.	
Adaptation and resilience goals: assessing and managing the risks	
Pillar Objective: ***To Improve Digital Government Service Delivery and Pro- Competition Infrastructure Policies***	
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by the Executive Order 29 issued by the President on June 1, 2023.	
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through the Development Budget Coordination Committee (DBCC) and its Technical Working Group on Asset Management (TWG-AM), has mandated	

all government agencies and Instrumentalities under the Executive Branch to digitally map their critical and strategically important non-financial assets into the National Asset Registry System (NARS), as evidenced by the DOF-DBM-NEDA Joint Memorandum Circular (JMC) No. 2023-1 dated May 15, 2023.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**No**
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**N/A**
Conclusion for PA 1 and PA 2:	**PA 1 and PA 2 are neutral from the adaptation perspective.**
Pillar Objective: ***Expand Financial Inclusion for Individuals and Firms through Digital Finance***	
Prior Action 3. To promote the adoption of digital payments by government institutions and businesses, the Borrower, has submitted a proposed act adopting digital payments for all collections and disbursements of the Government to the Congress, as evidenced by Senate Bill Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	
Prior Action 4. To promote secure access to financial services, the Borrower, through BSP, has strengthened requirements on conducting electronic Know-Your-Customer (eKYC) using digital ID systems, as evidenced by Circular Number 1170 (Series of 2023) issued by BSP on March 30, 2023.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**No**
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**N/A**
Conclusion for PA 3 and PA 4:	**PA 3 and PA 4 are neutral from the adaptation perspective.**
Pillar Objective: ***Boost Business Growth in Digital Services***	
Prior Action 5. To strengthen the trustworthiness of *"business to business" and "business to consumer"* eCommerce transactions, the Borrower has submitted a proposed Internet Transactions Act introducing merchant obligations vis-a-vis online consumers, and online supplier protection provisions vis-a-vis online platforms, to the Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.	
Prior Action 6. To promote competition in digital markets, the Borrower, through the Philippine Competition Commission (PCC), has strengthened the regulatory framework applied to digital	

operators in mergers and abuse of dominance cases as evidenced by: (i) the Resolution Number 07-2023 adopting Guidelines on Abuse of Dominance, dated May 11, 2023, and (ii) the Resolution Number 08-2023 adopting Rules on Merger Procedure, dated May 25, 2023, both issued by the PCC.	
Prior Action 7. To foster firm growth in digital services, the Borrower, through DTI has strengthened the enabling ecosystem for digital services, as evidenced by the Implementing Rules and Regulations of the Philippine Creative Industries Development Act issued by DTI on November 11, 2022.	
Prior Action 8. To expand digital skills in the economy, the Borrower, through CHED and TESDA, has recognized digital skill courses in higher education through the implementation of the Philippine Credit Transfer System (PCTS) as evidenced by the Joint CHED-TESDA Memorandum Circular No. 01 (Series of 2023) issued by CHED and TESDA on April 14, 2023.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**No**
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	**N/A**
Conclusion for PA 5, PA 6, PA 7, and PA 8:	**PA 5, PA 6, PA 7, and PA 8 are neutral from the adaptation perspective.**
Adaptation and resilience: Conclusion of the Assessment for the Program: The program is neutral from the adaptation perspective.	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: The PDO and reform program is consistent with the implementation of the Philippines NDCs and National Climate Change Action Plan. All the Prior Actions are Paris-Aligned as per the assessment. Hence, the Philippines First Digital Transformation DPL is deemed Paris-Aligned.	

ANNEX 6: MACROECONOMIC FRAMEWORK

Annex Table 1: Supply and Demand-side Contributions to Growth

	2020	2021	2022	2023	2024	2025	2026
		Actual			Projected		
Real GDP growth, at constant market prices	**-9.5**	**5.7**	**7.6**	**6.0**	**5.9**	**5.9**	**5.7**
Private Consumption	-5.8	3.1	6.0	4.4	4.4	4.4	4.3
Government Consumption	1.3	1.1	0.7	0.7	0.7	0.8	0.8
Capital Formation	-9.1	3.9	3.0	2.0	2.2	2.4	2.6
Exports, Goods and Services	-4.7	2.2	3.0	1.1	2.2	2.6	2.7
Imports, Goods and Services	-8.7	4.5	5.2	2.2	3.7	4.3	4.7
Statistical Discrepancy				0.0	0.0	0.0	0.0
Real GDP growth, at constant factor prices	**-9.5**	**5.7**	**7.6**	**6.0**	**5.9**	**5.9**	**5.7**
Agriculture	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Industry	-4.0	2.5	2.0	1.3	1.4	1.5	1.5
Services	-5.5	3.3	5.6	4.6	4.4	4.3	4.1

Sources: Government of the Philippines for historical and World Bank for projections.
Note: Numbers may not add up due to rounding errors or statistical discrepancy.

ANNEX 7: FRAMEWORK FOR DIGITAL TRANSFORMATION DPL

Development Objectives	Policy Pillars	Reform Areas	Expected Results
National Development Strategy AmBisyon Natin 2040 and Philippine Development Plan 2023-2028 vision to *achieve inclusive economic growth* **DPL Objective** To assist the Government in fostering an enabling environment for digital technologies, to boost inclusive and resilient economic growth.	Improve Digital Government, Service Delivery and Pro - Competition Infrastructure Policies	» Promote inclusive, effective, and efficient government services delivery through digitalization	» Enhanced public service delivery through digitalization of government services
		» Promote financial resilience to climate related disasters through digitalizing public asset information	» Enhanced decision making in asset management, disaster risk management and financing
		» Promote pro- competition policy and legal improvements for connectivity and shared deployment of network infrastructure	» Enhanced access to telecom infrastructure to foster entry and market contestability
	Expand Financial Inclusion for Individuals and Firms through digital finance	» Promote wide-scale adoption of Digital Payments by individuals and businesses	» Increased acceptance of digital payments by government agencies, including LGUs
		» Promote easy, affordable, and secure access to digital financial services by individuals and businesses	» Increased consumer trust in DFS
	Boost Business Growth in Digital Services	» Promote uptake of e-commerce to increase market access to SMEs	» Trustworthy ecosystem for e-commerce to increase its contribution to GDP
		» Strengthen the competition regulatory framework in digital markets	Increased competition in the digital markets, increasing efficiency gains
		» Promote higher value-added services in digital creative industries	» Increased investments in the creative industries sector
		» Strengthen industry-led skills development for the future of work	» Integrate industry-led education & training into government's digital skilling efforts, especially micro-credentials

ANNEX 8: PFM, DISBURSEMENT AND AUDITING ASPECTS

1. 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 Department of Finance (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).

2. **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[58]. 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-based budgeting 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.

3. **The Government of the Philippines has made great strides during the last two decades towards strengthening the country's public procurement system 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) feature of bid and contract award notification. These are monitored through the indicator on numbers of

[58] 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 envisaged Integrated Financial Management Information System (IFMIS) under the Public Financial Management (PFM) Reform Roadmap. The PFM Committee Resolution No. 1-2022 dated December 19, 2022, documented the initial decision of lifting the suspension.

bid opportunities and subsequent procurement results. The estimated amount of contract versus the awarded prices, among others, are also available through PhilGEPS. It also established Government Procurement Policy Board (GPPB) as the public procurement regulatory and normative body, initiated the professionalization of public procurement practice, enhanced collaboration with Civil Society Organizations as procurement observers, and promoted 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.

4. **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.

5. **The BSP foreign reserves control environment is based on domestic assessments.** The Philippines does not have an active IMF program to develop safeguard assessments. 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.

6. **The proceeds of the DPL will be deposited in US dollars in a dedicated deposit account at the BSP that forms part of the FOREX 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. The GoP will transfer funds from the US dollar dedicated account to the treasury single account in local currency (pesos) that will be used to pay government's budget expenditure. 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 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 of the funds 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 excluded expenditure that shall not be financed with World Bank loan proceeds, as defined in the General Conditions for IBRD Financing dated December 14, 2018 (revised on August 1, 2020, December 21, 2020, April 1, 2021, and January 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.

7. **Fiduciary Risk:** Based on the assessment of the PFM Systems and FOREX control environment, fiduciary risk is moderate.