



The World Bank

Promoting Competitiveness and Enhancing Resilience to Natural Disasters Sub-Program 2 Development Policy Loan
(P170914)

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$600 MILLION

REPUBLIC OF THE PHILIPPINES
FOR THE

Promoting Competitiveness and Enhancing Resilience to Natural Disasters Sub-
Program 2 Development Policy Loan
November 17, 2020

Macroeconomics, Trade And Investment Global Practice, and Finance, Competitiveness and
Innovation
East Asia And Pacific Region

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Republic of the Philippines

GOVERNMENT FISCAL YEAR*January 1 – December 31***CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of October 31, 2020)

Php48.44 = US\$1.00

ABBREVIATIONS AND ACRONYMS

4Ps	Pantawid Pamilyang Pilipino Program	DILG	Department of the Interior and Local Government
ACPC	Agricultural Credit Policy Council		
ADB	Asian Development Bank	DOF	Department of Finance
ARD	Asset Registry Division	DOF-CAG	DOF-Corporate Affairs Group
ARTA	Anti-Red Tape Authority	DOST	Department of Science and Technology
ASA	Advisory Services and Analytics	DOTr	Department of Transportation
ASEAN	Association of Southeast Asian Nations	DPL	Development Policy Loan
		DPWH	Department of Public Works and Highways
BIR	Bureau of Internal Revenue		
BOC	Bureau of Customs	DRF	Disaster Risk Financing
BOP	Balance of payments	DSWD	Department of Social Welfare and Development
BPO	Business Process Outsourcing		
Bps	Basis points	DTI	Department of Trade and Industry
BSP	Bangko Sentral ng Pilipinas	ECQ	Enhanced community quarantine
BTMS	Budget Treasury Management System	Egov Pay	Government e-payment
BTr	Bureau of the Treasury	EIS	Environmental Impact System
CAD	Current account deficits	EODB	Ease of Doing Business
CCAM-	Climate Change Adaptation and	FAO	Food and Agriculture Organization
DRR	Mitigation – Disaster Risk Reduction	FDA	Food and Drug Administration
CCT	Conditional cash transfer	FDI	Foreign Direct Investment
COA	Commission on Audit	FMI	Financial market infrastructure
COVID-19	Coronavirus Disease 2019	FOB	Free on board
CPF	Country Partnership Framework	FSAP	Financial Sector Assessment Program
CPS	Customs Processing System	FTE	Fiscal Transparency Evaluation
CSC	Civil Service Commission	GAA	General Appropriations Act
CSO	Civil service organizations	GCQ	General community quarantine
CY	Calendar Year	GDP	Gross Domestic Product
DA	Department of Agriculture	GFI	Government Financial Institution
DB	Doing Business	GOCC	Government-Owned and Controlled Corporation
DBCC	Development Budget Coordination Committee	GPPB	Government Procurement Policy Board
DBM	Department of Budget and Management	GRS	Grievance Redress Service
DBP	Development Bank of the Philippines	GSIS	Government Service Insurance System
DENR	Department of Environment and Natural Resources	Ha	Hectare
DICT	Department of Information and	ICT	Information and communication technology

	Communications Technology	ID4D	Identification for Development
IMF	International Monetary Fund	PDO	Program development objective
IMS	Interventions monitoring system	PDP	Philippine Development Plan
IRR	Implementing Rules and Regulations	PEFA	Public Expenditure and Financial Accountability
ITC	Independent tower company		
JMC	Joint Memorandum Circular	PER	Public Expenditure Review
Kg	Kilogram	PFM	Public financial management
KYC	Know-your-customer	PFRS	Philippine Financial Reporting Standards
LBP	Land Bank of the Philippines	PhilPaSS	Philippine Payment and Settlement System
LGU	Local government unit	PhilSys	Philippine Identification System
LRA	Land Registration Authority	PIDS	Philippine Institute for Development Studies
LTFRB	Land Transport and Franchising Regulatory Board	PPE	Personal protective equipment
Mbps	Megabits per second	PRO	PhilSys Registry Office
MC	Memorandum circular	PSA	Philippine Statistics Authority
Meralco	Manila Electric Company	PSN	PhilSys Number
MFD	Maximizing finance for development	QR PH	QR code for payments
MOSIP	Modular Open Source Identity Platform	RA	Republic Act
MSMEs	Micro, small, and medium enterprises	RAN	Radio access networks
NARS	National Asset Registry System	RCEF	Rice Competitiveness Enhancement Fund
NCP	National Competition Policy	RFFA	Rice Farmers Financial Assistance
NBOSS	National Business One-Stop Shop	RIA	Regulatory impact assessment
NDRRM	National Disaster Risk Reduction and Management	RSBSA	Registry System for Basic Sectors in Agriculture
NEDA	National Economic and Development Authority	RTGS	Real-Time Gross Settlement
NEHEMIA	National Effort for the Harmonization of Efficient Measures of Inter-related Agencies	SAP	Social Amelioration Program
NFA	National Food Authority	SCD	Systematic Country Diagnostic
FFIS	National Farmers and Fisherfolk Information System	SDG	Sustainable Development Goal
NIIIP	National Indemnity Insurance Program	SEC	Securities and Exchange Commission
NPSA	National Payment System Act	SFF	Sustainable Finance Framework
NRPS	National Retail Payment System	SME	Small and medium enterprise
OBI	Open Budget Index	SSS	Social Security System
OFW	Overseas Filipino worker	TA	Technical Assistance
OPS	Operators of Payment Systems	TLP	Total loan portfolio
PCC	Philippine Competition Commission	TRAIN	Tax Reform for Acceleration and Inclusion
PCIC	Philippine Crop Insurance Corporation	U.S.	United States of America
		UHC	Universal Health Care
		UN	United Nations
		WBG	World Bank Group
		WTO	World Trade Organization

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REPUBLIC OF THE PHILIPPINES
PROMOTING COMPETITIVENESS AND ENHANCING RESILIENCE TO NATURAL DISASTERS SUB-
PROGRAM 2 DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P170914	Yes	2nd in a series of 3

Proposed Development Objective(s)

The DPL series aim to support the Government of the Philippines in: i) promoting competitiveness and ii) enhancing resilience.

Organizations

Borrower: REPUBLIC OF THE PHILIPPINES
 Implementing Agency: DEPARTMENT OF FINANCE

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	600.00
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DETAILS

International Bank for Reconstruction and Development (IBRD)	600.00
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INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

**Results**

Indicator Name	Baseline (2018)	Current Value	Target (2022)
Mobile internet penetration rate for unique subscribers	-	45.5	More than 57.0
Investment in telecommunication (in USD billions)		2.1	More than 3.0
Number of days to start a business	31	33	Less than 20
Number of procedures to start a business	13	13	Less than 8
Container average clearance time (in days)	-	10	8
The gap between domestic and international price of rice calculated as domestic price less international price as percent of international price (in percent)	76	51	Less than 50
Share of non-rice agriculture GDP as share of total agriculture GDP (in percent)	-	78.9	More than 83.0
Excise tax revenue as share of GDP (in percent)	-	2.3	More than 2.9
Use of the foundational ID	0	0	Bank account opening, social assistance beneficiary identification and verification, and pension payments
Annual growth of volume (number of transaction) for electronic payments (in percent)	-	11	More than 15
Number of pre-arranged or improved financial mechanisms for disaster response	2	4	More than 4
Share of public assets included in the asset registry for 5 key agencies (in percent)	0	0	More than 60



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

1. INTRODUCTION AND COUNTRY CONTEXT

1. This proposed Development Policy Loan (DPL) will support the Government of the Philippines' recovery effort from the social and economic impact of the Coronavirus Disease 2019 (COVID-19) pandemic while advancing structural reforms on competitiveness and resilience. The proposed operation, in the amount of US\$600 million, is the second in a series of three operations that aims to support the Government of the Philippines in: i) promoting competitiveness and ii) enhancing resilience. This operation supports transformational reforms such as the digitalization of customs procedures, the operationalization of the Rice Liberalization Act which eliminates restrictions to rice imports and promotes the diversification of agriculture, the Common Tower Sharing policy promoting information and communication technology (ICT) infrastructure expansion, and the introduction of digital infrastructure for registration of identification systems.

2. Prior to the pandemic, sound macroeconomic fundamentals and a commitment to transformational structural reforms were accelerating inclusive growth in the Philippines. The economy grew by an average of 6.3 percent per year in 2010-2019, as a result of strong macroeconomic fundamentals, a supportive policy environment, favorable external conditions, and the cumulative effects of structural reforms. In recent years, the government strengthened its commitment to structural reforms, focusing on areas of competition and competitiveness, and accelerating its investment in human and physical capital, while remaining committed to prudent fiscal management. This contributed to an acceleration in the pace of poverty reduction, with the poverty incidence falling from 26.6 percent in 2006 to 16.6 percent in 2018, with the decline in poverty accelerating between 2015 to 2018.¹

3. However, the hard-won gains in poverty reduction are being unraveled by the unprecedented health and economic crisis posed by the COVID-19 pandemic. The COVID-19 outbreak in March forced the economy to a near halt as the government took swift and strong measures in an effort to flatten the infection curve. This caused severe disruptions in domestic economic activity, which combined with a similarly choked global economy led to the sharpest GDP contraction in over three decades. As of July 2020, about 15 percent of the firms surveyed in a national COVID-19 Firm Survey² reported to have ceased operations and closed permanently. In addition, respondents to the same survey reported that their sales revenue had gone down by 64 percent on average between April and July 2020. As a result, the poverty incidence is estimated to increase by around 1.9 percentage points between 2019 and 2020³ due to income loss and smaller inflow of remittances. As domestic and global growth is expected to contract in the short term, with increasing downside risks, the government faces a substantial financial need to contain the immediate effect of the crisis on households and firms.

4. The government's immediate priority is to flatten the infection curve, while pressing ahead with

¹ After remaining stubbornly high between 2006 to 2012, the poverty incidence fell from 23.3 percent in 2015 to 16.6 percent in 2018, according to national poverty line reported by the Philippine Statistics Authority.

² Results from the Philippines COVID-19 Firm Survey conducted in July 2020, World Bank (2020).

³ Based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP.



structural reforms to promote competitiveness and get the economy back to its inclusive growth path.

While the daily infection curve has slightly declined since shifting to a more relaxed general community quarantine (GCQ) in mid-August, more effort needs to be placed to lower the number of cases further. As the economy recovers from the pandemic, long-overdue reforms that address limited market competition and high trade costs need to be prioritized to protect the poor and vulnerable, and small and medium enterprises (SMEs) that are less resilient to shocks. Similarly, reforms that can support adaptive business solutions such as digitization of business operations can enhance their resilience. By July 2020, almost two-thirds of firms that were surveyed have turned to implement digital solutions for sales, marketing, and payment methods to adapt to the new normal. Of equal importance is the protection of the poor and vulnerable against non-health natural shocks given that the Philippines remains the third most vulnerable country in the world to natural disasters and climate change. Therefore, prioritizing reforms to promote competitiveness and to enhance fiscal and social resilience to shocks is crucial to get the country back to its inclusive growth path.

5. The reforms supported by this DPL are fully aligned with the Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF). The CPF covering 2019-2023 focuses on three development objectives: (i) job creation; (ii) improving human capital; and (iii) building resilience to conflict and natural disasters, which remain relevant in the current context. Cross-cutting themes include governance and digital transformation. This operation is fully aligned with the objectives of the CPF by supporting reforms towards improving business climate, promoting competitiveness, facilitating digitalization of the economy and government service provision, and strengthening financial inclusion, which are needed reforms to boost the quality of job creation. The DPL series also supports reforms to enhance fiscal resilience through higher tax revenue collection effort. In addition, the DPL supports the government's efforts to strengthen disaster and climate risk management, directly aligned with the third objective of the CPF.

6. The policy actions supported by the proposed operation are critical to a smooth and inclusive recovery through the implementation of reforms in the areas of competitiveness and resilience to shocks. While this is the second operation of a series, the policy matrix is streamlined from three to two pillars to emphasize the central role of competitiveness and resilience to shocks in the recovery phase, and the reform actions are updated to support more directly the economic recovery. Pillar 1 on promoting competitiveness now supports the government by a) lowering the entry barrier into the digital service provision market; b) operationalizing the Anti-Red Tape Authority (ARTA) to implement the 'Ease of Doing Business and Efficient Government Service Delivery' Act; c) shifting to digital transactions for customs processes for trade facilitation; and d) operationalizing support to affected rice farmers with the implementation of the 'rice liberalization law'. Pillar 2 supports government's efforts in enhancing resilience to shocks by a) creating fiscal space through increases of excise taxes; b) implementing the National ID program for financial inclusion and social program delivery; c) operationalizing the National Payment System to facilitate digital payments; and d) increasing financial resilience to natural disasters and climate change through pre-arranging funding for disaster response and improving management of public assets against natural disasters.

7. The reform program is fully aligned with the World Bank Group's (WBG) approach paper in supporting countries in addressing crisis and transition to recovery. While an emergency COVID-19



Response DPL operation (P174120) provided support to the government during the relief stage, this operation supports the recovery stage as the country takes advantage of new opportunities to build a more sustainable, inclusive, and resilient future under the new normal. For instance, fast-tracking digitalization of the economy and government processes is critical as changes in consumer behavior and micro, small, and medium enterprises (MSMEs) business model emerge under the new normal of social distancing and remote work. Moreover, the economic hardship caused by the containment measures has been unevenly shared, disproportionately affecting the poor and vulnerable families, and SMEs. Therefore, promoting competitiveness and resilience is even more important to level the playing field during the recovery, and to ensure that the social protection infrastructure is adequate to protect the poor and vulnerable for social resilience.

8. Given the current circumstances, the macroeconomic policy framework is adequate for the purpose of the proposed operation. The economy is projected to contract by 6.9 percent in 2020. Assuming that the virus is contained in early 2021, economic activities are expected to recover gradually owing to greater consumer and business confidence, higher public investment as envisaged in the 2021 proposed budget and improved global conditions. As a result, GDP growth is expected to rebound to 5.3 percent in 2021 and to 5.6 percent in 2022. However, macroeconomic risk is substantial and tilted to the downside given the uncertainty on the duration and severity of COVID-19 outbreak.⁴ While the COVID-19 pandemic will have a significant impact on economic performance and poverty reduction, the country has remained resilient. The Bangko Sentral ng Pilipinas (BSP) is committed to the inflation-targeting objective and is responsive to global interest rate movements. Under its helm, the country has accumulated adequate foreign exchange reserves that provide cushion to the impact of global shocks. The BSP has also maintained a market-determined, flexible exchange rate regime as a first line of defense against external shocks. On fiscal policy, a prudent expenditure policy in the past ten years and tax reforms over the past three years have created sufficient fiscal space to support the current expansion of public expenditure to support the economy, and a prospective rise in public investment to support economic recovery in 2021. With the higher financing needs in 2020-2023, the debt-to-GDP ratio is projected to increase in the short-term peaking in 2023 before reverting to a downward trajectory as growth picks up and the government reverts to lower fiscal deficits.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

9. The country experienced the sharpest economic contraction in over three decades, caused by the COVID-19 pandemic and the ensuing containment measures. A series of unforeseen events in early 2020⁵ have resulted in a deterioration of the country's economic outcomes compared to what was projected in the first operation in this series, culminating with the outbreak of COVID-19 in March, which

⁴ The government is taking measures to contain the spread of the virus. While daily cases are declining, they remain high. If the government fails to flatten the infection curve in the short term with sustained high daily confirmed cases and a saturated health system forcing a reversal to strict quarantine restrictions, then economic contraction could turn even deeper in 2021.

⁵ In early January 2020, the eruption of Taal Volcano caused severe disruptions in tourism, agricultural, and manufacturing activities.



compelled the government to impose a strict lockdown known as the enhanced community quarantine (ECQ) on March 16. The economy contracted by 9.0 percent, year-on-year, in the first half of 2020, driven by the collapse in private consumption and investment activity. The containment measures restricted movements of people, interrupted supply chains, and disrupted economic activity, resulting in income losses for firms and workers. Tourism, travel, and leisure industries were among the sectors impacted the most. Moreover, given the unravelling outbreak in advanced economies, remittance flows have contracted in the first half of the year.⁶ The downside risks discussed in the COVID-19 Emergency DPL (P174120) in April 2020 have since materialized, as confirmed cases continue to increase, exceeding 408,000 as of mid-November, resulting in an extended period of lockdown restrictions, and causing a deterioration in the country's short-term growth prospects.

10. Owing to a major contraction of the trade deficit, the current account reversed to a surplus in the first half of 2020, the first since 2017. Current account deficit (CAD) has narrowed from an average of 1.2 percent of GDP between 2016-2018 to a deficit of 0.9 percent of GDP in 2019. However, the CAD reversed to a surplus of 2.6 percent of GDP in the first half of 2020 due to a compression in import demand. This was caused by interruptions in global supply chains triggered by COVID-19 and a softening of external demand. Meanwhile, the capital and financial accounts registered a combined net outflows of US\$3.9 billion (2.3 percent of GDP) in the first semester of 2020, reversing the US\$5.5 billion (3.1 percent of GDP) inflows in the first half of 2019 driven by strong net outflows in other investments⁷ and portfolio investments. In addition, foreign direct investments (FDI) were impacted by elevated uncertainties, which led to a 10.9 percent decline to US\$3.8 billion in the first seven months of 2020. Nevertheless, with the larger current account surplus, the balance of payment (BOP) remained in surplus of US\$4.1 billion (2.4 percent of GDP) in the first half of 2020. The US dollar inflows driven by foreign borrowing by the national government, coupled with softer dollar demand on account of weaker imports, contributed to a 3.1 percent year-on-year appreciation of the peso in the first half of the year. Gross international reserves reached an all-time high of US\$93.5 billion, equivalent to 8.4 months' worth of imports of goods and payments of services and primary income as of end-June 2020.

11. The COVID-19 pandemic has put a strain on the country's fiscal balance, resulting in rising public debt. In recent years, the government has increased its investment in human and physical capital, leading to a steady acceleration of public spending to 19.5 percent of GDP in 2019 from 16.8 percent in 2016. To support higher spending, tax policy and administration reforms were introduced, increasing fiscal revenue from 13.1 percent of GDP in 2016 to 14.5 percent of GDP in 2019. As a result, fiscal deficit remained at a modest level of 3.4 percent of GDP in 2019 (Table 3). However, the COVID-19 pandemic has put pressure on the fiscal balance. The revenue base has eroded significantly, while public spending increased to support measures to manage the health and socio-economic impacts of the crisis. The government's fiscal response reached a total of Php554 billion (3.0 percent of GDP)⁸ as of end-September 2020 (Box 1), of which, a total of Php389.2 billion (2.1 percent of GDP) was disbursed in the first half of 2020.⁹ This resulted

⁶ Remittances contracted by 4.2 percent year-on-year in the first half of 2020.

⁷ Other investments, consisting mainly of domestic deposits in foreign banks and non-resident net loans from local banks, contributed to US\$4.8 billion in net outflows.

⁸ Using estimated nominal 2020 GDP.

⁹ These include measures such as a Php205 billion (1.1 percent of GDP) emergency subsidy program for 18 million low-income



in a significant widening of the fiscal deficit to 6.5 percent of GDP in the first half of 2020 compared to a deficit of 0.5 percent of GDP in 2019, and substantially higher than the 3.2 percent pre-COVID target for 2020.¹⁰ Public debt has increased to 48.1 percent of GDP as of the end-June 2020, from 39.6 percent in end-2019. Yet, maintaining long-term fiscal sustainability is feasible as the debt portfolio is composed largely of long-term debt (69 percent), and mostly denominated in peso (around 70 percent of total debt).

Table 1. Key Economic Indicators (2017 to 2023)¹¹

	2017 2018 2019			2020	2021	2022	2020	2021	2022	2023
	Actual			Pre-COVID	Pre-COVID	Pre-COVID	Projected			2023
							Post-COVID	Post-COVID	Post-COVID	
Growth and inflation	(In percent of GDP)			unless otherwise indicated)						
Gross domestic product (percent change)	6.9	6.3	6.0	6.1	6.2	6.2	-6.9	5.3	5.6	5.6
Inflation (period average)	2.9	5.2	2.5	3.0	3.0	3.0	2.5	2.8	3.0	3.3
Savings and investment										
Gross domestic savings	16.5	15.4	14.3	14.2	14.5	14.5	12.8	13.1	13.3	13.3
Gross domestic investment	25.6	27.2	26.2	28.4	30.0	31.2	22.7	23.2	24.0	24.7
Public sector										
National government balance	-2.1	-3.1	-3.4	-2.6	-2.7	-2.7	-8.7	-7.2	-6.6	-5.8
Primary balance	-0.2	-1.1	-1.6	-0.7	-0.7	-0.7	-6.4	-4.5	-3.8	-2.9
Total revenue	14.9	15.6	16.1	16.3	16.6	16.8	14.3	14.5	15.0	15.2
Tax revenue	13.6	14.0	14.5	14.9	15.0	15.2	12.6	13.2	13.8	14.0
Total spending	17.1	18.7	19.5	18.9	19.3	19.5	23.0	21.7	21.6	21.0
National government debt	40.2	39.9	39.6	38.4	37.3	36.2	50.3	54.3	57.1	58.6
Balance of payments										
Total exports (percent change)	17.4	11.8	2.4	8.0	8.3	8.5	-16.7	8.6	5.0	6.5
Total Imports (percent change)	15.1	14.6	1.8	11.5	12.0	12.4	-19.1	10.6	8.2	9.0
Remittances (percent change of US\$ remittance)	5.3	3.0	3.9	3.3	3.5	3.5	-5.0	4.9	2.0	3.0
Current account balance	-0.7	-2.7	-0.9	-2.5	-2.7	-2.7	1.4	-1.7	-1.8	-1.8
Foreign direct investment (billions of dollars)	10.3	9.9	7.6	10.5	11.0	11.5	4.8	5.7	5.2	5.6
Portfolio Investment (billions of dollars)	2.5	1.4	-1.7	1.2	1.4	1.5	-3.0	0.5	1.0	1.2
International reserves										
Gross official reserves ^{1/} (billions of dollars)	81.6	79.2	87.8							
Gross official reserves (months of imports) ^{2/}	7.8	6.9	7.7							

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

1/ Includes gold

2/ Defined as the total of goods and services imports and primary income that can be financed by reserves

3/ Debt-to-GDP ratio is projected to increase in the short term and peaks in 2023 before reverting to a downward trajectory.

12. To mitigate the impact of the pandemic, the BSP has accelerated its accommodative policy stance and has taken extraordinary measures to support the government’s COVID-19 response. After peaking at 5.2 percent in 2018, headline inflation decelerated to 2.5 percent in 2019 and the first eight months of 2020, within BSP target range giving space for accommodative monetary policy. To mitigate the impact of the COVID-19 outbreak, the BSP reduced the key policy rate by a cumulative 175 basis points

families, special microfinance loan packages, debt and interest payment moratorium, unemployment benefits and wage subsidy, and the mobilization of funds for different programs.

¹⁰ As a result, the government increased its full-year fiscal deficit target to 9.6 percent of GDP by end-2020, a three-fold increase compared to the pre-COVID target of 3.2 percent of GDP.

¹¹ Pre-COVID forecasts for variables expressed as a share of GDP were recomputed using the country’s revised Gross Domestic Product data series released by the Philippines Statistics Authority on May 2020.



(bps) to 2.25 percent, and the reserve requirement by 200 bps to 12.0 percent as of October 2020. The BSP has also adopted other regulatory measures to facilitate online transactions and the monetary authorities have taken preemptive actions to minimize the economic fallout of the COVID-19 pandemic.¹² In addition, the BSP has taken extraordinary steps to help the government finance its COVID-19 response program, by approving a reverse repurchase agreement with the Bureau of Treasury (BTr) worth Php300 billion (1.6 percent of GDP). The national government has requested for a fresh round of repurchase agreements from the BSP, amounting to Php540 billion (2.9 percent of GDP), to be settled on or before December 29, 2020.

13. The projected growth slowdown, combined with negative global market sentiment, would increase risks in the financial sector. In the face of the pandemic, banks remained well capitalized with satisfactory asset quality indicators. The total capital adequacy ratio of 12.6 percent in May 2020 was above the minimum regulatory requirement, while the share of non-performing loans to total loans was relatively low at 2.43 percent. However, the bulk (83 percent) of the bank system’s total loan portfolio (TLP), which represented nearly 60 percent of the total assets at end-May 2020, was directed to the corporate sector. In the context of a significant slowdown of the economic activity, some borrowers, particularly the ones related to the most affected sectors during the pandemic including services and tourism, could face serious challenges to face their debt obligations. This would in turn worsen the asset quality and loan portfolio of banks. Past due ratio has already risen from 2.9 percent of TLP in January 2020 to 5.2 percent in May 2020.

Box 1. The Philippine Government’s COVID-19 Response

The Philippine Government approved a total Php554.7 billion (3.0 percent of 2020 GDP) in fiscal response measures to mitigate the health and socioeconomic impacts of the COVID-19 pandemic, and to help jumpstart the country’s economic recovery. The government’s response was built around a combination of fiscal and monetary policy support measures. On March 24, 2020, Republic Act (RA) No. 11469, also known as the “Bayanihan to Heal as One Act” (Bayanihan 1) was enacted, providing the legal framework for the government’s comprehensive response to the COVID-19 pandemic. The law, valid for three months, provided the President with the authority to exercise additional powers to mitigate and contain the spread of COVID-19 while providing the government with the resources to address the impact of the pandemic on the Philippine economy. RA No. 11494, known as the “Bayanihan to Recover as One Act” (Bayanihan 2), enacted into law on September 11, 2020, allowed the government to continue its activities specified in Bayanihan 1, and introduce new measures that aim to support various sectors that were strongly impacted by the COVID-19 pandemic.

Bayanihan 1 allocated a total of Php389.2 billion (2.1 percent of 2020 GDP) to fund the government’s health and social protection measures. The social protection pillar focused largely on financial support to the poor and vulnerable. The law includes emergency cash transfers worth Php5,000-Php8,000 per month for two months to around 18 million households who are either poor or in the informal sector. The cash-transfer program costed a total of Php206 billion (1.1 percent of GDP). Additional social protection programs included employment support programs such as the small businesses wage subsidies, provision of cash assistance to displaced workers and

¹² The BSP (i) relaxed know-your-customer (KYC) requirements to facilitate the delivery of social protection programs; (ii) digitized some operations and waived types of penalties and fees for foreign exchange transactions; (iii) suspended charges on electronic payment and financial services fees for six months; (iv) provided relief measures to micro, small, and medium enterprises by temporarily reducing the credit risks assigned to their loans; and assigning a 0 percent risk weight for their guaranteed loans, among others.



Overseas Filipino Workers (OFWs), and unemployment benefits for the affected members of Social Security System (SSS). An emergency employment program was also implemented by the Department of Labor and Employment to offer job opportunities to for the affected informal sector workers. In addition, local government units (LGUs) were given additional financial support to help fund their respective programs for those affected by the pandemic. Bayanihan 1 also allocated Php50.5 billion (0.3 percent of GDP) for the medical expenses of COVID-19 patients, while providing resources needed for medical equipment, supplies, and personal protective equipment (PPE). In addition, front-line health workers were provided additional compensation and protection for their services while temporary health workers were hired to augment the existing health workforce.

Table 2. Fiscal Cost of the Bayanihan Packages

Program	Php Billions	In percent of GDP
Bayanihan to Heal as One Act	389.2	2.1
Social Amelioration Program	206.7	1.1
Displaced Workers	6.4	0.0
Food and Agriculture	11.4	0.1
Support to LGUs	37.0	0.2
Health	50.5	0.3
Operational	3.9	0.0
Support to Overseas Filipino Workers	6.1	0.0
Education	10.9	0.1
Support to the vulnerable sector	4.9	0.0
Small Business Wage Subsidy	51.0	0.3
Support to affected businesses	0.3	0.0
Bayanihan to Recover as One Act	165.5	0.9
Health	21.0	0.1
Cash for work	18.0	0.1
Social Assistance	6.0	0.0
GFI capital infusion (credit and guarantee program for MSMEs)	39.5	0.2
Food and Agriculture	24.0	0.1
Transportation	9.5	0.1
Tourism	4.1	0.0
Education	7.9	0.0
Skills training	1.0	0.0
Others	9.0	0.0
Standby fund	25.5	0.1
Total	554.7	3.0

Source: Department of Budget and Management (DBM), Government of the Philippines

Bayanihan 2 provided additional funding of Php165 billion (0.9 percent of 2020 GDP) to COVID-19 response measures. Of the said amount, a total of Php140 billion (0.8 percent of GDP) were allocated to a wide range of sectors to aid recovery. Health and social protection measures included social assistance and employment support programs for Php 33 billion (0.2 percent of GDP), and Php21 billion (0.1 percent of GDP) in additional funding for the health sector. Government Financial Institutions (GFIs) received a capital infusion (Php39.5 billion [0.2 percent of GDP]) to help sustain their lending facilities to qualified entities engaged in industries affected by



the pandemic. The tourism sector received funding for infrastructure projects and a cash-for-work program for displaced workers within the industry. The transport sector also received funding for temporary livelihood for the displaced public utility vehicle drivers, assistance to critically impacted businesses within the sector, and development of accessible sidewalks and bicycle lanes as alternative modes of transportation. The education sector received support through the development of smart campuses to support flexible online and modular learning systems. Lastly, to ensure food security and continuous productivity in the agriculture sector, Bayanihan 2 also provided funds for the programs of the Department of Agriculture (DA) which cater to qualified agriculture workers in the form of direct cash or loan subsidies and other forms of assistance. A Php25.5 billion (0.1 percent of GDP) standby fund can also be triggered if additional revenues become available, of which Php10 billion (0.1 percent of GDP) will be allocated for COVID-19 testing, and procurement of vaccines and medicines, while Php15.5 billion (0.1 percent of GDP) will be provided to government banks as additional capital infusion.



Table 3. Key Fiscal Indicators (2017 -2023)¹³

	2017	2018	2019	2020	2021	2022	2020	2021	2022	2023
	Actual			Pre-COVID Forecast			Post-COVID Forecast			
	<i>(In percent of GDP unless otherwise indicated)</i>									
Overall Balance	-2.1	-3.1	-3.4	-2.6	-2.7	-2.7	-8.7	-7.2	-6.6	-5.8
Primary Balance	-0.2	-1.1	-1.6	-0.7	-0.7	-0.7	-6.4	-4.5	-3.8	-2.9
Total Revenue	14.9	15.6	16.1	16.3	16.6	16.8	14.3	14.5	15.0	15.2
Tax Revenues	13.6	14.0	14.5	14.9	15.0	15.2	12.6	13.2	13.8	14.0
Taxes on net income and profits	6.2	5.7	5.9	5.6	5.7	5.8	4.8	5.2	5.3	5.5
Taxes on Domestic Goods and Services	4.6	5.1	5.3	6.0	6.1	6.2	5.1	5.2	5.5	5.5
General Sales, Turnover, or VAT	2.2	2.0	2.1	2.8	2.9	2.9	2.0	2.0	2.1	2.1
Selected Excises on Goods	1.3	1.6	1.6	1.9	2.0	2.0	1.7	1.8	1.9	1.9
Selected Taxes on Services	0.5	0.7	0.7	0.5	0.5	0.5	0.6	0.6	0.7	0.7
Other Taxes	0.8	1.0	1.0	0.8	0.8	0.8	0.9	0.8	0.8	0.8
Taxes on International Trade and Transactions	2.8	3.2	3.2	3.3	3.3	3.4	2.7	2.9	3.0	3.0
Non-tax Revenues	1.3	1.6	1.6	1.4	1.6	1.6	1.7	1.2	1.2	1.2
Total Expenditures	17.1	18.7	19.5	18.9	19.3	19.5	23.0	21.7	21.6	21.0
Current operating expenditures	12.8	13.4	14.0	13.6	13.9	14.0	18.4	15.9	16.1	15.7
Personnel Services	4.9	5.4	5.7	5.5	5.6	5.7	5.9	5.9	5.7	5.6
Maintenance and other operating expenditures	2.8	2.9	3.0	2.9	3.0	2.7	5.0	3.6	3.4	3.2
Subsidy	0.8	0.7	1.0	0.7	0.7	0.7	1.3	1.0	0.9	0.9
Allotment to Local Government Units	2.4	2.3	2.4	2.4	2.5	2.8	3.8	2.7	3.1	3.0
Interest Payments	1.9	1.9	1.8	1.9	2.0	2.0	2.3	2.7	2.8	2.8
Tax Expenditures	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Outlays	4.3	5.3	5.3	5.3	5.4	5.5	4.6	5.8	5.5	5.3
Infrastructure & other capital outlay	3.4	4.4	4.5	4.6	4.7	4.3	3.6	4.8	4.1	4.0
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfer to local government	0.8	0.9	0.8	0.8	0.8	1.1	0.9	1.0	1.3	1.3
National Government Financing	5.7	5.4	5.5	5.9	6.0	6.0	11.8	13.5	13.0	12.2
External	1.1	1.7	1.7	1.9	2.0	2.0	2.6	3.4	3.2	3.0
Domestic	4.6	3.7	3.7	4.0	4.0	4.0	9.2	10.1	9.7	9.1
National Government Debt	40.2	39.9	39.6	38.4	37.3	36.2	50.3	54.3	57.1	58.6

Sources: BTr, DBM, Philippine Statistics Authority (PSA), and World Bank projections.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. The country's growth prospects hinge on its ability to manage the COVID-19 health crisis. The Philippines has struggled to contain the COVID-19 outbreak which has led to prolonged community quarantines and reversion to strict lockdowns in select areas. The lockdowns have dampened economic activities, disrupted local supply chains, and undermined confidence on reopening of the economy. The baseline growth projection rests on the assumption that domestic demand will remain subdued during the second half of 2020 and will start to pick up when the infection curve is flattened in early 2021,

¹³ Pre-COVID forecasts for variables expressed as a share of GDP were recomputed using the country's revised Gross Domestic Product data series released by the Philippines Statistics Authority on May 2020.



allowing for economic activities to resume gradually. Similarly, while the government is committed to ramping up its infrastructure spending, the pace of implementation will likely face delays due to supply disruptions and capacity constraints in 2020 and will gradually pick up in 2021. The projection also assumes that the global economy will rebound in 2021, allowing the country's exports sector to return to positive growth and larger remittance inflows to stimulate domestic demand. The national election in 2022 will give an added boost to economic activities as early as the second half of 2021 through 2022.

15. The economy is expected to contract in 2020 due to weakness in domestic and external demand. Private consumption is expected to contract in 2020 due to depressed consumer confidence, job losses, and repatriation of OFWs resulting in the contraction of overseas remittances.¹⁴ Capital formation, a key growth driver in 2019, is anticipated to dip as private investment is dampened by uncertainty, disruption of operations, and balance sheet weakness for some large corporations. Moreover, public infrastructure spending is expected to contract significantly¹⁵, as resources were shifted away from the public infrastructure program in 2020 to fund the government's COVID-19 response programs. In addition, although public investment projects are expected to resume in the second half of 2020, they may face operational delays due to supply disruptions. With countries across the world taking measures against the pandemic, weaker global trading activities will soften the country's goods exports, while travel restrictions dim the prospects for tourism. In 2020, the economy is projected to contract by 6.9 percent from previously projected 1.9 percent contraction in June, and an expansion of 6.2 percent pre-COVID-19.

16. Economic growth is expected to recover gradually in the medium term but faces significant downside risks. Owing to a large base effect given the magnitude of the 2020 economic contraction, and assuming better public health management of local transmissions resulting in the gradual return of business and consumer confidence in the early part of 2021, GDP growth is projected to rebound to 5.3 percent and 5.6 percent in 2021 and 2022, respectively. Economic growth will likely be driven by a modest recovery in public investments and a rebound in consumption as confidence and incomes recover, supported by accommodative monetary policy and a gradual recovery in private investment as structural reforms are implemented. Furthermore, the 2022 national elections will provide an added boost to economic activities as early as the second half of 2021. However, government consumption growth will remain flat in 2021 driven by high base effects, before accelerating in 2022, as recurrent spending is expected to decline by 5.6 percent year-on-year in nominal terms.¹⁶ Nonetheless, the full extent and duration of the COVID-19 outbreak is uncertain, posing a significant downside risk to the growth projections. In the medium term, the negative impact brought by the COVID-19 pandemic is expected to lower the output potential as both public and private investments are expected to moderate due to heightened policy uncertainty.

¹⁴ Disruptions in economic activities and travel bans in Japan, China, Korea, Middle East countries, and the U.S. impacted the inflow of remittances in 2020, which represents 9.1 percent of GDP in the first half of 2020. The dampening effect on domestic consumption might however be contained by the altruism of OFWs: while remittances contracted by 4.2 percent year-on-year in the first half of 2020, remittance flows have started to recover in June and July, growing by 7.6 percent year-on-year on both months.

¹⁵ Until August, public infrastructure spending contracted by 11 percent compared to the same period in 2019.

¹⁶ Recurrent spending is expected to decline by Php194 billion (1 percent of GDP) in 2021. This is largely a result of the high base effects, as the 2020 recurrent spending program was increased by Php417 billion (2.2 percent of GDP) during the COVID-19 pandemic, in order to help mitigate the health and socioeconomic impacts of COVID-19.



**Table 4. Demand and Supply Contributions to GDP Growth
(in percentage points, 2017 -2023)**

	2017	2018	2019	2020	2021	2022	2023
GDP Growth	6.9	6.3	6.0	-6.9	5.3	5.6	5.6
					Forecast		
Demand Side							
Private Consumption	4.4	4.2	4.3	-5.6	4.1	3.8	3.9
Government Consumption	0.7	1.5	1.2	1.9	0.0	1.2	1.1
Fixed Capital Formation	2.6	3.3	1.1	-6.2	2.5	2.3	2.5
Exports	4.6	3.4	0.7	-4.9	2.4	1.4	1.5
Imports	-5.5	-5.7	-0.8	7.7	-3.7	-3.0	-3.4
Supply Side							
Agriculture	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Industry	2.1	2.2	1.4	-2.9	1.6	1.8	1.7
Services	4.4	4.0	4.5	-4.1	3.5	3.7	3.8

Source: PSA and World Bank staff calculations.

17. In the medium term, sustaining the government’s infrastructure investment program will be crucial to support economic recovery, while addressing the long-standing infrastructure gaps in the country. A key government priority is to boost its growth potential by investing in human and physical capital. Before the COVID-19 outbreak, the government planned to steadily increase public infrastructure spending from 4.1 percent of GDP in 2016 to 7.3 percent of GDP by 2022. Despite the COVID-19 pandemic, the government remains committed to pursuing the infrastructure investment agenda.¹⁷ While the pace of implementation has been delayed due to COVID-19, the government’s commitment to ramping up infrastructure spending will help in building back business confidence, accelerating the growth recovery through job creation, while at the same time closing its long-standing infrastructure gaps.

18. While the fiscal deficit is expected to widen substantially in 2020, it is expected to consolidate in the medium term as the economy recovers and as revenue collection effort increases. From 3.4 percent of GDP in 2019, the fiscal deficit is projected to widen to 8.7 percent of GDP in 2020 as a result of adopted measures to address the COVID-19 outbreak amidst lower revenue collection. Nevertheless, the government is committed to fiscal consolidation in the medium term, consistent with its performance in the past decade. In particular, the government has softened the pace of public expenditure growth over the forecast horizon. The disbursement program is expected to grow by an average of 3.9 percent year-on-year in nominal terms in 2021 and 2022, significantly slower than the 10.9 percent growth in public spending prior to COVID-19. Moreover, the government, through this DPL series, has increased tax rates for sin products such as alcoholic beverages and e-cigarettes in early 2020 which is expected to increase tax revenues over the medium-term. Furthermore, given the expansion of e-commerce amid the COVID-19 pandemic¹⁸, the government is also studying digital taxation to further support revenue collection.

¹⁷ Infrastructure spending represents near a quarter of proposed 2021 budget, estimated at 5.4 percent of GDP.

¹⁸ Registration of new internet retail firms increased from less than 2,000 between January and March, to close to 10,000 in May and additional 33,000 in June.



19. Monetary policy is expected to be supportive of growth as inflation remains stable and within target. Headline inflation is expected to settle at 2.5 percent in 2020 as commodity prices weaken and consumption demand soften due to the outbreak. The subdued inflation outlook provides additional space for the BSP to ease rates while headline inflation remains within the 2-4 percent target. Furthermore, the BSP could further lower the reserve requirement ratio in response to weakened economic activity, as well as if more downside risks from the external environment materialize. Monetary policy accommodation in advanced economies is expected to continue, especially as the U.S. Federal Reserve indicated that the interest rates will be kept near zero in the near term.

20. The Philippines' financial system faces uncertainty as the impacts of the pandemic have affected the asset quality of the banking system. The Philippine financial system maintains a high level of liquidity in the market thanks to BSP's policy measures. The COVID-19 pandemic sharply slowed credit to production and household consumption since the lockdown. Furthermore, banking sector profitability began to decline in the second quarter of 2020. Its return on equity contracted to 8.99 in June 2020 from 9.84 in June 2019; and its return on assets shrank to 1.15 from 1.24 in the same period. The size of the local currency bond market in the Philippines continued to expand in the second quarter of 2020, reaching PHP7,477 billion (USD150 billion) at the end of June. The yields of local currency government bonds in the Philippines fell for all tenors, shifting the yield curve downward between 15 June and 15 August due to a weak economic outlook and uncertainty posed by the COVID-19 pandemic, as well as abundant liquidity in the market.¹⁹

21. The government's financing needs is expected to remain elevated in the short-term due to the pandemic shock, but also in the medium term as the fiscal deficit remains large, if gradually declining. In 2020, the fiscal stimulus packages enacted during the year are likely to push the financing needs to 11.8 percent of GDP (Table 5). The financing needs will likely remain high in the medium term as the fiscal deficit will remain relatively high, even if it gradually declines. Nevertheless, the financing profile is expected to be manageable, given low pre-COVID-19 national government debt level (39.6 percent of GDP in 2019).²⁰ The government is expected to rely largely on domestic financing sources (78 percent of total financing). So far, placements of domestic bonds by the BTr have been consistently oversubscribed. Most tenders have been fully awarded with rates below the stated coupon rates, partly because of the injected liquidity by the BSP to the banking sector. This DPL will help to narrow government financing gap in the short term to manage the pandemic and to support economic recovery.

22. While debt to GDP ratio is expected to increase in the medium term, it remains manageable owing to prudent debt management and fast economic growth in the past. With the higher financing needs in 2020-2023, the debt-to-GDP ratio is projected to increase in the short term and peak at 58.6 percent in 2023 before reverting to a downward trajectory (Figure 1). This debt path classifies the country as higher scrutiny, yet debt sustainability remains manageable given its downward trend after 2023.²¹

¹⁹ Asian Development Bank, 2020. Asian Bonds Online. <https://asianbondsonline.adb.org/>.

²⁰ The national debt ratio has reached 48.1 percent of GDP in June 2020.

²¹ Emerging markets with public debt ratios exceeding 50 percent of GDP, or public gross financing needs exceeding 10 percent of GDP are classified as higher scrutiny countries.



While contingent liabilities have been manageable and have declined in recent years²², the sharp downturn of activities this year may lead to elevated risks of a rise in contingent liabilities as balance sheets come under stress. To keep debt levels sustainable, the government is pursuing fiscal consolidation over the medium term by tempering the growth of public expenditures and increasing tax revenues. Moreover, though a portion of the debt mix relies on external funding, about two-third of outstanding debts are from domestic lenders as of the end of 2019, and long-term debt accounts for 96 percent of the external portfolio. The debt composition is expected to remain stable with low shares of short-term debt and foreign-currency denominated debt, in line with the government's debt management strategy.

23. The debt dynamics appear to be resilient against growth, interest rate, real exchange rate and primary balance shocks. Four different scenarios were considered including shocks on the real growth rate, interest rate, real exchange rate, and the primary balance. Among these scenarios, the most significant shocks are those originating from real GDP growth rate and primary balances. A one standard deviation real growth shocks or a one percent deterioration in primary balances can lead to a higher debt path with debt ratios reaching above 60.0 percent even in 2023. A real exchange rate (i.e. eight percent real exchange rate shock with a 0.25 pass-through to inflation) would also raise the debt path but not as high as the latter two. The worst-case scenario of combined macroeconomic shocks will lead to the debt ratio reaching 65.7 percent of GDP in 2024.

24. A prolonged COVID-19 outbreak constitutes the most significant downside risk to the outlook. The economic and social impact of the COVID-19 relies largely on the effectiveness of the efforts to contain the virus. On the domestic side, economic growth trajectory depends largely on government's effectiveness in flattening the infection curve, with the duration and frequency of partial/complete lockdown highly uncertain, which could further dampen consumption growth and cause delay in the implementation of public infrastructure projects. Additionally, a prolonged lockdown will push more businesses to closure, further worsening business confidence, and resulting in low investment levels. On the external front, the pandemic waves have rippled across global value chains, including the Philippines' electronic exports industry. The risks of a deeper global recession mean sluggish demand for the country's exports, tighter and more volatile financial markets, scarce FDI and smaller remittance inflows. A downside scenario in which government's mitigation measures fail to contain the virus resulting in more strict lockdowns, further dampening consumer and business confidence, could push the economy to a deeper recession in 2020 and a more protracted recovery (Box 2). Yet, given steady decline in daily cases and high frequency data on economic activities, the prospect of a gradual economic recovery in 2021 has improved since mid-August.²³

²² Outstanding contingent liabilities by the national government include national government guarantees to Government Owned and Controlled Corporations (GOCCs and guarantees assumed by the national government from government financial institutions. Debt and contractual obligations of GOCCs are covered by national government guarantees through RA No. 4860 or the respective charter of GOCCs. The national government extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or as required by bilateral or multilateral lending institutions.

²³ In addition, the Philippines' main trading partner, China, seems to have rebounded quickly; thus, goods export and FDI prospects are improving in the second half of 2020. Remittances flows contracted less in June and July than expected a few months ago, with the projected contraction to be reduced from earlier-projected 10 percent to 5 percent in 2020, reflecting the last few months' growth and revised central bank forecast. Together with steady decline in daily cases since mid-August, consumer and businesses confidence is expected to gradually recover. Portfolio outflows are also slowing down, consistent with improved business confidence and peso appreciation.

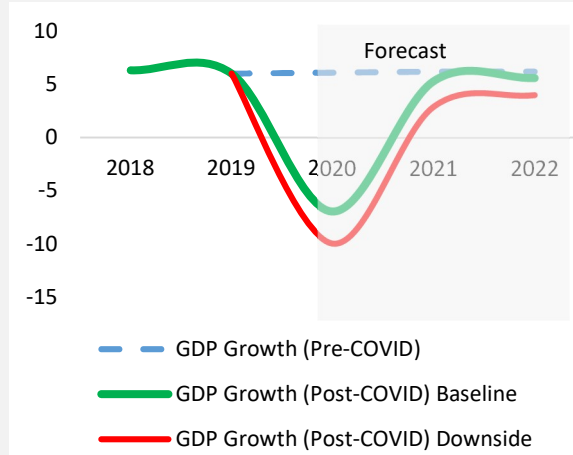


Box 2. A Downside Scenario of COVID-19 Outbreak

In case government mitigation measures prove to be less effective and result in reversals to strict lockdown measures for the rest of 2020, the economic contraction could reach 9.9 percent in 2020. The highly uncertain nature of the health crisis, coupled with the challenges to contain the number of infections, could result in prolonged bouts of economic disruption, and a protracted erosion in consumer and business confidence. Such a scenario assumes bouts of strict lockdown measures, such as the two-week implementation of a modified ECQ during August, followed by increases in COVID-19 cases once lockdown measures are lifted which would force a reversal to lockdown measures once again. Should efforts to contain the virus prove ineffective, this pattern would further erode consumer and business confidence and result in a deeper economic contraction. The downside scenario also assumes that international trade remains weak for an extended period, the reversal of capital flows is longer-lasting, and that the policy response in advanced economies is less effective. Furthermore, the delayed or ineffective delivery of public investment projects, due to implementation and capacity constraints, will temper investment growth. In this case, the Philippine economy is expected to contract by 9.9 percent in 2020 and a recover at a slower rate of 2.9 percent in 2021.

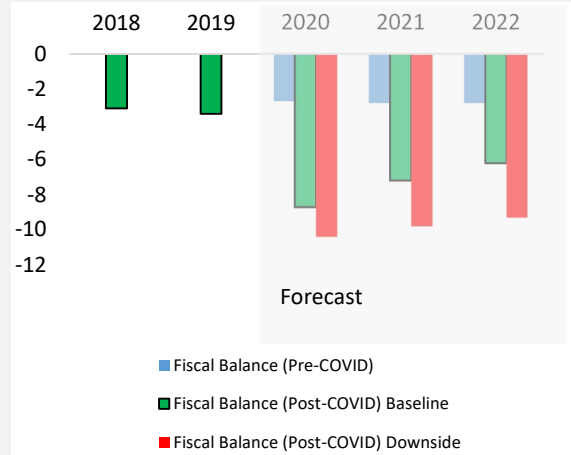
In this downside scenario, the fiscal deficit is expected to widen to 10.4 percent of GDP and financing gap to reach 13.7 percent of GDP in 2020. Government revenues are expected to sharply contract in 2020 as a result of disruptions in business activity, losses of income, tepid consumption growth, and lower external demand. Under the downside scenario, the government is expected to fully execute its spending program in 2020, realigning funds to expand public health system capacity, while protecting the vulnerable businesses and individuals who face losses of income. This will result in a fiscal deficit of 10.4 percent of GDP for 2020. As a result, the financing needs would reach 13.7 percent of GDP. Given precarious external capital market conditions and cautious domestic investors, the authorities may face limited and expensive financing sources. If the downside scenario takes place, the government is likely to extend the Bayanihan 2 which gives authority to the president to reallocate within the existing budget for the COVID-19 response. This means that total public expenditure will not go beyond the programmed 2021 budget amount, with non-core expenditures cut to create space for the response.

Figure a1. Baseline vs. Downside scenario GDP growth (2018-2021, percent)



Source: Philippines Statistics Authority, World Bank staff calculations.

Figure a2. Baseline vs. Downside fiscal balance and debt ratio (2018-2021, in percent of GDP)



Source: Philippine Statistics Authority, Bureau of the Treasury, World Bank staff calculations.



25. In addition, disaster risk is a substantial and perennial issue for the Philippines, which is identified as one of the most disaster-prone countries in the world. The 2018 World Risk Report ranks the Philippines third globally in terms of natural disaster risk. At least 60 percent of the country’s land area and 74 percent of its population are vulnerable to natural hazards, such as typhoons, flooding, earthquakes, and volcanic eruptions. For example, aside from the regular series of typhoons, four earthquakes with magnitudes ranging from 6.3 to 6.9 percent affected several provinces during the fourth quarter of 2019, followed by the phreatic eruption of the Taal Volcano in January 2020 which resulted in the total evacuation of people within a 14-kilometer radius from the crater. According to the International Monetary Fund (IMF), the average time interval between severe disasters²⁴ have been narrowing to about two years, the shortest among Association of Southeast Asian Nations (ASEAN) countries. Higher intensity and frequency of catastrophes result in losses to both public and private assets and adds fiscal pressure by potentially increasing the government debt-to-GDP ratio by up to 1 percentage point in the medium-term.²⁵

Table 5. Government’s Medium-Term Financing Plan (2017-2023)

	2017	2018	2019	2020	2021	2022	2023
	Actual			Projected			
	<i>in percent of GDP unless otherwise indicated</i>						
Financing needs	4.5	5.6	6.1	11.8	13.5	13.0	12.2
Amortizations	2.3	2.4	2.6	3.1	6.3	6.4	6.4
Domestic	1.5	1.8	1.9	2.3	5.0	5.1	5.1
External	0.9	0.6	0.7	0.8	1.3	1.3	1.3
Primary deficit	0.2	1.1	1.6	6.4	4.5	3.8	3.0
Interest payments	2.0	2.0	1.9	2.3	2.7	2.8	2.8
Financing sources	5.7	5.4	5.5	11.8	13.5	13.0	12.2
External	1.1	1.7	1.7	2.6	3.4	3.2	3.0
o/w this series of operation:	-	-	-	0.1	0.2	0.1	-
o/w World Bank				0.5	0.3	0.3	-
o/w Asian Development Bank				0.9	0.5	0.3	-
o/w AIIB				0.2	-	-	-
o/w Francaise de Development				0.1	0.1	0.1	-
o/w JICA				0.1	0.1	-	-
Domestic	4.6	3.7	3.7	9.2	10.1	9.7	9.1
o/w ST borrowing from BSP				2.7	5.0	2.3	-
Change in cash	1.6	(0.3)	(1.2)	-	-	-	-

Sources: Government of the Philippines for historical and World Bank for projections

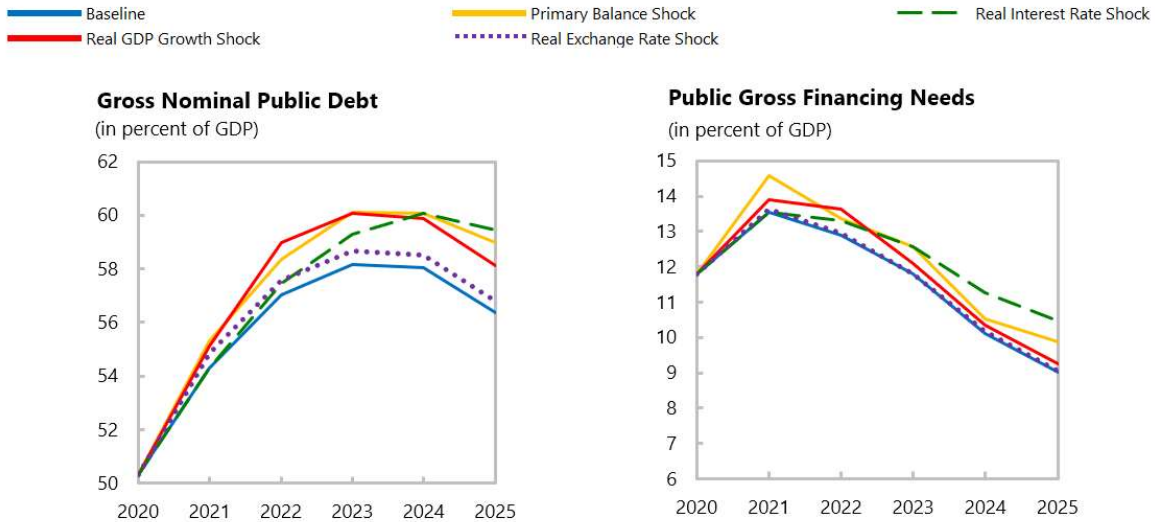
Note: 1/ Government cash balances swing between surpluses and deficits in different years. The projected cash balance surplus represents the average government cash balance in the Philippines in the past nine years. 2/ Numbers may not add up due to rounding errors.

²⁴ Those that impact at least 5 percent of the population or 1 percent of GDP.

²⁵ IMF Selected Issues: Philippines Vulnerability to Climate Change and Natural Disaster.



**Figure 1. National Government Debt-to-GDP Projections under Alternative Scenarios
Macro-Fiscal Stress Tests**



Source: World Bank staff calculations.

26. The macroeconomic policy framework is adequate for the purpose of the proposed operation.

While the COVID-19 outbreak will have a significant impact on economic performance, the economy remained resilient to external and domestic shocks. Key macroeconomic risks include a prolonged COVID-19 pandemic, deeper global recession, heightened trade protectionism, and natural disaster risk. The government is taking necessary measures to mitigate the impact of the crisis while still committed to maintaining macroeconomic stability. The BSP is committed to the inflation-targeting objective and is responsive to global interest rate movements. Under its helm, the country has accumulated adequate foreign exchange reserves that provide cushion to the impact of global shocks. It has also maintained a market determined exchange rate regime as a first line of defense against external shocks. On fiscal policy, conservative expenditure policy in the past ten years created important fiscal space allowing the current expansion of public expenditure to manage the health and social impact of COVID-19, and public investment program that will support economic recovery. The projected rapid increase in fiscal deficit is mainly due to revenue shortfall as the government has so far mainly resorted to reallocation of existing budget to finance COVID-19 related spending. In addition, the government’s commitment to accelerate the pace of structural reforms as part of the recovery will further promote competitiveness and support growth.

2.3. IMF RELATIONS

27. The Philippines does not have an ongoing program with the IMF. The most recent IMF program expired at end-2000, and all obligations were fully repaid in 2006. Article IV Consultations are conducted on a standard 12-month basis. The last consultations were concluded in November 2019, with the final report published on February 2020 before the COVID-19 outbreak; therefore, an IMF assessment letter is included in Annex 2. The IMF considers the growth outlook to be clouded by uncertainty surrounding the



virus dynamics with large downside risks. The IMF recognized the government's initial response to the pandemic to be adequate on containing the rapid spread of the virus and to provide vital income support to the vulnerable. The IMF considers the Philippine government as having the space for additional fiscal support focusing on MSMEs and social protection measures.

3. GOVERNMENT PROGRAM

28. The government remains committed to solidifying recent gains towards achieving more inclusive growth. The government's policy goals are encapsulated in the long-term vision for the Philippines, known as *AmBisyon Natin 2040* as supported by the current Philippine Development Plan (PDP) 2017 – 2022. The PDP outlines policy priorities for the delivery of inequality-reducing transformation, increased growth potential, an enabling and supportive economic environment, and foundations for sustainable development. In support of the overarching policy agenda, the government has targeted key reform areas in competitiveness, fiscal management, and disaster risk reduction, complemented by an expansionary medium-term fiscal program which focuses on addressing investment gaps in physical and human capital accumulation.

29. Despite COVID-19, the government continues to implement reforms that address competitiveness and resilience. The reform agenda, supported by this DPL series, includes measures to simplify regulations, promote competition, and enhance social, financial, and fiscal resilience to shocks. To simplify business regulations, the government passed the Ease of Doing Business and Efficient Government Service Delivery Act in 2018, which is being implemented to boost competitiveness. To lower the price of rice which is the main staple of a large share of the population, the Rice Liberalization Act removed the quantitative restrictions on rice imports in favor of a tariff regime. As a next step, the government has shifted focus towards improving long-term productivity of the agriculture sector while providing support to affected rice farmers. During the pandemic, the National Economic and Development Authority (NEDA) and Philippine Competition Commission (PCC) have issued a Joint Memorandum Circular on the National Competition Policy (NCP) that encourages the enactment of regulations to promote competition in key sectors. It mandates all government agencies to adopt and comply with pro-competitive policies and government interventions, competitive neutrality, and enforcement of competition related laws and issuances. These structural reforms are vital to strengthening the Philippines' resilience in the midst of COVID-19 and are key pillars to a growth recovery that is inequality and poverty reducing in the medium-term.

30. The government moved aggressively to mitigate the COVID-19 epidemic at an early stage of the outbreak. The President declared the country under a State of Calamity on March 16 and imposed an ECQ throughout the island of Luzon (which includes Metro Manila). On March 24, 2020, the Congress passed the "*Bayanihan To Heal As One Act*" (RA No. 11469) which declared a national emergency due to COVID-19, and granted the President expanded powers to adopt measures to prevent and suppress the spread of COVID-19 for three months. The Act also authorized the Executive branch to reallocate and realign funds from the 2019 and 2020 budget towards COVID-19 response from existing programs, activities, projects of national government agencies and government corporations. On September 11, the Congress passed the "*Bayanihan to Recover as One Act*" (Bayanihan 2) that extended the special powers to the President for handling the COVID-19 pandemic and provided Php165.5 billion (0.9 percent of GDP) fund



for addressing the crisis.

31. The government’s COVID-19 response is built on three pillars of support. The first pillar focuses largely on providing emergency support to vulnerable groups and individuals, through the provision of emergency cash transfers to 18 million low-income families of Php5,000-Php8,000, depending on the prevailing minimum wage in the region, for two months disbursed in two tranches, supported by the COVID-19 Emergency DPL (P174120) approved by the Board on May 28, 2020. Additional measures include the provision of wage subsidies for employees of small businesses, loan assistance to MSMEs, and support to displaced workers, including OFWs. The second pillar supports the country’s over-burdened public and private health system by providing resources to improve testing capacity, the purchase of essential medical equipment, provision of health insurance for all affected individuals, hiring of contact tracers, building of isolating facilities, and providing special risk allowance for the country’s frontline medical staff. The third pillar focuses on providing financial resources to affected firms and sectors through monetary policy to inject liquidity to the financial sectors, and through government financial institutions to channel credit to target sectors and firms.

32. The government also fast-tracked several structural reforms to help the economy adapt to the new normal while keeping existing reforms on track. At the onset of the COVID-19 and the subsequent implementation of the ECQ, many businesses and government operations needed to shift online. It triggered the need to fast track reforms to support digitalization in the country which will not only help to transition to the new normal but will also help to improve the country’s service export competitiveness which depends largely on the quality of digital infrastructure. These include (i) mandating online processing of customs clearance; (ii) issuing policies to lower the barrier to entry on investment in the telecoms sector; and (iii) reducing financial costs for online payment. Despite delays caused by the COVID-19 pandemic, the government is committed to the implementation of the Philippine Identification System (PhilSys) Act and the National Payment System Act (NPSA)– fundamental reforms that are expected to broaden social and economic inclusion, improve service delivery, and increase the country’s adoption and participation in the digital economy under the new normal.

33. The PDP (2017-2022) under its *Pagbabago (Change)* pillar, establishes a clear objective to strengthen the country’s resilience by protecting individuals and families by reducing their vulnerability to risks and disasters. The plan provides a clear roadmap for the nationwide roll-out of climate and disaster risk assessments that will create an enabling policy and assistance to local communities, develop facilities for adaptation including risk transfer mechanisms such as insurance and climate finance, and promote provision of adequate transitional housing and livelihood opportunities as part of the recovery and rehabilitation process.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

34. The second operation of this DPL series supports the government’s overarching objective of achieving more inclusive growth, which is particularly important amid the COVID-19 pandemic. This



operation supports the government's transformational measures such as the digitalization of customs procedures, reforms to liberalize the rice sector, and the introduction of a foundational national ID system. The operation is the second of the three operations in the DPL series to support government reforms through 2022, with the second and third operations adjusted given the COVID-19 pandemic. It prioritizes reforms that are critical to rebuilding better and returning the country to its strong inclusive growth path. In particular, the second and third operations focus on deepening the reforms by supporting their implementation, which has historically been the challenge of reform program in the country.

35. This operation is restructured around two pillars: (i) promoting competitiveness and (ii) enhancing resilience. This change relative to the original three pillars in the DPL series reflects new reforms that were introduced as part of the fight against COVID-19 that fast tracked long-standing constraints to the digital transformation of the country, and are thus critical to promote long term competitiveness of the country. It is worth noting that, complementary reforms to promote financial sector stability and resilience, and to expand the financial inclusion agenda are expected to be covered in a financial sector DPL, which is expected to be approved by the board by July 2021. In addition, complementary reform measures to advance trade facilitation and the digital economy will be addressed through the Bank's broader engagement with the government through customs modernization and digital infrastructure support lending operations.

36. The program supports the WBG approach to maximizing finance for development (MFD), containing implementation of reforms which are expected to crowd in private sector investment. As part of the promoting competitiveness pillar, the implementation of Ease of Doing Business (EODB) reform aims to lower barriers to entry for small and medium enterprises and improve the overall business environment in the Philippines to further crowd in private sector investment and generate jobs in the Philippines. Similarly, the common tower policy effectively lowers the entry barrier to the telecom sector, promoting private investment in the sector. Meanwhile, the implementation of a National ID system established by the PhilSys Act and the implementation of the NPSA are expected to boost service delivery, financial inclusion, and facilitate the transition of the Philippine economy into the digital age which would broaden the country's prospects and further boost private sector investment.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

37. The policy matrix of this operation has been adjusted to prioritize structural reforms to achieve long term inclusive growth under the new normal.²⁶ Despite disruptions caused by the COVID-19 pandemic, the government continued with the implementation of reforms supported by the series. The government has prioritized and fast-tracked structural reforms to combat binding constraints to the digital transformation of the country, which will put SMEs on the path to economic recovery, ease the transition of citizens to the new normal, and improve digital infrastructure for social program delivery to bring relief to the most disadvantaged groups in society more effectively and efficiently. Therefore, the set of policy actions supported by the second and third operations of this series were adjusted to reflect the government's new reform priorities.

²⁶ A table summarizing changes from DPL 1 to DPL 2 is included in Annex 5.



38. Pillars on promoting competitiveness and enhancing resilience remain crucial for rebuilding better and to help the country return to its inclusive growth path. Key policy measures under the previous pillar of ‘enhancing fiscal sustainability’ were merged with the ‘enhancing resilience’ pillar in this DPL, as increased excise taxes fit well under the fiscal resilience of the pandemic response program. In addition, new policy measures for trade facilitation and digital infrastructure investment were added (under ‘promoting competitiveness’ pillar). The public financial management (PFM) reform agenda, while still on track, were dropped from the policy matrix but is reflected in the document and is part of the Government’s policy tools of fiscal consolidation. It is worth noting, the original fiscal pillar contained primarily PFM reforms which were aimed at improving budget monitoring and reporting, while its tax measures were fiscally neutral.²⁷ Removing the fiscal pillar and reassigning the revenue-increasing reform to the resilience pillar, which will enhance fiscal resilience, will not affect the government commitment to fiscal sustainability.

39. Progress on result indicators has been overall on track. The implementation of the Rice Liberalization Act has already shown progress since 2018 in narrowing the gap between international and domestic prices of rice, from 76 percent to 51 percent. The implementation at scale of the National ID system is planned for the fourth quarter of 2020, hence its baseline is still 0. The implementation of the NPSA has contributed to an increase of over 10 percent annual growth in the volume of digital transactions in 2019. On disaster risk financing, the government has increased the type of pre-arranged financial mechanisms for disaster response from 2 in 2018 to 4 in 2019. On asset management, the government has established a dedicated Asset Registry Division (ARD), and the National Asset Registry System (NARS) to start including public asset. In contrast, the implementation of EODB reform did not improve between 2018 and 2019 as the Securities and Exchange Commission (SEC) experienced challenges in the implementation of a new automated business registration system in 2019. This caused an aggregate delay of 2 days for the average number of days to start a business. The government is committed to accelerate the implementation of this reform going forward.

Pillar I: Promoting Competitiveness

40. The reforms contained in Pillar 1 are expected to promote competitiveness by fast tracking the digitalization of the economy while contributing to an inclusive recovery. The passage of a common tower policy and the streamlining of tower construction will effectively lower the entry barriers of operators to invest in digital infrastructure, supporting the country’s digital transformation under the new normal while expanding growth potential. Similarly, the digitalization of customs procedures triggered to contain the spread of COVID-19 is institutionalized, which will help to increase the country’s competitiveness by lowering trade costs. The operationalization of the ARTA to implement the EODB will reduce the cost of doing business, particularly when starting a business, benefitting SMEs. Finally, the implementation of the Rice Liberalization Act has already showed progress in narrowing the gap between international and domestic prices of rice, thus protecting the purchasing power of millions of consumers while the implementation of the Rice Competitiveness Enhancement Fund (RCEF) will protect affected rice farmers and guide non-productive rice farmers to other crops, in line with the inclusive recovery aimed by this DPL series.

²⁷ The WB team continues to engage with the Department of Budget and Management (DBM) through technical assistance (TA) to support the implementation of reform program to ensure achievement of the results.

Promote investment in telecommunications through the passage of common tower and infrastructure sharing for mobile and broadband internet.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service.	The government has defined policies for fixed broadband internet use.

41. Affordable, reliable, and widely available internet is essential to support economic recovery and accelerate the long-term digital transformation of the economy.²⁸ The internet system in the country needs urgent and substantial improvements. Only 70 percent of Filipinos are active mobile broadband subscribers, compared to the ASEAN regional average of 88 percent. 4G/LTE mobile broadband network coverage is at 72 percent of the population versus the regional average of 82 percent. Only 4 percent of Filipinos are subscribed to fixed broadband, compared to the regional average of 10 percent. 3G/4G mobile average download speed is considerably slower at 7 Megabits per second (Mbps), compared to the regional average of 13 Mbps. And fixed broadband average speed is at 26 Mbps versus the regional average of 59 Mbps. Furthermore, mobile internet penetration rate of 45.5 percent in 2019 for unique subscribers in the Philippines is at the lower end of regional benchmarks²⁹ and a regional average of 51 percent. Population coverage of 4G networks also lags other regional countries.³⁰ These gaps need to be closed for the digital economy to contribute in full force to the economic recovery and allow small and large businesses alike to seamlessly market their products and services and interact with input suppliers and business partners. Furthermore, higher coverage of internet and better quality will help to further develop country’s service exports such as business process outsourcing (BPO) accelerating economic recovery.

42. The deficient state of the internet in the country is the result of persistent under-investment in internet network caused by insufficient competition and an outdated legal, policy, and regulatory framework. Only half of towns and cities have fixed telephony, while mobile telephony is more widely available across the country, which makes the universal provision of internet service via mobile networks more likely and efficient. The country shifted to mobile services, as the telecommunications sector was liberalized in 1995. However, the lack of a competition law until 2016 and the inability of the regulator, the National Telecommunications Commission, to prevent mergers and acquisitions over the years have resulted in a highly concentrated market, with two dominant players, each controlling and operating their own single, vertically integrated network. Furthermore, there were no clear regulatory policies around infrastructure sharing, network charges, or spectrum management. This state of duopoly has led to a captive consumer market and deterred the required private investment to keep up with demand. The

²⁸ World Bank (2020). Philippines Digital Economy Report: A Better Normal under COVID-19 – Digitalizing the Philippines Economy Now. Washington D.C.: World Bank, September.

²⁹ 55.4 percent in Vietnam, 65.7 percent in Malaysia, and 66.4 percent in Thailand.

³⁰ Philippines’ 4G coverage was at 80 percent in 2019 compared to 93.2 percent in Malaysia, 95 percent in Vietnam and Indonesia, and 98 percent in Thailand, and regional average of 90.6 percent.



entry of a third player launching services in 2021 and a possible fourth player in the telecom sector is expected to transform this market structure and push prices down.

43. Sharing of network infrastructure has proved to be effective - based on international experience - to stimulate competition and reduce barriers to entry. Infrastructure sharing is a way to optimize the use of resources by allowing two or more service providers to use the same structure or network element. In the Philippines, new telecom operators entering the market currently must invest huge amounts of capital expenditure to build and maintain their own network infrastructure or use the infrastructure of their competitors at high cost. A key regulatory reform that has stimulated faster rollout of broadband in other emerging economies is infrastructure sharing: tower sharing for mobile networks, and other passive infrastructure sharing for fixed networks. Under infrastructure sharing arrangements for mobile networks, operators typically agree to share facilities ranging from passive infrastructure (e.g., site locations, masts, cabinets), to radio access networks (RAN) (e.g., base station equipment, operation and maintenance), and active infrastructure (e.g., radio spectrum, core network). Furthermore, the deployment of tower and broadband networks in urban and rural areas depends not only on the availability of facilities from the major telecom operators, but also on a whole gamut of licenses, permits and other bureaucratic requirements.³¹ While the awarding of these is administrative in nature, the process can take time, and without guidance for an expeditious awarding process, it can either cause additional delay or halt network rollout.

44. The Department of Information and Communications Technology (DICT) has issued a ‘common tower policy’ and has streamlined requirements for construction of mobile cell towers, supported by this operation. In 2018 the government announced a plan to issue a common tower policy to accelerate the buildout of telecommunications towers and achieve its target of 50,000 by 2022. In May 2019, the DICT issued Rules on the Accelerated Roll-Out of Common Towers.³² It also identified 2,500 government sites that can be used for tower installation. In May 2020, a new common tower policy was issued providing clear guidelines on (i) removing foreign ownership restrictions on independent tower companies (ITCs)³³; (ii) detailing the mode of engagement of ITCs; and (iii) specifying financial and technical qualifications on ITCs. The guidelines will encourage the development of Independent Tower Companies to improve network coverage and the quality of services, particularly in unserved and underserved areas. In addition, a Joint Memorandum of Agreement has been issued to streamline permit requirements. The goal of the agreement is to shorten the permit process for cell site construction to 16 days and 8 steps, which represents a significant improvement from the previous 200 days and 24 steps.

45. The DICT is expected to embark on a similar infrastructure sharing process for fixed broadband connections, supported by the third operation of the DPL series. Aiming to increase broadband

³¹ A mobile network provider in the Philippines today needs to secure separate permits for: the installation of a radio station; to import equipment; and a radio station license. These requirements determine the radio equipment, location, and frequencies to be used for the network.

³² The DICT issuance includes a list of DICT towers and real estate that can be used for the tower buildout, a list of about 1,000 “hard to acquire sites” (according to PLDT and Globe) where government assistance in securing permits is most needed, and GovNet sites.

³³ Mobile Network Operators as it is consumer facing, it is a public utility which is subject to the constitutional limitation of 60:40 local/foreign ownership split. By defining a separate policy on ITCs from Mobile Network Operators, the new industry is no longer a public utility and is therefore open to 100% foreign ownership.



connectivity, infrastructure sharing could lower the barrier to entry and increase competition. Instead of a single, vertically integrated network, an “open access” approach promotes infrastructure sharing among service providers and access to network segments on fair, reasonable and non-discriminatory terms. The broadband policy under development would include but not be limited to: (a) open access, (b) non-discriminatory wholesale pricing; (c) infrastructure sharing including across sectors; (d) rights of way; (e) permits and licensing. As a result, service prices would be reduced, and coverage expanded. It will also lower asset duplication and reduce environmental impact. Further new regulation on pole attachment can help reduce fiber deployment costs as pole attachment is very important for cable broadband operators and aerial fiber deployment. Poles are often owned and operated by electricity distributors (e.g. Manila Electric Company and the electric cooperatives in the provinces) and are within the jurisdiction of electric power industry regulators. Currently, there is no regulation on pole attachment for non-electric access seekers, such as telecom and broadband operators.³⁴

46. Expected result: The supported measures are expected to open the market to new investors in mobile and broadband infrastructure. Infrastructure sharing policies will effectively lower the entry barrier for new players resulting in higher investment and improved access to internet. Investment in telecommunication is expected to expand from USD2.1 billion in 2019 to more than USD3.0 billion by 2022³⁵, and the mobile internet penetration rate for unique subscribers is expected to increase from 45.5 percent in 2020 to 57.0 percent in 2022.

Streamline procedures and shorten processing time of government processes to reduce the cost of starting a business.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implement the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032).	The government has revised complementary regulations to streamline national and local government processes for starting a business.

47. The government has made major progress in recent years to overcome the regulatory burden that restricts trade, competition, and private investments. The enactment of the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032) in 2018 and the implementing rules and regulations (IRR) in 2019, aimed to ensure that regulations do not add undue regulatory burden and cost, which restricts trade, competition, and private investments. The law requires shortening of processing time for government transactions and greater use of automation to facilitate the application processes. The ARTA was created to implement the reform by enhancing government capacity in permit issuances and the analyses of business regulations through regulatory impact assessment (RIA). RIA ensures that legal and regulatory issuances are based on precise definitions of the market failure to be resolved, cost-benefit analyses of different regulatory options, and public consultations with affected stakeholders.

³⁴ The World Bank team is in discussion with DICT on a comprehensive fixed broadband policy which include pole attachment.

³⁵ This represents a 30 percent faster yearly growth rate relative to historical averages. Note that USD2.1 billion investment in 2019 represents approximately 0.55 percent of GDP.



48. ARTA has become fully operational to implement EODB, supported by this operation. On March 28, 2019, the Department of Budget and Management (DBM) approved the organizational structure and staffing pattern of the ARTA for 208 full-time staff employees, allowing it to have the human resource component to fulfill its mandate spelled out in the law and IRR. The Director General was appointed on July 5, 2019, as well as two of the three other Deputy Directors General prescribed in the law. Staffing has been expanded across the eight existing internal divisions within the organization, namely the Better Regulations Office, Regulatory Management and Training Division, Compliance Monitoring and Evaluation Office, Legal and Public Assistance Office, Complaints Action Center, Doing Business Division, Public Relations Unit, and Finance and Administrative Office. The budget was also approved in the 2020 General Appropriations Act (GAA) for the regular operation of the agency.

49. ARTA has taken actions to jumpstart the regulatory reform program. In August 2019, ARTA issued guidelines to all national agencies and local government units with instructions to develop and revise their existing Citizens' Charters compliant with the provisions of the Ease of Doing Business Act. This issuance has led to the revision and submission of more than 1,700 citizen's charters from different government units. As of March 2020, they have conducted at least eight RIA trainings for officials coming from 44 government agencies. In addition, as part of its enforcement function, ARTA has issued notices to automatically approve more than 7,000 pending applications across different government entities. Furthermore, ARTA has filed administrative cases against at least eight government officials, including agency heads and a provincial governor, for non-compliance with the provisions of the Act. These cases were triggered by verified complaints provided by citizens regarding their applications that were not acted upon by the different agencies.³⁶

50. Through the analyses and consultations conducted by ARTA, the government has made progress in reducing cost of starting a business. The agency has worked with the Bureau of Internal Revenue (BIR) to limit application requirements, business registration and obtention of official receipts within a single process. Similar procedural streamlining has been initiated at the SEC. These reforms were further enhanced through ARTA's launching of the National Business One-Stop Shop (NBOSS) on February 28, 2020 in collaboration with other agencies.³⁷ The NBOSS provides the first co-located and integrated processing of a streamlined business registration process for One-Person Corporations. Further streamlining is being conducted at the subnational level to allow applicants to complete all steps in a more efficient manner.

51. The third operation of the series will support ARTA's effort in further streamlining permit requirements for starting a business and sectoral reforms to eliminate overregulation. ARTA is currently working with Department of the Interior and Local (DILG) to streamline permit requirements for local Mayor's permits for starting a business to complete the full sets of requirements to start a business, both at national and local government levels. In addition, ARTA has launched the National Effort for the Harmonization of Efficient Measures of Inter-related Agencies (NEHEMIA) on March 3, 2020 that focuses on further reducing steps, costs and time in five key sectors: logistics, telecommunication, housing, power,

³⁶ ARTA conducted a separate investigation on each of these applications and sent notices to the respective agencies to act on the complainants' requests. Cases were then filed against the officials that failed to provide the final approval, despite the complainant providing evidence that they have been able to comply with the requirements of the licensing procedure.

³⁷ Other agencies involved included SEC, DTI, BIR, and the DICT.



and food and pharmaceuticals. Thus, over the next year, ARTA will expand the scope of reforms to reduce the costs of operating a business for companies that have already registered. The program aims to reduce steps, costs and time by 52 percent for the issuance of permits within 52 weeks.

52. Expected result: The supported measures are expected to reduce the cost of starting a business. With streamlined government processes, cost of registering business operations is expected to decrease. The number of days to start a business is expected to reduce from 31 days in 2018 to less than 20 days in 2022. This indicator has increased to 33 days in 2019 as the SEC experienced challenges in the implementation of a new automated business registration system in 2019. In addition, the supported measures are expected to reduce the compliance costs by cutting the number of procedures to start a business, from 13 in 2018 and 2019 to less than 8 in 2022.

Improve trade facilitation by modernizing customs procedures.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.	The government has approved implementing rules and regulations of the Customs Modernization and Tariff Act to enhance trade facilitation with the implementation of risk-based controls.

53. The COVID-19 pandemic has highlighted the weakness of the country’s trade environment, characterized by high trade costs. Trade costs in the Philippines are some of the highest within the ASEAN. Investors in the Philippines face the highest import costs and the second highest export costs. Results from the 2018 Logistics Performance Index highlight the low efficiency of the clearance process by border agencies including Customs. A container takes 120 hours to clear Customs and associated inspection procedures, much higher than in neighboring Vietnam (56 hours), Thailand (50 hours), or Malaysia (36 hours). These weaknesses have been exacerbated within days of the implementation of the ECQ as the international seaports of Manila began suffering from congestion, as consignees were unable to collect their containers from the ports. The lack of an integrated trade information system made it difficult to assess whether the overstaying of cargoes was primarily due to private sector concerns (such as the lack of trucks, closed warehouses and factories, missing documentation from shipping lines), or to delays in obtaining public sector clearances from trade related agencies.

54. The government has started to improve the country’s overall trade sector. These include the passage of the Customs Modernization and Tariff Act in 2016 to align Philippine Customs laws and procedures with the standards of the Revised Kyoto Convention, the blueprint for modern and efficient customs procedures. In addition, the newly launched Philippine National Trade Repository and Supply Chain and Logistics Management Division in 2018, both under the Department of Trade and Industry (DTI), have spearheaded the much-needed inter-agency dialogues to facilitate trade and logistics issues faced in the country. These institutional changes and reforms are laying the foundation to establish risk-based controls, bringing the Philippines closer to international best practice.



55. The Bureau of Customs (BOC) has fast tracked the digitalization of customs processing and payments transactions, supported by this operation. The BOC has initiated its upgrading of its Customs Processing System in 2018. However, the COVID-19 outbreak has placed increased importance on streamlining trade related procedures, which has motivated policymakers to speed reforms. With the imposition of ECQ, the BOC fast-tracked the immediate adoption of emergency protocols, such as online filing, the processing of incomplete applications, acceptance of digital payments, and the creation of a one-stop-shop clearing house for medical supplies. The shift to online processes aimed to limit face-to-face contact among staff and traders to contain the spread of the virus, as well as to lower the compliance costs with trade measures. This process automation and digitalization were expanded to include other port-related transactions, such as payments for cargo handling, storage, transportation scheduling among others, through the issuance of a joint memorandum circular in July 2020, supported by this operation. The automation of processes by the BOC and other port-related service providers will increase accountability, reduce a significant amount of face-to-face interaction, reduce delays, and minimize discretionary actions by government officials.

56. The third operation of the series supports further efforts to improve trade facilitation with the implementation of the Trade Facilitation Agreement and the Customs Modernization and Tariff Act. Based on experience from other modernization efforts, customs organizations are unlikely to realize the full potential of such ICT implementations unless complementary process reforms and supporting operational changes are undertaken in parallel with system implementation and resource deployment. A modern customs organization deploys a larger percentage of its resources to value-added activities such as registration, targeting, and audit. The BOC plans to fast track the implementation of the World Trade Organization’s (WTO’s) Trade Facilitation Agreement through the completion of regulations around Advanced Ruling, Post Clearance Audit, Authorized Economic Operators, Risk Management and Appeal.

57. Expected result: The supported measures are expected to shorten the container average clearance time from 10 days in 2019 to 8 days in 2022. As customs clearance process and procedures shift online, it is expected that processing time could be reduced and the review process automated, effectively reducing trading costs for importers and exporters, increasing the country’s export and logistic competitiveness.

Promote competition through regulatory reforms to increase agriculture diversification.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.	The government has adopted an operational framework for encouraging rice farmers to diversify to higher value commodities.

58. One year after the passage of the Rice Liberalization Act, local prices of rice have declined, as



expected. The Rice Liberalization Act, supported by the first operation of the series, eliminated restrictions on rice importation, a key driver of high domestic rice prices, and low agriculture productivity. Since the implementation of the Act, imports soared to 2.9 million tons in 2019 from 1.8 million tons in 2018 and reached 1.6 million tons in the first eight months of 2020. As of August 2020, the average farmgate price of palay (unmilled rice) and average retail price of regular milled rice have fallen 21.5 percent and 10.7 percent, year-on-year, respectively. The gap between international and domestic prices of rice has narrowed from 76 percent in 2018 to 51 percent in 2019. Further convergence with global prices will continue as global trade and logistics recover from the effects of the global pandemic.

59. In addition to lower rice prices that benefitted the entire population of consumers, safety nets to protect the rice farmers have been set up. Farmgate price had declined within six months of the effectivity of the rice market liberalization, from about Php19 per kilogram (kg) at the start of the year 2019, to as low as Php12 per kg in some provinces. As part of the Rice Liberalization Act, a Rice Competitiveness Enhancement Fund (RCEF)³⁸ to support affected rice farmers was set up by the end of 2019. RCEF became operational with the issuance of implementing rules and regulations for (i) the accreditation of farmers' cooperative and associations as beneficiaries of RCEF; (ii) extension service program and mechanization program under RCEF; (iii) release of fund (Php10 billion [0.1 percent of GDP]) from DBM to DA for the RCEF; and (iv) seeds program. These IRRs defined eligibility criteria³⁹ for access to ensure transparency, supported by this operation. The Fund provided farmers with access to farm equipment and free seeds through 1,112 associations. In addition, a Rice Farmers Financial Assistance (RFFA) Program was initiated. It consisted of an unconditional cash transfer program that disbursed Php3 billion (0.02 percent of GDP) to 600,000 rice farmers (Php5,000 per farmer), whose farm sizes ranged from half hectare to two hectares, to mitigate any adverse effects arising from rice trade liberalization.

60. To implement RCEF, the government has made progress in updating and improving the farmer registry. The Registry System for Basic Sectors in Agriculture (RSBSA) farmer registry was created in 2010 and was used to target the beneficiaries of the agricultural support programs implemented by various agencies. The latest 2012 RSBSA was found to have excluded legitimate farmers, was difficult to link with other government databases, and lacked a clear operational definition of a farmer. Given the need to identify farmers who can apply for RCEF, the DA initiated the updating of the RSBSA to include excluded farmers following a defined protocol. The updated RSBSA has been used by the DA and its partner agencies⁴⁰ in targeting affected rice farmers on the provision of improved seed varieties, mechanization, credit provision, crop insurance, training and financial loan assistance.

61. The third operation will support the government's effort to create incentives for the agriculture sector to become more efficient, competitive, and diversified. Uncompetitive rice farmers should be

³⁸ RCEF was created to support rice-producing farmers during the adjustment phase of liberalization, to enable them to become more productive by increasing access to high-yielding rice seeds, loan and credit, training and extension, and mechanization. Tariff revenues collected from rice importation in excess of Php10 billion were earmarked for additional rice farmer financial assistance, titling of agricultural lands, expanded crop insurance for rice, and crop diversification.

³⁹ RCEF programs are composed of the seeds, mechanization, extension, and credit programs. Each of these programs have broadly similar eligibility criteria, with a few differences related to the specific nature of each program. Broadly, these programs require beneficiaries to be farmers registered in the RSBSA or be part of an accredited farmers' cooperative or association.

⁴⁰ Partners included Landbank of the Philippines (LBP), Development Bank of the Philippines (DBP), Philippine Crop Insurance Corporation (PCIC), and Agricultural Credit Policy Council (ACPC).



given opportunities and resources to diversify into higher value commodities. Farmers should be provided with options and incentives to make informed diversification decisions, with the DA providing a clear roadmap toward diversification among rice farmers which have been adversely affected by rice trade liberalization. The third operation of the series will support the adoption of an operational framework for encouraging uncompetitive rice farmers to diversify to higher value commodities that will feature defined approaches, as well as specific implementation modalities and interventions. This would support DA’s agenda of making the agriculture sector more competitive and to enhance the productivity and profitability of farmers.

62. Expected result: The supported measures are expected to further narrow the gap between international and domestic prices, which has been already reduced from 76 percent in 2018 to 51 percent by end of 2019, to less than 50 percent in 2022.⁴¹ In addition, a clear diversification strategy to guide unproductive rice farmers is expected to increase non-rice agriculture GDP as a share of total agriculture GDP from 78.9 percent in 2019 to more than 83.0 percent in 2022.

Pillar II: Enhancing Resilience

63. The reforms contained in Pillar 2 are expected to build resilience in the long term while also supporting economic recovery. The increased excise taxes on alcohol and e-cigarette products will help to increase fiscal resilience to support an expansion of health spending. The implementation of a National ID system established through the PhilSys Act will help to enhance social resilience by building an adequate social protection infrastructure, thus boosting service delivery. The implementation of the NPSA is expected to enhance operational resilience, increase financial inclusion, and facilitate the transition of the Philippine economy into the digital age. The adoption of the asset management policy and the institutionalization of the Disaster Risk Financing (DRF) strategy through pre-arrangement of required funding for disaster response will enhance financial resilience to natural disaster.

Increase tax effort and improve management of contingent liabilities from Government-Owned and Controlled Corporations (GOCCs).

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of Universal Health Care.	The government has implemented a system to identify, monitor, and manage contingent liabilities of the Government-Owned and Controlled Corporations (GOCC).

64. Generating additional tax revenues remains a key policy priority for the government because of the COVID-19 pandemic. Since 2016, the government has passed several revenue-enhancing tax policy and administration reform measures, beginning with the Tax Reform for Acceleration and Inclusion (TRAIN) law approved in 2018. As a result, tax revenues increased from 13.1 percent in 2016 to 14.5 percent of GDP in 2019. Additional revenue enhancing reforms have since been passed, such as RA No.

⁴¹ Calculated as the difference between domestic (wholesale regular mill) and international (Thailand 25% broken free on board (FOB) plus 15 percent shipping cost) rice prices as percent of international rice prices. Source: Food and Agriculture Organization (FAO).



11346 in July 2019, which increased excise taxes on tobacco products effective January 2020, supported by the first operation of the DPL series.⁴² In the short term, fiscal deficit is expected to increase substantially as tax revenue to GDP is expected to fall to 12.6 percent in 2020 given expected economic slowdown, and additional spending to manage the pandemic that reaches 23 percent of GDP. In particular, the slowdown has led to a sharp decline in tax revenues for Corporate Income Tax and Value Added Tax. In the medium term, fiscal deficit will decrease as tax revenue to GDP is expected to recover to 14.0 percent in 2023, and total expenditures to decrease to 21 percent of GDP by 2023.

65. The government further adjusted excise taxes on alcohol and e-cigarette products to generate additional tax revenue of 0.3 percent of GDP to fund the Universal Health Care (UHC) law⁴³ and to support the achievement of the Sustainable Development Goals (SDGs), supported by this operation. The government passed RA No. 11467 on January 22, 2020 adjusting excise taxes on alcohol and e-cigarette products effective January 2020, complementing the reforms implemented through RA No. 11346. The Department of Finance (DOF) estimates the additional revenue from Package 2+ (RA No. 11467 and RA No. 11346) to reach a total of Php63.9 billion (0.3 percent of GDP) from 2020 to 2022. Incremental revenues from the increase in excise tax collections will be earmarked for implementation of the UHC law (60 percent), medical assistance and health facilities (20 percent), and programs that will help the government fulfill its commitments under the United Nations (UN) SDGs (20 percent).

66. The third operation of the series will support the government in improving monitoring and management of contingent liabilities derived from GOCCs. In 2019, the national government paid Php201.5 billion (1.0 percent of GDP) in subsidies to GOCCs and total national government outstanding guaranteed debt in 2019 was Php488.7 billion (2.5 percent of GDP). To manage contingent liability risks, and improve budget predictability, the government has been making efforts to improve the financial viability of GOCCs and has put in place fiscal risk analysis and management. It now needs to adopt a more systematic framework of managing fiscal risk from GOCCs including better management, reporting, and monitoring of debt and contingent liabilities of GOCCs. The World Bank is supporting the Corporate Affairs Group (DOF-CAG) of the DOF in reviewing existing debt and contingent liabilities of GOCCs which will inform an updating of the monitoring framework and system.

67. Expected result: The supported measures are expected to create fiscal space by increasing excise tax revenues as a share of GDP from 2.3 percent in 2019 to more than 2.9 percent in 2022. This will contribute to fiscal consolidation in the medium term while enhancing fiscal resilience to shocks. In addition, better management of contingent liabilities of GOCCs will increase budget predictability and help to limit the fiscal risk of contingent liabilities.

⁴² The law increases excise taxes on cigarettes packed by hand or machine from Php35 per pack in 2019 to Php45 per pack in 2020, increasing gradually to Php60 per pack in 2023, and by 5 percent yearly thereafter. In addition, the government introduced tax on e-cigarettes to reduce the risks in youth addiction to nicotine in the future. Evidence shows that since e-cigarettes are tobacco products that deliver the highly addictive and toxic substance nicotine, today's youth who are using e-cigarettes could become tomorrow's cigarette smokers to continue to feed their nicotine addiction. Source: U.S. Department of Health and Human Services (2016).

⁴³ RA No. 11223, known as the UHC law, seeks to enroll every Filipino in the National Health Insurance Program, providing access to the entire spectrum of health care services, including preventive, promotive, curative, rehabilitative, and palliative care for medical, dental, mental, and emergency health services.

Increase social resilience through better digital infrastructure for social program delivery.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
As evidenced by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for the mass registration.	The government has launched the mass registration for PhilSys and adopted the PhilSys for social assistance beneficiary identification and verification.

68. The government is introducing the PhilSys as a digital platform⁴⁴ to streamline service delivery and accelerate growth of the digital economy. The PhilSys Act (RA No. 11055) was enacted on August 2018 and its IRR was adopted on October 2018, supported by the first operation of the DPL series. Operationalizing the PhilSys will boost the resilience of service delivery in the Philippines as well as the government and private sector’s capacity to respond effectively to disasters and other shocks such as the COVID-19 pandemic. The PhilSys is being designed and implemented by the Philippine Statistics Authority (PSA). Delays in delivering the Social Amelioration Program (SAP)⁴⁵ due to obstacles in enrolling new beneficiaries and verifying account information for digital payments have highlighted the importance and urgent need for a unique national ID to strengthen the social protection delivery system. By providing the entire population with a unique and verifiable digital identity, the PhilSys will enable the Department of Social Welfare and Development (DSWD) and other government agencies to securely enroll, validate, deduplicate, and cross-check the eligibility of beneficiaries in a privacy-preserving way. The PhilSys will also enable financial service providers to more reliably and cost-effectively onboard Filipinos for accounts and e-money wallets that could be used to receive digital payments in the future.

69. The PSA has fast-tracked the implementation of the PhilSys. Prior to the COVID-19 outbreak, the PSA has made progress despite the massive scale and complexity of the project. A registration pilot of more than 10,000 government employees and DSWD beneficiaries in ten locations during November and December 2019 was completed, supported by this operation. The pilot was critical for the design of mass registration, planned to be launched in the fourth quarter of 2020. For example, time-and-motion data showed that focusing on encouraging applicants to provide demographic information in advance through pre-registration reduces the time applicants spend at registration centers significantly. As of September 2020, all major components had been procured by the PSA.⁴⁶ The PSA has also identified the initial use cases for financial inclusion and social protection delivery. With the COVID-19 pandemic, the PSA has adjusted the registration strategy to prioritize five million low-income household heads for registration, including through the use of assisted doorstep registration of demographic information to reduce crowds and queues at registration sites for the capture of biometric information. The government is also planning to partner with financial service providers to make account opening facilities available at registration sites,

⁴⁴ The collection, use, and management of personal information for PhilSys is governed by the country’s Data Privacy Act 2012 and that the Data Privacy Act provides adequate safeguards with respect to the security of personal information.

⁴⁵ The large social assistance program launched as part of the first fiscal package to respond to COVID-19.

⁴⁶ These include systems integrator to develop the PhilSys on the Modular Open Source Identity Platform (MOSIP), biometrics system, 5,000 registration kits, and 4,000 pre-registration tablets.

which will help with distribution of any future emergency or stimulus cash transfers.

70. The third operation will support the launch of PhilSys mass registration and its adoption for social protection delivery. Next steps in implementing PhilSys include increasing the number of services and staff in the registry office, building capacity in the central bank in charge of producing physical cards, and finalizing processes for registration and its use by other government agencies and processes. Preparation for adoption of PhilSys by agencies such as DSWD and financial service providers will be critical, which will facilitate the verification process as PhilSys will serve as a secure, unique identifier for public and private government transactions. DSWD plans to use the PhilSys to verify its beneficiaries for transactions and enroll new beneficiaries, and PhilSys Number (PSN) tokens to ensure the uniqueness of beneficiary records across its program information systems, a key step for developing a unified beneficiary database. To this end, the Beneficiary FIRST Social Protection project (P174066) will support DSWD to undertake the necessary investments and reforms. Additionally, the World Bank’s Identification for Development (ID4D) initiative will continue its TA partnership with PSA and other government agencies, which began in 2017.

71. Expected result: The supported measures are expected to improve access to and delivery of public services by providing Filipinos with a unique and verifiable digital identity. The foundational ID is expected to be used for bank account opening, social assistance beneficiary identification and verification, and pension payments by 2022.⁴⁷

Increase access to electronic payments through the creation of more efficient and resilient payment systems.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
Through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the BSP has operationalized the regulatory framework for (i) defining the coverage of payment system operators and (ii) defining the oversight framework and payment systems designations to implement the National Payment System Act (RA No. 11127).	The government has issued a regulation to promote adequate risk management for the payment systems.

72. The payment system is a fundamental financial infrastructure that is critical for financial stability and necessary for expanding access to financial services. Payments and payment services are an important part of facilitating economic activities. Payment systems support smooth financial transactions by discharging financial obligations in a timely manner, improving financial management of firms, and expanding access to financial services to firms and individuals, boosting firms’ competitiveness. The Philippines has long established a core function of its national payments system, anchored in BSP’s Real Time Gross Settlement System and recently upgraded its retail payment systems under the National Retail Payment System (NRPS) Framework. Two key interbank retail payment systems – PesoNET and

⁴⁷ PhilSys is expected to be adopted by all public and private agencies in the medium term once mass registration covers the entire population.



InstaPay –have been serving the needs of individuals and firms for safe, efficient, and reliable payment services. However, access to the payment system has been limited due to a high level of financial exclusion. In 2017, 34.6 percent of adults had bank accounts, only slightly up from 31.3 percent and 26.6 percent in 2014 and 2011, respectively. Bank account ownership in the Philippines is lagging behind the rest of ASEAN 5 countries.⁴⁸

73. Under the leadership of the BSP, the government’s introduction of reforms to promote security, efficiency and resiliency of payment systems has led to an increasing number of digital payment transactions. The Philippines passed the NPSA (RA No. 11127), effective since December 2018, supported by the first operation of the DPL series. It grants clear legal authority to the BSP for the policy objective of achieving safe, efficient, resilient, and reliable payment systems, mandates the BSP to coordinate with other domestic and cross-border government agencies and provides for the design and organization of the payment systems in the Philippines. Under the NRPS framework, supported by the NPSA, the number of participating banks and non-banks in PesoNet and InstaPay increased. Since its launch in April 2018, the number of participating institutions has reached 60 for PesoNet and 47 for InstaPay. In November 2019, the BSP launched a standardized QR code for payments (QR PH) with the payment industry and a government e-payment Pay facility with government agencies in order to further promote the use of digital payments.

74. Digital payment transactions rapidly increased during the COVID-19 pandemic thanks to the recent reforms of the payment system in the Philippines. The current situation has created a huge demand for digital financial services in the country. With expanded digital financial services, people can avoid or lessen the need for physical contact in retail and other transactions, thus helping them comply with health measures and protocols necessary to curb the spread of the virus. During the pandemic period, PesoNET and InstaPay saw the double-digit growth rates of 18 percent for volume and 25 percent in value between 45 days before and after the ECQ.

75. The BSP has advanced in operationalizing the regulatory framework defined in the NPSA, supported by this operation. Through the issuance of Rules and Regulations on Registration of Operators of Payment Systems (OPS) (BSP Circular 1049) in September 2019, the BSP clarifies the requirements for registration of OPS. In July 2020, the BSP issued a payment system oversight framework which clarifies the BSP’s authority as the payment system overseer to achieve safety, efficiency and resilience of the national payment system. The framework covers: 1) performance of oversight activities on payment service providers, operators of payment systems, and other relevant payment system participants; 2) scope and dynamics of payment system oversight, including the extent of cooperative oversight; and 3) designation criteria and expectations on participants of designated payment systems.

76. The third operation will support the next steps towards effective implementation of the NPSA to increase financial sector resilience. The NPSA aims to control systemic risk and provide an environment conducive to the sustainable growth of the economy. It brings greater efficiency and resilience to the financial system. Further, the Law supports digital payments and financial inclusion by facilitating social resilience amid shocks. The next focus is to bring more participants in NRPS and increase safety and

⁴⁸ Indonesia – 49 percent, Malaysia – 85 percent, Singapore – 98 percent and Thailand – 82 percent, and East Asia and the Pacific Region – 71 percent.



security of the systems by enhancing cybersecurity of the payment systems. This is particularly important given cybersecurity risk continue to increase. Other efforts include upgrading its PhilPaSS (Philippine Payment and Settlement System), a Real-Time Gross Settlement (RTGS) system, which is a systemically important financial market infrastructure. By creating a more secure and resilient payment system, use of digital payments is expected to increase further, which is more secure and efficient than cash.

77. Expected result: The supported measures are expected to contribute in creating a more efficient and resilient payment systems. As the payment system becomes more secure and reliable, access to payment services will be expanded. In particular, the number of transactions of real time retail electronic payments per month is expected to increase from 2.5 million in 2018 to more than 80 million in 2022.

Strengthen fiscal resilience to natural disasters and climate change through improved financial risk management and enhanced response systems.

Prior Action for DPL 2	(Indicative) Trigger for DPL 3
As evidenced by GAAs 2019 and 2020, and the JMC jointly issued by GSIS, DBM and DOF, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy.	The government has adopted mechanisms to link pre-arranged financing directly to pre-arranged funding channels for rapid response.

78. The Philippines incurs substantial losses to public and private assets due to natural disasters. The major climate-related natural hazards impacting the country are cyclones, sea level rise and storm surge, floods, and droughts. Risk models estimate that, on average, the country is expected to incur Php177 billion (1.0 percent of GDP) per year in losses to public and private assets due to typhoons and earthquakes. The models further estimate that in the next 50 years, the country has a 40 percent chance of experiencing losses exceeding Php1.7 trillion (8.7 percent of 2019 GDP) and a 20 percent chance of experiencing losses exceeding Php2.7 trillion (13.8 percent of 2019 GDP) in a single year. Recently, the country has been hit by a series of major disasters from October 2019 to January 2020, including three earthquakes, two typhoons, and the phreatic eruption of the Taal Volcano near Manila. The combined cost of damage to infrastructure and agriculture of these events is estimated at US\$283 million (0.1 percent of 2019 GDP).

79. Since 2015 the government has adopted a comprehensive financial strategy to reduce and mitigate contingent fiscal risks derived from natural disasters and climate change. The strategy includes a focus on reforms that strengthen the financial resilience at the national, subnational, and individual levels. The government has gradually built out its menu of risk financing instruments following a risk layering approach that minimizes the cost and optimizes the timing of post disaster response. This would be achieved by increasing the number of types of financing instruments pre-arranged to respond to natural disasters, including the use of market-based instruments such as CAT bonds and indemnity insurance. A specific focus of the strategy is to improve the risk management of public assets and specifically address a lack of insurance and underinsurance. A high-quality public asset insurance program helps the government reduce its implicit contingent liability, freeing up post-disaster resources for other



urgent priorities such as social assistance.

80. The BTr has established a financial mechanism for protecting critical public assets, supported by this operation. The National Indemnity Insurance Program (NIIP), launched in Q2 2020, transforms the way government funds the cost of reconstruction of key public assets including schools and critical infrastructure in the face of increasing disaster losses and climate risks. This program moves away from ad-hoc resource mobilization for reconstruction towards pre-arranging the required funding for rehabilitation of assets and restoration of services. With the support of this operation, the government designated the premium appropriations as a “Tier 1 budget allocation” for the BTr for the 2019 and 2020 GAA budgets. Together with the JMC jointly issued by the GSIS, DBM and DOF that provides guidelines on the implementation of the NIIP, this is evidence of institutionalizing the protection of public assets by having this indemnity insurance premium included in the budget allocation for the BTr. Furthermore, beneficiary agencies, including the Department of Public Works and Highways (DPWH) and the Department of Education, through a technical working group under the Development Budget Coordination Committee (DBCC) are tasked to ensure the financial mechanism is linked to appropriate preparedness planning.

81. The third operation will further support policy and institutional reforms to improve the management of post-disaster expenditure as part of a comprehensive financial protection mechanism. The World Bank is currently completing a Public Expenditure Review (PER) of post-disaster spending in coordination with DBM. The PER identifies the main challenges in budget flow after disasters that prevent rapid disbursement of funds to the beneficiaries and implementing agencies. This analysis will inform further reforms by the government in addressing delays in post-disaster financing, including potential reforms to the National Disaster Risk Reduction and Management (NDRRM) Fund or new mechanisms under the proposed new disaster resilience institution under discussion in Congress. The PER will also look at further strengthening the NIIP, developed under this operation, to improve the budget disbursement and budget execution procedures. The expediting of disbursement will be achieved by linking payouts to existing mechanisms to speed up recovery and reconstruction after disaster. This effort is complemented by a recently approved Third Disaster Risk Management Development Policy Loan (DRM DPL), which supported reforms to strengthen preparedness planning to ensure the effective use of resources to mitigate disaster impact on the ground.

82. Expected result: The supported measures are expected to increase the type of pre-arranged or improved financial mechanisms for disasters response. It has increased from 2 (NDRRMF and LDRRMF) in 2018 to 4 (newly added include the Emergency Cash Transfer and Cat Bond) in 2019, and it is expected to increase to more than 4 in 2022. It is worth noting, the proposed mechanisms represent multiple types of financial instruments which cover different public assets and disaster response interventions, enhancing the complementarity with one another. As a result, the cost and response time after disasters is expected to decrease, limiting the economic damage of disasters and protecting the affected populations in a timely manner, and minimize fiscal risk derived from disasters.⁴⁹

⁴⁹ Note that due to lack of comprehensive assessment of fiscal cost post-disasters, it is difficult to quantify the total fiscal risks derived from disasters. The public expenditure review covers a portion of the public expenditure post-disaster and finds that only one third of post-disaster national government spending was financed through pre-arranged budget allocations.



Strengthen financial resilience to natural disasters and climate change through improved management of public assets.

Prior Action for DPL II	Trigger for DPL III
Through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.	The government has adopted a web-based National Asset Registry System at the Bureau of the Treasury (BTr).

83. The government is undertaking reforms to strengthen the management of non-financial public assets in the face of high and growing disaster and climate risk (including e.g. schools, roads, bridges). Government asset management had been mostly limited to accounting and bookkeeping with no dedicated policies on asset management, including protection against disasters. In early 2019, a dedicated ARD was created under the BTr to establish a NARS – the first comprehensive database on assets owned by the government. Data on assets was collected from selected pilot agencies, which is now being used for placing the NIIP. Supported by the first operation of the DPL series, the government established a standing body under the DBCC, comprised of the key oversight agencies, to prepare national asset management policy and strategy.

84. The government has adopted the country’s first comprehensive asset management policy, supported by this operation. A dedicated technical working group of DBCC developed a policy to guide the efficient management of non-financial assets across all key agencies and eventually LGUs. This was adopted through a DBCC issuance signed by DOF, DBM, and NEDA. The Policy sets an overarching vision for asset management in the country, clarifying roles and responsibilities among stakeholders, requires key agencies to establish dedicated asset management working groups to lead the implementation of this policy, and defines critical areas of work such as capability enhancement, data collection for the NARS, and asset insurance against disasters. Complementary regulations issued by DBM will support the implementation of the policy through mandating the contribution of asset data to the NARS. This policy support better financial risk management (e.g. the NIIP), but importantly it is a foundation for improvement planning and managing of assets more broadly, including improved public investment planning, adequate operations and maintenance, and service delivery. This is also critical considering the government’s ambitious infrastructure investment program in the face of high disaster and climate risk by supporting risk reduction and preparedness planning.

85. The third operation will continue to support further development of the asset registry and its use for (financial) risk management. The BTr will update the current NARS registry with a web-based system to facilitate improved access for and utilization by key stakeholders. This will also support integration with other government systems, including GeoRiskPh under the Department of Science and Technology (DOST) to support physical risk management. This integration with advanced risk analytics capabilities will be a key input in better preparing for the fiscal and physical impacts of climate change such as sea level rise and hydro-meteorological disasters. Improved data and policies on public assets will also support better planning for post-disaster response and more efficient reconstruction minimizing environmental impacts from delayed or unplanned response. Accessibility for all relevant government agencies is a key objective of this reform to unlock the most value from this data, including through data



sharing and integration with existing systems.

86. Expected outcomes: Supported measures are expected to improve the management of public asset by consolidating information on public assets, and by allowing government agencies to use the asset registry to make informed policy decisions. This will allow for an adequate insurance coverage of these assets against natural disasters. This will be achieved by increasing the share of public assets in the asset registry for 5 key agencies from 0 percent in 2018 and 2019 to more than 60 percent in 2022. These reforms will further increase overall efficiency in the use of public resources, support improved planning and maintenance of public infrastructure, and inform climate change mitigation policies.

87. The DPL program builds on comprehensive analytical underpinnings ranging from TA projects, economic and sector work, and capacity building programs. This includes both Bank and other development partner programs, alongside government assessments. ANNEX 6 outlines each proposed prior action and their analytical underpinnings.

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

88. The DPL series is fully aligned with the priorities of the CPF for the period of 2019-2023 which builds on the four pillars of the Philippines' SCD. The SCD highlights that the Philippines has demonstrated a strong commitment to initiate game changing structural reforms which opened up trade, liberalized FDI, and expanded competition in several key sectors such as air transport, power, telecommunications, and the financial sector, while developing a comprehensive climate and disaster resilience policy, institutional, and financing reform agenda. Addressing existing constraints to inclusive growth and jobs, human capital, resilience, and governance in the medium-term will be important for the sustained progress in the country's inclusive growth agenda. To complement these findings in the SCD, the CPF was structured around three development objectives: (i) job creation, (ii) improving human capital, and (iii) building resilience to conflict and natural disasters. Embedded across the focus areas are the cross-cutting themes of governance and digital transformation to tackle challenges and position the country to opportunities associated with implementation and service delivery.

89. The DPL series supports the objectives under the CPF which remain relevant amid the COVID-19 crisis (Annex 7). The PDO of the current DPL series is consistent with, and contributes to, the development outcomes of the World Bank's engagement with the Philippine government in the three development objectives in the CPF. In particular, the reforms supported by this operation towards improving the business climate and promoting competitiveness are long-standing reforms needed to create quality jobs in the Philippines, supporting the goal of accelerating poverty reduction, and achieving rapid and sustained inclusive growth. Moreover, the reforms to enhance fiscal, social, and digital resilience to shocks support the CPF through the governance cross-cutting theme which will provide government the necessary space and institutional strength to support expansion of human and physical capital investment, and flexibility to respond to the country's changing needs in the time of COVID-19. Meanwhile, reforms which aim to facilitate the transition to an increasingly digital economy are crucial to allow the economy to adapt to the new normal consistent with WBG operational priority of working to build a more resilient recovery. Finally, the government's efforts to strengthen financial resilience to natural disasters and climate change are aligned with the resilience pillar under the CPF and the World



Bank's climate change adaptation agenda.

90. The DPL builds on several ongoing operations and technical assistance (TA) to achieve the outcomes of the CPF. This operation builds on the Emergency COVID-19 Response DPL (P174120), by introducing complementary actions that will aid in the Philippines' immediate recovery while addressing key structural reforms that are crucial for long-term development. In addition, the Bank's analytical work and TA are being extensively used in the design of each of the reform areas of the DPL series. Under the promoting competitiveness pillar, the Bank's team is providing TA to DICT to implement the common tower policy as well as streamlining permits for tower constructions. TA is also being provided to support towards the updating of the farmer registry, a medium-term diversification strategy to help boost competitiveness of the agriculture sector. The WBG continues to provide TA support to the DTI and the ARTA on the simplification of procedures to facilitate the design and implementation of EODB. In addition, TA to support the BSP in issuing a series of implementing rules and regulations under the NPSA and building the BSP's capacity as an overseer of payment systems to designate and license payment systems. In the area of tax policy, the Bank continues its ongoing engagement of providing analytical and advisory services by providing just-in-time technical inputs to the tax reform program and on improving monitoring of liabilities of GOCCs. To enhance the capacity of the government to manage the fiscal impacts of natural disasters, multiple TAs are being provided by the Bank team on the development of a dedicated asset management strategy and policy, while building capacity to agencies such as the Insurance Commission, the BTr, DBM, DBCC, and the GSIS.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

91. The government has conducted regular consultations with different stakeholders for the preparation of the DPL series. Broad policy reform consultation is conducted through *Sulong Pilipinas* with the participation of a broad set of civil service organizations (CSOs), private sector, academe, and government agencies to provide feedback on the implementation of government reform program. The latest one was conducted virtually in July 2020 where the government presented priority policies and reforms to support economic recovery, many of which are supported by this operation. In addition, focus consultation on specific reform agenda such as EODB with stakeholders was extensive to better understand process bottlenecks and jointly identify areas for process streamlining.

92. The World Bank Team also consulted with various stakeholders during the preparation of this operation. The team conducted consultation with CSO, the private sector, and the academe on the overall reform agenda of the government. In particular, the Bank team conducted a consultation with the private sector on the role of private sector in the implementation of the rice tariffication law to ensure its long-term sustainability. Moreover, the Bank team organized consultation with the academe and policymakers on policy priorities toward agriculture sector diversification away from rice. One major takeaway from the consultation is the need for clear strategy laid out by the government in its support for agriculture diversification taking into account the role of private sector participation, which contributed to the design of Bank's support on rice sector in the medium term.

5. OTHER DESIGN AND APPRAISAL ISSUES



5.1. POVERTY AND SOCIAL IMPACT

93. The DPL supports actions that are expected to have largely positive effects on poverty and income distribution in the short term, and overall positive effects over the medium and long term. Annex 4 summarizes the analysis carried out on the potential effects of the reforms supported under the operation. While some measures may have immediate negative impact on some portion of the population (i.e. rice farmers), the majority of actions are of an institutional nature and will be broadly neutral on poverty in the short term. In the long term, competition will help to create more and better jobs, benefitting the poor and vulnerable groups the most. Expanded mobile and broadband coverage will help to reduce digital divide and allow everyone access to digital economy. Trade facilitation reforms are expected to improve the country's competitiveness, lower trading costs are expected to benefit the SMEs the most as they are proportionally more affected than large firms. Reforms under the resilience pillar will improve service delivery through the use of a foundational ID and better national payment system which are expected to improve the welfare of the poor through improved accessibility and delivery of social services. Reforms to increase revenue will allow new investment in physical and human capital, ultimately benefitting the entire population. Reform aimed at strengthening financial resilience to natural disasters and climate change are also expected to improve the welfare of the poor in the long term: they are indeed less resilient to natural disasters and thus need faster post-disaster financial response.

94. Reforms to lower entry barriers for investment in the telecommunication sector are expected to benefit the entire population, especially the poor in the long run as the digital divide reduces. The Philippines' limited digital infrastructure has generated a digital divide, contributing to an unequal access to services and job opportunities. In 2018, about 40 percent of the population did not have internet access. Moreover, Filipino consumers experience slower download speed and pay more than consumers in most ASEAN countries. Reforms that promote more investment and competition in the telecommunication sector are expected to increase coverage, improve quality and potentially lower the cost of mobile and internet services, benefitting the poor and vulnerable the most as many of them currently do not have access, limiting their access to finance, to public services, and to economic opportunities.

95. While the rice liberalization act has generated broad benefits to poor households, it has highlighted the urgency of providing immediate support to negatively affected rice farmers. By liberalizing the importation of rice, the average retail price of rice has declined by 11 percent one year after its implementation, benefiting everyone in the country, especially the poor consumers. However, rice is one of the main agriculture products of farmers. As the price of rice declines, average farmgate price of palay declined by 18 percent a year after implementation, rice producers (palay and farm workers, and rice millers) were negatively affected. However, mitigation measures are being implemented. For instance, the RCEF is set up to assist rice farmers during the transition period by providing them machinery and equipment, credit assistance, extension services, and seed development programs to help rice farmers to become more productive and competitive. In addition, direct cash transfers to rice farmers have been implemented, reaching 600,000 rice farmers each receiving Php5,000. While these mitigation measures might not compensate fully to the affected rice farmers in the short run, as more farmers move to higher value-added crops or become more productive in rice production, their income will increase in the long run.



96. A detailed analysis shows that net rice consumers will gain access to cheaper rice prices and net welfare gain is positive. Rice imports are estimated to increase by 161 percent due to rising demand and reduced domestic production. Around 239,000 hectare (ha) of irrigated rice and another 145,000 ha of rainfed rice farms are projected to be out of production by 2025. Other crops such as oilseed and coconut, fruits and vegetables, sugarcane and pulses are anticipated to be produced in expanding land areas, presumably but not exclusively, from the shifting of farms from less profitable crops like rice to these relatively more profitable commodities as well as from increased demand. Under a medium price assumption, the benefit to consumers far outweighs the loss to producers, by a factor of about 4:1. Retail price will be 20 percent lower than without rice import liberalization, while palay price will be 30 percent lower. The net welfare changes for society represents less than one percent improvement in real income. As a percentage of baseline food expenditure, the lowest decile obtains the largest increment in real income at 5.5 percent. The percentage change declines as per capita income decile rises, dropping to just 0.15 percent for the top decile.

97. Given that lower rice prices will help to improve food security, malnutrition is expected to decrease. Only 4 percent of the overall population are net rice producers with a larger incidence for the lower deciles (i.e. maximum share is 5.7 percent for the second decile, just under the poverty line).⁵⁰ Because of increased availability and access to more affordable rice, per capita consumption of rice and daily calorie consumption are anticipated to improve, contributing to better food security for the country. Per capita rice consumption is expected to increase by 7.1 percent to 121 kg per year by 2025. These enhanced availability and accessibility to staple food is projected to cut the degree of child malnutrition and chronic hunger in the country by 3.1 and 15.4 percent, respectively, in 2025.⁵¹

98. Reform areas to enhance social resilience is expected to benefit the poor and marginalized group the most. Evidence from other countries' experience in introducing robust and inclusive ID systems strongly suggests that the poor benefit the most from better access to public and private services as they are qualified for social protection programs. In addition, a comprehensive ID system will allow for better targeting of social programs, reducing transactions costs, and facilitating the protection of vulnerable groups and humanitarian responses. Furthermore, a robust and inclusive ID system will improve financial inclusion by helping banks and other service providers (e.g., credit agencies, mobile phone providers) fulfill KYC requirements by ensuring that individuals have access to government-recognized IDs and to establish reliable credit histories.

99. Higher sin taxes on tobacco and alcohol are expected to reduce the welfare of the poor in the short term but will ultimately be beneficial to them in the long term. Given that the poor consume more cigarette and tobacco products relative to richer households⁵², higher sin tax might lead to short term welfare loss as tobacco consumption is inelastic to prices. Yet, past experience showed that higher sin

⁵⁰ Note that net rice producers are found even up to the top deciles (though the sub-population share declines with income).

⁵¹ A detailed Poverty and Social Impact Analysis on rice liberalization act has been conducted and included in the Program Document of the first operation.

⁵² Households from first two deciles of the income distribution spend around 3 percent of their total expenditure on tobacco products, three times the share spent by the top decile households. Similarly, poor households spend relative higher share of total expenditure on alcohol (0.7 percent) than richer households (0.3 percent).



taxes on cigarette effectively reduced smoking prevalence in the country,⁵³ reducing health risks from smoking which is the second most important risk factor of disease in the Philippines. Therefore, long term welfare gains coming from better health and lower medical spending is expected to benefit the poor. In addition, the additional revenue derived from tobacco taxes will be used to finance universal health care, benefitting the poor the most. This has been the experience with the 2013 Sin Tax Law which increased tobacco excise collections from 0.6 percent of GDP in 2012 to above 1 percent of GDP in 2013-17. As a result, the number of Filipino households whose health insurance premiums were subsidized by the national government almost tripled from 5.2 million primary members in 2012 to 15.2 million in 2017, thereby providing more buffers from negative health shocks, especially to poor and near-poor households.

100. Measures related to financial resilience to natural disasters and climate change are expected to have an overall positive direct and indirect impacts on poor households and vulnerable groups. Poor households are often highly exposed to natural disasters, and they tend to have limited resources to cope with shocks. Natural disasters directly impact livelihoods, immediately reducing income levels among household near or below the poverty line. Natural disasters can also affect future welfare by forcing the poorest households to adopt short-term coping mechanisms—such as removing children from school, forgoing medical care, or selling or consuming productive assets—that undermine their wellbeing and weaken their long-term economic productivity. When key infrastructure is disrupted, this affects economic activity, e.g. farmers cannot reach markets, and shuts down key public services, e.g. interrupted education due to damage to school buildings. Ensuring public assets are well managed and insured increases their resilience and promotes rapid rehabilitation, thereby reducing the negative impact on the population through interruptions to critical public services.

101. The measures to enhance fiscal and financial resilience will indirectly benefit poor households by ensuring macroeconomic stability, preventing fiscal imbalances that could threaten pro-poor spending. Measures to have in place financial mechanisms for disaster response supported under Prior Action 8 are expected to have a positive direct impact on poor households by facilitating a rapid and effective government response for reconstruction and rehabilitation of schools and public buildings. In addition, better management of public assets supported by Prior Action 9 will benefit indirectly on poor households as it will facilitate an adequate insurance coverage of public assets, reduce contingent liabilities, and more efficient use of public resources ensuring long term fiscal sustainability. By reducing the liability on the government balance sheet to pay for reconstruction of infrastructure, this also frees up resources to provide sufficient support through social assistance programs that directly reach the poorest, and it reduces forced budget reallocations for disaster response that often cut social spending programs.

5.2. ENVIRONMENTAL ASPECTS

102. The environmental impact of the reform actions supported by the DPL are estimated to be positive overall. Ongoing World Bank operations and Advisory Services and Analytics (ASA) are working with the government to address technical barriers to enable the adoption of risk informed approaches to

⁵³ For instance, after the passage of the 2013 Sin Tax Reform law, smoking prevalence declined from 22.5 percent to 18.7 percent.



development, including through the integration of climate change and disaster risk assessments in public investment projects and environmental risk and impact assessments. For example, the strengthening of the financial sector mechanisms for Climate and Environmental Risks has been incorporated in the 2019 Financial Sector Assessment Program (FSAP). Arrangement of dedicated funding for asset rehabilitation will support the provision of sufficient funding for reconstruction to ensure that public investment projects can be carried out more rapidly and to the required level of design as set out in the requirements of the government's environmental impact assessment and disaster management system.

103. Reforms are being undertaken by government to address the underlying social, economic, and environmental vulnerabilities to reduce the impact of disasters and climate change. The government has taken a comprehensive multi-hazard focus, which includes simultaneous consideration of the various types of geological and/or hydro-meteorological hazards. In addition, the government has initiated the tagging and tracking of climate change expenditures and modernizing the much-needed data management systems to enable policymakers to take stock of the national climate change response and to assess the institutional readiness for scaling up access to and delivery of climate change finance for local governments. Furthermore, the government has recently introduced additional Public Finance Mechanisms to mobilize and leverage private capital for adaptation. The BSP approved the Sustainable Finance Framework (SFF) (BSP Circular No. 1085, series of 2020) to address climate change and its impact on the financial sector, covering green finance. This framework recognizes the critical role of the banking sector in a sustainable and resilient growth by enabling environmentally and socially responsible business decisions. While it seems too early to support the implementation of the SFF through this DPL, it is likely that future support from the World Bank will include SFF implementation support, by assisting in the capacity building in compliance with risk management system, requirements for full disclosure and by issuing regulatory incentives to encourage banks to comply.

104. The Philippines has a framework to assess the environmental impact of major infrastructure projects, which will apply to reconstruction projects enabled through the public asset insurance pilot supported by this operation. The Department of Environment and Natural Resources (DENR) is responsible for the Environmental Impact System (EIS), which assesses the environmental impacts and risks of development projects, classified into four categories: 1) Category A - Environmentally Critical projects like major construction projects; 2) Category B - Projects located in Environmentally Critical Areas including disaster-prone areas; 3) Category C – environment enhancement projects; and 4) Category D – projects unlikely to cause adverse impacts. The Bank has supported the incorporation of climate risk in the EIS, supported by a guidebook, a revised set of technical guidelines, and a continuing training program for DENR staff at the national and regional offices. A Climate Change Adaptation and Mitigation – Disaster Risk Reduction (CCAM-DRR) Roadmap was approved by the Cabinet Cluster in 2018, with an overall goal of creating 'Climate- and disaster-resilient communities supporting equitable and sustainable development'. DENR is mandated to oversee the implementation of the said cluster's Program Convergence Budgeting where indicators and programs, projects and activities are laid out in the National Expenditure Program for 2018 and beyond. The National Climate Change Action plan converges with the NDRRM Framework and the NDRRM Plan (2011-2028) which lays out an all-hazard, multi-sectoral, inter-agency approach to DRRM.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS



105. The Philippines has significantly improved PFM at the national level over the last decade and continues to be a strong performer within the region. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment indicated that 3 of the 7 PFM pillars (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment. The financial statements of government agencies are audited annually. There were no major qualifications on the DOF annual financial statements in the most recent year and most matters raised in previous years' audit reports were fully or partially addressed. The national government budget is made available to the public online through DBM's website, from the budget proposal stage (the National Expenditure Program), until it is signed by the President of the Philippines and made effective through the passage of the GAA.

106. The government continues to make strides in the PFM reform agenda. The Bank's Second and Third Philippines Development Policy Loan to Foster More Inclusive Growth (2014) supported the formulation and then adoption of a Unified Accounts Code Structure to be used across budgeting, accounting and reporting. A Treasury Single Account has been implemented and BTr is working to expand its coverage. The most recent DPL for improving fiscal management included actions to strengthen budget preparation, cash management and adoption of the Budget and Treasury Management System (BTMS) as the basis for a single national government financial information system. BTMS covered around 30 percent of total expenditure transactions by value in July 2020 and the number of agencies included continues to expand according to plan. DBM is also developing links with other financial management systems including fiscal planning and budget preparation, procurement and payroll. In addition, to improve budget predictability and execution, the government has gradually tightened the validity period for obligations since 2014 until 2019 when an annual cash budget was adopted. The adoption of cash appropriations effectively limited the validity of obligations to the year funds are appropriated.

107. Coupled with these are many steps to strengthen procurement which started with the passage of the Government Procurement Reform Act (RA No. 9184) in January 2003. Several measures were taken under this Act to address systemic procurement corruption including inter alia the mandatory use of public bidding, periodic monitoring and evaluation of the performance of the procurement system through the Agency Procurement Compliance and Performance Indicator system and the mandatory use of electronic procurement and framework contracting. In recent years, the Government Procurement Policy Board (GPPB) developed the policy on organization, staffing and competency requirements for professionalization, standardized all procurement documents and harmonized them with development partners. The government could further advance procurement reforms by designing better procurement strategies and policies which would save the government between 26 and 29 percent of total procurement spending.⁵⁴

108. The Philippines posted steady improvements in terms of the overall Open Budget Index (OBI) over the past decade. From an overall OBI score of 51 in 2006, the Philippines' score improved to 55 in 2010, before reaching a score of 76 in 2019, ranking 10th worldwide. In 2014, the Philippines was one of

⁵⁴ Data Analytic exercise under PFM-RAS recommends a more strategic approach to government procurement including but not limited to: 1) consolidating procurement of high volume, low value items and use of framework agreements; 2) providing reasonable time for bidders to prepare and submit their bids, particularly for complex procurement and high value contracts; and 3) product bundling.



the pilot countries for the IMF's revised Fiscal Transparency Evaluation (FTE). The Philippines FTE report was published in June 2015. The government is committed to pursuing further public financial management reforms to enhance fiscal transparency through the timely provision of complete and accurate information, which will be facilitated by deployment of the BTMS.

109. The foreign reserves control environment in the BSP is based on domestic assessments. The Philippines does not have an active IMF program to develop safeguard assessments. The BSP is also not subject to international audit. BSP's financial statements are audited by the Commission on Audit (COA). The WB and IMF have been relying on the audited financial statements released by COA. The auditor's opinions for the BSP audited financial statements related to calendar years 2016 to 2018 are unmodified (unqualified). However, the audit opinions contain an "Emphasis of Matter" paragraphs relating to deviation from Philippine Accounting Standards 21 relating to the booking of realized and unrealized gains and losses due to the change in exchange rates and non-adoption of the classification and measurement; and impairment provisions of Philippine Financial Reporting Standards (PFRS) 9 in CY2018. The paragraphs reflect the auditor's judgment that the matter is fundamental to users' understanding of the financial statements. The auditor's opinions are not modified in respect to the matter emphasized and remained unmodified.

110. The proceeds from the loan will be deposited in USD into a deposit account at the BSP that forms part of the foreign exchange reserves once the loan becomes effective and the Bank is satisfied with i) the progress achieved by the government in carrying out the program, ii) the adequacy of the government's macroeconomic policy framework, and iii) submission of withdrawal application in required format in U.S. Dollar. Immediately after disbursement of the loan, the government will ensure that the loan amount is promptly accounted for in the government's budget system in the general fund, and thereby is available to finance budget expenditures. The government will provide a written confirmation to the Bank within 30 days that this accounting and transfer has been completed, including the exchange rate applied to convert the loan proceeds into Philippine Peso, and the name and number of the government's bank account in which the funds have been deposited and that the exact amount was received in the account.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

111. The DOF is the main liaison with the World Bank on budget support operations, including the proposed operation. However, policy dialogue and monitoring and evaluation of the program supported by this DPL are shared with DBM, as well as the BTr (which is an agency of the DOF), NEDA, PSA, BSP, ARTA, DICT, BOC, and DA. The government has designated the DOF International Finance Group as the Bank's main counterparts in the policy dialogue and monitoring of the operation.

112. Indicators selected to monitor progress toward achievement of the PDO reflect defined areas of action and correspond to the expected outcomes of the prior actions. They include an appropriate mix of specific qualitative and quantified targets, which are attributable, relevant, and time-bound, and are expected to be sufficient to enable effective monitoring of the project's achievement of the PDO. Moreover, the Pillars and result indicators in the policy framework are aligned with government priorities. Since the policy targets are aligned with regular programs of the relevant agencies, their reporting



mechanisms will be used.

113. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

114. The overall program risk rating is substantial with high degree of uncertainty on the duration and depth of the COVID-19 pandemic. Political economy and governance challenges, macroeconomic, and weak institutional and implementation capacity are the key risks rated substantial using the Systematic Operations Risk-rating Tool (**Error! Reference source not found.**6). While the economy is expected to gradually recover in the medium term, downside risk of a prolonged COVID-19 outbreak may result in a deeper recession, pushing more people into poverty. If the risk materializes, it may divert attention of the government to more immediate health and social protection actions away from structural and long-term reforms. These may result in a significant delay in the government's progress on several of the implementation actions under the current DPL series. These risks, if materialized, could affect the achievement of the PDOs.

115. The macroeconomic risk is substantial given the uncertainty on the duration and severity of COVID-19 outbreak. While the government is taking actions to contain the spread of the virus, daily cases remain high. If the government fails to flatten the infection curve in the short term with increasing daily confirmed cases and a saturated health system forcing a reversal to strict quarantine restriction, then economic contraction could turn even deeper in 2020 with echo effects into 2021. In this case, government may focus solely on health crisis and may result in a significant delay the implementation of several policy actions supported by the DPL series. For instance, the nationwide registration of the foundational ID currently scheduled to start in November 2020 could be delayed due to diverted resources. Moreover, the longer the quarantine restrictions are in place, the substantial economic slowdown caused by COVID-19 could further dampen consumer and business confidence, diminishing the impact of government's reform on infrastructure sharing in telco sector. Likewise, rising trade protectionism and a protracted U.S.-China trade war may amplify the business uncertainty in the region, which may affect investment flows or delay investment decisions on key sectors such as manufacturing and infrastructure in the Philippines. Finally, the slowdown to contain the outbreak may lead to an even deeper contraction in consumption and hinder the country's ability to generate indirect tax revenues.



116. Political economy and governance risks can stall the reforms’ momentum. The successful delivery of reforms not only requires policy clarity and commitment, but also consensus among the government branches on the nature and implementation pace of reforms. Given substantial economic slowdown in 2020 due to COVID-19 outbreak, consensus on the prioritization of reform in the short term might be challenged. This risk can be exacerbated by the upcoming 2022 Presidential election which might halt the pace of structural reforms as incumbents may not have interest in enacting unpopular market-oriented structural reforms.

117. Institutional capacity for implementation poses a substantial risk. Implementation capacity has often been blamed for the poor delivery of public services in the country. Such capacity is again being tested with the COVID-19 impact, which is overstressing the capacity of implementing agencies of the reforms supported by the DPL series. To mitigate this risk, the World Bank and other development partners continue to aid the government through TA and financing assistance, on top of medical and humanitarian aid from neighboring countries.

118. Ongoing targeted TA supports the government in its delivery of reforms, mitigating implementation risks due to capacity constraints. The past DPLs have highlighted that in addition to strong ownership, a continuous and responsive policy dialogue across agencies and branches of government is critical to supporting the government in the implementation of its priority reforms. In many cases, this has involved just-in-time and strategic support to draw in global experience to advance reform tracks. Numerous TAs and advisory works are ongoing in support of the key pillars of this proposed DPL operations.

Table 6: Summary of Risk Ratings

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



9. Other	● Moderate
Overall	● Substantial



ANNEX 1: POLICY AND RESULT MATRIX

Objective	Prior Actions and (Indicative) Triggers			Results
	Prior Actions under DPL 1 (completed)	Prior Actions under DPL 2 (current)	(Indicative) Triggers for DPL 3	Medium term results indicators
I. Promoting Competitiveness				
Promote investment in telecommunications.		Prior Action 1: Through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service.	(Indicative) Trigger 1: The government has defined policies for fixed broadband internet use.	Result Indicator 1: Mobile internet penetration rate for unique subscribers (Baseline: 45.5; target 2022: more than 57.0) Result Indicator 2: Investment in telecommunication in billions of USD (Baseline: 2.1; target 2022: more than 3.0)
Reduce the cost of doing business.	Prior Action 2: Through the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032) and the CSC-ARTA-DTI Joint Memorandum Circular No. 2019-001, the government has defined a policy framework to simplify ease of doing	Prior Action 2: Through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implement the Ease of Doing Business and Efficient Government Service Delivery Act (RA	(Indicative) Trigger 2: The government has revised complementary regulations to streamline national and local government processes for starting a business.	Result Indicator 3: Number of days to start a business (Baseline: 31; target 2022: less than 20) Result Indicator 4: Number of procedures to start a business (Baseline: 13; target 2022: less than 8)



	business (EODB).	No. 11032).		
Improve trade facilitation by modernizing customs procedures.		Prior Action 3: Through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.	(Indicative) Trigger 3: The government has approved implementing rules and regulations of the Customs Modernization and Tariff Act to enhance trade facilitation with the implementation of risk-based controls.	Result Indicator 5: container average clearance time in days (baseline: 10; target 2022: 8)
Promote competition through regulatory reforms to increase agriculture diversification.	Prior Action 1: Through the Rice Liberalization Act (RA No. 11203) and the DA-NEDA-DBM Joint Memorandum Circular Number 01-2019, the government has liberalized the rice import market by shifting from a quantitative restriction system to a transparent tariff system.	Prior Action 4: Through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.	(Indicative) Trigger 4: The government has adopted an operational framework for encouraging rice farmers to diversify to higher value commodities.	Result Indicator 6: The gap between domestic and international price of rice calculated as domestic price less international price as percent of international price (in percent) (Baseline: 76; target 2022: less than 50) Result Indicator 7: Share of non-rice agriculture GDP as share of total agriculture GDP (in percent) (Baseline: 78.9;



				target 2022: more than 83.0)
II. Enhancing resilience				
Increase tax revenues and improve management of contingent liabilities from Government-Owned and Controlled Corporations (GOCCs).	Prior Action 6: Through RA No. 11346, the government has increased excise taxes on tobacco products, effective January 1, 2020.	Prior Action 5: Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of Universal Health Care.	(Indicative) Trigger 5: The government has implemented a system to identify, monitor, and manage contingent liabilities of the Government-Owned and Controlled Corporations (GOCC).	Result Indicator 8: Excise tax revenue as share of GDP (in percent) (Baseline: 2.3; target 2022: more than 2.9)
Support social resilience through better digital infrastructure for social program delivery.	Prior Action 3: Through the Philippine Identification System Act (RA No. 11055) and Implementing Rules and Regulations, the government has created the legal and regulatory framework for a foundational ID system that aims to improve service delivery and financial inclusion for citizens and resident aliens.	Prior Action 6: As evidenced by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for the mass registration.	(Indicative) Trigger 6: The government has launched the mass registration for PhilSys and adopted the PhilSys for social assistance beneficiary identification and verification.	Result Indicator 9: Use of the foundational ID (Baseline:0; target 2022: bank account opening, social assistance beneficiary identification and verification, and pension payments)
Increase access to electronic payments through the creation of more efficient and	Prior Action 4: Through the National Payment System Act (NPSA) (RA No. 11127), the government	Prior Action 7: Through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the BSP has	(Indicative) Trigger 7: The government has issued a regulation to promote adequate risk management	Result Indicator 10: number of transactions of real time retail electronic payments per



resilient payment systems.	has established the institutional legal framework with the objective of promoting the safety and efficiency of payment systems and provided the Bangko Sentral ng Pilipinas (BSP) with explicit authority and powers to oversee the payment system.	operationalized the regulatory framework for (i) defining the coverage of payment system operators and (ii) defining the oversight framework and payment systems designations to implement the National Payment System Act (RA No. 11127).	for the payment systems.	month (Baseline: 2.5 million; target 2022: at least 80 million)
Strengthen fiscal resilience to natural disasters and climate change through improved financial risk management and enhanced response systems.	Prior Action 9: The government has implemented its risk layering strategy by setting up a combination of financial instruments to efficiently meet funding needs of disasters of different frequencies and severities.	Prior Action 8: As evidenced by GAAs 2019 and 2020, and the JMC jointly issued by GSIS, DBM and DOF, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy.	(Indicative) Trigger 8: The government has adopted mechanisms to link pre-arranged financing directly to pre-arranged funding channels for rapid response.	Result Indicator 11: Type of pre-arranged or improved financial mechanisms for disaster response (Baseline: 2; target 2022: more than 4)
Strengthen financial resilience to natural disasters and climate change through improved management of public assets.	Prior Action 7: Through DBCC resolution No. 2019-4, the government has established a standing body to formulate and recommend public asset management policies.	Prior Action 9: Through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.	Trigger 9: The government has adopted a web-based National Asset Registry System at the Bureau of the Treasury (BTr).	Result Indicator 12: Share of public assets included in the asset registry for 5 key agencies (in percent) (Baseline: 0; target 2022: more than 60)



ANNEX 2: FUND RELATIONS ANNEX

Philippines—Assessment Letter for the World Bank

October 2, 2020

This note provides the IMF staff's assessment of Philippines' macroeconomic conditions, prospects, and policies, based on available information as of September 24, 2020. The assessment has been requested in relation to a development loan operation by the World Bank.

Recent Developments, Outlook, and Risks

The COVID-19 crisis has severely hit the Philippine economy. The economy entered the pandemic from a strong position, as a result of bold structural reforms and prudent macroeconomic policies. The containment of the virus outbreak, however, necessitated imposition of stringent quarantine measures, which resulted in a GDP contraction of 12 percent (H/H, s.a.) in the first half of 2020. Financial markets have remained broadly stable after a brief period of increased volatility in March, while gross international reserves rose to US\$99 billion at end-August from US\$91 billion at end-April. The Philippines has the highest level of confirmed COVID-19 cases in the ASEAN region (over 290,000 as of September 23), with the average number of daily new confirmed cases at about 3,200 during September 1–23.

The near-term growth outlook is clouded by uncertainty surrounding the virus dynamics. In the October 2020 *World Economic Outlook*, real GDP is projected to contract by 8.3 percent in 2020, reflecting the impacts of virus containment measures, social distancing, and weak external demand. Headline inflation is expected to average 2.4 percent in 2020, which is within the 2–4 percent target band of the Bangko Sentral ng Pilipinas (BSP). The current account balance in 2020 is projected to turn to a surplus of 1.6 percent of GDP (from a 0.1 percent deficit in 2019), driven by compression in import demand. Real GDP in 2021 is projected to expand by 7.4 percent, as the economy rebounds helped by the relaxation of quarantine measures and the policy easing in 2020. Over the medium term, the COVID-19 crisis is expected to result in lower levels of potential output and higher structural unemployment, with real GDP growth converging to 6.5 percent by 2025.

Downside risks are large, and their materialization would lead to a further pullback in economic activity in 2020:H2 and slow the recovery. Capacity constraints on the implementation of timely and adequate policy support may hinder efforts to contain rises in unemployment and insolvencies among businesses and households, delaying the economic recovery that is essential to reduce poverty and inequality. Pandemic-prompted protectionist actions elsewhere in the world,



such as export controls and policy-induced onshoring, could become more prevalent and persistent if economic conditions deteriorate. Finally, the pandemic could slow ongoing reforms as populist pressures and the influence of vested interests could rise in the recovery phase. On the upside, the crisis could help expedite some reforms, such as the introduction of the national digital ID and further relaxation of FDI restrictions.

Policy Framework and Settings

The initial government response to the pandemic appropriately focused on containing the rapid spread of the virus and its health impact and providing vital income support to the vulnerable. The first support package implemented in 2020:H1 comprised a large-scale cash aid program for low-income households, financial assistance to small business employees and displaced workers, and distribution of medical supplies and equipment. Due to constraints on infrastructure (for example, on digital-based delivery of cash aid) and administrative capacity, however, the speed of deployment has been uneven. The second package to be implemented during the remainder of 2020 (“the Bayanihan II” or “Bayanihan to Recover As One Act”) additionally provides subsidies targeted to hard-hit sectors.

The severity of the COVID-19 socioeconomic impact calls for bolder fiscal action to minimize the scarring effects. The government has appropriately increased the annual budget deficit target for 2020 to 9.6 percent of GDP from 3.4 percent in 2019, reflecting the expected reduction in revenue and the discretionary COVID-19-related government spending (estimated at 2.3 percent of GDP). However, considering the low level of public debt (39.6 percent of GDP in 2019, well below the emerging market average), the Philippines has space for additional fiscal support. Moreover, alternative approaches could be considered to provide more support to micro-, small-, and medium-sized enterprises (MSMEs). For example, the current credit guarantee program for MSME loans could be expanded in size considering the larger impact of COVID-19 than originally expected at the time of the program’s launch in April.

Greater emphasis could be given to short-term job creation and social protection by reprioritizing public spending. Due to the relatively larger-than-expected impact of COVID-19 on low-income households and businesses in the informal sector, there is now an even greater urgency for some of the government’s socioeconomic priorities, such as undertaking infrastructure projects with high job content and enhancing social protection. While the Bayanihan II will provide another round of temporary relief to vulnerable households, regular social protection programs should be strengthened in anticipation of the lasting consequences of COVID-19 for poverty and inequality.



The BSP has taken forceful actions to support the economy. The central bank reduced its policy rate four times in 2020:H1 by a cumulative 175 bps to 2.25 percent and lowered the reserve requirement ratio (RRR) for commercial banks by 200 bps to 12 percent. Furthermore, the BSP has sought to reduce risks of bond market instability from higher government deficit financing through temporary repo financing to the government and secondary market purchases of government bonds. Further monetary policy accommodation of government deficits should be clearly circumscribed to the early recovery phase from the pandemic and remain compatible with the BSP's monetary policy objectives. Bond purchases or advances should be guided by a well-defined last resort criterion, linked to unfavorable bond market and broad financial conditions.

Monetary policy is appropriately accommodative and could be loosened further if significant downside risks materialize. Considering the benign inflation outlook and moderate external pressures, the BSP has space to make additional data-dependent cuts in the policy rate. The current inflation and credit conditions also provide an opportunity to further lower the RRR, still comparatively high at 12 percent.

The BSP has relaxed prudential rules to ease the financial burden of vulnerable borrowers. The BSP has introduced a series of temporary regulatory relief measures to encourage banks to provide financial assistance to their borrowers through temporary grace periods for loan payments or loan restructuring. While the Philippine banking system was well capitalized before the pandemic, the asset quality is expected to deteriorate substantially in the short term. The authorities should closely monitor the evolution of underlying vulnerabilities and prepare contingency plans, supported by reforms of resolution mechanisms. The institutional framework for macroprudential policy could be further strengthened, based on the recommendations of the forthcoming Financial Sector Assessment Program.

An intensification of the reform momentum would strengthen the post-COVID-19 recovery and longer-term growth. The planned introduction of the national ID system and implementation of the financial inclusion initiative would complement the ongoing social assistance programs by facilitating the identification of eligible households and delivery of cash aid. In the medium term, more resources and incentives for climate change adaptation and mitigation will be needed to induce more investment and changes in emission patterns.

IMF Relations

The Philippines is on a standard 12-month Article IV consultation cycle. The 2019 Article IV consultation was concluded by the IMF Executive Board on January 27, 2020.



Philippines: Selected Economic Indicators

Population (2019): 107.3 million

Quota: SDR 2,042.9 millions (0.43 percent of total quota)

Per capita GDP (2019): US\$3,512

Poverty rate \$1.90 a day (2015): 6.1

Main products and exports: electronics, machinery, agriculture products, and business process outsourcing

Key export markets: Hong Kong SAR, Japan, United States, European Union, China, Singapore, and Thailand

	2016	2017	2018	2019	2020 Proj.	2021 Proj.
Output						
Real GDP growth (%)	7.1	6.9	6.3	6.0	-8.3	7.4
Prices						
Inflation (% annual average)	1.3	2.9	5.2	2.5	2.4	3.0
National government finances						
Fiscal balance (% GDP)	-2.3	-2.1	-3.1	-3.4	-9.6	-8.4
Money and credit						
3-month PHIREF rate (%) 1/	2.0	3.3	6.5	3.1
Balance of payments						
Current account (% GDP)	-0.4	-0.7	-2.5	-0.1	1.6	-1.5
Exchange rate						
REER (% change)	-2.9	-4.5	-2.8	4.8

Sources: Philippines authorities; World Bank, World Development Indicators; and IMF staff projections.

1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap. As of December 2019.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



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

DEVELOPMENT POLICY LETTER

MR. DAVID R. MALPASS

President
World Bank Group
Washington, D.C.

Dear **President MALPASS**:

The Philippine Government is currently embarking into several high-impact reform measures that allowed us to access financing through the present development policy loan (DPL) series on Promoting Competitiveness and Enhancing Resilience to Natural Disasters. Reforms included support the government's policy directions to expand economic opportunities, reduce vulnerability of individuals and families and ensure sound macroeconomic policy. Such are guided by the Philippine Development Plan 2017-2022, which is anchored in *Ambisyon Natin 2040* that aims to provide a strongly-rooted, comfortable, and secure life for Filipinos by 2040.

The current subprogram is part of the three (3) DPL subprograms to be undertaken until 2022. It highlights reforms aimed at (i) promoting competitiveness, (ii) enhancing fiscal sustainability, and (iii) strengthening financial resilience to natural disasters and climate change. This development policy letter outlines our reform program under the said DPL series and expresses our interest in availing the USD 600 million budget support loan, the second tranche of the DPL financing package. This will sustain progress already achieved under the first subprogram (DPL1), and fund Government operations and priority reforms under the second DPL subprogram (DPL2).

To advance the competitiveness reforms and further improve business environment initially implemented under DPL1, the Anti-Red Tape Authority (ARTA) has started operating to implement Republic Act No. 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act. Plantilla positions were created, an organizational chart was approved, and budget was allocated for ARTA. Moreover, to increase agricultural productivity, the Department of Agriculture (DA) has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act.



In addition, to promote investment in telecommunications, the Department of Information and Communications Technology (DICT) has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service through the passage of the Common Tower Policy, and the Joint Memorandum Circular among the DICT, ARTA, and other government agencies. This will increase the percentage of the population with access to fixed and mobile broadband internet. In parallel, to improve trade facilitation, the Bureau of Customs, through Joint Administrative Order No. 1 series of 2020, has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.

Furthermore, to advance the reforms initiated during DPL1 in enhancing fiscal sustainability, the Government has increased excise taxes on alcohol and e-cigarette products to finance the implementation of Universal Health Care. On top of this, the Philippine Statistics Authority (PSA) piloted the registration for the Philippine Identification System (PhilSys) for a limited, and monitored, set of sites and target populations to prepare for the mass registration. The Government is committed to finalize the PhilSys reform agenda even beyond the duration of the DPL series. The regulatory framework for defining the coverage of payment system operators and defining the oversight framework and payment systems designations to implement Republic Act No. 11127 or the National Payment Systems Act (NPSA) has also been operationalized.

Finally, to strengthen financial resilience to natural disasters and impacts of climate change, the Government as evidenced by the General Appropriations Acts of 2019 and 2020, has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy. The Government also adopted an asset management policy to improve financial risk management derived from natural disasters and climate change. The facilitation and implementation of these measures will be further enhanced and complemented by the third DPL subprogram.

The Government reaffirms its commitment to pursue its thrusts to promote competitiveness, enhance fiscal sustainability and financial resilience to disasters through the succeeding DPL subprogram and other key avenues. These measures submitted as part of the DPL series continue to fulfill the broader national development objectives in the context of *Ambisyon Natin 2040* and the PDP 2017-2022. We look forward to the Bank's continued



The World Bank

Second Philippines Promoting Competitiveness and Enhancing Resilience Development Policy Loan (P170914)

assistance in this endeavor and in timely responding to the Government's needs in financing its development agenda.

Very truly yours,


CARLOS G. DOMINGUEZ
Secretary of Finance

NOV 10 2020





ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Promoting Competitiveness		
<p>Prior Action 1: Through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service.</p>	No	Yes/Positive
<p>Prior Action 2: Through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implement the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032).</p>	No	No
<p>Prior Action 3: Through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.</p>	No	No
<p>Prior Action 4: Through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.</p>	No	Yes/Positive
Operation Pillar 2: Enhancing Resilience		
<p>Prior Action 5: Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette</p>	No	Yes/Positive



products to finance implementation of Universal Health Care.		
Prior Action 6: As evidenced by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for the mass registration.	No	Yes/Positive
Prior Action 7: Through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the BSP has operationalized the regulatory framework for (i) defining the coverage of payment system operators and (ii) defining the oversight framework and payment systems designations to implement the National Payment System Act (RA No. 11127)	No	Yes/Positive
Prior Action 8: As evidenced by GAAs 2019 and 2020, and the JMC jointly issued by GSIS, DBM and DOF, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy.	Yes/Positive	Yes/Positive
Prior Action 9: Through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.	Yes/Positive	Yes/Positive



ANNEX 5: Conversion of DPL 1 triggers to Prior Actions in DPL 2

Triggers for DPL 2 as defined in DPL 1	Prior Actions under DPL 2 (current)	Comment
	<p>Prior Action 1: Through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service.</p>	<p>Added To support digital transformation needed to adjust to the new normal.</p>
<p>The government has operationalized the Anti-Red Tape Authority, created by RA No. 11032.</p>	<p>Prior Action 2: Through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implement the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032).</p>	<p>Unchanged Provided with more details of what it means to be operationalized.</p>
	<p>Prior Action 3: Through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.</p>	<p>Added To support digital transformation needed to adjust to the new normal.</p>
<p>The government has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) and has updated the registry system for basic sectors in agriculture (RSBSA) as per Art. 14 of the DA-NEDA-DBM Joint Memorandum Circular Number 01-2019.</p>	<p>Prior Action 4: Through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.</p>	<p>Unchanged Minor changes in the formulation.</p>
<p>The government has rationalized corporate tax incentives to reduce inequities and inefficiencies of the tax system.</p>	<p>Prior Action 5: Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of Universal Health Care.</p>	<p>Replaced As the revised corporate tax reform is yet to be approved and it is expected to be revenue reducing.</p>



<p>The government has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations</p>	<p>Prior Action 6: As evidenced by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for the mass registration.</p>	<p>Unchanged Minor changes in the formulation.</p>
<p>The government has operationalized the regulatory framework defined in the NPSA through (i) defining the coverage of payment system operators; (ii) defining the oversight framework; and (iii) designating payment systems.</p>	<p>Prior Action 7: Through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the BSP has operationalized the regulatory framework for (i) defining the coverage of payment system operators and (ii) defining the oversight framework and payment systems designations to implement the National Payment System Act (RA No. 11127).</p>	<p>Unchanged Minor changes in the formulation to be more aligned with the legal evidence.</p>
<p>The government has institutionalized the Disaster Risk Financing (DRF) strategy through a recurrent budget allocation.</p>	<p>Prior Action 8: As evidenced by GAAs 2019 and 2020, and the JMC jointly issued by GSIS, DBM and DOF, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy.</p>	<p>Unchanged Provided with more details of what it means to be operationalized.</p>
<p>The government has issued public asset management policies and guidelines.</p>	<p>Prior Action 9: Through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.</p>	<p>Unchanged Minor change.</p>
<p>The government has improved budget monitoring and increased transparency by preparing consolidated financial reports on a cash basis.</p>		<p>Dropped Trigger achieved and acknowledged in Section 5.3.</p>
<p>The government has issued policies to improve catastrophe risk insurance.</p>		<p>Dropped Fits better to be included in the financial DPL.</p>



ANNEX 6: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Promoting Competitiveness	
<p>Prior Action 1: Through the passage of the DICT Common Tower Policy, and the Joint Memorandum Circular among DICT, ARTA and other government agencies, DICT has defined policies for shared tower infrastructure to encourage investment in cell sites for mobile telecom service.</p>	<p>The Philippines Digital Economy Report provide the analytics behind the regulatory streamlining and policy formulations required to promote investments in digital and telecommunications infrastructure.</p> <p>Competitiveness Programmatic ASA provides advisory services, technical support, and capacity building to the Department of ICT, the Anti-Red Tape Authority, and other implementing agencies on the regulatory changes and procedural simplification to facilitate the passage of the infrastructure sharing program.</p>
<p>Prior Action 2: Through creation of plantilla positions, approval of organization Chart, and budget allocation, the Anti-Red Tape Authority has been operationalized to implement the Ease of Doing Business and Efficient Government Service Delivery Act (RA No. 11032).</p>	<p>Game Changers ASA 2016-2020 supports the government’s reform agenda towards improving competition, by providing TA and capacity building support to the PCC. In addition, the World Bank produced the <i>Fostering Competition in the Philippines (2018)</i> report, which details the challenges of the restrictive competitive environment in the Philippines. The World Bank also provided tax incentives analysis to DOF which includes a tax simulation model, inputs for cost-benefit analysis, and detailed comparisons of tax incentives regime in ASEAN-6 countries and Business Process Outsourcing comparisons of the Philippines and India.</p> <p>Mindanao Logistics ASA 2018 – 2019, Healthcare Sectoral Deep Dive 2019, Digital Philippines ASA 2019 – 2020 provide the analytics behind the regulatory streamlining in specific sectors, such as logistics, healthcare and telecommunications.</p> <p>Advisory Services on Ease of Doing Business 2017-2022 provided advisory services, technical support, and capacity building to the DTI, the ARTA and implementing agencies such as SEC, Land Registration Authority (LRA), BIR, Quezon City, etc. on the simplification of procedures to facilitate EODB.</p>
<p>Prior Action 3: Through JMC No.1 s. 2020, the Bureau of Customs has streamlined the processing of import and export transactions in Manila through the mandated use of online platforms and payment systems to improve customs management and reduce trade costs.</p>	<p>The Customs Modernization Project is a US\$88 million loan that will support the modernization of BOC’s core Customs Processing System (CPS), and the requisite business process and organizational development requirements to fully modernize the operations of the BOC.</p> <p>Competitiveness Programmatic ASA is a project funded by the UK Foreign and Commonwealth Office provides advisory services, technical support, and capacity building to the BOC and other trade related agencies on the implementation of the WTO Trade Facilitation Agreement.</p>



<p>Prior Action 4: Through Department of Agriculture (DA) resolutions No. 1 to 6, the DA has established clear and transparent eligibility criteria for accessing the Rice Competitiveness Enhancement Fund (RCEF) to implement the Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.</p>	<p>Philippines Rice Policy ASA provides a comprehensive analysis on the relaxation of quantitative restrictions on rice importation. Based on the assessment, removing quantitative restrictions on rice and replacing it with a tariff while implementing a complementary policy reform package aimed at improving support to the farm sector and enhancing agricultural productivity should be implemented. The combination of these measures could boost rice production, while substantially reducing poverty.</p>
<p>Operation Pillar 2: Enhancing Resilience</p>	
<p>Prior Action 5: Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette products to finance implementation of Universal Health Care.</p>	<p>Sin Tax Reform in the Philippines ASA. The World Bank supported the government’s initiative to improve revenue collection through the provision of analytical and advisory work in support of the sin tax reform law prior to its passage in 2012. Chief among these were a set of policy notes prepared in 2012/2013 as part of World Bank assistance to the design of the Sin Tax Law, a series of semiannual sin tax monitoring reports, and an ongoing process of policy dialogue on tax and health reform issues.</p> <p>Game Changers ASA 2016-2020 supports the Philippine government with technical assistance for its tax reform agenda through the Game Changers program, providing technical support, capacity building, and just-in-time analysis as requested by the DOF.</p>
<p>Prior Action 6: As evidenced by the implementation progress report issued by Philippine Statistics Authority (PSA) on December 27, 2019, the PSA has piloted the registration for Philippine Identification System (PhilSys) for a limited and monitored set of sites and target populations to prepare for the mass registration.</p>	<p>DFAT and Identification for Development (ID4D)-funded ASA 2018-2020 has supported TA for the PSA on a wide range of issues related to the design and implementation of the PhilSys (Philippine identification system). This has included, among other activities: an ID4D Diagnostic and advice on legislation and IRR (2018); analysis and advice on the PhilSys implementation strategy, technical design, data governance, end-user perspectives, registration strategy, and use case development plus engagement with the multi-agency PhilSys Policy and Coordination Council (2019 to present).</p>
<p>Prior Action 7: Through Circular No. 1049 series of 2019 and Circular No. 1089 Series of 2020, the BSP has operationalized the regulatory framework for (i) defining the coverage of payment system operators</p>	<p>Financial market infrastructure (FMI) technical note found: i) the payment system and services in the Philippines are not supported by a well-founded legal basis; ii) current oversight powers of the BSP over relevant payment systems, instruments and services are inadequate; and iii) BSP and any other relevant authorities should submit once again a comprehensive Payment Systems Bill to the Congress.</p> <p>Analytical notes on financial market infrastructures and retail payments</p>



<p>and (ii) defining the oversight framework and payment systems designations to implement the National Payment System Act (RA No. 11127).</p>	<p>highlight that the enactment of the National Payment System Act and the issuance of secondary regulation have strengthened legal certainty in payment and settlement system of the Philippines and BSP's authority as the national payment system overseer. BSP has issued a series of implementing rules and regulations on designation of payment system operators and a payment system oversight framework. Additional regulation on risk management is needed to enhance security of the national payment system. In addition, an upgrade of the Real-Time Gross Settlement System (RTGS), underpinned by the NPSA, will increase security and efficiency of the payment system.</p>
<p>Prior Action 8: As evidenced by GAAs 2019 and 2020, and the JMC jointly issued by GSIS, DBM and DOF, the government has established the indemnity insurance of public assets, thereby implementing a key pillar of the government disaster risk financing strategy.</p>	<p>Supporting the Implementation of the Disaster Risk Financing Strategy of the Government of the Philippines ASA (2014-2020) helped the government carry out the institutional and financial analysis to set out a cost-efficient risk layering framework, combining instruments at the national level (budget reforms; contingent financing, sovereign risk transfer); at the subnational level (improving predictability of funds and risk transfer); and individual level (linking risk financing to social safety nets and promoting insurance). In 2019-2020 this notably supported the work to design and set up the new National Indemnity Insurance Program, in line with international good practice.</p> <p>Lessons learned evaluation for the Philippines Parametric Insurance Program (2020) highlights key challenges faced during the implementation of this pilot program, including the importance of a regular and predictable budget allocation.</p> <p>World Bank, Financial Protection Against Natural Disasters: An Operational Framework for Disaster Risk Financing (DRF) and Insurance (2014) summarizes global experience on DRF. Key lessons for efficient risk financing include: i) combining different financial instruments can minimize the cost of mobilizing post-disaster resources; ii) different instruments should be targeted for specific purposes; iii) improving links between funding sources to contingency plans is key for effective response; and iv) data is key for fine-tuning financial instruments.</p>
<p>Prior Action 9: Through JMC No. 2020-01, the government has adopted an asset management policy to improve financial risk management derived from natural disasters and climate change.</p>	<p>Improving Public Assets and Insurance Data for Disaster Risk Financing and Insurance Solutions (2017) identified key constraints with respect to data on disaster exposure and losses: i) missing data; ii) data spread across multiple entities; iii) low or irregular frequency of data updates; iv) the basis of asset values being stored limiting natural risk financial analysis; and v) lack of information on the physical location of assets.</p> <p>Developing a Public Asset Registry for the Philippines - Inventory and Conceptual Design (2018) found: i) insufficient and weak legislative framework and asset policies on asset management, and asset insurance; ii) unclear institutional accountability and absence of a single entity for asset data management; iii) significant discrepancies in asset data maintained in property records and books of accounts; and iv) no centralized ICT systems for asset management.</p>



	<p>Disaster Risk Finance ASA (2019-2020) provided hands on support to the government to strengthen financial risk management of public assets, including institutional strengthening and the development of the national asset management policy, bringing in international good practice experience, e.g. through a study exchange to New Zealand.</p>
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ANNEX 7: Philippines: Country Program Adjustment Responding to COVID-19

Thanks to strong macroeconomic fundamentals, favorable external conditions, and the cumulative effects of structural reforms, the Philippines grew by an average 6.3 percent per year in 2010-2019, contributing to a 10 percentage points decline in poverty to 16.6 percent in 2018. The COVID-19 shock is now abruptly pushing the economy into a severe recession and threatening those economic and social gains reached over the past decade. In response, the Government has taken significant measures to support the health sector, poor and vulnerable households and firms, especially small and medium enterprises. The consequent rise in public spending, combined with a significant shortfall in revenues has significantly raised government financing needs. The World Bank has responded promptly starting with an immediate relief support to save lives and mitigate the impacts on vulnerable households and firms, continuing with ongoing support to the government recovery efforts. Ongoing WBG support includes structural policy reforms made even more urgent by the pandemic (DPF2) and an adjustment of the FY21 pipeline to incorporate COVID-related activities into previously identified pipeline projects. The priorities identified in the CPF remain relevant, but with some adjustments.

I. Impact of the COVID-19 Pandemic on the Philippines and Government Response

1. The COVID-19 pandemic continues to inflict severe health, economic and social impacts on the Philippines. Despite significant government efforts, the Philippines is facing substantial and sustained COVID-19 infections, posing significant challenges for the health system. Economic activities are undergoing a steep contraction in 2020 driven by the severity of the COVID-19 pandemic and associated containment measures, both in-country and globally. The economy contracted by 9.0 percent year-on-year in the first half of 2020, the worst performance in over three decades. Unemployment rose to 17.7 percent in April. Remittances inflows contracted by 4.2 percent in the first half of 2020. Consistently, private consumption contracted by 7.8 percent year-on-year in the first half of 2020, from 5.9 percent last year. As expected, the demand for non-essential goods and services such as from the hospitality and tourism sectors were impacted the most, contracting by double digits, while movement restrictions caused sharp contractions in transportation spending. Growth in the consumption of essential items such as food⁵⁵, housing and utilities, and communications also slowed in the first half of 2020. In this context, the pillars⁵⁶ and objectives of the WBG's Country Partnership Framework (CPF), discussed at the Board on December 17th, 2020, remain valid but will require some adjustments to support the Government in its relief and recovery efforts.

2. The Government of the Philippines has undertaken significant measures to respond to the ongoing health and economic crisis. Strict so-called community quarantine measures were implemented in Luzon and, to various degrees, in all parts of the country. The BSP aggressively reduced key policy rates and reserve requirements, signed a reverse repurchase agreement with the Bureau of the Treasury (BTr) worth PHP 300 billion. On March 24, 2020, the Congress passed the Bayanihan "To Heal As One Act" (RA No. 11469) which declared a national emergency due to COVID-19, and allowed President Duterte to

⁵⁵ Self-reported hunger data from the Social Weather Station Surveys indicate an increase from 8.8% of Filipino families reporting hunger due to lack of food to eat in December 2019 to 20.2% in July 2020.

⁵⁶ The CPF outlines three focus areas for engagement: (i) Investing in Filipinos; (ii) Competitiveness and Economic Opportunity for Job Creation; and (iii) Promoting Peace and Building Resilience. The CPF incorporates cross-cutting themes of *strengthening governance* and *digital transformation*.



access PHP 389.2 billion (around 2.1 percent of 2020 GDP) from realigned budget, existing budget, and special purpose funds to respond to the health and economic crisis. Arguably the most important provision of the law is the distribution of PHP 5,000 to PHP 8,000 in emergency cash aid to 18 million low-income families, depending on the prevailing minimum wage in the region. The cost of the cash transfer program is PHP 200 billion. Bayanihan 2, a second and much smaller stimulus plan (0.9 percent of H1 2020 GDP) was signed into law on September 2020. Among others, it aims to accelerate the recovery of businesses hit hard by the pandemic by providing three government financial institutions with additional resources to provide soft loans and guarantees to firms, cover compensation for medical frontline workers and funding for medical supplies to better equip the health sector in its testing, contact tracing, and treatment efforts.

3. The Government's response and economic recovery packages combined with a significant shortfall in revenues significantly raise government financing needs. The fiscal deficit is projected to climb to 8.9 percent in 2020 against 3.2 percent expected pre-COVID according to Government projections. The debt-to-GDP ratio is likely to surpass 50 percent by the end of 2020, up from 39 percent last year. For 2021, the government has proposed a PHP 4.5 trillion (US\$90 billion) budget that focuses on containing the spread and mitigating the effects of the virus while stimulating the economy to help the nation reset, rebound, and recover from the crisis.

II. WBG Support for Responding to the Crisis

4. The priorities identified in the CPF remain relevant in addressing the challenges of the COVID pandemic, but with some adjustments. From the outset of the pandemic, the Bank and Government officials engaged in an intense dialogue on how to respond to the pandemic. Analytical and advisory services have been adjusted in response to the crisis. This includes immediate and still continuing policy advice as the crisis is unfolding, including high frequency monitoring of the social and economic impacts of the crisis, and adjustments to the more longer-term analytical and advisory tasks. On the lending side, the overall demand for IBRD support has further increased. The CPF estimated an annual lending envelope of about US\$1.5 billion, with demand at about US\$4.2 – 4.4 billion during FY20-22. New commitments in FY20 amounted to US\$1.87 billion and the total FY20-22 lending volume is estimated to be about US\$5.5 billion. Two new operations were added to the FY20 pipeline in response to the pandemic: i) a health emergency response project (US\$100m), aligned with Pillar 1 of the Approach Paper, in response to the health-related challenges (approved April 22); and ii) an Emergency COVID-19 Response DPL (US\$500m), aligned with Pillar 2 of the Approach Paper, to mitigate the impact of COVID-19 on the poor and vulnerable households and provide financial relief to affected small and medium enterprises (SMEs) (approved May 28).

5. The FY21 pipeline is being adjusted to incorporate COVID-related activities into previously identified pipeline projects. This is closely aligned with the Government's COVID recovery plan, as well as with the 4 Pillars of the WBG COVID Crisis Response Framework, while supporting the CPF and maintaining a focus on the corporate commitments of gender and climate change. A new Beneficiaries FIRST Social Protection project (US\$600m) was added to the FY21 pipeline (Q1), to mitigate the impacts of COVID-19 on the welfare of low income households and strengthen the social protection delivery systems to be adaptive and efficient (Pillar 2 of the Approach Paper). The remaining pipeline for FY21 was agreed prior to the COVID-19 crisis, but a number of projects are being adjusted to align with the Pillars of the Approach



paper. Specifically, adjustments are being incorporated to the following pipeline operations: i) the Philippines Rural Development Project (PRDP) AF (US\$280m) will support Pillars 2 and 4; ii) the National Community Driven Development Project (NCDDP) AF (US\$300m) will support Pillar 2; iii) the Teacher Effectiveness and Competencies Enhancement Project (US\$100m) will support Pillar 4; iv) the Promoting Competitiveness and Improving Resilience DPL (US\$600m) will support Pillar 4; and v) the Sustainable Tourism project (US\$150m) will support Pillar 3.

III. SELECTIVITY, COMPLEMENTARITY, PARTNERSHIPS

6. The Philippines, like many other countries, requests significant support from development partners during this crisis, and available support needs to be well targeted to have maximum impact. Of critical importance is the knowledge the World Bank Group and others can provide, i.e. analytics and advice for the Government of the Philippines but also the private sector and other stakeholders to make the right decisions. International experience, in particular, is critical for domestic decision-makers because the pandemic is affecting all countries, and because experience of how other countries are dealing with the crisis provide valuable lessons for the Philippines. The WBG's support in this area has combined international knowledge with strong client engagement and understanding of the country circumstances. Financing is also critical. The World Bank and other development banks also provide important sources of foreign financing, generally a mix of budget support and investment projects that are prioritized or adjusted to respond to the ongoing crisis. The World Bank Group is closely coordinating with other Development Partners, in particular the IMF, other IFIs, the UN and selected bilaterals, including from Australia, the EU, and Japan.

7. Financing Needs and Sources of Financing. The estimated government financing need for 2020 is US\$48 billion (11.8 percent of GDP). About 75 percent of this is financed through domestic bond issuance. For the balance, the government relies on both international financial markets and development partners. As of August 31, US\$3.37 billion in global bonds were issued. A first global bond worth Euro 1.2 billion was issued in January 2020, and a second in May over US\$2.35 billion (which fetched the Philippines' lowest ever coupon rate in the US dollar market). According to the Department of Finance, US\$8.83 billion were already raised from multilateral organizations and bilateral development partners. Of the total amount, US\$5.98 billion has been provided in budget support, with the ADB alone providing US\$3.3 billion. In terms of support from other partners, the Asian Infrastructure Investment Bank (AIIB) provided US\$750 million, while the Japan International Cooperation Agency (JICA), and the Agence Francaise de Developpement extended US\$458.95 million and US\$275.7 million, respectively. The Government of the Philippines is ramping up its borrowing to address the budget deficit, which is now expected to widen due to COVID-19.