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Report No: PGD480

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 676.926 MILLION (US\$ 750 MILLION EQUIVALENT) TO

REPUBLIC OF THE PHILIPPINES  
FOR THE

Philippines Second Digital Transformation DPL  
October 23, 2024

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

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Republic of the Philippines

**GOVERNMENT FISCAL YEAR**

*January 1 – December 31*

**CURRENCY EQUIVALENTS**

Currency Unit: Philippine peso

US\$1.00 = PHP 56.17 (effective as of August 31, 2024)

US\$1.00 = EUR 0.902568 (effective as of August 31, 2024)

**ABBREVIATIONS AND ACRONYMS**

AAMPs	Agency Asset Management Plans	IP	Intellectual Property
ACH	Automated Clearing House/s	IPOPHIL	Intellectual Property Office of the Philippines
ADB	Asian Development Bank	IRR	Implementing Rules and Regulations
AFASA	Anti-Financial Accounts Scamming Act	ISPs	Internet Service Providers
AM	Asset Management	ITA	Internet Transaction Act
AO 25 IATF	Administrative Order No. 25, Series of 2011 Inter-Agency Task Force	IT-BPO	Information Technology – Business Process Outsourcing
AO	Administrative Order	IT-BPM	Information Technology – Business Process Management
ARD	Asset Registry Division	JAO	Joint Administrative Order
ARTA	Anti-Red Tape Authority	JMC	Joint Memorandum Circular
ASA	Advisory Services and Analytics	LDP	Letter of Development Policy
B2B	Business-to-Business	LEDAC	Legislative Executive Development Advisory Council
B2C	Business-to-Consumers	LGUs	Local Government Units
BSFIs	BSP-supervised Financial Institutions	LRA	Land Revenue Authority
BSIs	BSP-supervised Institutions	LTRFB	Land Transportation Regulatory and Franchising Board
BSP	Bangko Sentral ng Pilipinas	MC	Memorandum Circular
BTMS	Budget and Treasury Management System	MITHI	Medium-Term Information and Communications Technology Harmonization Initiative
BTr	Bureau of the Treasury	MFD	Maximizing Finance for Development
CAB	Civil Aeronautics Board	MORB	Manual of Regulations for Banks
CCDR	Country Climate and Development Reports	MORNBFi	Manual of Regulations for Non-Bank Financial Institutions
CDD	Customer Due Diligence	MoU	Memorandum of Understanding
CHED	Commission on Higher Education	MSMEs	Micro, Small, and Medium Enterprises
CLA	Common Legislative Agenda	MTEF	Medium-Term Expenditure Framework
		NARS	National Asset Registry System
COVID-19	Coronavirus disease, caused by the SARS-CoV-2 virus	NCR	National Capital Region
CPF	Country Partnership Framework	NDC	Nationally Determined Contribution
CRM	Customer Relationship Management	NEDA	National Economic and Development Authority
DAO	Department Administrative Order	NIIP	National Indemnity Insurance Program
DBCC	Development and Budget Coordination Committee	NPL	Non-Performing Loan



DBM	Department of Budget and Management	NRPS	National Retail Payment System
DICT	Department of Information Communications and Technology	NSFI	National Strategy for Financial Inclusion
DOF	Department of Finance	NTC	National Telecommunications Commission
DOLE	Department of Labor and Employment	OCL	Overdraft credit line
DPA	Digital Payments Act	ODR	Online Dispute Resolution
DTI	Department of Trade and Industry	PCC	Philippine Competition Commission
DWCA	Digital Workforce Competitiveness Act	PCE	Private Capital Enabling
EAP	East Asia Pacific	PCIDA	Philippine Creative Industries Development Act
EFTs	Electronic funds transfers	PCTS	Philippine Credit Transfer System
eKYC	electronic Know-Your-Customer	PEISS	Philippine Environmental Impact Statement System
EPR	Extended Producer Responsibility	PDP	Philippine Development Plan
FDI	Foreign Direct Investment	PFMI	Principles for Financial Market Infrastructures
FIS	Financial Inclusion Survey	PER	Public Expenditure Review
FSAP	Financial Sector Assessment Program	PFM	Public Financial Management
G2B	Government to Business	PGAMP	Philippine Government Asset Management Policy
G2C	Government to Citizen	PhilGEPS	Philippine Government Electronic Procurement System
G2P	Government to Person	PIMC	Philippine Infostructure Management Corporation
GCR	Global Competition Review	PPP	Purchasing Power Parity
GCRF	Global Crisis Response Framework	PQF	Philippine Qualification Framework
GDP	Gross Domestic Product	PS	Payment system
GHG	Greenhouse gases	PSA	Public Service Act
GNI	Gross National Income	PSF	Philippine Skills Framework
GNP	Gross National Product	PSP	payment service providers
GOCC	government-owned and controlled corporations	RTGS	Real-time gross settlement
GoP	Government of the Philippines	SCD	Systematic Country Diagnostic
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
ICT	Information and Communication Technologies	TWG	Technical Working Group
IDA	International Development Association	USAID	United States Agency for International Development
IFC	International Finance Corporation	WB	World Bank
IFMIS	Integrated Financial Management Information System	WBG	World Bank Group
IMF	International Monetary Fund	WOG	Whole of Government

Regional Vice President: **Manuela V. Ferro**

Regional Director: **Lalita M. Moorty, Sudeshna Ghosh Banerjee**

Country Director: **Zafer Mustafaoglu**

Practice Manager(s): **Ilias Skamnelos, Mahesh Uttamchandani, Alma Kanani**

Task Team Leader(s): **Jaime Andres Uribe Frias, Naoto Kanehira, Davit Melikyan**



**REPUBLIC OF THE PHILIPPINES**

**Philippines Second Digital Transformation DPL**

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The Philippines First Digital Transformation Development Policy Loan was prepared by a team led by Jaime Frias (Senior Economist and TTL), Davit Melikyan (Senior Public Sector Specialist and Co-TTL) and, Naoto Kanehira (Senior Digital Development Specialist and Co-TTL), comprising Luis Abad (Senior Private Sector Specialist), Radu Tatucu (Senior Financial Sector Specialist), Kimberly May Baltao Chandra (ET Consultant), Aileen Amor Bautista (Financial Sector Specialist), Gerlin May



Catangui (Senior Economist), Paul Chang (Senior Economist), Kevin Cruz (Economist), Ralph Van Doorn (Lead Economist), Karen Enriquez (ET Consultant), Aisha Lanette N. De Guzman (Senior Financial Management Specialist), Fredesvinda Herraiz (Senior Financial Sector Specialist), Rommel Salazar Herrera (operations Officer), Karol Karpinski (Senior Financial Sector Specialist), Karthika Radhakrishnan-Nair (Senior Education Specialist), Thu Ha Le (Counsel), Lilanie Magdamo Maitim (Senior Operations Officer), Maya Gabriela Villaluz (Senior Environmental Specialist), Sharon Piza (Economist), Addepalli Sita Ramakrishna (Senior Environmental Specialist), Elena Gasol Ramos (Senior Private Sector Specialist), Nilima Ramteke (Senior Financial Sector Specialist), Ruth Rodriguez (Senior Social Protection Specialist), Claudia Ivette Romero (Consultant), Tatiana Skalon (Financial Sector Specialist), Mohamed Wahish (Operations Officer), Tingting Juni Zhu (Senior Economist) with administrative support from Zoe Escobar (Team Assistant), Geraldine Asi (Team Assistant), and Marinella Yadao (Program Assistant).

The team is grateful for inputs and comments received from Vincent Abrigo (Analyst), Kate Almora Philp (Environmental Engineer), Luisa Escobar (Consultant), Marina Bakanova (Senior Economist), Prajwal Baral (ET Consultant), Manali Baruah (Consultant), Genevieve Boyreau (Economic Advisor), Daria Yurlova (Public Private Partnerships Specialist), Yuefan Chen (Senior Social Development Specialist), Hooman Dabidian (Senior Operations Officer), Alvaro Gonzalez (Lead Economist), Nancy Meza (Senior Operations Officer) and Mary Morrison (Senior Social Development Specialist).

The team worked under the guidance of Zafer Mustafaoglu (Country Director, EACPF), Lalita M. Moorty (Regional Director, EEADR), Sudeshna Ghosh Banerjee (Regional Director, IEADR), Ilias Skamnelos (Practice Manager, EEAF2), Alma Kanani (Practice Manager, EEAG1), Mahesh Uttamchandani (Practice Manager, IDD05), Dandan Chen (Manager Operations, EACPF), Lars Christian Moller (Practice Manager, EEAM2), and Gonzalo Varela (Lead Economist, Program Leader, EEADR).

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Operation ID	Programmatic	If programmatic, position in series
P181127	Yes	2nd 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:	Department of Finance (DOF)		
Contact	Title	Telephone No.	Email
Mr. Ralph Recto	Secretary	62385239219	osec@dof.gov.ph
Mr. Joven Balbosa	Undersecretary	85234955	jbalbosa@dof.gov.ph
Ms. Donalyn Minimo	OIC Assistant Secretary	85234955	dminimo@dof.gov.ph
Implementing Agency:	Bangko Sentral ng Pilipinas (BSP), Bureau of the Treasury (BTr), Civil Aeronautics Board (CAB), Department of Budget and Management (DBM), Department of Information And Communications Technology (DICT), Department of Trade and Industry (DTI), National Economic and Development Authority (NEDA)		
Contact	Title	Telephone No.	Email
Mr. Eli Remolona	Governor	6388111277	governor@bsp.gov.ph
Ms. Bridget Rose Romero	Director	63288111277	RomeroBM@bsp.gov.ph
Ms. Sharon Almanza	National Treasurer	63286632287	spalmanza@treasury.gov.ph
Mr. Eduardo Marino	Deputy Treasurer	63286632287	egmarino@treasury.gov.ph
Ms. Maria Elben Moro	Deputy Executive Director	63288537259	oded@cab.gov.ph
Mr. Rhapsody Jose	Acting Board Secretary	63288537259	obs@cab.gov.ph
Ms. Amenah Pangandaman	Secretary	63286573300	osec@dbm.gov.ph
Ms. Francesca Del Rosario	Undersecretary	63286573300	mdelrosario@dbm.gov.ph
Mr. Ivan John Uy	Secretary	63289200101	osec@dict.gov.ph
Mr. Jeffrey Dy	Undersecretary	63289200101	jeffrey.dy@dict.gov.ph
Ms. Jocelle Batapa-Sigue	Undersecretary	63289200101	jocelle.sigue@dict.gov.ph
Mr. Paul Mercado	Undersecretary	63289200101	paul.mercado@dict.gov.ph
Mr. David Almirol	Undersecretary	63289200101	david.almirol@dict.gov.ph
Mr. Wilroy Ticzon	Assistant Secretary	63289200101	wilroy.ticzon@dict.gov.ph
Mr. Renato Paraiso	Assistant Secretary	63289200101	aboy.paraiso@dict.gov.ph
Ms. Maria Victoria Castro	Director	63289200101	maria victoria.castro@dict.gov.ph
Ms. Cristina Aldeguer-Roque	Secretary	63277913400	Secretary@dti.gov.ph
Ms. Rafaelita Aldaba	Undersecretary	63277913435	rafaelitaaldaba@dti.gov.ph
Ms. Mary Jean Pacheco	Undersecretary	63277913279	maryjeanpacheco@dti.gov.ph
Mr. Marcus Valdez	Director	63277913279	marcusvaldezii@dti.gov.ph
Mr. Arsenio Balisacan	Secretary	63286310945	osec@neda.gov.ph
Ms. Krystal Uy	Undersecretary	63286310945	ktuy@neda.gov.ph

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



**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

**SUMMARY**

<b>Total Financing</b>	<b>750.00</b>
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**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	750.00
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**PRACTICE AREA(S)**

**Practice Area (Lead)**

Finance, Competitiveness and Innovation

**Contributing Practice Areas**

Digital Development; Governance; Macroeconomics, Trade and Investment

**CLIMATE**

**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**OVERALL RISK RATING**

**Overall Risk** ● Moderate



<b>RESULTS</b>		
<b>Indicator Name</b>	<b>Baseline</b>	<b>Target</b>
Results Indicator #1: Percentage of households connected to fixed broadband services.*	25.6% (2022)	35.0% (2026)
Results Indicator #2: Cost of fixed broadband basket as a percentage of GNI per capita.	11.3% (2022)	8.5% (2026)
Results Indicator #3: Number of people using digitally enabled government services through a unified e-government portal or mobile application.**	0 (2022)	30M (2026)
Results Indicator #4: Share of government payments (by value) processed through IFMIS enabling gender budget tagging.	0 (2022)	35% (2026)
Results Indicators #5: Number of agencies using NARS.	0 (2022)	5 (2026)
Results Indicator #6: Fraud rates involving the use of digital financial services (basis points).	8.67bps (2023)	<=8.24bps (2026)
Result Indicator # 7: Volume of digital payments over total retail payment transactions (percent).	42.1% (2022)	56% (2026)
Result Indicator # 8: Number of e-commerce enterprises.	2.4M (2022)	3.5M (2026)
Results Indicator #9: Share of women-owned businesses that make online transactions (%).	2.9% (2022)	5.5% (2026)
Results Indicators #10: Employment in Creative Industries. ***	6.98M (2022)	7.82M (2026)
Results Indicators #11: 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)

\* Linked to corporate indicator on people using broadband internet.

\*\* Linked to corporate indicator on people using digitally-enabled services.

\*\*\* Linked to corporate indicator on new or better jobs.



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

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **This is the second and last operation of US\$750 million (EUR676.926 million) of a programmatic series of two Development Policy Loans (DPL) supporting inclusive and resilient economic growth through digital transformation.** 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 the digital transformation of government and digital infrastructure policies, (b) expanding financial inclusion through digital finance and (c) boosting business growth in digital services.

2. **The Philippines has achieved substantial economic progress in recent decades, marked by improvements in GDP per capita, reduced poverty rates, and fairer income distribution.** Between 1990 and 2022, real GDP per capita increased twofold, on par with the region's median. While the COVID-19 pandemic temporarily halted this growth in 2020, recovery has been observed. The most recent World Bank data confirms GNI per capita for the Philippines at US\$4,230 in 2023, up by 7.1 percent from US\$3,950 in 2022 and slightly below the Upper Middle-Income country threshold of US\$4,515. Despite these gains, the nation confronts numerous risks, including vulnerability to disasters and climate change, which could hinder development prospects. To increase growth and generate long-term employment opportunities, the Philippines must foster productivity growth, promote innovation, and navigate a complex political landscape that hinders the implementation of structural reforms.

3. **Digitalization brings economic opportunities to most countries, but it represents a particularly important strategy for the Philippines.** The digital economy reduces the need for physical proximity and costs of reaching customers, expanding market access for businesses and consumers. On average, a 10 percent increase in internet use in an exporting country increases the number of products traded between two countries by 0.4 percent<sup>1</sup>. The geographic and economic conditions in the Philippines make digital transformation even more urgent. Digital connectivity can help overcome the structural fragmentation of an archipelagic nation like the Philippines<sup>2</sup>. Digital identity, data-sharing platforms, dynamic social registries, and digital payments can effectively and efficiently assist communities living in remote areas affected by adverse shocks, such as those experienced during the COVID-19 pandemic. Finally, digitalizing government processes for disaster preparedness and response and extending emergency communication networks can help communities build resilience against climate-induced and other disasters<sup>3</sup>.

4. **While the accelerated use of digital technology in the Philippines has generated some dividends, the country has not fully exploited its potential benefits.** For one, the Philippines lags in digital connectivity. The country boasts 28 percent of households with fixed broadband penetration in 2023, lower than Viet Nam (79), Thailand (55), and Malaysia (54)<sup>4</sup>. The cost of fixed broadband has remained high, at 11.3 percent of GNI per capita in 2022<sup>5</sup>, making internet out of reach for lower-income households. As a result, the digital divide is significant and rapidly widening, with the richest quintile with access to broadband increasing from 43 percent to 60 percent, while the poorest quintile, from 2 to 5 and

<sup>1</sup> Lin, F. (2015). Furthermore, broadband infrastructure could trigger faster economic growth.

<sup>2</sup> World Bank's Logistics Performance Index (LPI) 2023 ranks the Philippines lower than Malaysia, Thailand and Viet Nam, while higher than Indonesia.

<sup>3</sup> The Philippines is ranked first globally by the World Risk Report on disaster risk, and fifth by the Global Climate Risk Index Report on climate-related losses.

<sup>4</sup> TeleGeography, 2023 Q4.

<sup>5</sup> Significantly higher compared with 2.5 in Malaysia, 2.6 in Viet Nam, 3.4 in Thailand and 6.1 in Indonesia (ITU).



the lower-middle quintile, from 4 to 11, between 2019 and 2022<sup>6</sup>. Second, government digitalization is slow and siloed. Despite the 83.9 million Filipinos (79 percent of the population aged 5 or older, June 2024) enrolled in PhilSys National ID, line departments are at infant stages in integrating digital ID and digital payment to service delivery, in the absence of inter-departmental coordination and data sharing for seamless experiences of citizens and businesses. Third, in the Philippines, access to digital financial services, which are key to financial inclusion, lags peers. Based on the World Bank's 2021 Global Findex report, only 51 percent of Filipino adults (aged 15+) have a transaction account with a financial institution. Fourth, the level of digital adoption is uneven across firms. Only 10 percent of MSMEs advanced in their digitalization. A gap exists between small and large firms in using sophisticated, back-end technologies. Finally, the dynamism of the digital ecosystem is lower in the Philippines than in comparator economies. The lower number of digital businesses and smaller median investment size (US\$0.5 million) received per digital business when compared to Viet Nam (US\$0.6 million), Indonesia (US\$1.3 million), and Thailand (US\$2.2 million) in 2020.

**5. The slow progress of digitalization is due to several factors, including weak market competition, slow change in institutions, lack of trust in digital payments and e-commerce, and insufficient incentives for innovation and upskilling.**

First, digital connectivity remains limited due to restrictions on market entry, resulting in anti-competitive pricing for interconnection and inefficient spectrum management. Second, the government's slow adoption of digital technologies has become evident in the delayed implementation of shared financial information systems. Compounding these challenges is the proliferation of incompatible ICT investments, which hinders seamless integration of IT systems. Third, as cybercrime is on the rise, the inability of financial institutions to trace transactions and the absence of cybersecurity standards have contributed to consumer mistrust in digital payment systems. Finally, financial dispute resolution systems for small merchants are also uncertain, deterring their participation in digital transactions.

**6. The second DPL (DPL2) operation furthers the enabling environment for digital transformation, complementing connectivity infrastructure investments.**

The operation supports foundational reforms to improve the environment for the private sector to deliver commercially viable infrastructure. It complements ongoing public investments addressing connectivity gaps in remote areas, including through the Philippines Digital Infrastructure Project (which was approved by the Board on October 10, 2024). Additionally, the reforms will enable the digitalization of core government functions and service delivery and will promote firm-level digitalization and growth of digitally enabled services. By supporting the Government of the Philippines in achieving a resilient, inclusive, and sustainable post-pandemic recovery through digital transformation, these reforms complement the Philippines DPL series on "Promoting Competitiveness and Enhancing Resilience to Natural Disasters," as well as the second Philippines Sustainable Recovery DPL. Furthermore, the digital finance pillar complements the reforms supported under the second Philippines financial sector reform DPL by expanding financial inclusion.

**7. The proposed program is underpinned by rigorous analytics, identifying binding constraints and selecting policy reform areas and specific legal instruments, building upon the DPL1 reforms.**

Extensive dialogue with the current and the previous administration, together with programmatic analytical advisory, has guided the Bank to the scope of the digital transformation DPL series. Identification of critical issues started with the Competitiveness and Resilience DPL series (2020-2022) and continued through the Sustainable Recovery DPL series. Insights collected through the Philippines Digital Economy Report (2020), Competitiveness Digital Regulatory Review (2022), and Digital Development Broadband Policy Note (2024) provided foundational knowledge to build the program and assisted the GOP in advocating for a set of critical

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<sup>6</sup> World Bank analysis based on the Philippines Statistical Authority, Annual Poverty Indicators Survey 2019 and 2022.



reforms comprising this Digital Transformation DPL series. Building upon the DPL1, connectivity reform is strengthened from the envisaged spectrum reform. Building upon earlier Reimbursable Advisory Service on public financial management (PFM) the implementation of the integrated financial management information system (IFMIS) benefited from continuous advisory support and handholding through ongoing PFM technical assistance. Moreover, on the digital financial services adoption, DPL2 builds on the reforms supported under DPL1 and continues to support financial inclusion deepening by promoting reforms that will enhance the safety and efficiency of, and increase the usage of digital financial services. On boosting growth for digital services, DPL2, through strengthening trust mechanisms and logistics networks supporting e-commerce, further enhances the enabling environment for e-commerce complementing the DPL1 reforms on promoting competition in digital markets to attract more firms to adopt digital platform.

## 2. MACROECONOMIC POLICY FRAMEWORK

8. **The macroeconomic policy framework is adequate for the proposed operation.** The growth outlook is positive, driven by robust domestic demand, a recovering services sector, and a public infrastructure investment agenda that will gain steam over the forecast horizon. The commitment to structural reforms will increase competitiveness and support growth. The financial sector remains stable, while asset quality continues to improve, even with the removal of most pandemic-related forbearance measures. The credibility of both monetary policy and fiscal policy remains strong. The *Bangko Sentral ng Pilipinas* (BSP) remains committed to its inflation-targeting objective and is 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 government's medium-term fiscal program provides the framework for a steadily declining fiscal deficit until 2028. A decline leads to fiscal consolidation in current expenditures, while additional revenues will be generated through tax policy and administration reforms. Results from simulations on the economy-wide impact of the government's fiscal consolidation strategy on growth show that the current consolidation strategy is composed of a mix of policy measures that minimize the impact of consolidation on growth. The credibility of the medium-term fiscal program is supported by the government's history of fiscal prudence, and a legislative pipeline that supports fiscal consolidation. Potential liabilities from the expansion of PPPs pose marginal risks to the country's fiscal position. They are managed by a contingency allocation in the budget, the realization of sellable asset value in the event of default, and the decreasing risk to projects in operation and those that are reaching completion within the portfolio.

### 2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Economic growth continued to strengthen, underpinned by strong domestic demand.** The economy sustained its growth momentum, expanding by an average of 6.0 percent year-on-year in the first half of 2024. Services remained the main growth engine as robust domestic demand fueled the growth of wholesale and retail trade, financial activities, and business services. The continuing recovery of tourism also drove the growth of services exports and benefitted tourism-adjacent industries. Industrial production likewise supported growth, boosted by public construction and a modest recovery in manufacturing and goods exports. On the demand side, a robust labor market, steady remittance inflows, and credit growth underpinned household consumption. However, household consumption growth has slowed due to waning pent-up demand and higher cost of living. Meanwhile, global economic uncertainties and higher-for-longer interest rates weighed on investment in durable equipment. The contribution of government consumption to economic activity improved due to better budget execution and preparations for the 2025 mid-term elections.

10. **Average inflation has returned to the central bank target range after peaking in 2023.** Headline inflation declined to 3.3 percent year-on-year in August 2024 (4.4 percent in July) due to lower non-food inflation and a slowdown in fuel prices. Rice price inflation remains above double digits but declined to 14.7 percent in August 2024, after growing by above



20 percent every month since August 2023. Nevertheless, the average inflation rate of 3.6 percent year-to-date has fallen within the 2–4 percent inflation target range as expected. Core inflation also eased to 2.6 percent in August (2.9 percent in July). On 16 October 2024, the BSP reduced its key policy rate by 25 bps to 6.0 percent, noting the within-target inflation outlook and well-anchored inflation expectations. In addition, the BSP expects domestic economic growth to continue to be strong, reflecting improved prospects for household income and consumption, investments, and government spending, which are supported by the start of the monetary easing cycle in August and the announced reduction in reserve requirements in October. The reserve requirement ratios will be adjusted by a range of 100-250 bps across different financial institutions and will take effect on 25 October 2024. These adjustments are in line with the BSP’s continuing efforts to reduce distortions in the financial system. Moreover, they are seen to lower intermediation costs and promote better pricing for financial services.

**11. The current account deficit narrowed to 1.6 percent of GDP in Q1 2024 (from 4.3 percent in Q1 2023), driven by the narrower trade deficit in goods and a significant increase in receipts in the primary and secondary income accounts.**

The trade deficit in goods narrowed largely due to improving global demand that led to nearly 20 percent growth in electronics exports, the country’s main export commodity. In addition, the contraction in capital goods imports and the easing of commodity prices also contributed. Meanwhile, inflows into the financial account increased due to a tripling of net-FDI inflows in Q1 2024 and as portfolio investments reversed to net inflows. Meanwhile, the Philippine peso weakened against the US dollar through the first seven months of 2024 amid the hawkish stance of the US Federal Reserve. Gross international reserves declined marginally to US\$104.7 billion in June 2024 from US\$105 billion in June 2023, standing now at the equivalent to 7.7 months of imports.

**12. Higher revenues offset the rise in public spending in H1 2024.**

The fiscal deficit increased marginally by 0.1 ppt to 4.9 percent of GDP in H1 2024 and remained below the full-year target of 5.6 percent of GDP. Public spending rose by 1 percent of GDP, driven by faster disbursement in current spending, including operations and maintenance and interest payments. Despite ongoing consolidation, disbursements for capital outlays increased by 0.3 percent of GDP to 5.6 percent in H1 2024. Meanwhile, public revenues rose by 0.9 percent of GDP as dividend remittances from government-owned and controlled corporations (GOCCs) increased. Non-tax revenues rose by 0.8 percent of GDP as the government hiked the GOCC dividend rate to 75 percent from 50 percent. Meanwhile, tax revenues increased by 0.1 ppt of GDP due to robust domestic demand and stricter tax administration.

**13. The financial sector, which consists mainly of banks, remained generally resilient, but exposure to non-financial corporates, especially in the commercial real estate sector, warrants close monitoring.**

The banking sector has adequate buffers to withstand potential adverse shocks, with a solo capital adequacy ratio of 16.3 percent as of March 2024 and provisions for non-performing loans (NPLs) at 95.4 percent as of June 2024. The system-wide NPLs ratio inched up to 3.5 percent in June 2024. Given relatively scant information on financial conglomerates and vulnerabilities in the real estate sector, linkages between the financial sector and non-financial corporates, especially in real estate, warrant close monitoring. About half of consumer NPLs are concentrated in the residential real estate sector, while industry data indicate vacancies in the office sector remain elevated compared to their pre-pandemic average. Meanwhile, the expansion of total outstanding loans was tempered by elevated interest rates, primarily affecting loan growth for production activities.

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

**14. The growth outlook remains positive, averaging 6.0 percent in 2024-27, anchored on robust domestic demand, more accommodative monetary policy, and an improving external environment.**

The medium-term outlook will be driven by robust private consumption, supported by declining inflation, a healthy labor market, and steady remittance



inflows. Private investment will improve on the back of reforms in key sectors such as transportation, logistics, and telecommunication. Moreover, declining real interest rates will support growth in private domestic demand. Expenditure consolidation led by a steady decline in current expenditure over the forecast horizon is expected to weigh on government consumption growth. Despite consolidation, public investment will remain above 5 percent of GDP over the forecast horizon. The normalization in goods trade patterns, the gradual global growth recovery will support goods and services export activity. While the growth outlook is slightly higher than potential growth of 5.7 percent, it remains below the pre-pandemic potential growth of around 6.2 percent due to the scarring impact of COVID-19 on investments, human capital accumulation, and productivity.

Table 1: Key Economic Indicators

	2021	2022	2023	2024	2025	2026	2027
	Actual			Projected			
	<i>In percent of GDP, unless otherwise stated.</i>						
<b>Growth and inflation</b>							
Gross domestic product (percent change)	5.7	7.6	5.5	6.0	6.1	6.0	5.9
Inflation (period average)	3.9	5.8	6.0	3.6	3.2	3.0	3.0
<b>Public sector</b>							
National government balance	-8.6	-7.3	-6.2	-5.6	-5.2	-4.6	-4.1
Total revenue (government definition)	15.5	16.1	15.7	16.0	16.0	16.2	16.2
Total spending (government definition)	24.1	23.4	21.9	21.6	21.2	20.8	20.3
National government debt	60.4	60.9	60.1	59.5	59.2	58.7	58.3
<b>Balance of payments</b>							
Total exports (goods and services)	22.3	24.5	23.7	24.1	24.4	24.6	24.7
Total imports (goods and services)	32.1	37.8	34.4	34.4	34.8	34.9	34.9
Remittances	8.9	8.9	8.5	8.5	8.6	8.6	8.7
Current account balance	-1.5	-4.5	-2.6	-1.8	-1.4	-1.2	-1.0
Foreign direct investment	3.0	2.3	2.0	2.0	1.8	1.8	1.7
Portfolio investment	-2.6	0.3	-0.2	0.3	0.2	0.2	0.2
<b>International reserves and foreign exchange</b>							
Gross official reserves (months of imports)	9.7	7.2	7.8				
US dollar (average)	49.3	54.5	55.6				

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

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

15. **Headline inflation will decline over the medium term, facilitating a more accommodative monetary policy stance from the BSP.** Headline inflation will average 3.2 percent between 2024-2027. Low and stable headline inflation will be supported by lower global commodity prices over the forecast horizon, currency appreciation. This, in turn, will allow the BSP to continue reducing the key policy rate from its record-high levels since 2023. Over the medium term, commodity prices are expected to stabilize, as global growth, trade, and industrial activity strengthen. Meanwhile, the BSP is expected to maintain its market-determined exchange rate policy. The BSP stands ready to intervene to maintain stability and manage extreme volatility given its ample foreign reserve buffer.

16. **The financial sector outlook remains broadly favorable.** The financial sector is expected to remain stable, given its limited exposure to financial and banking sector stress abroad. Asset quality is expected to improve, even with the removal of pandemic-related forbearance measures as the BSP stepped up its commitment to enhancing the monitoring of financial system risks. The BSP recently launched its enhanced Systemic Risk Review which incorporates advanced methodologies and analytics to better identify and address potential vulnerabilities. The enhanced SRR will allow the BSP to identify isolated risks, interconnected threats (contagion channels) and those posed by large financial groups (conglomerate risks).



17. **The current account deficit will narrow over the forecast horizon due to the recovery in services exports, steady remittance inflows, and lower global commodity prices.** External demand for merchandise exports is expected to strengthen over the medium term as global growth and trade activity improve over the forecast horizon. Meanwhile, the continued recovery in tourism demand and the resilience of the IT-BPO industry will strengthen services exports growth. While import growth is expected to increase over the forecast horizon due to domestic demand, the decline in global commodity prices will contribute to a narrower trade deficit. In addition, steady remittance inflows will support the narrower current account deficit. Between 2024-2027, the current account deficit is expected to be financed primarily by net FDI inflows, general government borrowing, and net portfolio inflows.

Table 2: Philippines External Financing and Sources (2020 – 2027)

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual				Projections			
	<i>In billion US\$</i>							
<b>Financing requirement</b>	<b>-7.9</b>	<b>6.4</b>	<b>22.2</b>	<b>13.1</b>	<b>12.5</b>	<b>12.4</b>	<b>11.8</b>	<b>11.6</b>
Current account deficit	-11.6	5.9	18.3	11.2	10.8	10.7	10.5	10.5
General government amortization	1.2	1.2	1.0	1.3	1.7	1.7	1.3	1.2
Net Errors and Omissions	2.5	-0.8	2.9	0.6	0.0	0.0	0.0	0.0
<b>Financing sources</b>	<b>-7.9</b>	<b>6.4</b>	<b>22.2</b>	<b>13.1</b>	<b>12.5</b>	<b>12.4</b>	<b>11.8</b>	<b>11.6</b>
Net FDI	6.8	12.0	9.5	8.9	9.6	10.0	10.7	11.0
Net Portfolio Investments	1.7	-10.2	1.7	-0.9	1.4	1.0	1.0	1.1
Net All Other Flows	-8.9	0.3	-1.0	2.8	-3.3	-3.5	-4.2	-4.8
Gross general government borrowing	8.5	5.6	4.8	6.1	5.0	5.1	5.1	5.2
Change in reserve assets	-16.0	-1.3	7.2	-3.7	-0.2	-0.1	-0.8	-0.9

Note: Net All Other Flows includes private borrowing, derivatives, capital account, and currencies and deposits

Source: GoP for actual data and World Bank for projections.

18. **The pace of public spending is expected to slow to support fiscal consolidation.** The fiscal deficit is projected to gradually decline from 5.6 percent of GDP in 2024 to 4.1 percent of GDP by 2027. The outlook on the fiscal balance reflects recent adjustments to the country’s Medium-Term Fiscal Framework (MTFF), which raised the deficit target to 3.7 percent of GDP by 2028 from 3.0 percent of GDP. Expenditure consolidation will be led by reductions in recurrent spending. The reduction will be driven by the government’s rightsizing program, Military and Uniformed Personnel pension system reforms, and increased devolution. In addition, several reforms are currently in the legislative and implementation pipeline that will help improve the efficiency of public spending. These include the recently signed New Government Procurement Reform Act and the Budget Modernization Bill. Capital outlays will remain above 5 percent of GDP, as the government remains committed to increasing public investments. The GOP will complement public infrastructure spending with more Public Private Partnerships (PPPs). There are currently 164 PPP projects in the pipeline, worth PHP 3.2 trillion (13 percent of GDP), 27 of which are approved in the first half of 2024.

19. **Public spending consolidation will be complemented by additional revenue collection efforts.** In 2024, the adjustment in excise taxes from previous legislation and efforts to improve tax collection through improved tax administration reforms will lead to a modest increase in tax revenues. In addition, the government will benefit from increasing non-tax revenue collections through an increase in mandatory dividend remittances from 50 to 75 percent. Furthermore, the expected approval of several priority tax measures<sup>7</sup> would lead to an increase in tax collections by about 0.2 percent of GDP over the medium term. The VAT on foreign digital service providers is expected to take effect as early

<sup>7</sup> These include the following: i) Value Added Tax on Digital Service Providers; ii) excise tax on single use plastics; iii) reform on the motor vehicle users charge; iv) rationalization of the mining fiscal regime; and v) the simplification of the tax structure for passive income, and on certain financial instruments.



as Q1 2025. In addition, efforts to improve the efficiency of tax administration through modernization are expected to help strengthen domestic resource mobilization.

20. **The combination of fiscal consolidation and robust growth will keep debt levels sustainable.** The debt trajectory is expected to continue its decline over the forecast horizon from 60.1 percent of GDP in 2023 to 58.3 percent of GDP by 2027, though still well above the pre-pandemic level. The recent reform to expand the use of PPPs for infrastructure investment is not expected to increase risks to the fiscal position. Although the PPP pipeline is expected to expand over the medium term, potential contingent liabilities are expected to remain manageable, amounting to an estimate of 1.0-1.3 percent of GDP under a low and high case scenario. Moreover, the contingency allocation in the budget is ample. In 2023 for example, it amounted to 3.7 percent of GDP. The debt composition is expected to remain favorable, in line with the government’s debt management strategy. Nearly 70 percent of the public debt stock is in domestic currency, with nearly 80 percent considered long-term and 90 percent of public debt under fixed interest rates. Moreover, debt dynamics will remain resilient against shocks. In the worst-case scenario of combined macro-fiscal shock, the debt ratio would peak at 66.2 percent of GDP in 2026. A climate shock similar to Typhoon Haiyan would increase the primary deficit by 2 percent of GDP and lower GDP growth by 0.5 percent, leading to an increase in debt-to-GDP ratio to 61.5 percent of GDP in 2025, 2.2 percent of GDP above the baseline.

Table 3: Key Fiscal Indicators

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual				Projected			
	<i>In percent of GDP, unless otherwise stated.</i>							
<b>Overall Balance</b>	-7.6	-8.6	-7.3	-6.2	-5.6	-5.2	-4.6	-4.1
Primary Balance	-5.5	-6.4	-5.0	-3.6	-3.0	-2.2	-1.7	-1.2
<b>Total Revenues (and grants)</b>	<b>15.9</b>	<b>15.5</b>	<b>16.1</b>	<b>15.7</b>	<b>16.0</b>	<b>16.0</b>	<b>16.2</b>	<b>16.2</b>
<b>Tax Revenues</b>	<b>14.0</b>	<b>14.1</b>	<b>14.6</b>	<b>14.1</b>	<b>14.3</b>	<b>14.4</b>	<b>14.6</b>	<b>14.6</b>
Taxes on net income and profits	5.8	5.5	5.7	5.8	5.8	5.8	5.8	5.9
Taxes on Domestic Goods and Services	4.2	4.3	4.1	3.7	4.0	4.1	4.2	4.1
General Sales, Turnover, or VAT	1.9	2.0	2.2	2.0	2.1	2.1	2.2	2.2
Selected Excises on Goods	1.6	1.6	1.4	1.2	1.3	1.4	1.4	1.4
Selected Taxes on Services	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Other Domestic Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on International Trade and Transactions	3.0	3.3	3.9	3.6	3.6	3.6	3.7	3.7
Other Taxes	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Non-tax revenue (including grants)	2.0	1.4	1.5	1.6	1.7	1.6	1.6	1.6
<b>Total Expenditures</b>	<b>23.5</b>	<b>24.1</b>	<b>23.4</b>	<b>21.9</b>	<b>21.6</b>	<b>21.2</b>	<b>20.8</b>	<b>20.3</b>
Current operating expenditures	18.5	18.0	17.4	16.0	16.0	15.8	15.2	14.7
Personnel Services	6.6	6.6	6.3	5.9	5.8	5.5	5.3	5.0
Maintenance and other operating expenditures	4.9	4.5	4.0	3.8	3.8	3.6	3.3	3.0
Subsidy	1.3	1.0	0.9	0.7	0.7	0.6	0.6	0.6
Allotment to Local Government Units	3.5	3.5	3.8	2.9	3.0	3.0	3.1	3.1
Interest Payments	2.1	2.2	2.3	2.6	2.5	3.0	2.9	2.9
Tax Expenditures	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Capital Outlays	4.9	6.0	5.9	5.8	5.6	5.4	5.6	5.7
Infrastructure & other capital outlay	3.8	4.6	4.6	5.0	4.8	4.6	4.7	4.8
Equity	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Capital transfer to local government units	1.0	1.1	1.2	0.9	0.8	0.8	0.9	0.9
Net Lending	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
<b>National Government Debt</b>	<b>54.6</b>	<b>60.4</b>	<b>60.9</b>	<b>60.1</b>	<b>59.5</b>	<b>59.2</b>	<b>58.7</b>	<b>58.3</b>

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

21. **Risks to the outlook remain tilted to the downside.** On the domestic front, food security may be challenged given persistent weakness in agriculture output, especially in the presence of a stronger-than-expected episode of La Niña. Future energy and food shocks caused by protracted geopolitical conflicts, additional trade restrictions, and extreme



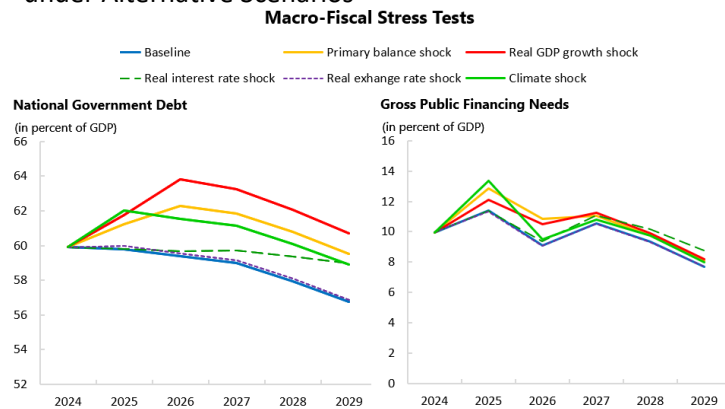
weather events continue to be key downside risks. These could lead to persistently high inflation, which would erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. While the government is on track to meet its fiscal consolidation targets, the risk of delayed passage of key legislation on both revenue and expenditure presents risks to fiscal sustainability. An inability to meet revenue targets could lead to further reductions in government spending, which could lower growth. It could also lead to an increase in borrowing which could crowd out the private sector and weigh on fiscal sustainability. The possibility of higher-than-expected global inflation and a further growth slowdown in China could cause a sharper-than-expected global growth slowdown.

Table 4. External Debt Composition (end-March 2023)

	Percent of GDP
<b>Total External Debt</b>	<b>30.1</b>
Monetary Authorities	0.9
General Government	16.4
Banks	5.0
Other Sectors	6.9
of which intercompany lending	0.9
Long term	25.3
Short term	4.7

Source: BSP, PSA

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



Source: World Bank staff calculations.

Table 5: Public and Publicly Guaranteed Debt Stock and Debt Service

	Debt Stock (end of period)			Debt Service					
	2023		Percent of GDP	2023	2024	2025	2023	2024	2025
	In million US\$	Percent to Total		In million US\$			Percent of GDP		
<b>Total PPG Debt</b>	269,327.2	100.0	61.5						
<b>Total Outstanding Debt</b>	263,038.6	97.7	60.1	28,266	35,870	36,298	6.5	7.6	7.0
<b>Domestic Debt</b>	180,285.6	66.9	41.2	23,214	27,753	28,568	5.3	5.9	5.5
Treasury Bills	9,536.1	3.5	2.2	309	596	658	0.1	0.1	0.1
Treasury Bonds	171,016.6	63.5	39.1	22,855	27,108	27,866	5.2	5.7	5.4
Others	2.8	0.0	0.0	49	49	44	0.0	0.0	0.0
<b>External Debt</b>	82,753.0	30.7	18.9	5,646	8,117	7,731	1.3	1.7	1.5
Multilateral Creditors	28,890	10.7	6.6	2,453	3,073	2,894	0.6	0.7	0.6
Bilateral Creditors	9,254	3.4	2.1	374	374	453	0.1	0.1	0.1
Commercial Creditors	44,832	16.6	10.2	2,818	4,670	4,384	0.6	1.0	0.9

### 3. GOVERNMENT PROGRAM

22. The GoP remains committed to achieving the medium-term development objectives outlined in the Philippine Development Plan (PDP) 2023-28. The PDP's strategic framework is guided by AmBisyon Natin 2040, the long-term development aspirations of the country, and organized according to three objectives a) foster an enabling environment encompassing institutions, the physical and natural environment; b) transform production sectors to generate more quality jobs and produce competitive products; and c) develop and protect capabilities of individuals and families.



Underlying these priorities is a commitment to undertake several transformations supported under this DPL program: enhanced connectivity, digitalization, servicification, dynamic innovation ecosystem, and private sector partnerships.

23. **Digital transformation is integral to the country’s medium-term Philippine Development Plan (PDP) 2023-2028, and the government has implemented a comprehensive set of policies and strategies to facilitate this transformation.** First and foremost, a combination of public investments and legislative and regulatory reforms is expected to improve access to internet, by mobilizing private capital and expertise and modernizing digital connectivity infrastructure. Second, through a whole-of-government approach, the government will accelerate the digitalization of its operations, resulting in efficient and faster service delivery, more transparency, and fewer opportunities for corruption at various levels. Third, the government’s policy framework continues to support financial inclusion, digitalization, and innovation with a focus on securing the digitalization of payments and increasing the number of Filipinos with access to financial service<sup>8</sup>. The government is enhancing its support for MSMEs’ adoption of digitalization, innovative technology, and automation, and creating a policy environment that fosters confidence and competition in digital markets<sup>9</sup>. Finally, the government is increasing investments and partnerships in skills development to prepare for digital and economic transformations in key industries.

## 4. PROPOSED OPERATION

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

24. **The reforms supported by the proposed DPL series are well aligned with the PDP 2023–2028.** The reforms under the DPL series will contribute to the priorities under the PDP to (i) expand and upgrade infrastructure, practice good governance, promote competition, and improve regulatory and bureaucratic efficiency, (ii) ensure macroeconomic stability and expand inclusive and innovative finance to increase income-earning ability, and (iii) revitalize industry and reinvigorate services by advancing research and development, technology, and innovation, and promoting trade and investments.

25. **This DPL program is aligned with the goals of the Paris Agreement and is expected to strengthen resilience to natural disasters and climate change and reduce emissions.** The reform program, while not directly captured in the Philippines NDCs (submitted 2021) and National Climate Change Action Plan (2011-2018), will not hinder the achievement of the country’s climate goals and commitment. The reform program builds on the Philippines Country Climate and Development Report (CCDR), which emphasizes the intertwined objectives of green, resilient, and inclusive development and the importance of the digital economy in achieving this set of goals. On mitigation, prior actions (PAs) 1, 2, 3, 4, 5, 6, and 7 are not likely to cause a significant increase in GHG emissions. While PA8 could spur greater investment in air transportation services and cause an increase in GHG emissions, it is not likely to introduce or reinforce a persistent barrier to transition to the Philippines’ low-GHG emissions development pathways. On adaptation and resilience, risks from climate hazards are not likely to hurt any of the PAs’ contributions to the PDO. Therefore, all prior actions (PAs) are aligned with the mitigation and adaptation and resilience goals. A detailed review of the prior actions is presented in Annex 5.

26. **Reforms will also support narrowing the gender gap in digital services.** Accelerating digitalization of government financial information systems will improve compliance with mandated spending for gender and development programs, while strengthened consumer and supplier protections in e-commerce will lower the barriers to adopting e-commerce

<sup>8</sup> As stated in the Bangko Sentral ng Pilipinas’s (BSP) Digital Payments Transformation Roadmap.

<sup>9</sup> The E-commerce Philippines Roadmap espouses to grow e-commerce in the country and to propel the country into becoming a technology leader in the region.



platforms for women-led MSMEs. First, digitalizing government financial information through PA2 will increase transparency and accountability of mandated government expenditures for gender and development programs. The landmark Magna Carta of Women (Republic Act 9710) mandated that all government agencies allocate a minimum of 5 percent of their annual budgets for gender programs, projects, and activities. The lack of an integrated government financial information system led to weak enforcement of that mandate. Second, enhanced trust systems in digital markets through PA7 will be crucial to increasing confidence among women-owned enterprises to participate in digital markets. Micro, small and medium-sized enterprises (MSMEs), often women-led, may struggle to establish trust in a crowded marketplace dominated by larger players. Given the size of their enterprises and limited network, women entrepreneurs often face greater risk aversion. Without robust trust mechanisms such as consumer and supplier protection policies, they may hesitate to engage in e-commerce due to fears of financial loss or fraud. By enhancing credibility, resolving disputes effectively, and promoting ethical standards, these initiatives help level the playing field, reduce barriers to entry, and encourage more women to succeed and thrive in e-commerce.

**27. This operation supports Maximizing Finance for Development (MFD)-enabling reforms and Private Capital Enabling (PCE) reforms.** By removing prominent features of the legislative franchise requirement and promoting tower and connectivity infrastructure sharing, PA1 removes barriers to entry for network operators. This reform will, in turn, facilitate private investments in broadband, which will result in additional households connected to fixed broadband services (RI 1) due to increased private investments. PA5 and PA6 improve the regulatory environment for digital payments, increasing the attractiveness of private investments for fintech companies and non-bank financial operators in digital payment solutions and boosting the volume of digital payments (RI 7). By removing foreign equity restrictions and protecting small-scale e-merchants, PA7 and PA8 enhance the e-commerce ecosystem by enabling more firms to access digital platforms and logistics networks, leading to increased private investments in e-commerce and in the number of e-commerce enterprises (RI 8).

**28. The DPL series builds on the experience of effective cooperation and previous operations in the Philippines and the region.** A key challenge that has been repeatedly raised is the capacity to implement the reforms. For this reason, this proposed DPL has been supported by strong technical assistance and advisory services to maintain the pace and quality of the reform program's provisions. These include policy examples from regional and international contexts, upstream policy dialogue to identify and manage risks, and advocacy when needed to overcome resistance related to the political economy of specific reforms. The series has used a set of multidisciplinary expertise to address challenges under each pillar from a comprehensive perspective.

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

***Pillar A: Improve Access to Digital Connectivity and Digital Government Service Delivery.***

*Promote competition and investment for better access and lower cost of broadband services.*



29. **Prior Action 1.** To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks<sup>10</sup>.

30. **Rationale for PA#1:** The outdated legal frameworks have stifled competition and investment in broadband infrastructure, resulting in low access, high internet costs, and a rapidly widening digital divide. Investment in telecom infrastructure as a percent of GDP declined from 0.64 in 2018 to 0.41 in 2023<sup>11</sup>. Barriers to entry and investment, such as the legislative franchise requirement<sup>12</sup>, have led to one of the region's most concentrated, most profitable, and least invested broadband markets. The *Konektadong Pinoy Act*<sup>13</sup> (formerly the Open Access in Data Transmission Act), featured in the Legislative Executive Development Advisory Council (LEDAC) Common Legislative Agenda in 2023, and pending in the Senate<sup>13</sup>, addresses these constraints. The Bank continues to provide technical assistance through the National Economic and Development Authority (NEDA) and has raised the policy dialogue with a Policy Note<sup>14</sup> and through key forums.

31. **Substance of PA#1:** The *Konektadong Pinoy Act* will lower barriers to entry and investment, level the playing field, promote competition and lower the cost of internet. The *Konektadong Pinoy Act* will remove prominent legislative franchise requirements for middle-/last-mile broadband infrastructure deployment, introduce regulations to prevent anti-competitive pricing of wholesale bandwidth, and lower investment costs by improving coordination among government departments and the private sector for shared infrastructure deployment. The Act will also increase transparency and flexibility in spectrum assignment and management, thereby enhancing competition in wireless services, enabling rural coverage expansion such as through community wireless networks<sup>15</sup>, and potentially increasing fiscal revenue from spectrum<sup>16</sup>. It will positively impact climate change adaptation and mitigation by enhancing network resilience, expanding access to digital tools such as Early Warning Systems, and reducing carbon emissions by optimizing new tower construction and power consumption.

32. **Expected Results:** The reforms will reduce costs and improve access and quality of the internet. This will be measured by the cost of fixed broadband basket as percentage of GNI per capita, to decline from 11.3 percent in 2022 to 8.5 percent in 2026; and percentage of households connected to fixed broadband, to increase from 25.6 percent in 2022 to 35 percent by 2026<sup>17</sup>. Improvement in the indicator on expanded access will largely come from enabling private capital.

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<sup>10</sup> As evidenced by House Bill No. 6 approved on December 12, 2022, and Senate Bill No. 2699 dated May 22, 2024.

<sup>11</sup> Gross Domestic Capital Formation in Durable Equipment: Telecommunications and sound equipment, National Accounts of the Philippines.

<sup>12</sup> Republic Act No. 7925 requires a network operator to secure a legislative franchise, which entails Congress passing a law, before obtaining a license from the National Telecommunications Commission (NTC). The requirement, which is unique to the Philippines, is a major barrier to market entry.

<sup>13</sup> PA1, through NEDA's submission of its inputs to the Senate Science and Technology Committee, has been captured in Senate Committee Report No. 262, which recommended substitution/consolidation of the various pending bills on Open Access in Data Transmission into Senate Bill No. 2699.

<sup>14</sup> "Better Internet for All Filipinos" (<https://openknowledge.worldbank.org/handle/10986/40924>) analyzes inter-related regulatory constraints in detail.

<sup>15</sup> Empirical evidence shows significant welfare impact of randomly assigned community cellular networks in unconnected areas (Barela et al. 2023).

<sup>16</sup> Spectrum revenue has been significantly lower in the Philippines than regional peers.

<sup>17</sup> Baseline updated from PDP 2023-28 (with 17.7 percent in 2019) to 25.6 percent from the PSA's APIS 2022.



*Promote efficient government operation and inclusive service delivery through digitalization.*

33. **Prior Action 2.** To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted the medium-term ICT planning and budgeting initiative (MITHI) with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a joint Memorandum Circular <sup>18</sup>.

34. **Rationale for PA#2:** A stronger Whole of Government (WOG) approach will boost service delivery by transitioning from the Government's current manual and fragmented system to an automated and fully integrated one. The Philippines lags regional peers in the Gov Tech Maturity Index (GTMI) score for the WOG approach to digital transformation<sup>19</sup>. This PA aims to address one of the key impediments to GOP's digital transformation- the continued proliferation of siloed systems and uncoordinated digitalization initiatives across the government. DICT, DBM, and NEDA partnered to advance the WOG approach to advance digitalization by leveraging their formal roles in MITHI. One of the important reforms that is benefiting from this harmonization effort is the rollout of the IFMIS throughout government agencies.

35. **Substance of PA#2:** The second prior action supports the government's reforms outlined in the Joint Memorandum Circular (JMC) for Medium-Term Information and Communications Technology Harmonization Initiative (MITHI), which focuses on planning, budgeting, operation, and maintenance of a digital government framework. The GOP initially intended to address the gap in the WOG approach through the 2022 priority bill on the E-Governance Act, which is currently stalled in Congress deliberations due to opposition to governance arrangements of the Philippine Infostructure Management Corporation (a proposed GOCC to manage the digital transformation). As an alternative solution to the problem, this DPL2 supports the Government's JMC to resume MITHI, which prioritizes the WOG digitalization approach and applies interoperability requirements, data exchange, and centralized data hosting (data center and cloud). Harmonizing information systems will enable government systems adoption by its agencies and citizens. Learning from experience, DICT will strengthen coordination with reform stakeholders through formal collaboration at the level of chief information officers from respective agencies, allowing for the streamlining of information systems strategic plans (ISSP) and their alignment with the e-Government Masterplan. The General Appropriations Act (GAA) mandates that budget allocations in support of ICT systems are done in compliance with ISSPs. The guidelines for Information and Communications Technology (ICT) procurement are already in preparation as part of MITHI implementation and in collaboration with the Government Procurement Policy Board (GPPB). Streamlined delivery of online public services will increase transparency and reduce processing timelines, expenses, and the government's environmental footprint<sup>20</sup> (indicatively, over 150 million man-hours in commute, US\$ 175 million worth of fuel, and 365,000 tons of CO2 emissions).

36. **The harmonization of electronic government systems will accelerate the roll-out of IFMIS, supported in the first DPL of the series, contributing to the increase in digital transactions by the government and citizens.** The Philippines is one of the few countries in the region without a fully functioning IFMIS. The Philippines introduced the Budget and Treasury Management Systems (BTMS) – selected core modules of an IFMIS in 2018, aiming for full implementation in a decade. However, its use was suspended during the previous government in 2021 to introduce changes that were better suited to Philippines transaction processing practices. The current administration is moving to resume system

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<sup>18</sup> As evidenced by DBM-DICT-NEDA Joint Memorandum Circular No. 2024-01 (s. 2024) dated November 22, 2023 and published on May 29, 2024 in the Philippine Star.

<sup>19</sup> In 2022, the Philippines is ranked 89 out of 190 economies, and 6 in ASEAN.

<sup>20</sup> Rough estimates based on the frequency of public office visits according to the Philippines Annual Poverty Indicators Survey, 2020.



improvements towards a fully integrated IFMIS. The full implementation of an IFMIS will enhance the efficiency of government service delivery through improved fiscal management, efficiency of budget allocation, and increased accountability. In DPL1, Executive Order No. 29, 2023 (PA 1, DPL 1<sup>st</sup> of the series) mandated the IFMIS rollout to all departments, national agencies, and government-owned and controlled corporations (GOCCs). The indicative trigger for DPL2 intended to introduce incentives to adopt IFMIS through the existing framework for agency performance management and bonus allocation. However, this framework was suspended for comprehensive revisions through Executive Order No. 61, 2024, calling for an alternative entry point to incentivize the IFMIS roll-out, to the original indicative trigger. In this operation, the use of IFMIS will be accelerated through the harmonization initiative supported by MITHI, that prevents financing non-integrated, agency-specific systems. MITHI also supports the implementation of IFMIS through 'Program Convergence Budgeting' (PCB) for ICT systems for public financial management. The participating agencies for the DBM-led PCB initially involves the pilot NGAs scheduled to receive the IFMIS by the end of 2024. Altogether, this helps avoid the spread of incompatible ICT systems, essential for ensuring that budget and financial management systems can work together seamlessly.

37. **The proposed reforms will facilitate strategic planning and oversight of government strategic priorities that redress development challenges, including gender disparity.** IFMIS will allow improved monitoring and tracking of budget allocations, such as the mandated 5 percent of the agency budget for gender and development (GAD) programs. Currently, government agencies' annual GAD plans and budgets and GAD accomplishment reports are largely handled manually, with the latest report still covering FY2021, leading to poor implementation of and low compliance with the gender and development spending mandate.<sup>21</sup> The rollout of IFMIS will equip the government with tools for seamless tagging and tracking specific priority expenditures (gender, nutrition, climate, and disaster risk) throughout the budget cycle. Thus, it will improve strategic planning and inform the delivery of relevant government services and up-to-date monitoring and evaluation of key programs, activities, and projects, *i.e.*, GAD. The World Bank team has provided technical assistance to the Department of Budget and Management (DBM) on the operationalization of IFMIS and related reforms.

38. **Expected results:** The strategic streamlining of digitalization initiatives will increase public appeal and use of online government services. When accessing services through the unified channel (including the mobile app introduced at the end of 2022), users will no longer need to deal separately with multiple agencies as the processes will be integrated at the back end of the platforms. This result will be measured by the number of people using digitally enabled government services through a unified e-government portal or mobile application. The target is equal to or greater than 30 million users (around 25 percent of the population) by December 2026 from a zero base in 2022. In addition, the proposed reforms will increase public financial management efficiency and accelerate decision-making using modern technology in core government operations, with the initial rollout of IFMIS to key agencies with large spending volumes. This will be measured by the share of the value of government payments processed through IFMIS to be equal to or greater than 35 percent by the end of December 2026 (about 7.7 percent of GDP). With gender budget tagging enabled, the share of these government payments processed due to the implementation of mandated GAD programs will be made more visible. This will allow improved monitoring of government agencies' compliance with the 5 percent mandate for GAD programs.

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<sup>21</sup> Philippine Commission on Women, 2021 GAD Report Budget



*Promote resilience of public service delivery to climate-related shocks through digitalization of public asset information.*

39. **Prior Action 3.** To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the Treasury Circular <sup>22</sup>.

40. **Rationale for PA#3:** The National Asset Registry System (NARS) is a critical source of public asset data for the financial resilience of the Philippines against increasingly frequent and severe climate shocks. The World Bank 2020 Public Expenditure Review estimated that the government spent an average of 4.32 percent of its total expenditure on disaster response and rehabilitation, with the majority spent on ex-post reconstruction of public assets. NARS provides the government with an inventory of critical physical assets and analytics for disaster risk finance and asset management; on its basis, in 2024, the government placed a US\$14 billion National Indemnity Insurance Program to protect critical assets against typhoons and other risks. The government is a custodian of public assets and is responsible for efficient asset management and sustained delivery of public services, including after climate-related disasters. Housed under the Bureau of the Treasury, the NARS has registered over 350,000 public assets, worth PHP 2.0 trillion (US\$ 36 billion) as of February 2024. The NARS needs strengthening to maximize its sustainability, facilitate data exchange, and use for analytics.

41. **Substance of PA#3:** DPL2 supports the government's efforts to strengthen NARS by adopting a framework that mandates all government agencies submitting asset data to the NARS to follow a set of rules and processes of its use, objectives, roles of stakeholders, data exchange and analytics. This is critical especially given the ongoing expansion of the digital mapping of public asset data to NARS to all government agencies supported under the DPL1. This reform also expands the rollout of the Philippine Government Asset Management Policy (PGAMP) developed by the Development Budget Coordination Committee Technical Working Group on Asset Management (DBCC TWG-AM). The reform consists of a circular issued by the Bureau of the Treasury formalizing rules and processes of the NARS in a Governance Framework, developed in consultations with DBCC TWG-AM and line agencies currently submitting data to the NARS. The Governance Framework is a set of rules that govern submission to and use of public asset data in the Philippines national public asset registry, covering roles and responsibilities of stakeholders, and setting out scope/objectives for the registry and analytics it produces.

42. **Expected results:** The reform will contribute to enhanced asset resilience and data-driven financial decision-making by the government based on geo-referenced data and analytics. This will be measured by the number of agencies digitally connected to and utilizing NARS web-based portal, with an aim to have at least five (5) agencies (out of twenty-two) by December 2026. These will be national-level agencies that own a substantial number or value of assets that are critical for disaster response and reconstruction<sup>23</sup>.

***Pillar B: Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services.***

*Promote easy, affordable, and secure access to digital financial services for individuals and businesses.*

<sup>22</sup> As evidenced by the BTr Treasury Circular No. 1-2024 dated March 27, 2024.

<sup>23</sup> Criticality of agencies will be determined by looking if these agencies own assets that are regularly impacted by disasters (schools, hospitals, roads and bridges, social welfare centers), or whose impacts can be detrimental (e.g., airports) and who are regularly allocated funds for disaster response and reconstruction .



43. **Prior Action 4.** To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (Republic Act No. 12010).<sup>24</sup>

44. **Rationale of PA#4.** This reform supports promoting secure access to digital financial services for individuals and businesses by protecting bank and e-wallet accounts against cybercrimes. According to the BSP, cyber fraud and attacks continue to evolve in the financial services industry and remain an area of concern especially in line with the digital acceleration in recent years. Based on the cyberthreat reports submitted by BSP Supervised Financial Institutions (BSFIs), 51.5 percent of the cyber fraud losses in 2023 emanate from account takeover, identity theft and phishing. This represents a 165 percent jump from 2022 cyber fraud losses indicating cyberthreat actors' propensity to target human vulnerabilities in perpetrating cyber schemes. Based on NSFI 2022-2028, the pandemic has brought wide public concerns about the prevalence of online fraud and the lack of cybersecurity, especially in the context of increased adoption of digital payments and digital transactions. This indicates that the high prevalence of cybercrime is likely affecting the willingness of individuals and businesses to engage in digital financial transactions. Combating cybercrime related to financial account scamming plays a significant role in the digital financial ecosystem and fostering trust in online financial transactions. Individuals and businesses are more inclined to utilize digital financial services if they are protected from financial fraud.

45. **Substance of PA#4.** DPL 1 supported secure access to financial services by strengthening the requirements for conducting electronic Know-Your-Customer (eKYC) using digital ID systems, and the proposed reform under DPL 2 focuses on protecting bank and e-wallet accounts against cybercrimes by mandating financial institutions to implement security features and provide adequate risk management systems to ensure secure access to customer accounts. The increasing incidents of online fraud and phishing attacks have adversely impacted the financial security of individuals. The Borrower has enacted the AFASA to protect financial accounts from cybercrimes and safeguard individuals and juridical persons by defining and penalizing the offenses that constitute financial account scamming, regulating financial institutions' responsibilities, and enabling information sharing for fraud investigations. It will enhance consumer confidence in the financial sector by establishing a regulatory framework that not only deters cybercriminal activities through security measures but also promotes transparency of financial institutions to safeguard financial accounts. The passage of AFASA protects the public from fraudulent activities of cybercriminals who target bank accounts and e-wallets, including scams that target women. By measuring and analyzing gender disaggregated fraud cases, policymakers can identify bias and shape policy that allows women to access financial services securely. In addition to the AFASA, the Data Privacy Act, its IRR and related regulations on personal data processing provide a legal framework for safeguarding customers' personal data processed by financial institutions to ensure the security and privacy of personal information.

46. **Expected Results:** The reforms are expected to increase consumer trust in digital financial services and are measured by a decrease in fraud rates (*i.e.*, phishing, money mules, and other cybercrimes) involving the use of digital financial services from 8.67 basis points in 2023 to <=8.24 basis points by December 2026.

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<sup>24</sup> signed into law by the President of the Philippines on 20 July 2024.



*Promote wide-scale adoption of Digital Payments by government, individuals, and businesses<sup>25</sup>.*

47. **Prior Action 5.** To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers through BSP Circulars<sup>26</sup>.

48. **Rationale of PA#5.** Enhancing transparency and improving consumer protection in payment services promotes healthy competition and can increase efficiency in using digital financial services, benefiting consumers and businesses. Four out of ten Filipino adults do not trust using the Internet for financial transactions, according to a survey conducted by BSP for the 2019 National Financial Inclusion Strategy. The lack of trust stems from the perception that payment instruments such as checks are accorded greater legal protection in the event of disputes. At the same time, uncertainties concerning reconciliation, settlement, and fund availability limit the take-up of digital payments among small merchants, which creates a supply-side constraint for boosting the usage of digital payments. The National Strategy for Financial Inclusion (NSFI) 2022-2028 calls for regulatory action in those areas. In addition, when financial institutions disclose their fee structures, consumers can compare rates and choose which are the most competitive ones. This will incentivize financial institutions to optimize their fee structures and improve their operational efficiency to attract customers and propel the growth of digital financial services in the country.

49. **Substance of PA#5.** This reform promotes competition and increases efficiency in using digital financial services by enhancing transparency and improving customer protection. The first circular (Consumer Redress Mechanism Standards for Account-to-Account Electronic Fund Transfers under the National Retail Payment System Framework) establishes standards for handling customer disputes concerning electronic fund transfers (e.g., when a transfer received by the customer is not received promptly). For each dispute scenario, it mandates appropriate service standards—for example, requiring failed instant payments to be credited back to the sender in less than one hour. This will help reassure customers—individuals and businesses—that digital payments are as safe as—or, in fact, safer than—checks. The second circular (Circular on the Regulatory Framework for Merchant Payment Acceptance Activities) provides a regulatory framework for banks and Electronic Money Issuers - Non-Bank Financial Institutions (EMI-NBFIs) engaged in Merchant Payment Acceptance Activities, requiring them to adopt transparent pricing mechanisms, and establishes standards for settlement and reconciliation that protect small merchants and increase their trust in digital payments. By promoting transparency in fee structures and encouraging the use of digital payments, particularly in more remote regions in the country that are vulnerable to extreme weather events, this reform will also enhance the resilience of the said regions by providing them with more reliable and accessible financial services. This also encourages financial institutions to invest in the underlying technology supporting their digital services, fostering innovation, and enhancing digital payment systems' overall efficiency and security. Moreover, in relation to achieving transparency in retail electronic fund transfers, the BSP also issued BSP Memorandum No. 2024-015 dated 24 May 2024 on the Guidelines on Pricing of Electronic Payments. Said issuance provides guidelines and recommendations relative to the following three main principles, which have been laid out in BSP Circular Nos. 980<sup>27</sup> and 1160<sup>28</sup> a. Reasonable, fair market-based pricing; b. Responsible pricing; and c.

<sup>25</sup> Since PA3 from DPL1 – the Digital Payments Act – has still not been enacted by Congress, the team replaced the original IT (the corresponding Implementing Rules and Regulations (IRRs)) with two BSP circulars that aim to operationalize increased efficiency and transparency of digital payments, and enhanced consumer protection for users of digital payments in the country.

<sup>26</sup> As evidenced by (i) BSP Circular No. 1195 (Series of 2024) dated June 1, 2024; and (ii) BSP Circular No 1198 (Series of 2024) dated July 19, 2024.

<sup>27</sup> BSP Circular No. 980 dated 06 November 2017 on the Adoption of the National Retail Payment System (NRPS) Framework.

<sup>28</sup> BSP Circular No. 1160 dated 28 November 2022 on the Regulations on Financial Consumer Protection to Implement Republic Act No. 11765, otherwise known as the "Financial Products and Services Consumer Protection Act".



Transparent pricing. Further, through this issuance, the BSP requests BSP-supervised institutions to participate in the annual Survey on Pricing of Digital Payments. The information gathered through this process will serve as the basis for developing and refining pricing policies for digital payments. This also complements the fee data that are required to be reported monthly to the BSP under Circular No. 980.

50. **Prior Action 6.** To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System through a BSP Circular.<sup>29</sup>

51. **Rationale of PA#6.** This reform supports the efficiency and safety of payments infrastructure by enhancing and streamlining access to intraday liquidity in the real-time gross settlement (RTGS) payment system. The availability of intraday liquidity in an RTGS payment system is an important contributor to its reliability and efficiency, as it ensures a smooth flow of payment instructions and prevents the emergence of payment gridlocks due to timing mismatches in the settlement of large-value payments. While *PhilPaSS<sub>plus</sub>* did provide a form of intraday credit before the enactment of the reform, its availability was limited, and its rules did not fully comply with international standards. Enhancing access to the facility and streamlining its operations will, therefore, improve the payment system's safety and efficiency and provide a level playing field to all participants in the payment system—both banks and non-banks.

52. **Substance of PA#6.** The BSP has issued Circular No. 1181, Series of 2023, entitled Amendments to the Regulations on Intraday Liquidity Facility, in response to the 2020 Financial Sector Assessment Program (FSAP) recommendations. The circular improves BSP's compliance with the credit risk, collateral, liquidity risk, and related principles of the Principles for Financial Market Infrastructures (PFMI) by changing how intraday credit operates. Compared to the status quo, it extends the operating hours of the facility to closely align them with the operating hours of the RTGS. In connection with other regulations issued by BSP, it also removes a separate liquidity facility provided for the settlement of check clearing results, which implicitly favored checks compared to other payment instruments and was not in line with international best practices. It provides equal treatment for all RTGS participants (banks and non-banks), building upon previous reforms that enabled direct access to the system for non-banks, which will contribute to making the payments market more competitive.

53. **Expected Results.** PA5 and PA 6 promote competition and increase efficiency in using digital financial services, by enhancing transparency and improving customer protection, as well as by allowing access to the intraday liquidity in the RTGS payment system to non-banks. Thus, these prior actions are expected to contribute to the increase in the volume of digital payments over total retail payment transactions from a baseline of 42.1 percent in 2022 to at least 56 percent by the end of 2026.

### ***Pillar C. Boost Growth in Digitally-Enabled Services.***

*Promote uptake of e-commerce through trust, market contestability, and enhanced parcel delivery*

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<sup>29</sup> As evidenced by BSP Circular No. 1181 (Series of 2023) dated November 10, 2023.



54. **Prior Action 7.** To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct, through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act of 2023<sup>30</sup>.

55. **Rationale for PA#7:** The Philippines is experiencing rapid growth of online consumers and e-commerce while challenged to implement and enforce the new Internet Transactions Act (ITA). During the pandemic, e-commerce increased by 20 percent, and it is expected to reach 7 percent of total retail sales in 2025, almost doubling the percentage in 2019<sup>31</sup>. This increased ecommerce activity resulted into an increase in e-commerce enterprises from ~500,000 in 2020 to more than 2 million in 2022. However, consumers distrust internet merchants before purchase when the latter's obligations on disclosure and advertising vis-a-vis online consumers are not clear. After purchase, the absence of complaint resolution and redress mechanisms can deter sales. Furthermore, small-scale merchants are also subject to the abusive power of platforms, which could leverage winner-take-all dynamics to gain market power. In addition, MSMEs, often led by women<sup>32</sup>, may struggle to establish trust in a crowded marketplace dominated by larger players. According to a recent study by the Asian Development Bank, while access to networks is crucial for building business relations and gaining and exchanging knowledge to grow business, women entrepreneurs are generally less well-networked than men entrepreneurs, limiting their abilities to develop know-how and contacts to further develop their businesses<sup>33</sup>. Women entrepreneurs often face greater risk aversion, given the size of their enterprises and limited networks, and without robust trust mechanisms such as consumer and supplier protection policies, they may hesitate to engage in ecommerce due to fears of financial loss or fraud. Women entrepreneurs, again given the size of their enterprises, sometimes encounter credibility challenges and the absence of trust mechanisms like verified trustmarks and transparent return policies may make it harder for women to establish trust with potential customers.

56. **Substance of PA#7:** This DPL 2 supports the ITA-IRR issuance, which mandates standards to prevent abusive practices, strengthening consumer trust and SMEs participation in online selling. The DPL 1 introduced the ITA, a legislation, to protect online consumers and suppliers. Enacted in December 2023, the ITA specified merchants' obligations vis-a-vis online consumers and online supplier protection provisions vis-a-vis online platforms, mandates for complaint resolution (domestic and international), and co-regulation mechanisms to enforce these resolutions. Under DPL2, the ITA-IRR mandates compliance by establishing minimum requirements for the E-Commerce Trustmark: a co-regulation mechanism established and operated by an industry-led sector governance body in collaboration with DTI. The Trustmark will uphold compliance with the Code of Conduct, fostering a culture of trust in e-Commerce. The Code of Conduct compels businesses engaged in e-commerce to act responsibly and fairly toward consumers. DTI will offer additional incentives to e-retailers and online merchants displaying Trustmark. The ITA-IRR will also mandate criteria to establish an Online Dispute Resolution (ODR): a mechanism to resolve outstanding differences across parties engaged in e-commerce transactions. These developments in e-commerce are expected to benefit female entrepreneurs, who dominate most MSME owners transacting online (ADB, 2020). A trustmark can provide these businesses with a competitive edge by reassuring consumers about their reliability and commitment to quality. Women entrepreneurs, who may face additional scrutiny or skepticism due to gender biases, can leverage an ODR system to demonstrate their commitment to customer satisfaction

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<sup>30</sup> dated May 24, 2024 and published on May 30, 2024 in The Manila Times.

<sup>31</sup> Statista 2023

<sup>32</sup> Approximately 66% of MSMEs are led by women. (Measuring Progress on Women's Financial Inclusion and Entrepreneurship in the Philippines: Results from a Micro, Small, and Medium-Sized Enterprise Survey, Asian Development Bank, October 2023.)

<sup>33</sup> Results from a Micro, Small, and Medium-Sized Enterprise Survey, Asian Development Bank, October 2023.



and fairness. Adherence to codes of conduct can distinguish women-owned businesses as trustworthy and ethical operators in the ecommerce space. This recognition not only attracts consumers but also enhances opportunities for partnerships and collaborations with other businesses that value integrity. In summary, improving trust in ecommerce transactions through trustmark frameworks, ODR systems, and codes of conduct can create a more supportive environment for women entrepreneurs. By enhancing credibility, resolving disputes effectively, and promoting ethical standards, these initiatives help level the playing field, reduce barriers to entry, and encourage more women to succeed and thrive in ecommerce. The government, through the Philippine Competition Commission (PCC), has also set the policy framework to improve contestability in digital markets to complement the reforms increasing trust in digital market transactions<sup>34</sup>.

57. **Prior Action 8.** To improve logistics for e-commerce transactions, the Borrower, through the Civil Aeronautics Board (CAB), has removed the foreign equity cap on the air transportation services sector, through CAB Guidelines<sup>35</sup>.

58. **Rationale of PA#8:** Complementary to increased consumer and supply protection, making logistics services more affordable and reliable will further enhance the enabling environment for e-commerce and trade-in services. Foreign equity restrictions in the logistics sector, including air transport and freight services, have prevented more investments and competition in the sector leading to sub-optimal coverage and quality of service. The growth in e-commerce markets is driving increased demand for small-package delivery services (SPDS) and express delivery services, requiring speedy delivery. While SPDS is inherently multimodal, package delivery via air transport and freight are the most convenient methods to move smaller shipments over long distances. Further, it lets MSMEs fulfill orders with speed, a fixed schedule, reduced risk, and better security. Based on simulations done by the International Transport Forum, e-commerce is expected to generate a considerable increase in air (and road) freight transport due to increased demand for SPDS (ITF Transport Outlook, 2019). Further, the boom of Internet users spurred by increasing Internet penetration rate and mobile phone connectivity in the Philippines is fueling the growth of e-commerce and SPDS.

59. **Substance of PA#8:** The implementing regulations of the Civil Aeronautics Board (CAB) effectively repeals all regulatory issuances covering air transportation services that are inconsistent with the lifting of all foreign equity restrictions mandated in the Amended Public Service Act (PSA)<sup>36</sup>. New investments in air transport and cargo services are expected from this reform, both from foreign players entering new markets and from domestic players upgrading technology and services in the face of increased competition. A more robust air transport and freight sector enables a more efficient mode of fulfilling e-commerce B2B and B2C transactions, providing easier access to products with better price and quality, and enhanced connectivity for just-in-time delivery of inputs and outputs, allowing MSMEs to fully benefit from a rapidly developing e-commerce market.

60. **Expected Results:** The PA 7 and PA 8 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 expand e-commerce activity, increasing the number of e-commerce enterprises from 2.4 million in 2022 to 3.5 million in 2026.

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<sup>34</sup> This DPL series supports PCC's to strengthen the enforcement of competition laws to encourage the entry of new enterprises in digital markets. PCC Commission Resolutions No. 04-2024 and 05-2024 for approval of the Guidelines on Merger Remedies and the Guidelines on Anti-Competitive Agreements, dated 15 May 2024.

<sup>35</sup> Implementing Commonwealth Act No. 146, as amended by Republic Act No. 11659, dated May 20, 2024 and published on June 21, 2024 in The Manila Times.

<sup>36</sup> Republic Act No. 11659



Further, these reforms strive to promote e-commerce adoption among women-owned businesses, to almost double the share of women-owned businesses that make online transactions from 2.9 percent in 2022 to 5.5 percent by 2026.

*Promote job creation in higher value-added activities in digital services.*

61. **The DPL continues to support the growth of digital services through technical assistance in the implementation of the Philippine Creative Industries Development Act and in strengthening the enforcement of intellectual property rights.** Formation and monetization of intangible capital can boost the growth of creative industries, original digital content, and digitally enabled services, hence more and better jobs. The Philippine creative industries cover creative arts, design, online media, and digital services such as computer programming activities, website hosting services, and software publishing. Protection and monetization of intangible capital brings a unique opportunity to increase investments and jobs in the service sector, including upgrading export-oriented services sectors such as ITES/BPO to higher value creation. The DPL series will support through technical assistance the amendment to the IP code supported by IPOPHL to work with internet service providers (ISPs) and enforce takedown orders of digital content in violation of IP rights, and the implementation of the roadmap of Philippine Creative Industries Development Act. The DPL will monitor the results of this reform area through the increase of creative industry employment, 6.98 million in 2022 to 7.82 million in 2026.

*Strengthen industry-led skills development for the future of work.*

62. **The DPL supports implementation of the Philippine Digital Workforce Competitiveness Act (DWCA)** to facilitate, in collaboration with private sector, digital skills provision and trainings that incorporate gender and green jobs objectives. Digital jobs require technical skills, foundational (literacy and socioemotional) skills and high-level cognitive (collaborative, creative, problem-solving) abilities, many of which represent large gaps in the workforce, and low scores in education and skills training systems, in the Philippines<sup>37</sup>. The Government has launched several digital skills initiatives, but policy actions remain fragmented<sup>38</sup>. The DWCA mandates the newly established Inter-Agency Council to coordinate and promote the development and digital competitiveness of the Philippine workforce, and to formulate a six-year National Roadmap on Digital Technology and Digital Skills. The roadmap shall serve as a basis for implementing programs that will upskill, re-skill, and train the digital skills of the workforce, emphasizing public-private partnerships to plan and implement industry-led training, skills development, and certification programs and prioritizing jobs and skills in the seven fastest-growing professional areas<sup>39</sup>. To enhance the competitiveness of the Philippines in digital services, the DPL supports the Inter-Agency Council through technical assistance to support the technology and skills mapping, development of a digital skills roadmap and partnering with private sector. The Capacity-building and Learning for Improved Employability (CAPABLE) Project with TESDA and Learning Upgrade Project with DepEd are expected to support policy actions 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).

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<sup>37</sup> 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.

<sup>38</sup> 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. On April 14, 2023, CHED and TESDA issued Joint Memorandum No. 1 launching the guidelines for the Philippine Credit Transfer System (PCTS) that allows students to transition from TVET courses to higher education degree programs seamlessly.

<sup>39</sup> Identified by the World Economic Forum: care, engineering and cloud computing, sales marketing and content, data analytics and artificial intelligence, green jobs, people and culture, and specialized project management.



Table 6: DPL Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
<b>Pillar A: Improve Access to Digital Connectivity and Digital Government Service Delivery</b>	
<p>Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks<sup>40</sup>.</p>	<p>The Policy Note on Broadband (January 2024) identified and analyzed key binding constraints including barriers to entry and investment, unlevel playing field, ineffective infrastructure sharing policy framework and absence of spectrum management. Dissemination/consultation events (co-hosted by NEDA, DICT and USAID in March; hosted by AmCham in April) contributed to raised awareness in public and legislative staff.</p>
<p>Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a Joint Memorandum Circular <sup>41</sup>.</p>	<p>The ongoing policy and technical assistance as part of the dialogue on the DPL (including ongoing stocktaking of systems and services), IFMIS Note on BTMS (2022) under PFM PASA, Rapid review of HRMIS and Payroll Systems, 2020.</p>
<p>Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies as evidenced by the Treasury Circular <sup>42</sup>.</p>	<p>The proposed reforms have been supported over the past years through the World Bank’s 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.</p>
<b>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services</b>	
<p>Prior Action 4. To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of Anti-Financial Account Scamming Act (Republic Act No. 12010).</p>	<p>Financial Sector Programmatic ASA. Under the multi-year programmatic ASA, ongoing technical assistance is provided to BSP on financial consumer protection.</p>
<p>Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers through BSP Circulars <sup>43</sup>.</p>	<p>Financial Sector Programmatic ASA. Under the multi-year programmatic ASA, ongoing technical assistance is provided to BSP on development and governance of payments infrastructure.</p>
<p>Prior Action 6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System through a BSP Circular <sup>44</sup>.</p>	<p>Financial Sector Programmatic ASA. Under the multi-year programmatic ASA, ongoing technical assistance is provided to BSP on.</p>

<sup>40</sup> As evidenced by House Bill No. 6 approved on December 12, 2022, and Senate Bill No. 2699 dated May 22, 2024

<sup>41</sup> As evidenced by DBM-DICT-NEDA Joint Memorandum Circular No. 2024-01 (s. 2024) dated November 22, 2023

<sup>42</sup> As evidenced by the BTr Treasury Circular No. 1-2024 dated March 27, 2024.

<sup>43</sup> As evidenced by (i) BSP Circular No. 1195 (Series of 2024) dated June 1, 2024; and (ii) BSP Circular No. 1198 (Series of 2024) dated July 19, 2024.

<sup>44</sup> As evidenced by BSP Circular No. 1181 (Series of 2023) dated November 10, 2023.



**Pillar C. Boost Growth in Digitally-Enabled Services**

<p>Prior Action 7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act <sup>45</sup>.</p>	<p>WB Philippines Digital Economy Report (2020) reported that lack of adequate data protection, online supplier and consumer protection limited growth of digital markets. The Philippines Digital Business and Markets Regulations Review highlighted gaps in existing legal framework. WBG legal reviews and analysis of inputs to the drafting of the ITA IRR.</p>
<p>Prior Action 8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector through CAB Guidelines <sup>46</sup>.</p>	<p>Implementing the Public Service Act Amendment, An assessment of productivity gains for the Philippines (Technical Note, 2023) WBG legal reviews and analysis of inputs to the drafting of the IRR.</p>

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

63. The reforms supported by this DPL are fully aligned with the current and upcoming (2025-2028) Country Partnership Framework (CPF) and its objectives of job creation (Promote regulatory reforms to enhance competitiveness, improving human capital, and building resilience to conflicts and disasters (Increase resilience to disasters and climate change). The operation improves governance (Improve the efficiency of public service sectors) by enabling 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, and helping address the widening digital divide. 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 can enhance resilience and mitigate and adapt to climate change impacts.

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

64. **The GoP has actively consulted with key stakeholders in the formulation of policy actions for digital systems, digital payments, digital markets, and digital skills.** The inter-agency technical working groups tasked to draft the policy reform have reached out to key implementing agencies during the drafting process. When an advanced draft is ready, the lead agency then provides open access of updates and modified drafts through the agency websites as well as social media pages, with clear instructions on how and where to send comments and register for stakeholder consultations.

65. **The GoP follows a rigorous deliberation process that goes beyond the Executive branch of Government and into the Legislative Branch on the sharp scrutiny of proposed legislation.** The newly-passed Anti-Financial Account Scamming Act completed the legislative making process, having been signed into law on July 20, 2024. The *Konektadong Pinoy Act*, which remains pending in Congress, has undergone rigorous deliberations in the House of Representatives, having passed on third reading in 2023, with hearings and TWG meetings shared live through social media. This consultation process will be followed by bicameral conference committee hearings for the reconciliation of the individual drafts of both Houses of Congress before this is submitted as an enrolled bill for the approval of the President.

<sup>45</sup> As evidenced by the IRRs of the Internet Transactions Act of 2023, dated May 24, 2024.

<sup>46</sup> As evidenced by the CAB Guidelines Implementing Commonwealth Act No. 146, as amended by Republic Act No. 11659, dated May 20, 2024, published on June 21, 2024 in The Manila Times.



**66. The Bank is collaborating closely with development partners to optimize coordinated government support and prevent work redundancy.** The Bank has coordinated with other development partners in the reform areas to avoid work duplication, such as the United States Agency for International Development (USAID) which is also providing support on digital government, connectivity, digital markets, and digital skills.

## 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 across the three pillars through improved digitalization.** These reforms focus on improving efficiency in transactions through digitalization among government agencies, businesses, and individuals, as well as improving government frameworks, processes, information systems, and regulations that underpin the development of the digital ecosystem. Prior Action 1 is expected to have a significant impact on poverty reduction as this will lead to increasing accessibility and affordability of digital services. If costs fall in line with the results indicator (about 12.5% in levels, 25% as a share of GNI), given the expenditure patterns of households, this will imply, by 2024 an increase in purchasing power of the lowest decile of households equivalent to Php 307 at prices of 2024, per household<sup>47</sup>. A study by Blumenstock, et al. (2020) showed that connectivity in unserved remote areas in the Philippines, where poorer households are likely located, has been proven to generate significantly positive welfare impacts. The availability of new low-cost community cellular networks increased the ability of households in those barangays to place calls by 43 percentage points, enhancing social connectivity. In terms of welfare changes, the study found a 17% increase in annual income, 10% increase in weekly household expenditures, and 13% increase in those who reported they had adequate food in the past month. This operation does not present prior actions likely to have significant negative poverty and social impacts. However, careful monitoring and evaluation efforts are still necessary to ensure the reforms do not inadvertently worsen poverty or distributional outcomes. Compliance with 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. See Annex 4 for further details.

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

**68. The policy reforms supported under the DPL will bring positive effects on the environment, forest, and other natural resources.** Most reforms supported under the second DPL will lead to positive environmental outcomes for the environment, forests, or other natural resources. Prior Actions 1, 2, and 3 are expected to have significant positive environmental effects, and no negative environmental effects. Reform under Pillar B are expected to bring significant environmental benefits, as the government aims to promote the adoption of easy, affordable, and secure access to digital payments by government institutions, promote competition and increase efficiency in the usage of digital financial services, and promote fair and open access to payments infrastructure. Policy reform under Pillar C is expected to result in increased online transactions but could lead to overpackaging of products sold online with extra plastic wrap and cardboard. This potentially adds excess waste to landfills and ecosystems including water sources from uncollected plastic waste. This effect could be addressed partly by the robust country policy framework to manage potential environmental and social risks and impacts at the national and local levels. The Philippine Environmental Impact Statement System (PEISS)

<sup>47</sup> Simulation done with the 2021 Family Income and Expenditure Survey microdata.



and its IRRs, the Department Administrative Order (DAO) 2003-30 to guide PEISS implementation. In addition, to enhance plastic waste management, the GoP has recently issued the EPR Law and its accompanying IRRs to promote better waste reduction, reuse, and recycling.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

**69. PFM System:** Over the past decade, the GOP has significantly improved its PFM at the national level. 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. There is a Unified Accounts Code Structure in budgeting, accounting, and reporting. A Treasury Single Account has been implemented and the BTr is expanding its coverage. Budget preparation and cash management have been strengthened, and the BTMS has been adopted as the basis for a single national government financial information system. The national government budget is made available to the public on the DBM website. 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 the GoP to strengthen its procurement system. The Philippine Government Electronic Procurement System (PhilGEPS) is undergoing modernization with the virtual store and merchants' registry already in place. 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 implementation with pioneer agencies. The eMarketplace will be piloted this year. Public procurement systems have strengthened over the past decades. With the recent signing of the New Government Procurement Act (NGPA), or Republic Act No. 12009, more focus will be on efficiency, sustainability, transparency, professionalization, among others. RA 12009 streamlines the procurement process for both national government agencies and local government units by standardizing their forms and institutionalizing electronic procurement, affording government agencies flexibility in choosing how best to acquire goods and services.

**70. Foreign Exchange (FOREX) Control Environment:** BSP's 2020 through 2022 audited financial statements have unqualified (clean) audit opinions and do not raise any major concerns about the FOREX control environment. The audit opinion for 2022 BSP's financial statements contains an "Emphasis of Matter" paragraph related to the BSP's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, where the institution found it is appropriate to differ, in some respects, from the adoption of the relevant Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS). The opinion of the auditor was not modified (qualified) in respect to this matter.

**71. Fiduciary Risk:** Based on the assessment of the PFM Systems and FOREX control environment, fiduciary risk is moderate. There were no major qualifications on the DOF annual financial statements in recent years, and most matters raised in previous years' audit reports were fully or partly addressed.

**72. Disbursement and Auditing Arrangements:** Upon withdrawal, the proceeds of the DPL will be deposited in Euros in a dedicated deposit account at the BSP, forming part of the country's official FOREX reserves. The GOP will transfer funds from the Euro 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 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 must be satisfied. The DPL should not be used for excluded expenditure or connected in engagements in corrupt, fraudulent,



collusive, or coercive practices, as per the General Conditions for IBRD Financing for Development Policy Financing that became effective on July 15, 2023. Should this be the case, the Bank will seek for a refund from the GoP, which will subsequently be cancelled from the loan. Given the moderate fiduciary risk, there will be no requirement for the audit of the DPL.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

**73. The DOF is the main WBG counterpart for budget support operations, including the proposed operation.** Policy dialogue and monitoring and evaluation of the program supported by this DPL series also extend to the DICT, NEDA, DBM, DTI, DOLE, BSP, CAB, IPOPHL, and BTr. Indicators selected to monitor progress toward achievement of the PDOs reflect defined areas of action and correspond to the expected outcomes of the PAs. They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. The Pillars and result indicators in the policy framework are aligned with government priorities. Since the policy targets are aligned with the regular programs of the relevant agencies, their reporting mechanisms will be used. Not all the targets have updated values, but a few are available as follows: for RI 3, the cost of mobile has already been reduced to 1.98 percent of GNI per capita in 2022 (target of 2 percent by 2025). For Fixed connectivity cost reduction little progress, with 11.26 percent of GNI per capita in 2022 (target is 5 percent by 2025). Based on the latest data from the BSP, the share of online payments in the total volume of retail transactions in the country rose to 42.1 percent in 2022 from 30.3 percent a year earlier. According to Central Bank officials, the country was on track to meet its goal to have 50 percent of total retail transactions done digitally at end-2023.

**74. Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project-affected communities and individuals may submit their complaints to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred or could occur as a result of the Bank's non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION

**75. The overall program risk rating is rated moderate, and the risks around institutional capacity, political and governance, and stakeholders are rated substantial.** The institutional capacity risk is rated as substantial, given the large number of implementing agencies involved and complexity of coordination in the implementation of supported policy actions. The DPL mitigates this risk by providing ongoing technical support to each implementing agency requiring strong coordination, for PA1 (DICT, NTC, and NEDA) and PA2 (DICT, DBM and NEDA). The stakeholder risk for IFMIS rollout, associated with incentivizing the system adoption by the NGAs, is mitigated through overall ICT system harmonization initiative under the PA2, the introduction of program convergence budgeting for PFM systems, and continuous technical assistance and handholding extended to the DBM through PFM PASA. The political and governance risks relate to Prior



Action 1 which seeks to improve competition and increase investment in data transmission, through a proposed Act regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks. The upcoming mid-term election may limit the opportunity for deliberation at the Senate and may influence legislative priorities. There is a risk that vested interests may weaken the proposed Act. These risks are mitigated by assisting the National Economic and Development Authority (NEDA) with diagnostics and engagement that raises public awareness and supports the government in informing key stakeholders.

**Table 7: Summary Risk Ratings**

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



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior Actions and Triggers		Results		
Prior Actions for DPL 1	Prior Actions for DPL 2	Indicator Name	Baseline	Target
<b>Pillar A. Improve Access to Digital Connectivity and Digital Government Service Delivery</b>				
	Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks <sup>48</sup> .	Results Indicator 1: Percentage of households connected to fixed broadband services.	25.6% (2022)	35.0% (2026)
		Results Indicator 2: Cost of fixed broadband basket as a percentage of GNI per capita	11.3% (2022)	8.5% (2026)
Prior Action 1. To improve public financial management and reporting, the Borrower, through its President, has mandated the roll-out of an Integrated Financial Management Information System (IFMIS) to all departments and national agencies (including GOCCs) as evidenced by Executive Order 29 issued by the President on June 1, 2023.	Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a Joint Memorandum Circular <sup>49</sup> .	Results Indicator 3. Number of people using digitally enabled government services through unified e-government portal or mobile application.	0 (million people) (2022)	30 (million people) (2026)
		Results Indicator 4. Share of government payments (by value) processed through IFMIS enabling gender budget tagging.	0 (2022)	35% (2026)
Prior Action 2. To strengthen climate and disaster risk management and financing and facilitate disaster risk-based budgeting, the Borrower, through DOF, DBM, and NEDA, has mandated all government agencies to digitally map their critical fixed assets into the National Asset Registry System (NARS), as evidenced by the Joint Memorandum Circular No. 2023-1	Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the Treasury Circular <sup>50</sup> .	Results Indicator 5. Number of agencies using NARS.	0 (2022)	5 (2026)

<sup>48</sup> As evidenced by House Bill No. 6 approved on December 12, 2022, and Senate Bill No. 2699 dated May 22, 2024

<sup>49</sup> As evidenced by DBM-DICT-NEDA Joint Memorandum Circular No. 2024-01 (s. 2024) dated November 22, 2023 and published on May 29, 2024 in the Philippine Star.

<sup>50</sup> As evidenced by the BTr Treasury Circular No. 1-2024 dated March 27, 2024.



Prior Actions and Triggers		Results		
issued by DOF, DBM, and NEDA dated May 15, 2023.				
<b>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services</b>				
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.	Prior Action 4. To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (RA 12010) <sup>51</sup> .	Result Indicator 6: Fraud rates involving the use of digital financial services (basis point).	8.67bps (2023)	Target: <=8.24bp (2026)
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 Number 811 dated July 25, 2022, and House Bill Number 8262 dated May 22, 2023.	<p>Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers, through BSP Circulars.<sup>52</sup></p> <p>Prior Action 6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System, through a BSP Circular.<sup>53</sup></p>	Results Indicator 7: Volume of digital payments over total retail payment transactions (percent).	42.1% (2022)	56% (2026)
<b>Pillar C. Boost Growth in Digitally-Enabled Services</b>				

<sup>51</sup> signed into law by the President of the Philippines on 20 July 2024.

<sup>52</sup> As evidenced by (i) BSP Circular No. 1195 (Series of 2024) dated June 1, 2024; and (ii) BSP Circular No 1198 (Series of 2024) dated July 19, 2024.

<sup>53</sup> As evidenced by BSP Circular No. 1181 (Series of 2023) dated November 10, 2023.



Prior Actions and Triggers		Results		
<p>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 Congress, as evidenced by the Senate Bill No. 1846 dated February 6, 2023, and the House Bill No.4 dated November 28, 2022.</p>	<p>Prior Action 7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act <sup>54</sup>.</p>	<p>Results Indicator 8: Number of e-commerce enterprises</p>	<p>2.4M (2022)</p>	<p>3.5M (2026)</p>
	<p>Prior Action 8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector through CAB Guidelines <sup>55</sup>.</p>			
<p>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) 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.</p>		<p>Results Indicator 9: Share of women-owned businesses that make online transactions (%).</p>	<p>2.9% (2022)</p>	<p>5.5% (2026)</p>
<p>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.</p>		<p>Results Indicator 10: Employment in Creative Industries</p>	<p>6.98M (2022)</p>	<p>7.82M (2026)</p>

<sup>54</sup> As evidenced by the IRRs of the Internet Transactions Act of 2023, dated May 24, 2024 and published on May 30, 2024 in The Manila Times.

<sup>55</sup> As evidenced by the CAB Guidelines Implementing Commonwealth Act No. 146, as amended by Republic Act No. 11659, dated May 20, 2024, and published on June 21, 2024 in The Manila Times



Prior Actions and Triggers		Results		
<p>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.</p>		<p>Result Indicator 11: Number of higher education institutions (HEI) recognizing digital skills courses via the Philippines Credit Transfer System (PCTS).</p>		
		0 (School Year 2022-23)	50 (School Year 2024-25)	

### DETAILED RESULTS FRAMEWORK

RESULTS	
Baseline	Closing Period
<b>Pillar A: Improve Access to Digital Connectivity and Digital Government Service Delivery</b>	
<b>Percentage of households connected to fixed broadband services (Percentage)</b>	
Dec/2022	Dec/2026
25.6%	35.0%
<b>Cost of fixed broadband basket as a percentage of GNI per capita (Percentage)</b>	
Dec/2022	Dec/2026
11.30	8.50
<b>Number of people using digitally enabled government services through unified e-government portal or mobile application (Number (Thousand))</b>	
Dec/2022	Dec/2026
0	30,000
<b>Share of government payments (by value) processed through IFMIS enabling gender budget tagging (Percentage)</b>	
Dec/2022	Dec/2026
0	35
<b>Number of agencies using NARS (Number)</b>	



Dec/2022	Dec/2026
0	5
<b>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services</b>	
<b>Fraud rates involving the use of digital financial services (basis point). (Number)</b>	
Dec/2023	Dec/2026
8.67	<=8.24
<b>Volume of digital payments over total retail payment transactions (percent) (Percentage)</b>	
Dec/2022	Dec/2026
42.10	56
<b>Pillar C. Boost Growth in Digitally Enabled Services</b>	
<b>Number of e-commerce enterprises (Number of businesses)</b>	
Dec/2022	Dec/2026
2,400,000	3,500,000
<b>Share of women-owned businesses that make online transactions (Percentage)</b>	
Dec/2022	Dec/2026
2.90	5.50
<b>Employment in Creative Industries (Number (Thousand))</b>	
Dec/2022	Dec/2026
6,980	7,820
<b>Number of higher education institutions (HEI) recognizing digital skills courses via the Philippines Credit Transfer System (PCTS) (Number)</b>	
Jul/2023	Jul/2025
0	50



## ANNEX 2: FUND RELATIONS ANNEX

### Philippines—Assessment Letter for the Asian Development Bank and the World Bank July 31, 2024

*This letter provides IMF staff's assessment of the Philippines' macroeconomic conditions, prospects, and policies. It is based on available information as of July 24, 2024, as well as discussions with the authorities during a staff visit in June 2024. This assessment was requested by the Asian Development Bank and the World Bank in relation to their policy loan operations.*

#### Recent Developments, Outlook, and Risks

- 1. The Philippine economy continues to perform well despite external challenges and policy tightening.** Growth moderated in 2023 to 5.5 percent, after a strong post-pandemic rebound in 2022 (7.6 percent), reflecting the confluence of global shocks, pent-up demand normalization, higher inflation, and tighter policy settings. Growth is expected to rebound to 6.0 percent in 2024 and 6.2 percent in 2025, on the back of stronger consumption demand, higher public and private investment, and a recovery in exports. Growth is expected to remain at around 6-6½ percent over the medium term, in line with potential growth.
- 2. After peaking in early 2023, inflation has decelerated to within the Bangko Sentral ng Pilipinas (BSP)'s target band of 2-4 percent.** The BSP has held the policy rate at 6.5 percent since October 2023, after a cumulative 450 basis points hike starting from March 2022. Headline inflation declined to 3.7 percent (y/y) in June 2024 from its peak of 8.7 percent (y/y) in January 2023 while core inflation declined to 3.1 percent in June 2024 from its peak of 8.0 percent in March 2023, with lower commodity prices supporting the normalization. While higher prices of food have recently led to an uptick, inflation is projected to decline towards the target of 3.0 percent in the second half of the year, with the reduction in rice tariffs from 35 percent to 15 percent (implemented in July) and other non-monetary measures to reduce non-tariff barriers expected to further help anchor inflation within the target band. Nevertheless, risks to inflation remain to the upside, stemming from geopolitical tensions and recurrent commodity price volatility. The current account deficit is expected to narrow to 2.2 percent of GDP in 2024 from 2.6 percent in 2023, supported by stronger merchandise exports (especially of electronic goods), robust remittances, and receipts from tourism and business process outsourcing (BPO) sectors. Reserves increased to US\$105 billion in June 2024 after reaching a trough of US\$93 billion in September 2022, and reserve coverage remains adequate.
- 3. Risks to the near-term growth outlook have improved since the 2023 Article IV consultation but remain tilted to the downside.** On the downside, higher-for-longer interest rates in advanced economies could leave financial conditions tighter than expected in the Philippines, leading to larger-than-expected capital outflows and further depreciation of the peso. An escalation of geopolitical tensions could disrupt trade, lead to commodity price volatility, and put further pressure on inflation and the exchange rate. Risks could also come from a slowdown in major economies, with adverse spillovers through trade and financial channels. On the upside, private investment through public-private-partnerships (PPPs) could accelerate faster than anticipated and there could be a more rapid realization of inward foreign direct investment (FDI).



## Macroeconomic Policies

### *Fiscal Policy*

**4. Medium-term fiscal consolidation is underway, though at a slower pace than initially envisaged.** The national government fiscal deficit narrowed to 6.1 percent of GDP in 2023 from 7.2 percent of GDP in 2022 and is projected to decline further to 5.5 percent in 2024.<sup>1</sup> The authorities have revised their medium-term fiscal framework (MTFF), targeting a deficit of 3.7 percent in 2028 (compared to 3 percent of GDP earlier) and a more uniform pace of consolidation (about 0.5 percent of GDP per annum, compared to the more front-loaded one earlier). The revised MTFF aims to secure 5-6 percent of GDP in capital spending over the medium-term and envisions a more gradual increase in revenue. The less front-loaded pace will help reduce downside risks to growth with limited impact on the inflation outlook given lower reliance on consumption taxes, and limited demand-side pressures. At the time of the 2023 Article IV consultation, the IMF's Sovereign Risk and Debt Sustainability Framework (SRDSF) indicated an overall low risk of sovereign stress. The revised MTFF implies that the debt-to-GDP ratio will increase slightly in 2025, and will decline more gradually over the medium term (to around 60 percent of GDP), supported by a favorable interest rate-growth differential. While the fiscal space has narrowed since the pandemic, some fiscal space remains and would be enhanced by adhering to the medium-term fiscal consolidation.

**5. To enhance the credibility of the revised MTFF, fiscal consolidation should be underpinned by strong revenue and spending measures.** The MTFF could be complemented by a tax-policy oriented medium-term revenue strategy which lays out more ambitious tax measures to supplement tax administration improvements. In the short term, the speedy passage of priority tax measures (such as the VAT on non-resident digital service providers and excise tax on single-use plastics) will be critical to raise much-needed revenue. Over the medium-term improving the efficiency of value-added tax and broadening the tax base are important to create more fiscal space to support policy priorities. In addition, reforming the military and uniformed personnel (MUP) pension system to introduce a contributory system and not index pensions to salaries of current personnel would create additional fiscal space. Improving expenditure efficiency, curtailing contingent liabilities, and effectively managing the process of decentralization and PPPs would help control spending, enhance governance, and reduce fiscal risks. Continuing to reform public financial management (PFM) remains crucial.

### *Monetary Policy*

**6. The BSP should ensure a sufficiently restrictive monetary policy stance until inflation and inflation expectations are firmly anchored within the target band.** With real rates above neutral, the monetary policy stance has moved into a sufficiently restrictive territory, and accordingly the inflation is projected to decline over the forecast horizon to reach the BSP's target. As risks to the inflation outlook, including second-round effects, remain firmly tilted to the upside, the BSP should

<sup>1</sup> Based on the Government Finance Statistics (GFS) 2014 definition, privatization receipts are excluded from revenues; equity and net lending are excluded from expenditure; and capital transfers to LGUs are included under current expenditure. Deficit based on the authorities' definition is about 0.1 percent of GDP wider.



remain vigilant. A data-dependent approach, and careful communication around policy settings will be important to manage expectations amid uncertainty around inflation and the U.S. monetary policy path.

### *Financial Sector Policies*

**7. Overall systemic risk is moderate and broadly unchanged since the 2023 Article IV consultation.** The banking system has weathered the high interest environment well so far, but pockets of vulnerabilities remain. Banks have sufficient capital and liquidity buffers, but exposures to real estate and leveraged corporates warrants close monitoring. Occupancy rates for commercial real estate (CRE) have not recovered to pre-pandemic levels and non-performing loans (NPLs) on residential mortgages remain above the pandemic levels. Despite the regulatory limit for real estate loans (25 percent of total loans), a prolonged CRE slowdown would still affect banks' profitability. In addition, the increase in external borrowing by corporates in recent years may lead to vulnerabilities related to foreign exchange mismatches, while hedging markets remain underdeveloped. The bank resolution and corporate insolvency framework should be modernized, and macroprudential policy should be calibrated in a manner that prevents excessive credit growth. In this context, the BSP could consider moving toward a positive neutral countercyclical capital buffer over the medium term.

**8. The authorities will need to continue to make progress on their agenda to strengthen financial supervision and regulation.** Uncertainty about vulnerabilities of financial conglomerates and their linkages to nonfinancial corporates remain due to material data gaps in their consolidated supervision. The work done by the inter-agency colleges on supervision of conglomerates is welcome though stress testing of corporates could be further expanded, including by enhanced coordination among financial regulators. The advent of new digital banks, electronic money issuers (EMIs), and virtual asset service providers (VASPs) in the financial system has helped improve access to finance but close monitoring by regulators is required. The BSP should complement its efforts to enhance bank resolution by strengthening its lender of last resort and emergency liquidity assistance frameworks. Lastly, the authorities should continue their efforts to make progress on outstanding Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) issues to exit the FATF grey list as soon as possible to improve the business environment and encourage foreign direct investment.

### *Macro-Structural Issues*

**9. The favorable medium-term outlook could be further enhanced by structural reforms to reap the benefits of the demographic dividend and support inclusive growth.** Several key reforms have been introduced to stimulate exports, provide strong minority investor protection, and spur FDI, including the ratification of the Regional Comprehensive Economic Partnership and amendments made to the Retail Trade Liberalization Act, the Foreign Investment Act, the Public Service Act, and the Renewable Energy Act. Further progress to reduce infrastructure gaps, deepen financial markets, and harness the digital economy will support inclusive growth. Inequality remains high, and the ambitious poverty reduction targets outlined in the 2023-2028 Philippine Development Plan underscore the need for further investments in education, health, and social protection schemes. The government envisages that the Maharlika Investment Fund will help promote



socio-economic development by strategically investing in key sectors to preserve and enhance the fund's long-term value. As this fund is capitalized by public resources, strong governance settings are important for an effective and transparent use of resources.

**10. The authorities are committed to addressing the impacts of climate change and greening the economy.** The country's Nationally Determined Contribution (NDC) targets cutting greenhouse gas emissions 75 percent below baseline levels in 2030, conditional on external support. Accordingly, the authorities aim to increase the share of renewables in the energy mix from 22 percent currently to 35 percent by 2030 and 50 percent by 2040. The continued budgetary allocations to spending on climate change adaptation and strengthening resilience to natural disasters, with a climate budget tagging system, are welcome. A climate public investment management assessment (C-PIMA) would facilitate the adoption of green PFM practices and construction of resilient infrastructure. Financing the NDC target would benefit from the introduction of carbon pricing (including policies to address its distributional implications), and accelerating efforts to incentivize green financing. Additional financial support from development partners and the private sector is essential to meet the authorities' adaptation and mitigation objectives.

#### **IMF Relations**

**11. The IMF's partnership with the Philippines spans both surveillance and capacity building.** The Philippines is on a standard 12-month Article IV consultation cycle. The 2023 Article IV consultation was concluded by the IMF Executive Board on November 27, 2023. The next Article IV consultation mission is expected in September 2024. The IMF continues to provide extensive technical assistance on issues including tax policy and revenue administration, public financial management, financial sector supervision and resolution, debt management and capital market development, macroeconomic forecasting, and statistics.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



Republic of the Philippines  
**DEPARTMENT OF FINANCE**  
Rosas Blvd. corner P. Ocampo St., 1004 Manila



**DEVELOPMENT POLICY LETTER**

**MR. AJAY BANGA**

President  
World Bank Group  
Washington, D.C

**SUBJECT: Philippines Second Digital Transformation Development Policy Loan (PDT DPL2)**

Dear **President Banga**:

On behalf of the Government of the Philippines (GPH), allow us to thank the Bank for the continued support to our development objectives, including our digital transformation agenda. This development policy letter provides an update on the Philippine economic context and outlines the Government's reform efforts to improve access to digital connectivity and service delivery, deepen financial inclusion, and boost growth in digitally enabled services. This also serves as an expression of our interest in obtaining a budget support loan from the World Bank - International Bank for Reconstruction and Development (WB-IBRD) through the Philippines Second Digital Transformation Development Policy Loan (PDT DPL2) in the amount of USD750 million (in EUR equivalent) to fund Government's operations and priority reforms, including those that will sustain actions under this program.

Guided by the Government's prudent macroeconomic and comprehensive policy reforms, the Philippine economy has continued to recover from the setbacks of the global and domestic challenges posed by the COVID-19 pandemic. The country has maintained fiscal discipline and debt sustainability while prioritizing public health, social protection, and infrastructure spending. At the same time, the GPH has implemented several structural reforms to enhance our competitiveness, further attract private investment, and create more and better jobs, through the passage of various transformative enactments such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, the Financial Institutions Strategic Transfer (FIST) Act, the Ease of Doing Business Act, the amendments to the Anti-Money Laundering Act and the Anti-Terrorism Act, and the amendments to the Public Services Act (PSA).

The GPH remains determined to pursue its digital transformation agenda, being a key pillar of the Philippine Development Plan (PDP) 2023-2028 which envisions a more inclusive, resilient, and sustainable economy that leverages digital technology to improve the quality of life of all Filipinos. The President's 8-Point Socioeconomic



Agenda, as aligned with the PDP, emphasizes efforts to accelerate digitalization, enhance connectivity, enable a dynamic innovation ecosystem, harness public-private partnerships, prioritize servicification, and pursue strong collaboration between national and local governments.

In line with our overall development agenda and in recognition of the importance of digitalization and the opportunities it presents in supporting our growth path, we have embarked on several policy reform actions and initiatives under the Digital Transformation Development Policy Loan series, summarized in the attached policy matrix. The first operation, delivered in 2023, supported various reforms in this sector, such as harmonizing Government platforms and supporting the enactment of the Electronic Governance Act, improving public services. Additionally, the Government reformed its skills training to meet the growing demand for digital skills, allowing students to earn credits for digital skills courses through the Philippine Credit Transfer System. To further enhance government efficiency and accountability, the GPH has also been implementing the Integrated Financial Management Information System (IFMIS) across all national agencies.

In order to continue the momentum of the first operation of the Digital Transformation DPL series, the Government, through the PDT DPL 2 enacted and implemented key reforms under the following reform pillars: (a) improving access to digital connectivity and digital government service delivery; (b) deepening financial inclusion by enhancing safety, efficiency and increasing usage of digital financial services; and (c) boosting business growth in digital services.

Through **Pillar A: Improve Access to Digital Connectivity and Digital Government Service Delivery**, to improve competition and increase investment in data transmission, the GPH, through the National Economic and Authority (NEDA), has submitted a proposed Act to Congress that will regulate open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks. Another significant policy reform is the issuance by the NEDA, the Department of Information and Communications Technology (DICT), and the Department of Budget and Management (DBM) of the Joint Memorandum Circular No. 2024-01 (series of 2024) which reconstituted the Medium-Term Information and Communications Technology Harmonization Initiative (MITHI) with the mandate to harmonize electronic government systems in all government agencies. Moreover, a governance framework regulating the exchange of asset information and data analytics among government agencies was adopted pursuant to the Bureau of the Treasury's Circular No. 1-2024 dated March 27, 2024, which will inform disaster risk financing and management of critical public assets.

Under **Pillar B: Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services**, the Government has defined and



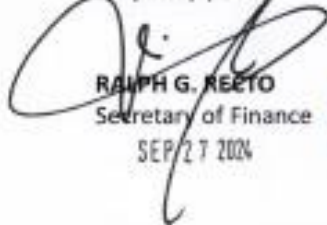
penalized financial account scamming, provided legal basis for information sharing in fraud investigations, and regulated liability of non-compliant financial institutions through the enactment of the Anti-Financial Account Scamming Act (Republic Act No. 12010). Through the issuance of Circular Nos. 1195 (series of 2024) and 1198 (series of 2024) of the Bangko Sentral ng Pilipinas (BSP), the GPH contributes to the improvement of transparency and customer protection for retail electronic fund transfers, which enhances the safety and boosts the usage of digital financial services. Further progress was also made towards increasing the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers through the enhancement and streamlining of access to intraday liquidity in the Peso Real-Time Gross Settlement Payment System through BSP Circular No. 1181 (series of 2023).

Lastly, under **Pillar C: Boost Growth in Digitally-Enabled Services**, to increase trust in e-commerce transactions, the GPH has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct, through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act of 2023. Aligned with these efforts is the initiative of the Civil Aeronautics Board (CAB) to remove the foreign equity cap on the air transportation services sector through the issuance of the CAB Guidelines Implementing Commonwealth Act No. 146, as amended by Republic Act No. 11659, which is geared to improve logistics for e-commerce transactions.

Considered collectively, these reforms foster an enabling environment for digital transformation that will help boost inclusive and resilient economic growth for a more prosperous and resilient society, as laid out in the *AmBisyon Natin 2040*. With the Bank's continued partnership and support, along with our other development partners, these reforms will help the Government address existing challenges and seize the opportunities of the digital era.

The GPH remains steadfast in this endeavor and acknowledges the strong collaboration and continued support the Bank has been extending over the years. We look forward to our sustained cooperation and partnership towards achieving the country's development agenda.

Very truly yours,

  
RAIMOND G. RECTO  
Secretary of Finance  
SEP 27 2024





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

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar A. Improve Access to Digital Connectivity and Digital Government Service Delivery</b>		
1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks.	Positive	Significant positive effect
2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a Joint Memorandum Circular.	Positive	Positive effect
3. To inform disaster risk financing and management of critical public assets, the Borrower, through the Bureau of the Treasury has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies through the NARS, as evidenced by the Treasury Circular.	Positive	Positive effect
<b>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency and Increase Usage of Digital Financial Services</b>		
4. To enhance safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided legal basis for information sharing in fraud investigations, and regulated liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (RA 12010).	Positive	Possible positive effect
5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers through BSP Circulars.	Positive	Positive effect
6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System, through a BSP Circular.	Positive	Positive effect
<b>Pillar C. Boost Growth in Digitally-Enabled Services</b>		
7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct through the IRRs of the Internet Transactions Act.	Positive	Positive effect
8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector through CAB Guidelines.	To be determined	Positive effect



ANNEX 5: PARIS ALIGNMENT ASSESSMENT

<b>Program Development Objective(s):</b> Support government reforms to foster an enabling environment for greater digital technology adoption by (a) improving access to digital connectivity and digital government service delivery, (b) deepening financial inclusion by enhancing safety, efficiency, and increasing usage of digital financial services, and (c) boosting growth in digitally-enabled services.	
Step 1: Considering our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country's climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	Yes. 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, which emphasizes the intertwined objectives of 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. The program also aligns with the recently adopted National Adaptation Plan (2023-2050), which seeks to augment communication infrastructure to strengthen digital connectivity as part of the priority adaptation strategies for energy, transport, and communications.
<b>Mitigation goals: assessing and reducing risks</b>	
<b>Pillar A. Improve Access to Digital Connectivity and Digital Government Service Delivery</b>	
Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks, as evidenced by House Bill No. 6 approved on December 12, 2022, and Senate Bill No. 2699 dated May 22, 2024.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	<p>Answer: No.</p> <p>Explanation: PA1 supports reforms to reduce barriers to competition and investment in data transmission, promoting connectivity access, spectrum management and infrastructure sharing, which do not introduce or reinforce persistent barriers to the country's ability to pursue a low-emissions development pathway. In addition, i) The country has adequate policy and regulatory frameworks to ensure energy efficiency including for network equipment (RA 11285 or Energy Efficiency and Conservation Act of 2019, and its Implementing Rules and Regulation (DOE's DC2019-11-0014); and ii) The reform will promote infrastructure sharing, reducing duplicative infrastructure deployment across multiple utility sectors, therefore reducing GHG emission from comparable infrastructure expansion without the proposed reform. Finally, expanded access to digital connectivity is expected to reduce GHG emissions associated with activities subject to digitalization (such as travels to/from public service facilities), and improving efficiency in energy-consuming activities (such as smart agriculture, smart manufacturing), potentially leading to net reduction in GHG emissions.</p>
<b>Conclusion for PA1: ALIGNED with the goals of the Paris Agreement.</b>	
Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by DBM-DICT-NEDA Joint Memorandum Circular No. 2024-01 (s. 2024) dated November 22, 2023.	
Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the BTr Treasury Circular No. 1-2024 dated March 27, 2024.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	<p>Answer: No.</p> <p>Explanation: PA2 supports the harmonization of electronic government systems leading to more efficient use of resources. PA3 supports the strengthening of public asset management. It is not expected that these reforms lead to a significant increase in GHG emissions.</p>



<b>Conclusion for PA2 and PA3: ALIGNED with the goals of the Paris Agreement.</b>	
<b><i>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency, and Increasing Usage of Digital Financial Services</i></b>	
Prior Action 4. To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (RA 12010).	
Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers, as evidenced by (i) BSP Circular No. 1195 (Series of 2024) dated June 1, 2024; and (ii) BSP Circular No. 1198 (Series of 2024) dated July 19, 2024.	
Prior Action 6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System, as evidenced by BSP Circular No. 1181 (Series of 2023) dated November 10, 2023.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	<p>Answer: No.</p> <p>Explanation: PA 4 protects users against cybercrimes. PA5 enhances transparency in fees and governance of retail payment systems. PA6 expands non-banks access to real-time gross settlement. All these reforms are not expected to lead to an increase in GHG emissions.</p>
<b>Conclusion for PA4, PA5, and PA6: ALIGNED with the goals of the Paris Agreement.</b>	
<b><i>Pillar C. Boost Growth in Digitally-Enabled Services</i></b>	
Prior Action 7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct, through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act of 2023, dated May 24, 2024.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	<p>Answer: No.</p> <p>Explanation: PA7 increases trust in ecommerce transactions. It is not expected to lead to a significant increase in GHG emissions.</p>
<b>Conclusion for PA7: ALIGNED with the goals of the Paris Agreement.</b>	
Prior Action 8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector, as evidenced by the CAB Guidelines Implementing Commonwealth Act No. 146, as amended by Republic Act No. 11659, dated May 20, 2024.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	<p>Answer: Yes.</p> <p>Explanation: The reform could lead to more investment in air transportation services and cause an increase in GHG emissions.</p>
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?	<p>Answer: No.</p> <p>Explanation: Limiting freight movement only to viable lower GHG emissions alternatives would be insufficient to meet the needs of the country. Given the country's geography, air transportation plays a crucial role in transporting goods and together with road, rail and shipping create a holistic transportation system that allows for enhanced logistics. The prior action facilitates the entry of more private investments in the sector without creating barriers to future transition to more energy efficient technologies. On the contrary, by opening up additional sources of financing for the sector, investments in more green technologies could be accelerated. As early as 2018, the Philippines submitted to the International Civil Aviation Organization (ICAO) its State Action Plan on GHG emissions reduction. In its Action Plan, the Philippine government commits to minimizing aviation's carbon footprint through measures such as, including but not limited to, air traffic improvements, airport initiatives, as well as aircraft emission reduction measurements, and targets improvement in fuel efficiency in both domestic and international operations by 25% in 2030 from its 2016 baseline. Mitigation measures include developing alternative fuels, introducing carbon reporting, as well as improving air traffic management and infrastructure by establishing a performance-based navigation system in all public aerodromes to increase airspace capacity, improve aviation safety, and reduce aviation activities' environmental impact.</p>



	<p>In 2022, member states of the ICAO, including the Philippines, agreed to a long-term aspirational goal of net-zero carbon dioxide emissions from aviation by 2050.</p> <p>With the lifting of foreign equity restrictions in air transportation services, additional sources of financing and the threat of new entrants could create a dynamic towards more efficient aircraft, and compliance with the above-mentioned ICAO objectives. This reform will not adversely affect the future deployment of lower-carbon alternatives, does not significantly reduce passenger or freight traffic on exiting, competing or complementary lower-carbon transport modes, and does not deter future investments in cleaner alternative modes of transport.</p> <p>The Philippines has also put in place the Environmental Impact Statement System (PEISS) which requires all investment projects to identify a wide range of measures to avoid, minimize, mitigate, and compensate adverse impacts caused by a project. It also requires including mitigation measures, monitoring plans and corresponding institutional management, and financial arrangements for implementation. All projects that can potentially cause any form of significant negative impact on the environment are required to secure an Environmental Compliance Certificate (ECC), which is subject to monitoring, validation, and evaluation/audit for performance assessment.</p>
<p><b>Conclusion for PA8: ALIGNED with the goals of the Paris Agreement.</b></p>	
<p><b>Mitigation goals:</b> On mitigation, prior actions (PAs) 1, 2, 3, 4, 5, 6, and 7 are not likely to cause a significant increase in GHG emissions. While PA8 could spur greater investment in air transportation services and cause an increase in GHG emissions, it is not likely to introduce or reinforce a persistent barrier to transition to the Philippines’ low-GHG emissions development pathways.</p>	
<p><b>Adaptation and resilience goals: assessing and managing the risks</b></p>	
<p><b>Pillar A. Improve Access to Digital Connectivity and Digital Government Service Delivery</b></p>	
<p>Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks.</p>	
<p>Step A2: Are risks from climate hazards likely to hurt the prior action’s contribution to the Development Objective(s)?</p>	<p>Answer: No.  Explanation: Climate hazards do not pose any threat to the competition reforms reducing barriers to investment espoused in PA1. Furthermore, the proposed reforms under PA1 will render the Philippine’s network infrastructure configurations more resilient to climate-induced disasters through infrastructure sharing, resulting in less aerial wires and cables (prone to disruptions) and more underground fiber optic cables in backhaul network (including through cross-utility corridors) as well as more fixed wireless and less landline in access network in unserved or underserved areas in particular. The Philippine Connectivity Act through its infrastructure sharing provision (Sec 16) explicitly mandates disaster resilience: <i>“The NTC, in coordination with relevant government agencies, shall also ensure the disaster resilience and ease of recovery and restoration of passive infrastructure, such as towers, poles, and utility corridors, from the effects of disasters by strictly enforcing compliance with internationally-accepted engineering standards and best practices, and relevant engineering codes and codes of practice.”</i></p>
<p><b>Conclusion for PA1: ALIGNED with the goals of the Paris Agreement.</b></p>	
<p>Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, through a Joint Memorandum Circular No. 2024-01 (s. 2024) dated November 22, 2023.</p>	
<p>Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the Treasury Circular.</p>	
<p>Step A2: Are risks from climate hazards likely to hurt the prior action’s contribution to the Development Objective(s)?</p>	<p>Answer: No.  Explanation: PA2 supports the harmonization of electronic government systems. PA3 supports the strengthening of public asset management to better inform decision on disaster resilience and financing of the critical and important assets, which would support building resilience to risks from climate hazards and disasters. Risks from climate hazards are not expected to hurt the PA’s contribution to improving digital government service delivery.</p>



<b>Conclusion for PA2 and PA3: ALIGNED with the goals of the Paris Agreement.</b>	
<b><i>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency, and Increasing Usage of Digital Financial Services</i></b>	
Prior Action 4. To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (RA 12010).	
Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers, as evidenced by (i) BSP Circular No. 1195 (Series of 2024) dated June 1, 2024; and (ii) BSP Circular No. 1198 (Series of 2024) dated July 19, 2024.	
Prior Action 6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System, through a BSP Circular.	
Step A2: Are risks from climate hazards likely to hurt the prior action's contribution to the Development Objective(s)?	<p>Answer: No.</p> <p>Explanation: PA4 protects users against cybercrimes. PA5 enhances transparency in fees and governance of retail payment systems. PA6 expands non-banks access to real-time gross settlement. Risks from climate hazards are not expected to hurt the PA's contribution to improving the adoption of digital payments.</p>
<b>Conclusion for PA4, PA5, and PA6: ALIGNED with the goals of the Paris Agreement.</b>	
<b><i>Pillar C. Boost Growth in Digitally-Enabled Services</i></b>	
Prior Action 7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct, through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act.	
Prior Action 8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector, as evidenced by the CAB.	
Step A2: Are risks from climate hazards likely to hurt the prior action's contribution to the Development Objective(s)?	<p>Answer: No.</p> <p>Explanation: PA7 increases trust in ecommerce transactions. PA8 enhances the investment climate in air transport services. Risks from climate hazards are not expected to hurt the PA's contribution to boosting business growth in digital services.</p>
<b>Conclusion for PA7 and PA8: ALIGNED with the goals of the Paris Agreement.</b>	
<b>Adaptation and resilience goals:</b> On adaptation and resilience, risks from climate hazards are not likely to hurt any of the PAs' contributions to the PDO.	
<b>OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT:</b> 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' Second Digital Transformation DPL is deemed Paris-Aligned.	



CLIMATE CHANGE CO-BENEFITS

PRIOR ACTION	CLIMATE CHANGE ADAPTATION	CLIMATE CHANGE MITIGATION
<p>Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks.</p>	<p>Communication infrastructure in the Philippines is extremely vulnerable to climate-induced disasters, in particular typhoons. The damages incurred due to natural extreme events and disasters from 2010 to 2019 is estimated up to PHP 60 billion (1). Typhoon Rai in 2022 caused mobile and internet service disruptions due to fiber cuts and power outages reported in at least 20 provinces in the Visayas and Mindanao.</p> <p><b>The proposed reforms will render the Philippine’s network infrastructure configurations more resilient to climate-induced disasters</b> through infrastructure sharing, resulting in less aerial wires and cables (prone to disruptions) and more underground fiber optic cables in backhaul network (including through cross-utility corridors) as well as more fixed wireless and less landline in access network in unserved or underserved areas in particular.</p> <p><b>The Konektadong Pinoy Act through its infrastructure sharing provision (Sec 16) explicitly mandates disaster resilience:</b> <i>“The NTC, in coordination with relevant government agencies, shall also ensure the disaster resilience and ease of recovery and restoration of passive infrastructure, such as towers, poles, and utility corridors, from the effects of disasters by strictly enforcing compliance with internationally-accepted engineering standards and best practices, and relevant engineering codes and codes of practice.”</i></p> <p>Beyond enhancing resilience of communication infrastructure, the proposed reforms will improve access and affordability of fixed and mobile broadband internet, to <b>expand reach of communication networks and increasing beneficiaries of early warning systems (EWS) and other tools to improve disaster preparedness, response and recovery capacities of communities, households and firms.</b> The EWSs have played important roles in reducing the loss of life: 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 (both were category 5 super typhoons, with maximum sustained winds around 280 km/h).</p>	<p>Infrastructure sharing, for towers in particular, reduces mobile network infrastructure’s carbon footprint, through reduction of new tower construction and optimization of power consumption for radio network operation. GHG emission reduction through tower sharing in the Philippines is estimated 0.6 – 1.1 million metric tonne, cumulative 2021-25, under the assumption that the construction of tower produces 75 tonnes of carbon footprint; construction can be reduced by 50% and emission due to site operation can be reduced by 30%, through successful shared towers rollout (Roland Berger, 2022).</p>



<p>Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a Joint Memorandum Circular.</p>	<p>Instances of extreme weather events have caused paralysis in government services. Well-coordinated digitalization efforts with continuity protocols increase the resilience and accessibility of government services.</p>	<p>Transitioning government services from analog to digital will lead to reduction of GHG emissions.</p> <p>More coordinated and harmonized ICT expenditures and procurement with green as a priority in the digitalization process will lead to more energy efficient solutions such as bundled cloud solutions.</p> <p>Streamlined delivery of online public services will increase transparency and reduce the transaction cost (time and price) and environmental footprint (time in commute, time in the queue, saving paper, fuel, and CO2 emissions). The transaction cost and environmental footprint of the traditionally delivered services targeted by the proposed digitalization are massive. Preliminary estimates show that access to public services is associated with a large annual transaction and environmental cost of visits to public offices<sup>56</sup> (indicatively, over 150 million man-hours in commute, US\$ 175 million worth of fuel, and 365,000 tons of CO2 emissions)</p>
<p>Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the Treasury Circular.</p>	<p>By clearly laying down the roles of stakeholders and rules of analytics, the governance framework for NARS will enhance the ability of different government agencies to use NARS data in ensuring the resilience of their assets against climate shocks.</p>	
<p>Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail</p>	<p>In instances of extreme weather events especially, remote communities dependent on cash systems are unable to trade because available cash in the area cannot be replenished because they cannot be reached by air or sea.</p>	

<sup>56</sup> Rough estimates based on the frequency of public office visits according to the Philippines Annual Poverty Indicators Survey, 2020.



electronic fund transfers, through BSP Circulars	By promoting transparency in fee structures and encouraging the use of digital payments, particularly in more remote regions in the country that are vulnerable to extreme weather events, this reform will also enhance the resilience of the said regions by providing them with more reliable and accessible financial services.	
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**ANNEX 6: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES**

Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
<b><i>Pillar A. Improve Access to Digital Connectivity and Digital Government Service Delivery</i></b>		
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 enactment of the Spectrum Management Act, or equivalent legislation, by XX 2024.	Prior Action 1. To improve competition and increase investment in data transmission, the Borrower, through NEDA, has submitted a proposed Act to the Congress regulating open access, infrastructure sharing, and radio frequency spectrum management of data transmission networks	Propose to change to stronger legislation covering not only spectrum transparency/flexibility but also broader regulatory barriers to competition and investment (market entry, level playing field, infrastructure sharing), inter-related and requiring a comprehensive reform package as diagnosed through an ASA informing strengthening of the consolidated bill.
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.	Prior Action 2. To improve public service delivery, the Borrower, through the DBM, DICT, and NEDA, has reconstituted MITHI with the mandate to harmonize electronic government systems in all government agencies, as evidenced by a Joint Memorandum Circular	Propose to change PA from enactment of the E-Governance Act to a JMC on the whole of the government (WOG) approach to ICT investments and budget expenditure. The new reform addresses the implementation of the WOG approach and presents immediate benefits on ICT investments and government budget expenditure. The revival of MITHI aims to harmonize ICT investments and budget expenditure, such as reducing duplication in ICT systems through the strategic budget planning exercise led by DBM, NEDA and DICT. The proposed EGOV bill, which is still pending in Congress, despite the alignment with the WOG approach supported by the reform, included contentious provisions contrary to principles of good corporate governance of GOCCs and faced strong opposition from other government agencies.



Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
<p>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.</p>	<p>Dropped.</p>	<p>The AO25 IATF, earlier identified as a mechanism for motivating adoption of the common IFMIS solution through mandating it's use as eligibility criterion for their performance-based bonus allocations, was superseded by a Presidential Executive Order and will undergo major "overhaul", which rendered the indicative trigger irrelevant. The latter can no longer offer the incentives that would have supplemented the mandatory requirement to adopt the system (DPL 1 PA). This news was delivered in the form of the attached EO61 of the President. It is worth noting that this does not signal a reversal of the IFMIS implementation. Implementation and roll-out of IFMIS will continue according to the initial plan. This change will not impact the relevance of the indicator and the target for IFMIS roll-out. The results will continue to be driven and supported by the PA for MITHI within the same reform area.</p>
<p>Indicative Trigger 3. To inform decisions on disaster resilience and financing of government assets and strengthen public asset management, the Borrower, through DOF-DBM-NEDA, has adopted a Governance Framework that sets out a system of rules and responsibilities for the NARS as evidenced by the JMC X dated XX, 2024.</p>	<p>Prior Action 3. To inform disaster risk financing and management of critical public assets based on data submitted to the NARS, the Borrower, through the Bureau of Treasury, has adopted a governance framework regulating the exchange of asset information and data analytics among government agencies, as evidenced by the Treasury Circular</p>	<p>We propose changing from JMC to BTr issuance. This change has been decided amongst members of the Budget Committee (DBCC) (TWG) on Asset Management, considering that this responsibility was already delegated to BTr through the respective DPL 1 PA. BTr ownership of the system allows it to retain authority over investment decisions, flexibility, and framework timelines, bearing the leadership over expansion and amendments to the system.</p>
<p>Results Indicators #4: Cost of mobile and fixed broadband services (% of GNI per capita). Baseline: Mobile: 2.04 (2021) Fixed: 11.56 (2021) Target: Mobile: 2.00 (2025) Fixed: 5.0 (2025)</p>	<p>Results Indicator 1: Percentage of households connected to fixed broadband services. Fixed: 25.6% (2022) Fixed: Target: 35.0% (2026)</p>	<p>Propose to strengthen outcome orientation, one step forward from the improved affordability as an intermediate outcome (also in line with the recently recalibrated World Bank Corporate Scorecard). Simplify to focus only on fixed broadband, aligning with PDP 2023-28 results matrix.</p>



Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
	<p>Results Indicator 2: Cost of fixed broadband basket as a percentage of GNI per capita                      Baseline: 11.3% (2022)                      Target: 8.5% (2026)</p>	<p>Included also a cost indicator to reflect on the competition effects of the reform, consistent with the theory of change.</p>
<p>Results Indicator #1: Share of government payments (by value) processed through IFMIS.                      Baseline: 0 (2022)                      Target: 50 % (2025)</p>	<p>Results Indicator 4. Share of government payments (by value) processed through IFMIS, enabling gender budget tagging.                      Baseline: 0 (2022)                      Target: 35 % (2026)</p>	<p>Moderated the target, and extended its duration until 2026.</p>
<p>Results Indicator #2: Number of systems connected through a unified E-Government portal or mobile application for improved service delivery in selected sectors.                      Baseline: 0 (2023)                      Target: 10 (2025)</p>	<p>Results Indicator 3. Number of people using digitally enabled government services through unified e-government portal or mobile application (million people)</p>	<p>While the DPL continues supporting the whole-of-the-government approach to e-government, the instrument changed from the e-Governance Act to MITHI. Based on the PCN review guidance the new indicator was proposed for the modified PA. The new indicator is also in line with Corporate Scorecard.</p>
<p>Results Indicator #3: Number of agencies using NARS.                      Baseline: 0 (2022)                      Target: 5 (2025)</p>	<p>No change</p>	<p>We may need to adjust the target to include 2026</p>
<p><b>Pillar B. Deepen Financial Inclusion by Enhancing Safety, Efficiency, and Increasing Usage of Digital Financial Services</b></p>		
<p>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.</p>	<p>Prior Action 4. To enhance the safety of digital financial services and reduce their vulnerability to cybercrimes, the Borrower has defined and penalized payment fraud, provided the legal basis for information sharing in fraud investigations, and regulated the liability of non-compliant financial institutions, as evidenced by the enactment of the Anti-Financial Account Scamming Act (RA 12010).</p>	<p>Light rewording.</p>
<p>Indicative Trigger 6: To promote competition and increase efficiency in the usage of digital financial services, the Borrower, through BSP, has enhanced transparency and customer protection for users of retail payment services as evidenced by BSP Circulars No. xx dated xx</p>	<p>Prior Action 5. To enhance safety and boost usage of digital financial services, the Borrower, through BSP, has improved transparency and customer protection for retail electronic fund transfers through BSP Circulars.</p>	<p>Minor editorial change to better capture the nature of the reform.</p>



Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
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.	Dropped.	As of February 2, 2024, the BSP dropped this reform, due to the delay in the passage of the Digital Payments Act (DPA).
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.	Prior Action 6. To increase the usage of digital payments by improving the efficiency of payments infrastructure and promoting competition among providers, the Borrower, through BSP, has enhanced and streamlined access to intraday liquidity, including to non-banks, in the Peso Real-Time Gross Settlement Payment System through a BSP Circular.	This replaced the previous PA7 based on the clarification received from BSP. The actual practice of granting non-banks access to the RTGS started in 2023, but the regulation enabling that was issued in November 2022, which is outside the scope of this DPL.
Result Indicator #7: Decrease in fraud rates (i.e., phishing, money mules and other cybercrimes) involving the use of digital financial services (basis points). Baseline: 3.16bps (2022) Target: <=2.84bps (2025)	Result Indicator 6. Fraud rates (i.e., phishing, money mules and other cybercrimes) involving the use of digital financial services (basis point) 8.67bps (2023) Target: <=8.24bps (2026)	Modified the baseline, and the target, since the new reporting requirements, and the new systems, increased the volume of cases based on measurement only.
Results Indicator 5: Volume of digital payments over total retail payment transactions (percent). Baseline: 30.3 (2021) Target: >52 (2025)	Results Indicator 7: Volume of digital payments over total retail payment transactions (percent). Baseline: 42.1 (2021) Target: >56% (2026)	Updated baseline and target values based on most updated information. extended duration to 2026, as per OPCS guidance.
Results Indicator 6: Percentage increase in the number of transaction accounts onboarded (percentage increase). Baseline: 229 mn (2022) Target: >=10% (2025)	Dropped.	Determined to be redundant.
<b>Pillar C. Boost Growth in Digitally-Enabled Services</b>		
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.	Prior Action 7. To increase trust in e-commerce transactions, the Borrower, through DTI, has enabled the establishment of a trustmark framework and an online dispute resolution system, and adopted e-commerce and online consumer codes of conduct through the Implementing Rules and Regulations (IRR) of the Internet Transactions Act	Further specified.



Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
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.	Prior Action 8. To improve logistics for e-commerce transactions, the Borrower, through CAB, has removed the foreign equity cap on the air transportation services sector through CAB Guidelines.	RA 6: Promote uptake of e-commerce through trust, market contestability, and enhanced parcel delivery. Replaced to highlight operationalization of the Public Services Act, as amended.
Results Indicator 8: Contribution of eCommerce to GDP (%). Baseline: 1.7% (2021) Target: 2.5% (2025)	Results Indicator 8: Number of e-commerce enterprises Baseline: 2.4M (2022) Target: 3.5M (2026)	Replaced to improve attribution, and to reduce the noise from the price data embedded in revenue.
Results Indicator 9: Share of women-owned businesses that make online transactions (%). Baseline: 2.9% (2022) Target: 5.5% (2025)	No change	
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.	Dropped.	Dropped from the matrix, but not from the DPL. It has been folded under the reform area. RA 6: Promote uptake of e-commerce through trust, market contestability, and enhanced parcel delivery
Results Indicator 10. Number of decisions approved involving digital markets by the PCC. Baseline: 2020-2022: 2 Target: 2023-2024: 4	Dropped.	It was made redundant. The reform impact is now captured by indicator 6.
Indicative Trigger 12: To safeguard the value of digital content and enable private investments in creative industries, the Borrower, through IPOPHL, has allowed to removal digital content in violation of IP as evidenced through a Memorandum of Agreement on digital content copyright protection between IPOPHIL and ISPs.	Dropped.	Dropped from the matrix, but not from the DPL. Reform area from DPL1 Prior Action on Creative Industries carried over.
Results Indicator 11. Average annual growth of creative industry export. Baseline: 4.25% (2018-2021) Target: 6.25% (2022-2025)	Results Indicator 10: Employment in Creative Industries Actual 2022: 6.9 M Target 2026: 7.8 M	Replaced to improve attribution, and to reduce the noise from the price data embedded in revenue. Note, that there is an ongoing TA on the definition and measurement of creative industries,



Original Pillars, Indicative Triggers, and Indicators	Updated	Comments
		creative industries in the Philippines are capturing intangible capital-intensive firms (e.g. software, database, trademarks, copyrights)
Indicative Trigger 13: To enhance the 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 June, XX, 2023.	Dropped.	Dropped from the matrix, but not from the DPL. Reform area from DPL1 Prior Action on skills training carried over.
Results Indicator 12. Number of HEI-recognizing digital skills courses via the PCTS (#). Baseline: 0 (School Year 2022-23) Target: 50 (School Year 2024-2025)	No change.	

<sup>[1]</sup> However, the use, rollout, and further development of the BTMS was indefinitely suspended effective August 1, 2021, given the changes in the strategic direction of the envisioned 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. Further, by Executive Order No. 29, s. 2023, the PFM Committee continuously ensures the alignment of the BTMS in the overall strategic direction of IFMIS through its ongoing efforts of conducting policy review of key PFM processes and development of the PFM Reforms Roadmap, among others.