Report Number: ICRR0024643

1. Program Information

Country	Practice Area (Lead)
Philippines	Finance, Competitiveness and Innovation

Programmatic DPF

Planned Operations	Approved Operations
0	0

Operation ID	Operation Name
P175008	Philippines Financial Sector Reform DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-92750	30-Jun-2022	400,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
24-Jun-2021	30-Jun-2022	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	400,000,000.00	0.00
Revised Commitment	400,000,000.00	0.00
Actual	400,000,000.00	0.00

Country	Practice Area (Lead)
Philippines	Finance, Competitiveness and Innovation

Operation ID	Operation Name
P175360	Philippines Second Financial Sector DPF (P175360)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-92750,IBRD-94750	30-Jun-2024	600000000.00

Bank Approval Date	Closing Date (Actual)
30-Jan-2023	30-Jun-2024

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	600,000,000.00	0.00
Revised Commitment	600,000,000.00	0.00
Actual	600,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	Fernando Manibog	Avjeet Singh	IEGSD

2. Program Objectives and Pillars/Policy Areas

a. Objectives

According to the Financing Agreement, the program development objective of this programmatic Philippines First and Second Financial Sector Reform Development Policy Financing was "to support financial sector reforms that will assist the Government of the Philippines in achieving a resilient, inclusive and sustainable financial sector."

This ICR Review will evaluate this operation using the following objectives:

Objective 1 - To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.
Objective 2 - To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.
Objective 3 - To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.

b. Pillars/Policy Areas

The programmatic series had three policy pillars:

Strengthening Financial Sector Stability, Integrity, and Resilience supported reforms to enhance the financial system's resilience to economic shocks, such as those triggered by the COVID-19 pandemic, by: (a) strengthening the legal and institutional framework for banking and insurance oversight, including anti-money laundering and countering the financing of terrorism (AML/CFT), supervision of financial conglomerates, and deposit insurance; (b) enhancing crisis management and the resolution framework for banks; and (c) improving the availability of long-term finance.

Expanding Financial Inclusion for Individuals and Firms supported reforms to broaden access to financial services, including the vulnerable and the underserved, by: (a) harnessing digital technologies and promoting innovative financial products; (b) strengthening the framework for responsible finance to build consumer trust; and (c) improving micro, small, and medium enterprise (MSME) access to credit.

Catalyzing Disaster Risk and Sustainable Finance supported reforms aimed at: (a) strengthening the management of climate and disaster risks by establishing a sustainable catastrophe insurance market with risk pooling mechanisms and (b) facilitating the mobilization of green finance for sustainable investments by integrating climate and environment risks in financial institutions' risk management frameworks and mobilizing green finance by introducing incentives for green investments.

c. Comments on Program Cost, Financing and Dates

Program Cost and Financing. The first operation was estimated to cost US$400 million at appraisal; it was financed by a development policy loan from the International Bank for Reconstruction and Development (IBRD) to the Republic of the Philippines in the same amount. The second operation was estimated to cost US$600 million at appraisal; it was financed by a development policy loan from the IBRD to the Republic of the Philippines in the same amount. Both loans were fully disbursed.

Dates. The first operation was approved on June 23, 2021, became effective on August 24, 2021, and closed as planned on June 29, 2022. The second operation was approved on January 30, 2023, became effective on March 31, 2023, and closed as planned on June 29, 2024.

3. Relevance of Design

a. Relevance of Objectives

A Financial Sector Assessment Program (FSAP) for the Philippines — conducted in 2019–2020, when COVID-19 struck and the economy contracted by 9.5 percent — found that while the banking system was resilient to exceptionally severe shocks under the baseline scenario, systemic solvency risks could arise if additional downside shocks materialized. Focusing on financial system **stability**, the International Monetary Fund (IMF) recommended actions to strengthen resilience, integrity, and effectiveness across key areas, including AML/CFT, macroprudential policy, banking supervision, insurance supervision, capital markets oversight, crisis management and resolution, financial safety nets, and financial market infrastructure (IMF, 2021, *Philippines Financial System Stability Assessment*) (FSSA). Turning to financial sector **development**, the World Bank added measures to broaden and deepen markets and services in critical sectors, such as corporate bond and equity markets, retail payments, credit information systems, climate and environmental risk management, and green finance (World Bank, 2021, *Philippines Financial Sector Assessment*) (FSA).

Binding Constraints to Financial Sector Stability and Development. This programmatic series supported the implementation of selected recommendations from the IMF and the World Bank, along with those from a third report that presented a sobering long-term scenario for the Philippines: significant economic damage from climate shocks extending over decades (World Bank, 2022, *Philippines: Country Climate and Development Report*) (CDDR). The policy, regulatory, and institutional measures advanced through these two development policy operations aim to build a resilient, inclusive, and sustainable financial sector—one that supports the Philippines' recovery from the COVID-19 crisis while also advancing its long-term aspiration of sustained growth and high-income status.

- **Challenges to a Resilient Financial Sector.** A repeat inclusion of the Philippines in the Financial Action Task Force (FATF) list of jurisdictions with serious AML/CFT deficiencies posed a significant threat to the integrity of the country's financial system, with potential adverse effects on trade, remittances, and foreign direct investment. Additionally, weaknesses in bank supervision, the financial safety net, bank resolution, and crisis management undermined the resilience of the financial sector (IMF, 2021, *Philippines FSSA*). Material gaps remained in the central bank's legal authority, particularly regarding conglomerate supervision. The Philippine Deposit Insurance Corporation (PDIC) had not been legally designated as the resolution authority, and available bank resolution tools were largely limited to liquidation. Furthermore, the central bank had yet to establish internal guidance for assessing a bank's capital position and overall viability when considering emergency lending assistance.
- **Challenges to an Inclusive Financial Sector.** Financial inclusion in the Philippines remained low, with only 50 percent of adults owning a financial account, compared to the regional average of 83 percent and the middle-income country average of 70 percent. However, with 78 percent of adults owning a mobile phone and credit transfers increasingly replacing check transactions, there was strong potential to leverage digital technology to expand financial inclusion (World Bank, 2021, *Philippines FSA*). A financial consumer protection framework that also promotes financial literacy offered an alternative to dispute resolution in consumer finance, while the use of financial technology (fintech) could further improve access to finance for SMEs.
- **Challenges to a Sustainable Financial Sector.** Climate risks posed a significant threat to the country's growth prospects, with economic losses projected to reach 7.6 percent of GDP by 2030 and 13.6 percent by 2040 if mitigation measures were not implemented (World Bank, 2022, *Philippines CDDR*). In response, the Philippines updated its Nationally Determined Contribution (NDC) under the Paris Agreement—an international treaty on climate change—committing to a 75 percent reduction and avoidance of greenhouse gas (GHG) emissions for the 2020–2030 period, relative to a business-as-usual scenario. Planned climate actions included carbon pricing, climate-resilient infrastructure, and interventions across multiple sectors such as water resources, agriculture, energy, and transportation. These measures required substantial investment and financing from both public and private sources, which would only materialize if significant reforms were introduced in disaster risk finance and green finance.

Country Development Priorities. The objectives of the reform program aligned with the government's development priorities. The *Updated Philippine Development Plan (PDP) 2017–2022* aimed to build "resilient and inclusive monetary and financial sectors" through the following measures: (a) pursuing financial stability via macro-prudential policies; (b) developing a more inclusive digital finance ecosystem; (c) encouraging efficiency and innovation in microfinance and microinsurance; (d) fostering capital market development; (e) promoting the growth of green and sustainable finance markets; (f) supporting reforms and initiatives to strengthen the domestic financial market and enhance consumer protection; (g) developing a regulatory framework for Islamic finance; (h) applying micro-prudential measures to ensure financial institution soundness and protect consumers; and (i) strengthening insurance sector monitoring and expanding information campaigns on available products and services.

World Bank Group Country Strategy. The objectives of the reform program were consistent with the World Bank Group's country strategy for the Philippines at program closing. The *Country Partnership Framework (CPF) for the Republic of the Philippines for the Period July 2019–December 2023* supported the country's development priorities, organized around three focus areas: Investing in Filipinos; Competitiveness and economic opportunity for job creation; and Addressing core vulnerabilities by building peace and resilience. It also included two cross-cutting themes: Governance and Promoting digital transformation. The project's financial sector reform objectives aligned with: Focus Area 1, specifically CPF Objective 5 – Promote regulatory reforms to enhance competitiveness, and Focus Area 3, specifically CPF Objective 10 – Increase resilience to natural disasters and climate change. Additionally, financial sector reforms contributed to the cross-cutting themes by: improving access to finance for individuals and firms; bridging gaps in human capital development through accessible and affordable financial services (e.g., digital payments, insurance); and strengthening resilience through disaster risk finance and climate change/green finance

b. Relevance of Prior Actions

Rationale

DPO1	DPO2
Objective 1 - To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.	
PA1 (DPO1 PA1)**:** To address the legal deficiencies in the Philippines' current AML/CFT framework and implement key recommendations of FATF, the Borrower has included the commission of tax crimes as a predicate offense to money laundering; included real estate developers and brokers as covered persons under the AML/CFT framework; and provided a mechanism for implementation of targeted financial sanctions, as evidenced by Sections 2 and 3 of Republic Act No. 11521 dated January 29, 2021, providing amendments to Republic Act No. 9160 (Anti-Money Laundering Act).	**PA2** (DPO2 PA1)**:** To strengthen the resilience of the financial sector and effectively respond to a crisis, the Borrower (Government), has enhanced PDIC's mandate to expand deposit insurance coverage and improve coordination between PDIC and the Bangko Sentral ng Pilipinas (BSP), as evidenced through the enactment of the Republic Act No. 11840 on June 17, 2022, on the Philippine Deposit Insurance Corporation Charter.
	PA3 (DPO2 PA2)**:** To improve the supervision by the BSP of banks and conglomerates, the Borrower, through the BSP, has required banks and quasi-banks to adopt strengthened large exposure monitoring threshold, in line with the requirements of the Basel Core Principles as evidenced through BSP Circular No. 1150 dated August 23, 2022.
PA4 (DPO1 PA2)**:** To align the Insurance Code with international standards (Insurance Core Principles) the Borrower, through the Insurance Commission, has proposed certain amendments to the Insurance Commissioner on operational independence of the	**PA5** (DPO2 PA3)**:** To strengthen risk management of insurance companies, the Borrower, through the IC, has required insurance companies to adopt a risk and solvency assessment framework to strengthen the risk-based approach to assess risks,

Insurance Commission (IC), risk-based supervision, and reinsurance, as evidenced by the Memorandum for Insurance Commissioner dated April 15, 2021, attached with draft amendments.	including climate risks, as evidenced through IC Circular Number 2022-41 dated August 25, 2022.
PA6 (DPO1 PA3)**:** To strengthen recovery plans of Domestic Systemically Important Banks (D-SIBs), the Borrower, through BSP, has separated the requirements of recovery plan assessment from the Internal Capital Adequacy Assessment Process (ICAAP) by the D-SIBs, as evidenced by BSP Circular No. 1113 dated 16 April 2021.	**PA7** (DPO2 PA4)**:** To strengthen the BSP's early-intervention regime, the Borrower, through the BSP, has required all banks to undertake recovery planning as evidenced through BSP Circular No. 1158 dated October 18, 2022.
PA8 (DPO1 PA4)**:** To enhance efficiency and broaden the issuer and investor base for corporate debt securities, the Borrower, through the Securities and Exchange Commission (SEC), has broadened the scope of institutional investors that are allowed to participate in the private placement market, as evidenced by SEC Memorandum Circular No. 6 dated April 22, 2021.	**PA9** (DPO2 PA5)**:** To reduce transaction costs and encourage issuances through capital markets, the Borrower has submitted a proposed act on passive income and financial intermediary taxation, simplifying the existing tax regime for the capital market to Congress, as evidenced by House Bill No. 4339 dated September 1, 2022, and the Senate Bill No. 1347 dated September 27, 2022.
Objective 2 - To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.	
PA10 (DPO1 PA5)**:** To create an enabling environment for providing a cost-effective banking experience for retail clients and MSMEs, the Borrower, through the BSP, has issued a regulation on the establishment of Digital Banks, as evidenced by BSP Circular No. 1105 dated December 02, 2020.	**PA11** (DPO2 PA6)**:** To promote digital transformation and introduce open finance, the Borrower, through BSP, has adopted an Open Finance Framework (OFF) that sets out the technical, security, and governance standards for sharing customers' personal and financial data with qualified parties, as evidenced through BSP Circular No. 1122 dated June 17, 2021.
PA12 (DPO1 PA6)**:** To strengthen BSP's, SEC's and IC's mandate and powers to regulate and supervise market conduct and consumer protection in the financial sector, the Borrower, through its Government, has submitted the "Financial Products and Services Consumer Protection Act" to the Senate for approval as evidenced by House Bill No. 6768 dated May 19, 2020 and Senate Bill No. 1739 dated July 27, 2020.	**PA13** (DPO2 PA7)**:** To implement the Financial Products and Services Consumer Protection Act, the Borrower, through BSP, has required BSP Supervised Institutions (BSIs) to adopt amended regulations and guidelines on financial consumer protection as evidenced through the BSP Circular No. 1160 dated November 28, 2022.
PA14 (DPO1 PA7)**:** To expand access to finance for MSMEs by strengthening credit information, the Borrower, through the BSP, has established a credit reporting system unit and has launched the Credit Risk Database (CRD), as evidenced by a letter dated April 30, 2021 from the Governor of the BSP to the Secretary of Finance and public announcement of the launch of CRD from the Governor of BSP on December 10, 2020.	**PA15** (DPO2 PA8)**:** To ease micro, small, and medium enterprises' access to finance, the Borrower, through BSP, has required banks to adopt standard business loan applications to introduce a borrower-friendly credit process for micro, small, and medium enterprises and to facilitate monitoring of trends in business loan applications, with a gender lens for policy inputs, as evidenced through BSP Circular No. 1156 dated September 30, 2022.

Objective 3 - To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.	
PA16 (DPO1 PA8)**:** To support a sustainable insurance market and strengthen the provision of catastrophe insurance for private properties, the Borrower, through the IC, has issued a regulation to establish the Philippines Catastrophe Insurance Facility (PCIF), as evidenced by IC Circular Letter No. 2021-27 issued on April 12, 2021.	**PA17** (DPO2 PA9)**:** To support a sustainable insurance market and enable businesses and consumers to protect themselves against climate and disaster risks, the Borrower, through IC, has required non-life insurance companies and reinsurance companies to adopt revised minimum rates for catastrophe risk insurance, as evidenced through IC Circular Letter No. 2022-34 issued on July 14, 2022.
PA18 (DPO1 PA9)**:** To integrate sustainability principles into the corporate governance, risk management frameworks, and the strategic objectives and operations of banks, the Borrower, through the BSP, has adopted a Sustainable Finance Framework (SFF) for banks, as evidenced by BSP Circular No. 1085 dated April 29, 2020.	**PA19** (DPO2 PA10)**:** To integrate climate risks into banks' risk management framework, the Borrower, through BSP, has: (i) required banks to adopt an environmental, social and climate risk management framework (ESRMF), as evidenced through BSP Circular No. 1128 dated October 26, 2021; and (ii) issued a guidance on the implementation of the environmental and social risk management system and climate stress testing, as evidenced by the Memorandum No. M-2022-42 dated September 29, 2022.
	PA20 (DPO2 PA11)**:** To integrate sustainability principles into the capital market activities of banks, the Borrower, through BSP, has required banks to integrate sustainability standards into their investment activities, as evidenced by BSP Circular No. 1149 dated August 23, 2022.

Objective 1 - To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.

- Financial Oversight of Banks. Effective oversight of banks was constrained by gaps in the legal, regulatory, and supervisory framework across several areas: (a) AML/CFT – the Anti-Money Laundering Council (AMLC) was the only agency with full access to customer deposit account information, while stringent bank secrecy laws prevented the BSP and other competent authorities from obtaining complete depositor data for prudential and AML/CFT purposes; (b) these legal restrictions had broader negative impacts on AML/CFT risk management, cross-agency supervisory coordination, and cooperation with foreign authorities (Asia/Pacific Group on Money Laundering, 2019, *Philippines Mutual Evaluation Report*); (c) Financial safety nets – the PDIC lacked authority to increase deposit insurance coverage during crises that threatened monetary and financial stability or in response to changing economic conditions such as inflation; (d) PDIC shared resolution powers with the BSP, as current laws did not clearly delineate their respective responsibilities; (e) Conglomerate-level contagion risks – the BSP did not have legal authority to supervise a bank's parent, banking group, or conglomerate; (f) consequently, the BSP could not adequately assess the impact of a bank, its group, and its conglomerate on the safety and soundness of the financial system.

- **PA1:** Republic Act (RA) No. 1152 (*An Act Further Strengthening the Money Laundering Law*), signed in January 2021, amended RA 9160 (*Anti-Money Laundering Act of 2001*) to address gaps in the AML/CFT framework identified in the APG Mutual Evaluation Report. RA 1152 introduced key reforms: (a) Expanded coverage – the list of "covered transactions" now includes, among others, cash transactions exceeding PHP 500,000 within one banking day, and "covered persons" now include real estate developers, brokers, and offshore gaming operators, who are required to report suspicious transactions; (b) Enhanced AMLC powers – the AMLC was granted authority to apply for search and seizure orders and subpoenas; (c) Targeted financial sanctions – the law enables implementation of sanctions related to weapons of mass destruction proliferation and terrorism; (d) Strengthened investigations and judicial measures – the law facilitates financial investigations, particularly for drug-related cases, and reinforces related judicial processes. These amendments were recommended by the APG Mutual Evaluation Report and the World Bank–IMF *Philippines FSAP*, making the relevance of PA1 rated **Highly Satisfactory**. The ICR further notes that, to implement RA 1152, the AMLC and the BIR signed a Memorandum of Agreement (MOA) in October 2022 to enhance coordination in investigating and prosecuting suspected AML/CFT crimes.
- **PA2:** RA No. 11840 (*An Act Amending Sections 1, 3, 4, 5, 6, 7, 8, 9, 10, 13, 18, 22, 24, 26 of Republic Act 3591, Otherwise Known as the Philippine Deposit Insurance Corporation Charter*) was enacted to expand deposit insurance coverage, strengthen coordination between the PDIC and the BSP (by attaching the PDIC to the BSP instead of the Ministry of Finance), and enhance compliance with the International Association of Deposit Insurers (IADI) *Core Principles for Effective Deposit Insurance Systems*. RA 11840 authorizes the PDIC Board to: (a) revise the adjustable maximum deposit insurance coverage (MDIC) when an adverse event threatens monetary and financial stability and poses systemic risk; (b) increase the MDIC to an amount indexed to inflation; (c) review the MDIC every three years and raise coverage if necessary; (d) intervene in cases involving fraud, unsafe banking practices, or failed corrective actions; (e) streamline liquidation proceedings for closed banks; and (f) expand deposit insurance coverage to all types of deposits, including Islamic banking products. The relevance of PA2 is rated **Highly Satisfactory**.
- **PA3:** BSP Circular No. 1150 Series of 2022 (*Prudential Framework for Large Exposures Monitoring Threshold*) addressed gaps in the supervision of financial conglomerates. The rule: (a) revises the definition of a large exposure (LE) — equal to or greater than 10 percent of a covered bank's Tier 1 capital; (b) adopts a prudential limit on LEs to a single counterparty or a group of connected counterparties — no more than 25 percent of the bank's Tier 1 capital; (c) defines additional criteria for identifying connected counterparties (parties linked by linked by direct or indirect control or through significant economic interdependence) to provide clear-cut guidelines in aggregating exposures; (d) adopts a more stringent methodology for measuring exposures; (e) applies the requirements for calculating large exposures on a consolidated basis, in line with Basel Core Principles; and (f) requires the prudential reporting of LE both on a solo and on a consolidated basis. As these amendments are aligned with the "recommended actions" of the IMF and the Bank (IMF-WB, 2020, *The Philippines - Detailed Assessment of Observance - Basel Core Principles for Effective Banking Supervision*), the relevance of **PA3** is rated **Highly Satisfactory**.
- <u>Financial Oversight of Insurers</u>. Significant gaps in regulation and supervision limited the ability of the insurance sector to provide adequate risk coverage to individuals and firms and to protect lives and assets against adverse life events and business risks, including climate-related risks: (a) regulation and supervision were only loosely aligned with international standards; (b) the operational independence of the IC was questionable — funding mechanisms limited the regulator's formal and financial independence; (c) the current legal framework constrained the active implementation of risk-based supervision; and (d) the pricing of risks by insurance companies was challenging, including for disaster and climate-related risks.

- **PA4:** Proposed amendments to the Insurance Code aligned the legal, regulatory, and supervisory framework for the insurance industry with the International Association of Insurance Supervisors (IAIS) *Insurance Core Principles*. The update includes provisions for: (a) the operational independence of the IC; (b) the implementation of risk-based supervision — to enable the risk-based pricing of disaster and climate-related risks; (c) the use of preventive and corrective measures; (d) group-wide supervision of insurers; (e) market conduct supervision; and (f) the regulation of reinsurance. Because the proposed amendments to the Insurance Code had only been submitted to the Insurance Commissioner, the relevance of **PA4** is rated **Moderately Satisfactory**. Several more steps would be needed to enact the changes into law, including a review by the Department of Finance, legislation by the House of Representatives, and the approval of the final bill by the President.
- **PA5:** IC Circular Letter 2022-41 (*Adoption of Own Risk and Solvency Assessment* [ORSA] *Framework*) required insurance companies to conduct an internal assessment of their risk and solvency positions to ensure they could meet their obligations — the goal would be a comprehensive system for identifying, assessing, and managing risks in relation to capital. Specifically, the circular mandates non-life insurers to: (a) identify current and emerging risks due to floods and catastrophe events; (b) assess if the risks are adequately captured in the determination of risk-based capital (by employing methods including stress testing and scenario analysis); and (c) improve their understanding of climate-related hazards to inform strategic planning and to better manage risk. The relevance of **PA5** is rated **Satisfactory**.
- Crisis Management and Resolution Framework. The BSP needed to effectively implement those provisions of Republic Act No. 11211 of 2018 (*An Act Amending Republic Act No. 7654, Otherwise Known as the New Central Bank Act*), which aimed to strengthen the central bank's powers for preventative, early intervention, and prompt corrective action (PCA). Specifically, the BSP needed to: upgrade its capacity to assess the resolvability of banks, especially D-SIBs and support the orderly resolution of a problem bank; improve the PCA framework to ensure that ailing or failing banks are resolved in a prompt and timely fashion (i.e., before equity is exhausted); and ensure the transition of problem banks to the PDIC on a timely basis to mitigate moral hazard risks and avoid losses to the deposit insurance fund.
- **PA6:** BSP Circular No. 1113 Series of 2022 (*Amendments to the Guidelines on Recovery Plan for a Domestic Systematically Important Bank*) updated the guidelines on recovery plans for D-SIBs consistent with the requirements of the Basel Committee on Banking Supervision (BCBS): (a) D-SIBs must create action plans to restore their financial health in the event of a significant deterioration; (b) the recovery plan should be a separate document from the Internal Capital Adequacy Assessment Process (ICAAP) and must be submitted to the BSP annually; and (c) the plan must include specific initiatives to improve capital position of the D-SIB, including through capital raising, restructuring, streamlining businesses, or disposing of assets. The BSP would use the recovery plan to develop a better articulated supervisory response to a crisis — including through the use of individual capital ratios, timely PCA, and a ladder of escalating supervisory actions — thereby enhancing the resilience of the financial system against potential crises. The relevance of **PA6** is rated **Satisfactory**.
- **PA7:** BSP Circular No. 1158 Series of 202s (*Guidelines on Recovery Plan of Banks*) extended the requirement for recovery planning to all banks to reduce the risks posed by any one bank’s distress or disorderly failure to the stability of the financial system and the economy. The new requirements expand the scope of recovery plans, introduce specific recovery targets, and encourage the conduct of crisis simulations. The relevance of **PA7** is rated **Satisfactory**.

- Long-Term Finance. Although the corporate debt market had grown in recent years, it remained small relative to regional comparators (World Bank, 2019, *Philippines Financial Sector Assessment Program, Technical Note - Capital Markets Development*). Significant constraints impeded market development: (a) the investor base was narrow; (b) the pipeline for high-quality issuance was weak and lacked new products; (c) "shelf registration" — which allowed frequent issuers to register a program of securities with the SEC rather than each bond individually — was costly; (d) the bond market lacked a Medium-Term Note (MTN) program and tap facility for corporate issuers to increase the size of an existing issue; (e) all debt securities were subject to a final withholding tax (FWT) of 20 percent on interest income for domestic institutional investors and 30 percent for foreign corporations (higher than in Indonesia or Singapore); and (f) a documentary stamp tax (DST) of 0.50 percent on the initial issuance and a 0.1 percent transaction tax on trading added to costs.
- **PA8:** SEC Memorandum Circular No. 6 of April 2021 (*Amendments to Securities Regulation Code Rules 9 and 10*) expanded: (a) the list of exempt securities — securities not subject to the general requirement of registration for public sale — to include government and public agency securities; securities issued by governments of countries with which the Philippines has diplomatic relations; certificates issued by a receiver or trustee in bankruptcy; securities or their derivatives regulated by the Office of the Insurance Commission, the Housing and Land Use Regulatory Board, and the Bureau of Internal Revenue; and securities issued by a bank (except the bank's own shares of stock); and (b) the list of qualified buyers in the private placement market to some 19 types of institutional/sophisticated investors. The amendments have the effect of broadening the issuer and investor bases for the public offer and private placement markets, while retaining public disclosure requirements and fraud and civil liability penalties even for exempt securities and qualified buyers. The amendments are aligned with the FSAP recommendations (World Bank, 2019, *Philippines FSAP, Technical Note - Capital Markets Development*), and the relevance of **PA8** is rated **Satisfactory.**
- **PA9:** House Bill No. 4339 of September 2022 and Senate Bill No. 1347 of September 2022 (both titled *Passive Income and Financial Intermediary Taxation Act* [PIFITA]) aimed to simplify and rationalize the taxation of financial products and transactions. Among others, PIFITA: (a) reduces the number of tax bases and rates applicable to passive income, financial intermediaries, and financial transactions from 74 to 52; (b) establishes a single 15 percent tax rate for interest income, royalties, dividends, and capital gains from the sale of unlisted shares; (c) imposes a uniform 5 percent gross receipts tax on the income of banks, quasi-banks, and other non-bank financial intermediaries; and (d) gradually reduces the stock transaction tax from 6/10 of 1 percent to 1/10 of 1 percent. While the bills are aligned with the FSAP recommendations to rationalize the tax regime for the bond and equity markets (World Bank, 2019, *Philippines FSAP, Technical Note - Capital Markets Development*), their tentative status leads to a relevance rating for **PA9** of **Moderately Unsatisfactory**. House Bill No. 4339 was approved on third and final reading on November 14, 2022, but Senate Bill No. 1847 (renumbered from No. 1347) remained pending at the close of this operation. Post-closing, the Senate wrote and enacted a scaled-down alternative Capital Markets Efficiency Promotion Act (CMEPA), which focused on capital market efficiency, set a final withholding tax of 20-25 percent on interest income, and cut stock transaction taxes for Philippine Stock Exchange trades and dividend taxes for non-residents. The CMEPA was signed into law in May 2025 and became effective in July 2025.

Objective 2 - To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.

- Digital Financial Services. Roughly only half of all adults (51 percent) had an account at a bank or regulated institution (credit union, microfinance institution, or mobile money service provider) in 2021, and the numbers were even less for women (47 percent) and for poor adults (34 percent) (World Bank, 2021, *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19*). Barriers to obtaining an account included the lengthy physical distance from a financial institution (41 percent), the high costs of opening and maintaining an account (53 percent), and the lack of documentation to open an account (45 percent). In the expectation that digitalization of financial services would help improve financial inclusion, the BSP launched the *Digital Payments Transformation Roadmap for 2020-2023*, with the express objective of raising account ownership to 70 percent (of all adults) and digital retail payments to 50 percent (of all retail transactions) by 2023. Following the roadmap, the country upgraded its retail payment systems (under a new *National Retail Payment System Framework*) and introduced two key digital interbank retail payment systems — PESONet and InstaPay. The prior actions supported by this series would advance the digitalization drive on two fronts.

- **PA10:** BSP Circular No. 1105 Series of 2020 (*Guidelines on the Establishment of Digital Banks*) set the rules to establish digital banks: (a) a digital bank processes financial products and services end-to-end via a digital platform without physical branches, sub-branches, or "branch-lite" units; (b) the minimum capitalization is Philippine peso (PHP) 1 billion; (c) foreign individuals and non-bank corporations cannot own more than a total 40 percent of the voting shares; (d) creating a new digital bank (or converting an existing bank into a digital one) requires a digital banking license; (e) the activities a digital bank can perform are confined to a list of 10 activities, although others may be permitted by the Monetary Board. Being consistent with the BSP *Digital Payments Transformation Roadmap for 2020-2023* and directly supportive of the objective for financial inclusion, the relevance of **PA10** is rated **Satisfactory**.
- **PA11:** BSP Circular No. 1122 Series of 2021 (*Open Finance Framework*) introduced the OFF, which allows customers to securely share their financial data with third-party providers (TPPs) to help develop products and services responsive to their needs while giving them better control over their personal and financial data. The circular: (a) creates an industry-led self-governing body, the Open Finance Oversight Committee (OFOC), to govern the system; (b) sets the system's Registration Standards, Application Programming Interfaces (API) Architecture Standards, Security Standards, and Outsourcing Standards; (c) encourages the development of a Regulatory Sandbox to test innovations; and (d) mandates requirements for consumer protection, data privacy, data protection, dispute resolution, and consumer consent. By enabling new services and making it easier to access financial management tools, the OFF promotes greater financial inclusion (Bank for International Settlements, 2025, *Key Considerations for Open Finance*). The relevance of **PA11** is rated **Satisfactory**, in as much as Open Finance can help advance financial inclusion by addressing two key root causes of financial exclusion: (a) information asymmetry across providers, and (b) a lack of data on financial consumers (Jinek et. al., 2024, *The Building Blocks of Open Finance*, CGAP Working Paper).
- <u>Financial Consumer Protection</u>. The country's financial consumer protection framework was rudimentary, fragmented, and inadequate to meet the regulatory and supervisory requirements over digital financial services: The Consumer Act of the Philippines (RA 7394) provided the general legal foundation for consumer protection; the Truth in Lending Act (RA 3765) required the full disclosure of the true cost of credit to borrowers; while BSP Circular No. 1048 set the minimum standards among banks for the protection of client information, transparency and disclosure, fair treatment, effective recourse, and financial education. However, the extension of financial products and services through digital channels raised cross-cutting issues and risks that lay beyond the scope of the current regulatory and supervisory regime.
- **PA12:** House Bill No. 6768 of 2020 (*Financial Products and Services Consumer Protection Act*) and Senate Bill No. 1739 of 2020 (*An Act Establishing a Framework for the Protection of Financial*

Consumers, and for Other Purposes) aimed to establish a stronger legal framework for financial market conduct and financial consumer protection. The draft laws (a) support fair market practices; (b) define consumer rights; and (c) give the BSP, IC, and SEC rule-making, surveillance, inspection, market monitoring, enforcement, and adjudication powers related to consumer protection. Approved by the House in June 2020, and by the Senate in January 2022 (as Senate Bill No. 2488), the legislation was signed into law by the President as Republic Act No. 11765 (*Financial Products and Services Consumer Protection Act* [FPSCPA]) in May 2022. The relevance of **PA12** is rated **Satisfactory**.

- **PA13:** BSP Circular No. 1160 Series of 2022 (*Regulations on Financial Consumer Protection to Implement Republic Act No. 11765*) set the implementing rules for the FPSCPA. The circular required financial institutions to: (a) implement a consumer protection risk management system; (b) provide consumers with clear and understandable information about financial products and services; (c) comply with the *Philippine Data Privacy Act* and provide clients with the right to refuse the sharing of their data; (d) establish an assistance mechanism to handle and resolve consumer concerns free of charge; (e) protect consumer assets from fraud and misuse, including assisting in cases of unauthorized transactions; and (f) provide consumers a 24/7 channel for reporting fraud or misuse. The relevance of **PA13** is rated **Satisfactory**
- <u>MSME Access to Finance</u>. Credit penetration for SMEs stood at a low 2.7 of GDP in 2020 in the Philippines, trailing its Southeast Asian regional neighbors (Asian Development Bank, 2021, *Asia Small and Medium-Sized Enterprise Monitor, Volume 1 - Country and Regional Reviews*). Among the major barriers to SME access to finance, borrowers typically lacked collateral, while banks and other creditors faced informational asymmetries in evaluating borrowers' creditworthiness.
- **PA14:** The BSP established the Credit Risk Database (CRD) in 2021, as an alternative source of credit information, to help financial institutions assess the creditworthiness of SMEs by providing credit scores and default probabilities using statistical models. The system promotes risk-based lending and reduces the dependence on collateral for SMEs. Risk-based credit scoring can significantly reduce a lender's dependence on collateral by providing a more precise, quantitative measure of a borrower's creditworthiness and allowing a lender to make more informed decisions based on factors beyond just a borrower's pledged assets, according to at least one major study (Huang et. al., 2020, *Fintech Credit Risk Assessment for SMEs: Evidence from China*, International Monetary Fund Working Paper WP20/193). The relevance of **PA14** is rated **Highly Satisfactory.**
- **PA15:** BSP Circular No. 1156 Series of 2022 (*Guidelines on the Adoption of the Standard Business Loan Application Form* [SBLAF]) mandated the adoption of the SBLAF to streamline and simplify the loan application process for MSMEs. It was expected that the use of the SBLAF would: (a) make the loan application process more efficient and transparent; (b) help borrowers better understand and complete the application process; (c) help lenders to speed up turnaround times and improve risk assessment; (d) support credit registries and upgrade the quality of credit information services; and (e) facilitate the transition to digital platforms. The relevance of **PA15** is rated **Satisfactory.**

Objective 3 - To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.

- <u>Disaster Risk Finance</u>. Heavily exposed to natural disasters and climate risks, the Philippines faced a perennially large catastrophe insurance protection gap, with only 0.5-0.6 percent of households covered by catastrophe insurance in 2018 (according to data from Munich Re, a major global reinsurer), and with the available capital in the industry (US$1.5 billion) at only around 1.3 times the annual expected loss (US$1.1 billion) in 2018 (according to Lloyd's, the specialized insurance and reinsurance marketplace). Insurance market growth was constrained by demand- and supply-side challenges: (a) a "weak culture of insurance" pervaded the economy and property owners lacked an awareness of insurance products and services; (b) meanwhile, private insurers remained hesitant to offer and market catastrophe insurance products, as the insurance rates were too low for a profitable and sustainable business — the minimum tariff rate was a flat 0.10 percent for earthquake, fire, and shock peril and 0.05 percent for typhoon and flood peril, lower than in comparable countries; moreover, (c) the tariffs had not been updated in over a decade (in the Philippines, catastrophe insurance tariffs are regulated through the setting of minimum rates) and were not risk-based.

- **PA16:** IC Circular Letter No. 2021-27 (*Strict Implementation of Sustainable Catastrophe Insurance Premium Rates and Establishment of the Philippines Catastrophe Insurance Facility* [PCIF]) created the PCIF as a public-private partnership of the Philippines Insurance and Reinsurance Association (PIRA), the National Reinsurance Corporation (NatRe), and the IC to expand the provision of catastrophe insurance for private properties. The circular directs non-life insurers to: (a) adopt a new, sustainable rating structure for catastrophe risk policies; (b) facilitate access to catastrophe insurance in disaster-exposed areas; and (c) strengthen the management of catastrophe risks by optimizing risk diversification. Importantly, the circular: (d) directs non-life insurers participating in the PCIF (participation is voluntary) to cede a portion of their catastrophe risks into a risk pool (the PCIF would then pass the pooled risk back to the insurance companies, depending on their risk appetite and capacity, to enable more insurance underwriting); and (e) additionally allows the participants to transfer excess risk (i.e., risk that the local market could not efficiently manage) to international reinsurance markets. The relevance of **PA16** is rated **Highly Satisfactory** — the strategy of mixing and pooling risks, then sharing a pro-rated slice of the more diversified pool back to the insurers (instead of their own more concentrated risk portfolios) is expected to boost the participating insurers' capacity to write more catastrophe insurance policies. Additionally, access to the global reinsurance market provides the insurers with an excess layer of loss protection.
- **PA17:** IC Circular Letter No. 2022-34 (*Guidelines on the Adoption of a Revised Schedule of Minimum Catastrophe Rates*) adopted a revised schedule of minimum catastrophe rates for earthquake and typhoon flood risks based on a diversified structure. The circular intended to differentiate risk by construction type (high-grade versus "others"), occupancy (commercial, industrial, warehouse, or residential), height, and risk zone (five zones, including Mero Manila) and set different minimum catastrophe rates, but it had the effect of increasing premiums by 40-400 percent. Issued in December 2022, the circular was withdrawn in January 2023 after it faced strong opposition from the Philippine Chamber of Commerce and Industry (PCCI), the Employers Confederation of the Philippines (ECOP), and other business groups. Because the guidelines appeared to have been issued without adequate public consultation, the relevance of **PA17** is rated **Unsatisfactory**. Subsequently, IC Circular Letter No. 2024-11, issued in April 2024 (two months before the closing of this series), reinstated the minimum catastrophe rates for earthquake, typhoon, and flood insurance policies to their 2016 levels (pre-IC Circular Letter No. 2022-34 levels).
- <u>Green Finance</u>. Apart from a recent sale of green bonds by some six banks, the Philippines struggled to attract financing of a sufficient scale to match its growing green investment opportunities. Institutional barriers stymied the growth of green finance: (a) other than the tax provisions of the Green Jobs Act of 2016 (e.g., tax incentives for related capital goods imports), the country lacked a coherent set of policies and incentives to stimulate green finance that was aligned with its Nationally Determined Contributions (NDC) to the Paris Agreement; (b) the financial system lacked a legal definition of green assets, which made it difficult for financial firms to identify green projects; and (c) financial institutions had limited institutional capacity to originate climate and green assets and to manage climate-related risks.
- **P18:** BSP Circular No. 1085 Series of 2020 (*Sustainable Finance Framework*) required banks to integrate environmental and social principles into their business strategy, risk management, and

corporate governance. The circular mandates banks to: (a) adopt the Sustainable Finance Framework for Banks (the set of principles, policies, and procedures that guides banks in integrating environmental, social, and governance (ESG) factors into their lending, investment, and other financial activities); (b) adopt Environmental and Social Risk Management (ESRM) systems (the set of policies, procedures, and tools to identify, assess, and mitigate the financial, legal, and reputational risks associated with environmental and social issues in bank lending and investment portfolios); (c) have their compliance and internal audit units assess their adherence to sustainability principles and policies; and (d) disclose their sustainability strategy, objectives, and E&S risk exposures in their annual reports. The relevance of **PA18** is rated **Satisfactory**.

- **PA19:** BSP Circular No. 1128 Series of 2021 (*Environmental and Social Risk Management Framework*) issued granular guidelines for banks to apply the Sustainable Finance Framework and ESRM in their operations, including by: (a) defining their risk appetite for specific E&S risk areas; (b) integrating E&S risk management in their credit strategy and lending activities; (c) conducting due diligence on borrowers to assess their E&S risk and track record; (c) integrating E&S risk management in their operational activities; and (d) incorporating E&S risk in their stress testing. It was expected that the guidelines would strengthen the ability of banks and the larger financial sector to contribute to climate action, following the recommendations of the country climate report (World Bank, 2022, *Philippines Country Climate and Development Report*). The relevance of **PA19** is rated **Satisfactory**.
- **PA20:** BSP Circular No. 1149 Series of 2022 (*Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks*) required banks to integrate sustainability principles into their investment activities (especially in their banking book). The circular mandates banks to: (a) align their investment activities with sustainability objectives; (b) develop systems to manage ESG risks; (c) assess the ESG risks and sustainability performance of investee companies; and (d) take measures against "greenwashing" (the deceptive practice which markets a policy, product, or company as being more environmentally friendly than it actually is). The relevance of **PA20** is rated **Satisfactory**.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

The

Results Indicator	Associated Prior Acton	Relevance Rating	Baseline	Target	Actual Value	Actual Change in Results Indicator Relative to Targeted Change, in Percent	Achievement Rating

Objective 1 - To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.							
RI1: **(a)** The Anti-Money Laundering Council (AMLC) has sensitized and registered real estate developers and brokers to implement applicable AML/CFT requirements, percent **(b)** The AMLC has completed or commenced money laundering investigations referred to by the Bureau of Internal Revenue (BIR) where tax crime is the underlying offense, percent **(c)** Updated Memorandum of Agreement (MOA) in place between PDIC and BSP to strengthen coordination in bank examination	(a) PA1 (b) PA1 (c) PA2	(a) Satisfactory (b) Highly Satisfactory (c) Moderately Unsatisfactory	(a) 0 (2020) (b) 0 (2020) (c) 0 (2021)	(a) >50 2023) (b) 50 (2023) (c) 2 (2023)	(a) 98 (2024) (b) 0 (2024) (c) 1 (2024)	(a) 196 (b) 0 (c) 50	(a) High (b) Negligible (c) Modest

and information exchange, number							
RI2: Supervised entities complying with BSP requirements on consolidated supervision, number	PA3	Satisfactory	0 (2020)	All D-SIBs (2024)	All D-SIBs (2024)	100	High
RI3: Insurance companies adopting Own Risk and Solvency Assessment (ORSA)-like tools (including to address climate-related risks) and disclosure requirements, percent	PA4 PA5	Satisfactory	0 (2020)	50 (2023)	85 (2024)	170	High
RI4: Supervised financial institutions with BSP-approved recovery plans, number	PA6 PA7	Highly Satisfactory	0 (2020)	All D-SIBs (2024)	All D-SIBs (2024)	100	High
RI5: Increase in the number of outstanding listed corporate debt securities, percent	PA8 PA9	Satisfactory	0 (2020)	10 (2024)	5 (2024)	50	Modest

Objective 2 - To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.							
RI6: Complex BSP Supervised Financial Institutions (BSFIs) participating in the open finance ecosystem, percent	PA10 PA11	Satisfactory	0 (2020	23 (2024)	0 (2024)	0	Negligible
RI7: Universal Banks and Commercial Banks that have in place a written manual (or an equivalent document) covering Consumer Protection Risk Management System (CPRMS) and Financial Consumer Protection Assistance Mechanism (FCPAM), in line with the FCPA and its Implementing Rules and Regulations, percent	PA12 PA13	Moderately Unsatisfactory	0 (2020)	75 (2023)	93 (2024)	124	Modest
RI8: **(a)** Launch of a credit scoring model by the BSP based on	(a) PA14 (b) PA15	(a) Moderately Unsatisfactory (b) Satisfactory	(a) 0 (2020) (b) No (2021)	(a) 1 (2024) (b) Yes (2024)	(a) 1 (2024) (b) Yes (2024)	(a) 100 (b) 100	(a) Modest (b) High

financial statements of SMEs, number **(b)** Sex-disaggregated data on standard business loan applications for the purpose of financial inclusion regularly collected and reported by the BSP							
Objective 3 - To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.							
RI9: Catastrophe and climate risk exposure covered by the PCIF from its establishment, percent	PA16 PA17	Satisfactory	0 (2020)	50 (2024)	34 (2024)	68	Substantial
RI10: Supervised financial institutions complying with BSP requirements on climate risk stress testing, governance, and disclosure, number	PA18 PA19 PA20	Highly Satisfactory	0 (2020)	All D-SIBs (2024)	All D-SIBs (2024)	100	High

Objective 1 - To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.

- **RI1(a):** The proportion of real estate developers and brokers registered with the AMLC serves as a suitable—though partial—indicator of the impact of RA No. 11521 (*An Act Further Strengthening the*

Anti-Money Laundering Law) on the resilience objective. This legislation expanded the list of AML/CFT "covered persons," referring to entities or individuals required to comply with AML/CFT laws and regulations. The indicator is best interpreted in light of the APG Mutual Evaluation Report, which identified the exclusion of the real estate sector from the list of covered persons as a gap in the AML/CFT legal framework. The report advised the Philippines to address its technical compliance deficiencies, including the lack of coverage of real estate. While registration data is informative, enforcement actions taken by the AMLC against non-compliant real estate developers and brokers would have provided a more robust measure. The relevance of **RI1(a)** is rated **Satisfactory**.

- **RI1(b):** The proportion of tax crime referrals from the BIR to the AMLC that have led to investigations—either initiated or completed by the AMLC—is a strong indicator of the effectiveness of RA No. 11521 (*An Act Further Strengthening the Anti-Money Laundering Law*). This legislation expanded the scope of AML/CFT "covered transactions," thereby enhancing enforcement capabilities. The indicator goes beyond mere referral counts, capturing the extent of actions taken by the oversight body to implement anti-money laundering and counter-terrorism financing laws. Accordingly, the relevance of **RI1(b)** is rated **Highly Satisfactory**.
- **RI1(c):** The number of Memoranda of Agreement (MOAs) between the BSP and the PDIC aimed at enhancing coordination in bank examinations and information exchange is a weak indicator of the impact of RA 11840 (*An Act Amending the PDIC Charter*), which seeks to expand deposit insurance coverage. First, the MOAs primarily establish a cooperative framework between the two institutions without necessarily reflecting substantive progress toward the objectives of the legislation. Second, the connection between bank examination and information exchange, on one hand, and deposit insurance, on the other, is indirect and lacks express clarity. As such, the relevance of **RI1(c)** is rated **Moderately Unsatisfactory.**
- **RI2:** The number of supervised entities—including banks, non-bank financial institutions, money service businesses, electronic money issuers, and payment system operators—that comply with the central bank's consolidated supervision requirements is an adequate indicator of the impact of BSP Circular No. 1150 (*Prudential Framework for Large Exposures Monitoring Threshold*). This circular aims to enhance the supervision of financial conglomerates and improve the monitoring of large exposures. The compliance indicator directly reflects the effectiveness of the circular in achieving its regulatory objectives. The relevance of **RI2** is rated **Satisfactory**.
- **RI3**: The proportion of insurance companies adopting ORSA tools and disclosure requirements is an adequate indicator of the impact of the proposed amendments to the Insurance Code and IC Circular Letter 2022-41 (*Adoption of the ORSA Framework*). This indicator directly reflects the effectiveness of the circular in encouraging insurers to upgrade their risk management systems—including those addressing climate-related risks—in line with international standards and best practices exemplified by ORSA. The relevance of **RI3** is rated ***S*atisfactory**.
- **RI4:** The number of supervised financial institutions with recovery plans approved by the BSP is an adequate indicator of the impact of BSP Circular No. 1113 (*Amendments to the Guidelines on Recovery Plan for a Domestic Systemically Important Bank*) and BSP Circular No. 1158 (*Guidelines on Recovery Plan of Banks*). These circulars updated recovery planning requirements in line with international BCBS standards—specifically for D-SIBs and for all other banks, respectively. The indicator directly reflects the effectiveness of the circulars in achieving their regulatory objectives. Moreover, the BSP's approval of these recovery plans provides further evidence of the circulars' efficacy. The relevance of **RI4** is rated **Highly Satisfactory**.
- **RI5:** The percentage increase in the number of outstanding listed corporate debt securities is a credible indicator of the impact of SEC Memorandum Circular No. 6 (*Amendments to Securities Regulation Code Rules 9 and 10*), which aimed to diversify the investor base in the capital markets, and

House Bill No. 4339/Senate Bill No. 1347 (*Passive Income and Financial Intermediary Taxation Act*), which sought to rationalize the taxation of financial products and transactions. If these two policy actions were the only significant reforms introduced during the period, the link between the measures and the increased volume of outstanding corporate debt securities would be considered strong. However, the influence of other macroeconomic factors—such as GDP growth and interest rate movements—cannot be discounted. The relevance of **RI5** is rated **Satisfactory**.

Objective 2 - To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.

- **RI6:** The proportion of BSFIs—including universal banks, commercial banks, digital banks, and electronic money issuers—participating in the open finance ecosystem (i.e., offering services to customers via open APIs) is an adequate indicator of the impact of BSP Circular No. 1105 (*Guidelines on the Establishment of Digital Banks*) and BSP Circular No. 1122 (*Open Finance Framework)*. A higher participation rate provides evidence that the central bank has made meaningful progress in its efforts to digitalize financial services—through digital banking and open finance—in pursuit of broader financial inclusion objectives. The relevance of **RI6** is rated **Satisfactory**.
- **RI7:** The proportion of universal and commercial banks with a written manual on the Consumer Protection Risk Management System and the Financial Consumer Protection and Assistance Mechanism is a weak indicator of the impact of House Bill No. 6768/Senate Bill No. 1739—subsequently enacted as RA No. 11765 (*Financial Products and Services Consumer Protection Act*). The existence of a written manual aligned with the FCPA does not necessarily indicate faithful implementation of its provisions. More robust indicators would include measures of actual compliance, such as the number of consumer complaints, average response times to complaints, and audit findings related to non-compliance. The relevance of **RI7** is rated **Moderately Unsatisfactory**.
- **RI8(a)**: The BSP’s launch of a credit scoring model based on the financial statements of SMEs is better understood as a follow-on action to the establishment of the credit reporting system and the launch of the Credit Risk Database, rather than as a direct result indicator of these prior actions. While the development of the model is a positive step, it does not, in itself, demonstrate the outcomes or impact of the earlier reforms. A more appropriate results indicator would have been the number of financial institutions actively using the credit scoring model in their lending decisions. The relevance of **RI8(a)** is rated **Moderately Unsatisfactory**.
- **RI8(b)**: The availability of sex-disaggregated data on standard business loan applications is a positive outcome of BSP Circular No. 1156 (*Guidelines on the Adoption of the Standard Business Loan Application Form*), which mandated the use of the SBLAF to streamline and simplify loan applications for MSMEs. This data is particularly valuable for improving access to finance for women entrepreneurs. In the Philippines, men entrepreneurs have historically used financial services at least twice as much as their female counterparts, according to the Asian Development Bank. The availability of such data can help inform more inclusive financial policies and interventions. The relevance of **RI8(b)** is rated **Satisfactory**.

Objective 3 - To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.

- **RI9:** The percentage of catastrophe and climate risk exposure covered by the PCIF is a robust indicator of the impact of IC Circular Letter No. 2021-27 (*Strict Implementation of Sustainable Catastrophe Insurance Premium Rates and Establishment of the Philippines Catastrophe Insurance Facility*) and IC Circular Letter No. 2022-34 (*Guidelines on the Adoption of a Revised Schedule of Minimum Catastrophe*

*Rate*s). The PCIF model, under which non-life insurers cede a portion of their catastrophe risk to the facility in exchange for a pro-rated share of a more diversified risk pool, was designed to enhance the insurance sector's capacity to write more catastrophe insurance policies. A high level of insurer participation directly contributes to increasing the proportion of catastrophe and climate risk exposure covered by the PCIF. The relevance of RI9 is rated **Highly Satisfactory**.

- **RI10:** The number of supervised entities complying with BSP requirements on climate risk stress testing, governance, and disclosure is an adequate indicator of the impact of BSP Circular No. 1085 (Sustainable Finance Framework), BSP Circular No. 1128 (Environmental and Social Risk Management Framework), and BSP Circular No. 1149 (Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks). This indicator directly reflects the effectiveness of the circulars in encouraging banks and non-bank financial institutions to adopt the SFF, ESRMF, and sustainability principles, thereby supporting the growth of green finance. The relevance of **RI10** is rated as **Satisfactory**.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To support financial sector reforms that will assist the Government of the Philippines in achieving a resilient financial sector.

Rationale

Theory of Change. Each key reform was logically aligned with the resilience objective within credible results chains. The importance of these resilience measures is better understood in the context of economic and financial crises (such as the Global Financial Crisis of 2007-2009 and the COVID-19 Recession of 2020). Money laundering, related predicate crimes, and terrorist financing pose significant threats to the integrity of a country's financial system and, more broadly, to its external stability. Strong AML/CFT frameworks, policies, and measures are crucial to mitigate these risks (IMF, 2019, *Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism*). Deposit insurance is widely used in many countries as part of the financial system's safety net to promote stability. During a crisis, countries with deposit insurance coverage experience lower bank risk and greater systemic stability. At the same time, strong bank supervision can mitigate the unintended consequences of deposit insurance on systemic risk during normal periods (Aginer et al., 2013, *How Does Deposit Insurance Affect Bank Risk? Evidence from the Recent Crisis*). The recent crisis [the Global Financial Crisis of 2007-2009] exposed significant risks posed by large, complex, and interconnected institutions, as well as weaknesses in regulatory and oversight systems. In response, major reforms are being considered both internationally and domestically to address these deficiencies and failures. The overarching goal is to build a financial system that is less leveraged, less risky (or better cushioned), and therefore more resilient, while supporting strong and sustainable economic growth (Otker-Robe et al., 2012, "*Impact of Regulatory Reforms on Large and Complex Financial Institutions,"* in IMF, 2012, *Building a More Resilient Financial Sector - Reforms in the Wake of the*

Global Crisis). The crisis underscored important lessons for insurance supervisors: the imprudence of relying solely on third-party judgments and the need to approach supervision with experience, knowledge, and, importantly, a healthy degree of skepticism. Risk-based supervision of insurers evaluates the probability and severity of material risks to which insurers are exposed, assesses the effectiveness of controls in reducing the likelihood of risk events, and considers the measures in place to manage such events (Randle, 2009, *Risk-Based Supervision*, World Bank Primer Series on Insurance). Recovery and resolution plans provide a roadmap to facilitate either the recovery of an institution under severe stress or its orderly wind-down in the event of failure. These plans ensure that financial institutions can be resolved safely, swiftly, and without destabilizing the financial system or exposing taxpayers to losses (Seal, 2012, "*Recovery and Resolution Plans: A Solution to the Too Important to Fail Problem?*" in IMF, 2012, *Building a More Resilient Financial Sector – Reforms in the Wake of the Global Crisis*). Capital markets both support and pose risks to financial stability. While they are essential for allocating long-term capital, they also require robust regulation to mitigate systemic vulnerabilities. The quality of securities market regulation and the development of institutional investors are strongly correlated with capital market development (World Bank, 2019, *Capital Markets Development – Causes, Effects, and Sequencing*). Separately, achieving appropriate tax treatment for financial products and services remains a significant challenge for policymakers—“policy neutrality across different financial activities is key … but ensuring it is a tall order” (IMF, 2004, *Taxing the Financial Sector – Concepts, Issues, and Practices*).

Achievement of Objective. The program demonstrated mixed results across reform areas aimed at a resilient financial sector. While progress on bank supervision and long-term finance was uneven, reforms related to insurance supervision and crisis management showed stronger performance.

Bank Supervision. The program met its target for AML/CFT compliance among real estate professionals. As of April 2024, 98 percent of the 10,949 registered real estate developers and brokers were enrolled with the AMLC, significantly surpassing the target of 50 percent. This achievement followed the enactment of Republic Act No. 1152, which strengthened the country’s anti-money laundering framework. The achievement is rated **High**. However, the AMLC did not initiate or conclude any money laundering investigations based on referrals from the BIR, where tax crimes were the predicate offenses. This fell short of the target of 50 percent. According to the ICR, the indicator may be flawed, as it only accounts for investigations referred by the BIR. Although the AMLC opened four AML/CFT cases during 2023–2024, none were based on BIR referrals. The achievement is rated **Negligible**. Progress was also mixed in inter-agency coordination. A Memorandum of Agreement (MOA) between the BSP and the PDIC to enhance collaboration in bank examinations was approved in 2023, meeting one target. However, a second MOA aimed at improving information exchange between the two agencies was not finalized by program closure. The achievement is rated **Modest**. On a positive note, all S-DIBs complied with updated requirements for consolidated supervision, achieving the program’s target. The achievement is rated **High.**

Insurance Supervision. Significant progress was made in insurance supervision. Eighty-five percent of insurance companies adopted ORSA-like tools and disclosure requirements to address climate-related risks, exceeding the target of 50 percent. The achievement is rated **High**.

Crisis Management and Resolution. All D-SIBs had recovery plans approved by the BSP, meeting the program’s target in this area. The achievement is rated **High**.

Long-Term Finance. Performance in long-term finance was below expectations. The number of outstanding listed corporate debt securities increased from 172 in 2021 to 189 in 2023—a 10 percent rise—but declined to 181 by the program’s close in 2024, resulting in a net increase of only 5 percent, which fell short of the 10 percent target. Efforts to support corporate debt issuance included the SEC Memorandum Circular No. 6 (*Amendments to Securities Regulation Code Rules 9 and 10*), which eased public sale and private placement requirements. Additionally, House Bill No. 4339 and Senate Bill No. 1347 (Passive Income and Financial Intermediary Taxation Act) aimed to rationalize financial products and services taxation. However, PIFTA was not enacted as originally proposed and remained pending in the Senate at program closure. Instead, the CMEPA, a less comprehensive alternative originating from the Senate, was passed by both the House and Senate in February 2025, signed by the President into law in May 2025, and became effective in July 202. CMEPA set a final withholding tax of 20-25 percent on interest income and cut stock transaction taxes on PSE trades and dividend taxes on non-residents. Its impact on corporate debt issuance has yet to be assessed. The achievement is rated **Modest**.

The degree of achievement of the objective to support financial sector reforms that assist the Government of the Philippines in achieving a sustainable financial sector is rated **Moderately Satisfactory**.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

To support financial sector reforms that will assist the Government of the Philippines in achieving an inclusive financial sector.

Rationale

Theory of Change. The results chains underlying the prior actions and the inclusion objective are credible. The link between digital financial services—digital banking and open finance—and financial inclusion is widely recognized globally. Global account ownership rose from 51 percent in 2011 to 79 percent in 2024. Mobile money accounts have been a key driver of this increase, and technology is also fueling growth in formal savings and digital payments (World Bank, 2025, *The Global Findex Database: Connectivity and Financial Inclusion in the Digital Economy).* Similarly, the connection between financial consumer protection (FCP) and financial inclusion is well documented. Over 97 percent of surveyed jurisdictions have some form of legal framework for FCP. The most commonly used policy measure to promote financial inclusion is requiring or encouraging financial service providers (FSPs) to adopt industry standards for social performance or customer protection (World Bank, 2023, *The Global State of Financial Inclusion & Consumer Protection*). Regarding access to finance for SMEs, the link between credit risk databases and financial inclusion is illustrated by Japan’s experience. The Japan Credit Risk Database (CRD), part of the government’s SME financial inclusion efforts, uses statistical scoring models to make SME credit risk assessment more accessible and encourages the adoption of risk-based lending (Nguyen and Sagara, 2020, *Credit Risk Database for SME Financial Inclusion*, ADB Institute Working Paper). In contrast, the relationship between the use of common loan application forms and financial inclusion is less studied and documented.

However, standardized forms are used in the United States by the Small Business Administration (SBA), suggesting potential relevance.

Achievement of Objective. The program made less progress in digital finance compared to financial consumer protection and MSME finance. However, the indicators used for financial consumer protection and MSME finance were relatively weak proxies for assessing the program's effectiveness in achieving its inclusion objective, suggesting that overall progress toward inclusion was less than satisfactory. Moreover, the ICR did not provide any more robust evidence to justify a hgigher rating.

Digital Finance. The program fell short of its target in digital finance. None of the complex BSFIs had joined the open finance ecosystem by the program's close, missing the target of 23 percent participation. Although the ecosystem was not yet operational, the ICR notes that 10 out of 28 complex BSFIs had engaged in open finance initiatives through capacity-building activities, consultative discussions, and other forms of preparatory engagement. The achievement is rated **Negligible**.

Financial Consumer Protection. Progress in financial consumer protection exceeded expectations. By program close, 93 percent of universal and commercial banks had developed a written manual (or equivalent document) covering the Consumer Protection Risk Management System and the Financial Consumer Protection Assistance Mechanism, in accordance with the FCPA and its implementing rules and regulations. This surpassed the target of 75 percent. However, the presence of an FCPA manual is a relatively weak indicator compared to direct measures of compliance with FCPA provisions (see Section 4 - RI7). The achievement is rated **Modest**.

MSME Finance. The BSP successfully launched a credit scoring model based on SME financial statements, meeting the program target. Nonetheless, the existence of the model is a less robust indicator than actual adoption by banks, such as the number of institutions actively using the credit scoring model or the number of SME loan applications for which the model was used (see Section 4 - RI8(a)). The achievement is rated **Modest**. Additionally, sex-disaggregated data were made available through standardized business loan applications designed to streamline SME loan processing, also meeting the program target. The achievement is rated **High**.

The degree of achievement of the objective to support financial sector reforms that assist the Government of the Philippines in achieving a sustainable financial sector is rated **Moderately Satisfactory**.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

To support financial sector reforms that will assist the Government of the Philippines in achieving a sustainable financial sector.

Rationale

Theory of Change. The prior actions are relevant to building a sustainable financial sector. The PCIF "contributes directly to the Sendai Framework for Disaster Risk Reduction and is one of the good practices for ARISE (the Private Sector Alliance for Disaster Resilient Societies)," according to the UN Office for Disaster Risk Reduction (UNDRR) (https://sendaicommitments.undrr.org/commitment/philippine-catastrophe-insurance-facility). Meanwhile, SFFs and ESRMFs are increasingly adopted by financial institutions worldwide. According to UNCTAD, 86 sustainable finance policy measures were implemented globally in 2021 (UNCTAD Global Sustainable Finance Observatory), and sustainable bond issuance reached US$1.05 trillion during the year (UNCTAD Climate Bond Initiative). Furthermore, the International Finance Corporation (IFC) reports that 116 financial institutions in 37 countries adopted the Equator Principles (developed by IFC to help manage environmental and social risks in project finance) in 2021. Following these global trends, the adoption of the BSP's SFF and ESRMF mandates would significantly advance the Philippines' efforts to develop a robust green finance market.

Achievement of Objective. The program made substantive progress toward its sustainability objective in green finance but was less successful in advancing disaster risk finance.

<u>Green Finance</u>. All D-SIBs — the top 11 of 44 universal and commercial banks — complied with the central bank requirements on climate risk stress testing, governance, and disclosure, thereby meeting the program target. These requirements were established through BSP Circular No. 1085 (*Sustainable Finance Framework*), BSP Circular No. 1128 (Environmental and Social Risk Management Framework), and BSP Circular No. 1149 (*Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks*). The achievement is rated **High**.

<u>Disaster Risk Finance</u>. Progress in disaster risk finance was less than expected. By the program's closing in 2024, only 18 of 53 non-life insurance companies had joined the PCIF. Hence, only 34 percent of catastrophe and climate risk exposure was covered by the PCIF, falling short of the 50 percent target. Three key factors likely contributed to this underperformance: (a) suboptimal tariffs — the revocation in 2023 of IC Circular Letter No. 2022-34 (*Guidelines on the Adoption of a Revised Schedule of Minimum Catastrophe Rates*) — a prior action that had revised minimum rates for earthquake and typhoon flood risks using a diversified structure — led to less favorable tariff conditions (see Section 3.B - PA9 (2)); (b) hardened reinsurance markets — the availability of reinsurance narrowed, and the cost of coverage increased due to heightened frequency and severity of natural disasters, resulting in higher claim payouts and underwriting losses; and (c) institutional shifts — the IC experienced changes in leadership in 2022, which likely influenced its priorities, strategies, and decision-making processes, thereby complicating the implementation of the PCIF. Nonetheless, the participation of 18 non-life insurers in the PCIF remains encouraging despite the difficulties. The achievement is rated **Substantial**, with shortcomings.

The degree of achievement of the objective to support financial sector reforms that assist the Government of the Philippines in achieving an inclusive financial sector is rated **Satisfactory**.

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The degree of achievement of the objective to support financial sector reforms that assist the Government of the Philippines in achieving a resilient financial sector is rated Moderately Satisfactory. That in achieving an inclusive financial sector is rated Moderately Satisfactory, and that in achieving a sustainable financial sector is rated Satisfactory. The efficacy of the programmatic series is rated **Moderately Satisfactory**.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The relevance of prior actions is rated Satisfactory. The efficacy is rated Moderately Satisfactory. The outcome is rated **Moderately Satisfactory.**

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Sustainability risks are generally Moderate, though some outcomes of this reform program face Substantial risks.

Political and political economy factors pose significant challenges to completing the catastrophe insurance pool and financial products and services tax harmonization reforms initiated under this series. The introduction of risk-based minimum insurance rates led to higher premiums, prompting the withdrawal of IC Circular Letter No. 2022-34, which intended to rationalize rates and support the PCIF national catastrophe risk pool (see Section 3.B - PA16 and PA17, and Section 5 - Objective 3). Meanwhile, instead of passing the original PIFITA, which proposed an ambitious, wide-ranging reform of passive-income and intermediary taxation, the Senate opted fro a smaller, scaled-down alternative CMEPA, which set a final withholding tax of 20-25 percent on interest income and reduced stock transaction taxes on PSE trades as well as dividend taxes on non-residents (see Section 3.B - PA9 and Section 5 - Objective 1).

Globally, interest in the climate and sustainability agenda appears to have softened in some countries. However, Philippine institutions remain committed to green finance. As a result, initiatives such as the SSF, ESRMF, and the Sustainability Principles in Investment Activities are expected to endure and gain momentum among banks.

To sustain progress, a new Philippine Financial Sector Programmatic Advisory Services and Analytics (ASA) (P507213) will help maintain the reform drive in the near term.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Analytic Underpinnings. The prior actions were informed by the IMF FSSA and the World Bank FSA and CDDR (see Section 3.A), as well as other analytical work produced under the FSAP in 2019–2020. These included the *Technical Note on the Philippine Payment and Settlement System* (2019), *Technical Note on Capital Markets Development* (2019), *Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision* (2020), Technical *Note on Macroprudential Policy Framework and Tools* (2022), and *Technical Note on Risk Assessment of Banks, Non-Financial Corporates, and Macro Financial Linkages* (2022) (see Section 3.B).

Analytical work delivered through technical assistance (TA) activities also proved valuable. Previously, the Bank provided TA for financial sector development through reimbursable advisory services (RAS), which focused on specific topics and were typically granted upon government request. Since 2018, the Bank has adopted a programmatic approach. The Philippine Financial Sector Development Programmatic ASA (P173964) supported the design of many prior actions in this series, according to the PAD. These included bank recovery planning, regulatory requirements for corporate debt issuance, implementing rules for financial consumer protection, improvements to credit information infrastructure, establishment of the PCIF, updates to minimum catastrophe insurance rates, and integration of climate risk into bank risk management systems. Notably, this ASA “helped advance the financial inclusion agenda and addressed key bottlenecks to financial inclusion while promoting the deepening of the financial sector and disaster risk financing,” according to the *Completion and Learning Review (CLR) Validation of the Philippines FY19–FY24 Country Partnership Framework.*

Coordination with Development Partners. The Bank and the IMF jointly conducted the FSAP in 2019–2020, which recommended many of the reforms supported by this series. The Bank also coordinated with other development partners to align and leverage the results of their activities in common sectors: (a) the Asian Development Bank (ADB) on digital payments and credit reporting systems; (b) Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on climate finance; and (c) the International Finance Corporation (IFC) on open finance and sustainable finance.

Implementation Risks and Mitigation Measures. The PAD rated the overall risk, as well as political and macroeconomic risks, as Substantial, but expressed confidence that the program’s design addressed these challenges and that the authorities were well positioned to mitigate residual threats.

- Political and governance risks stemmed from challenges in clarifying policy, building consensus across the executive, legislative, and judicial branches, and navigating the politics of the 2022 presidential elections. Reforms such as changes to overly restrictive bank secrecy laws and regulations governing financial conglomerates were considered most vulnerable to political resistance. Drafts of new laws, including the FCPA, and proposed amendments to existing legislation, such as the Insurance Code, could also undergo significant revisions during the legislative process. The PAD emphasized that the program struck a balance between reforms requiring Congressional approval and those within the authority of supervisors to implement. High-level policy dialogue with the DOF, BSP, IC, SEC, and AMLC, combined with ongoing technical assistance, was expected to reinforce bureaucratic commitment to the reform agenda. Furthermore, initiating work on the program ahead of the 2022 election cycle would help minimize political noise.
- Macroeconomic risk was significantly heightened by the COVID-19 pandemic, which plunged the economy into its deepest recession in decades, with GDP contracting by 9.5 percent in 2020. The PAD noted that the government had fiscal space to respond to the crisis, following a period of fiscal consolidation and with public debt on a sustainable trajectory. However, it cautioned that a prolonged global health and economic shock could sharply curtail economic activity, lead to substantial income losses, and weaken corporate balance sheets—potentially impairing bank assets and constraining credit to the economy. The Bank expressed confidence that existing capital and liquidity buffers, together with the reforms supported by this series, would help mitigate risks to financial stability.

Rating

Highly Satisfactory

b. Bank Performance – Implementation

Rationale

Implementation Support. The Bank monitored and measured progress against the results indicators after the government completed the first and second sets of prior actions. Throughout the program, the Bank maintained policy dialogue with the government and provided technical assistance to the agencies, including by recruiting and assigning international technical experts. A dedicated financial sector team remained active in the country.

Adaptation. Of the 13 original indicative triggers in the first operation (planned prior actions for the second operation), six remained unchanged or were only slightly reworded for clarity. Four were revised to reflect progress achieved through policy dialogue with the government, one was merged into a broader reform measure, and one was dropped altogether, although it was still considered a likely reform action in the near term.

Consultations with Stakeholders. It is unclear whether the Bank could have effectively mitigated the IC's decision to revoke Circular Letter No. 2022-54 (*Guidelines on the Adoption of the Revised Schedule of Minimum Catastrophe Rates*), which was required under PA19, or the Senate's concerns about the fiscal impact of Senate Bill No. 1347 (*PIFITA*), required under PA9. Regarding the IC decision, the ICR (page 16) notes that "Consultations with legislative stakeholders and the public about the proposed changes in tariffs were limited, which might have also contributed to the decision." On Senate deliberations, the ICR (page19) states that "Some concerns were expressed regarding the potential fiscal revenue loss stemming from the proposed tax cuts under

PIFITA, in the context of fiscal consolidation to rein in the increase in public debt levels seen during the pandemic and the ensuing economic recovery." In both cases, the Bank could have proactively addressed these challenges to PA19 and PA9. For example, more extensive engagement with legislative stakeholders, including communication on the rationale and expected benefits of the reforms, may have strengthened the prospects for sustaining the prior actions.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

The program achieved substantive progress in building a resilient, inclusive, and sustainable financial sector, in line with the recommendations of the Joint IMF–World Bank FSAP (2019–2020), although some reform measures faced political resistance. The program design was comprehensive and well-aligned with country needs. The Bank actively supported implementation through continuous policy dialogue with the government and by providing robust technical assistance to implementing agencies.

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

The PAD anticipated positive social and poverty impacts from the program. Reforms to build a resilient financial sector were expected to help households and firms withstand financial shocks. Avoiding inclusion on the FATF grey list would prevent disruptions to trade, remittance, and investment flows, which could otherwise harm jobs and incomes. Strengthened insurance supervision would support underwriting, enabling individuals and firms to protect assets against unexpected losses. Measures promoting financial inclusion aimed to expand access to finance in an economy where only half of adults held a financial account. Digital banking and open finance were expected to increase account usage, reduce transaction costs, and encourage savings. Credit facilitation for SMEs would help overcome market constraints at a time when only one in ten firms operated at full capacity. Prior actions to ensure a sustainable financial sector were projected to benefit poor households and vulnerable groups. Catastrophe insurance, in particular, would protect the bottom quintile of households, who bear 9 percent of total asset losses and 31 percent of overall welfare losses from natural disasters.

The ICR did not present empirical evidence to confirm that these anticipated social and poverty impacts were achieved to any measurable extent.

b. Environmental

The PAD anticipated positive environmental impacts from the program, particularly through measures promoting a sustainable financial sector. Establishing the PCIF and adopting risk-based catastrophe insurance rates were expected to broaden access to disaster and climate risk protection for households and firms. In addition, bank compliance with SFF and ESMRF requirements was intended to support climate action.

However, apart from reporting that the PCIF covered 34 percent of catastrophe risk exposures, the ICR did not provide any ex-post evidence of these anticipated impacts.

c. Gender

The PAD highlighted gender gaps and disparities in access to finance in the Philippines. While more men than women held bank accounts, women were more likely to use accounts serving lower-income populations. Among MSMEs, men-owned enterprises were more frequent users of financial services, including digital platforms, than women-owned businesses. Digital banking and open finance were expected to help narrow these gaps. In addition, the CRRD and the standardized SME loan application form were designed to collect data on credit to women and women-owned SMEs, informing future policies and programs to boost women's financial inclusion.

The ICR noted that a three-year, six-country gender data initiative by the Women's Financial Inclusion Data (WFID) Partnership found that "gender data insights can inform public policies and private sector practices aimed at increasing women's financial inclusion."

d. Other

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10. Quality of ICR

Rationale

The ICR adhered to OPCS guidelines on ICRs for development financing operations, providing a substantive discussion of the relevance of prior actions and their contribution to program objectives. The assessment of the program's efficacy was well-founded and incorporated information beyond what was conveyed by the results indicators. The review of the Bank's performance during design and implementation was sufficiently detailed. The discussion of lessons learned from this series was insightful.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Highly Satisfactory	Satisfactory	Shortcomings at supervision
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR, with some adaptation. A fourth is added by this ICR Review.

Development policy operations could adopt a more selective approach in choosing prior actions for reform programs. This two-operation financial sector reform series supported 20 prior actions spanning three policy pillars, nine thematic areas—from recovery planning to green finance—and numerous sub-sectors under banking and insurance supervision (e.g., AML/CFT, financial intermediary taxation). Legal reforms progressed unevenly: RA No. 1152, amending the Anti-Money Laundering Law, was enacted swiftly in 2021, while Senate Bill No. 1847 (renumbered from No. 1347), the original PFITA, remained pending at the close of the program in 2024 and scaled-down to a narrower CMEPA post-closing in 2025. All S-DIBs adopted the SFF as mandated by BSP Circular No. 1085, whereas the IC withdrew Circular Letter No. 2022-34, which introduced risk-based minimum catastrophe insurance rates. Prioritizing reforms that are implementation-ready and less prone to reversal would be optimal.

Innovative reforms demand substantial technical assistance, advisory services, and institutional capacity building to support program design and implementation. Key initiatives—such as retaining the catastrophe risk pool in-country, introducing an early intervention regime for weak banks, advancing open banking, conducting climate transition risk testing at financial firms, and developing a taxonomy for green finance—created opportunities to strengthen financial sector stability and promote financial sector development in the Philippines. This series benefited greatly from the extensive technical assistance provided by the Bank to the BSP, other official bodies, and private industry, which helped move these reform initiatives forward. The Financial Sector Development Programmatic ASA played a particularly valuable role in this effort.

Because they involve complex and less easily understood concepts, financial sector reforms demand clear communication with stakeholders and extensive public outreach. In this series, measures such as risk-based insurance premiums and their connection to a catastrophe risk pool would likely appear abstract to the general public and even to officials unfamiliar with the intricacies of finance. A well-designed, expertly executed communications and outreach program can demystify these concepts, highlight successful experiences elsewhere, build broad-based support, and prevent policy reversals caused by misunderstandings of the reforms' intent.

IEG adds this lesson derived from the operation's implementation experience:

Joint work by the Bank and the IMF, a balanced mix of legislative and administrative actions, and sustained policy dialogue with regulators and supervisors strengthen the quality-at-entry of a financial sector reform operation. The prior actions in this programmatic series were well informed by the Joint FSAP, with the IMF focusing on financial system stability and the Bank on financial sector development. The program supported both legislative initiatives in Congress and the Senate and regulatory and supervisory measures by the BSP, IC, and SEC. In addition, intensive high-level policy dialogue with the authorities, including the DOF and the AMLC, helped reinforce bureaucratic commitment to the reform measures.

13. Project Performance Assessment Report (PPAR) Recommended?

No