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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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 3 Development Policy Loan

November 11, 2021

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

Public Disclosure Authorized

Republic of the Philippines

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2021)

Php50.40 = US$1.00

ABBREVIATIONS AND ACRONYMS

ARTA	Anti-Red Tape Authority
ASA	Advisory Services and Analytics
ASEAN	Association of Southeast Asian Nations
BSP	Bangko Sentral ng Pilipinas
BTMS	Budget and Treasury Management System
COA	Commission on Audit
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CREATE	Corporate Recovery and Tax Incentives for Enterprises
DA	Department of Agriculture
DBM	Department of Budget and Management
DDO	Deferred drawdown option
DICT	Department of Information and Communications Technology
DOF	Department of Finance
DPL	Development Policy Loan
DPO	Development Policy Operation
DRRM	Disaster risk reduction management
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
FDI	Foreign direct investment
FIST	Financial Institutions Strategic Transfer
GDP	Gross domestic product
ITC	Independent tower company
IMF	International Monetary Fund
JMC	Joint Memorandum Circular
NARS	National Asset Registry System
NEDA	National Economic and Development Authority
NIIP	National Indemnity Insurance Program
NPL	Non-performing loan
OPS	Operators of Payment Systems
PDP	Philippine Development Plan
PFM	Public financial management
PhilGEPS	Philippine Government Electronic Procurement System
PhilSys	Philippine Identification System
Php	Philippine peso
PSA	Philippine Statistics Authority
RA	Republic Act

RCEF	Rice Competitiveness Enhancement Fund
RTLA	Retail Trade Liberalization Act
SCD	Systematic Country Diagnostic
SEC	Securities and Exchange Commission
SME	Small and medium enterprise

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REPUBLIC OF THE PHILIPPINES
PROMOTING COMPETITIVENESS AND ENHANCING RESILIENCE TO NATURAL DISASTERS SUBPROGRAM 3 DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P176891	Yes	3rd in a series of 3

Proposed Development Objective(s)

The DPL series aims 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**

DETAILS

International Bank for Reconstruction and Development (IBRD)	600.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

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

Overall Risk Rating

Substantial

Results

Indicator Name	2018	2020	Target (2022)
RI.1 Share of population with unique subscription to mobile Internet (percent)	45.5 (2019)	49.2	More than 57.0
RI.2 Fixed broadband subscriptions (per 100 people)	5.4 (2019)	N/A	More than 6.0
RI.3 Investment in telecommunication (US$ billion)	2.1 (2019)	1.7	More than 3.0
RI.4 Share of business registrations in the Securities and Exchange Commission taking 3 days or less (percent)	43.5 (2019)	74.9	More than 80
RI.5 Sex-disaggregated data on new business registration for one person corporations regularly collected by the Securities and Exchange Commission and made publicly available	No	No	Yes
RI.6 Container average clearance time (days)	10 (2019)	10	Less than 8
RI.7 Gap between domestic and international price of rice calculated as domestic price less international price as percent of international price (percent)	68	34	Less than 50
RI.8 Average rice yield in the target areas of RCEF (metric tons per hectare)	4.04 (2019)	4.09	4.18
RI.9 Net equity capital of foreign direct investment in retail and wholesale as share of GDP (percent)	0.021	0.021	0.025
RI.10 Excise tax revenue as share of GDP (percent)	2.1	2.4	More than 2.4
RI.11 Share of Investment Promotion Agencies which have adopted the new Cost Benefit Analysis framework (percent)	0	0	At least 50
RI.12 Use of foundational ID in key public and private transactions	0	0	Bank account opening, social assistance beneficiary identification and verification, pension payments
RI.13 Volume of InstaPay transactions per year (million)	2.5	232.9	At least 300
RI.14 Number of types of pre-arranged or improved financial mechanisms for disaster response	2	6	7 or more
RI.15 Share of public assets included in asset registry for five key agencies (percent)	0	More than 60	More than 60

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF THE PHILIPPINES

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed development policy loan (DPL) is the third and final of this programmatic loan series supporting structural reforms designed to position the Philippines for a competitive, resilient economic recovery.** The program development objectives and pillars of the proposed US$600 million operation are promoting competitiveness and strengthening resilience. This operation supports measures that will help accelerate economic recovery from the effects of the Coronavirus Disease 2019 (COVID-19) pandemic. Key reforms include reduction of corporate taxes and rationalization of tax incentives to increase the country's competitiveness and boost private investment, liberalization of foreign direct investment (FDI) in the retail sector to facilitate investments, and expansion of broadband services to promote information and communications technology investment. Despite the pandemic, the government has demonstrated a strong commitment to continuing to implement the Development Policy Operations (DPO) program.

2. **The Philippines faced a new surge of COVID-19 infections starting in August due to the Delta variant, despite an accelerated vaccination effort.** The recent surge is more troubling, with the 7-day average of new cases reaching a peak of 20,912 on September 12, higher than the 10,800 during the peak of the April surge. Many of the new cases came from regions outside Metro Manila, where vaccination rates have been lower. The authorities placed the capital under looser restrictions than during the lockdown but mandated tighter community restrictions in many parts of the country as national critical care use rates reached 67.8 percent. Cases have since declined to a 7-day average of 10,400 as of October 10, benefitting from the recent cycle of strict lockdown measures. Vaccination efforts accelerated in the third quarter of the year, with available doses reaching a total of 85.6 million by mid-October for a total population of about 110 million. Roughly 54 percent of these doses have been administered, with about 22.4 percent (24.6 million) of the population being fully vaccinated.

3. **The Philippines is facing the daunting challenge of reversing the devastating effects of COVID-19, which has caused the worst economic recession in more than three decades.** The effort to flatten the infection curve while mitigating the impact of the pandemic on the economy is a major policy challenge. Given its limited health management capacity, the government had to resort to cycles of lockdown with strict mobility restrictions as cases spiked and hospitals reached near full capacity. As a result, economic activities are hampered, business and consumer confidence is depressed, and unemployment is high. The economy contracted by close to 10 percent in 2020 owing to broad-based reductions in agriculture, industry, and service activities as mobility restrictions affected supply chains. As a result, based on the lower middle-income poverty threshold (US$3.20 in 2011 purchasing power parity), it is estimated that poverty increased from 15.8 percent in 2019 to 18.5 percent in 2020, reversing the downward trend. There were signs of economic recovery in the first half of 2021, based on a recovering external environment, higher public investment, and higher remittance inflows, but domestic demand remains generally muted.

4. **This operation completes a cycle of reform implementation and introduces two new reforms to**

support recovery. As highlighted in the 2019 Country Private sector Diagnostic[1], complex regulations and lack of competition in key economic sectors hamper the creation of more and better jobs. The DPL series contributes to addressing these structural constraints by supporting sectoral reforms that can have a demonstration effect on competition and FDI liberalization, while also simplifying the business environment and enhancing social, fiscal, and financial resilience. The DPL series has progressively increased the scope and ambition of its reforms to reflect the government's commitment to advancing structural reforms while mitigating the impact of COVID-19. Despite the pandemic, the government's commitment has remained strong, leading to significant progress on its reform program. For instance, the Rice Liberalization Act has narrowed the gap between the domestic and international price from 68 percent in 2019 to 34 percent in 2020. Similarly, the mass registration of the Philippine Identification System (PhilSys), launched amid the pandemic, is rolling out rapidly reaching over 40 million of people. This operation also supports two new reforms that address long-standing competitiveness constraints. The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act rationalizes tax incentives and offers an improved package of incentives and more efficient management of tax incentives. The second reform is an amendment to the Retail Trade Liberalization Act (RTLA) that will boost investment in the sector by reducing barriers to entry for foreign investment.

5. **The reform program is consistent with the World Bank Group's crisis response framework for supporting green, resilient, inclusive development**. Aligned with the green, resilient, inclusive development framework, this operation supports reforms that address immediate and long-term barriers to a growth path that will deliver broad-based, inclusive recovery. It also supports reforms that enhance financial, fiscal, and social resilience against shocks while promoting competitiveness for an inclusive recovery. The operation supports reforms under pillar 3 of green, resilient, inclusive development by facilitating digitalization, streamlining business registrations, lowering the tax burden, facilitating trade reforms, and expanding digital financial services, contributing to job creation and sustainable business growth. In addition, reforms under green, resilient, inclusive development (Pillar 4) include improving public asset management against climate impact and natural disasters, which contributes to rebuilding better.

6. **The macroeconomic policy framework is adequate for the purposes of the proposed operation.** Gross domestic product (GDP) growth is expected to reach 4.3 percent in 2021 and 5.6 percent over the medium term, driven by the recovery in external demand and stronger domestic activity, although there is considerable uncertainty, given the potential for a prolonged COVID-19 pandemic and recurrent lockdowns. The financial system has withstood the impact of COVID-19, partly supported by government policy and regulatory forbearance measures. The Central Bank of the Philippines (Bangko Sentral ng Pilipinas; BSP) maintains an accommodative policy stance despite high inflation in early 2021 due to supply constraints. Fiscal policy is expected to be supportive of economic recovery

[1] CPSD finds that while the private sector generates the majority of formal jobs in the Philippines, new firm generation rates are low because entrepreneurs are discouraged by complex regulations, including those regulations that protect incumbents. While bureaucratic complexities make it difficult for firms to formalize and enter markets, the viability of businesses in the market is undermined by high input costs because of limited competition in the provision of infrastructure. The resulting economic landscape is dominated by national conglomerates, especially in non-tradable sectors such as retail, banking, telecommunications, infrastructure, utilities, real estate, and transport.

in the near term, with a commitment to fiscal consolidation as the economy recovers. Public debt remains sustainable.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

7. **The economy expanded in the first half of 2021 after a deep contraction during the same period of 2020.** Real output grew by 3.7 percent year on year in the first half of 2021 (after shrinking 9.3 percent in the first half of 2020) in large part because of base effects and a loosening of lockdown measures. On the supply side, the industry and services sectors expanded because of the return of economic activities amid less-stringent restrictions. However, the agricultural sector contracted because of a continued slump in livestock and fisheries output. On the demand side, fixed investment amid continued spending on public construction and durable equipment, supported growth. Private consumption rose, although it was still below pre-pandemic levels, with inflation and unemployment remaining high. Public consumption also expanded with the introduction of spending measures to address the pandemic. Exports benefited from sustained external demand, and imports recovered given domestic demand for raw materials and intermediate and capital goods.

8. **Recovering import activities brought the current account balance to a deficit in the first half of 2021.** From a deficit, averaging 1.3 percent of GDP in 2017-2019, the current account reversed to a surplus of 3.1 percent of GDP in 2020 due to a sharp decline in import demand caused by the collapse in domestic investment activity (Table 1). As imports recovered in H1 2021, the current account balance reverted to a deficit of 0.6 percent of GDP. Meanwhile, the capital and financial accounts saw net outflows in the first half of 2021, driven by outflows in portfolio investments. As a result, the balance of payments posted a deficit of 1.1 percent of GDP, a reversal from the 2.5 percent surplus in the first half of 2020. The recovering import and stock market outflows contributed to the 3.4 percent year-on-year depreciation of the peso to Php50.14/US$1 in September 2021. Gross international reserves remained strong at 10.8 months' worth of imports in August 2021.

9. **The COVID-19 pandemic has increased pressure on the fiscal balance, resulting in an increase in public debt to the highest level in over a decade.** In recent years, a commitment to tax policy reforms allowed the government to maintain a healthy fiscal balance[2] despite a substantial acceleration in spending thanks to a series of new taxes, supported by this DPL series, and tax administration efforts. Nevertheless, the fiscal deficit rose to 7.6 percent of GDP in 2020 and 7.9 percent of GDP in the first half of 2021 as the government expanded spending to help contain the impact of the crisis, while tax revenues eroded amid the recession (table 2). Public spending reached 24.2 percent of GDP in the first half of 2021 with higher spending on social protection and health to mitigate the impact of COVID-19.[3] The increase in financing needs increased public debt from 39.6 percent of GDP in 2019 to 54.6 percent in 2020, the highest since 2006. The debt portfolio is composed largely of long-term debt (67.3 percent) and mostly denominated in pesos (69.4 percent).

[2] The national government averaged a deficit of 2.7 percent of GDP from 2016 to 2019, below its 3.2 percent medium-term target.
[3] The government's COVID response packages amounted to Php564 billion (3.1 percent of GDP).

10. **The BSP maintains an accommodative policy stance despite elevated inflation in early 2021 to support the economy.** Headline inflation averaged 2.6 percent in 2020 amidst a large negative output gap but accelerated to 4.5 percent in the first nine months of 2021 driven by supply-side factors related to weather disturbances, disruptions caused by community quarantine measures, surge in global oil prices, and continued impact of the African Swine Fever. The BSP has so far sustained its accommodative policy stance with the key policy rate kept at 2.0 percent as of October 2021. The BSP continues to help the government finance its economic recovery efforts by extending a Php540 billion (2.9 percent of GDP) zero-interest, short-term loan advance in July 2021. The national government availed of the same loan amount in October 2020 and January 2021, which have already been settled. Earlier in March 2020, the central bank also entered a repurchase deal with the Bureau of the Treasury for Php300 billion worth of government securities, fully redeemed in September 2020.

Table 1. Key Economic Indicators

	2018	2019	2020	2021	2022	2023	2024
		Actual			Projected		
Growth and inflation	(in percent of GDP, unless otherwise indicated)						
Gross domestic product (percent change)	6.3	6.1	-9.6	4.3	5.8	5.5	5.5
Inflation (period average)	5.2	2.5	2.6	4.3	3.4	3.2	3.0
Savings and investment							
Gross domestic savings	15.4	15.2	11.2	10.6	10.5	10.3	10.0
Gross domestic investment	27.3	26.7	21.4	22.2	24.1	25.3	26.3
Public sector							
National government balance	-3.1	-3.4	-7.6	-7.6	-7.2	-6.5	-6.0
Primary balance	-1.1	-1.5	-5.5	-4.8	-4.2	-3.5	-3.1
Total revenue (government definition)	15.6	16.1	15.9	15.6	15.7	15.8	15.8
Tax revenue	14.0	14.5	14.0	14.1	14.1	14.2	14.2
Total spending (government definition)	18.7	19.5	23.6	23.2	22.9	22.2	21.8
National government debt	39.9	39.6	54.6	58.4	60.7	62.7	64.0
Balance of payments							
Total exports (percent change)	4.7	5.3	-12.5	15.2	13.8	11.6	9.5
Total Imports (percent change)	10.0	0.8	-22.4	18.0	19.8	15.2	13.8
Remittances (percent change of US$ remittance)	3.0	3.9	-0.8	5.4	3.4	3.2	3.0
Current account balance	-2.6	-0.8	3.1	1.3	-0.9	-1.4	-2.2
Foreign direct investment (billions of dollars)	9.9	8.7	6.6	7.8	8.8	12.0	13.0
Portfolio Investment (billions of dollars)	1.4	-2.5	-1.8	0.5	1.0	1.2	3.0
International reserves							
Gross official reserves (billions of dollars)[1/]	79.2	87.8	110.1				
Gross official reserves (months of imports)[2/]	6.9	7.6	12.6				

Sources: Government of the Philippines for historical and World Bank for projections.
1/ Includes gold.
2/ Defined as total of goods and services imports and primary income that can be financed using reserves.

11. **The financial system has so far withstood the impact of COVID-19, supported by government policy and regulatory forbearance measures**. The overall capital adequacy ratio of the universal

and commercial banking industry remains stable at 17.6 percent on consolidated basis as of end-June 2021, well above BSP's regulatory threshold of 10 percent. The banking system's gross non-performing loan (NPL) ratio rose to 4.5 percent in August 2021 from 2.8 percent in August 2020 and is expected to deteriorate further as firms continue to face difficult financial situations. The banking system saw a significant increase in its restructured loans, from 1.0 percent of total loans in August 2020 to 3.1 percent in August 2021. The overall liquidity of the universal and commercial banking industry is sufficient to absorb funding shocks with a liquidity coverage ratio of 196.4 percent as of end-June 2021. Monetary, payment system, liquidity, and prudential measures have been deployed to support the system's resilience to the impact of COVID-19. These include lowering of reserve requirements to 12 percent, and inclusion of peso loans to micro, small and medium enterprise (MSME) loans and certain large enterprises in the calculation of compliance with the reserve requirements; a 60-day statutory loan moratorium on all bank loan repayments that recently expired in March 2021; and exclusion of eligible loans from the past due and non-performing loan classification until December 2021, for supervisory purposes. In February 2021, to keep the financial sector resilient, the Financial Institutions Strategic Transfer (FIST) law was enacted to allow banks to sell bad assets to special asset management companies

Table 2. Key Fiscal Indicators

	2018	2019	2020	2021	2022	2023	2024
		Actual			Projected		
Overall Balance	**-3.1**	**-3.4**	**-7.6**	**-7.6**	**-7.2**	**-6.5**	**-6.0**
Primary Balance	-1.1	-1.5	-5.5	-4.8	-4.2	-3.5	-3.1
Total Revenues (and grants)	**15.6**	**16.1**	**15.9**	**15.6**	**15.7**	**15.8**	**15.8**
Tax Revenues	**14.0**	**14.5**	**14.0**	**14.1**	**14.1**	**14.2**	**14.2**
Taxes on net income and profits	5.7	5.9	5.8	5.4	5.4	5.3	5.3
Taxes on Domestic Goods and Services	4.3	4.4	4.3	4.7	4.8	4.8	4.8
General Sales, Turnover, or VAT	2.0	2.0	1.9	1.6	1.6	1.6	1.6
Selected Excises on Goods	1.6	1.6	1.7	1.6	1.7	1.7	1.7
Selected Taxes on Services	0.6	0.7	0.7	0.6	0.6	0.6	0.6
Other Domestic Taxes	0.1	0.1	0.1	0.9	0.9	0.9	0.9
Taxes on International Trade and Transactions	3.2	3.2	3.0	3.2	3.2	3.4	3.4
Other Taxes	0.8	0.9	0.8	0.7	0.7	0.7	0.7
Non-tax revenue	**1.6**	**1.6**	**2.0**	**1.5**	**1.6**	**1.6**	**1.6**
Total Expenditures	**18.7**	**19.5**	**23.6**	**23.2**	**22.9**	**22.2**	**21.8**
Current operating expenditures	13.4	14.0	18.5	17.9	17.2	16.8	16.5
Personnel Services	5.4	5.7	6.6	6.1	5.7	5.6	5.6
Maintenance and other operating expenditures	2.9	2.9	4.9	4.4	3.6	3.4	3.2
Subsidy	0.7	1.0	1.3	1.0	0.8	0.7	0.8
Allotment to Local Government Units	2.3	2.4	3.5	3.5	4.0	4.0	4.0
Interest Payments	1.9	1.8	2.1	2.8	3.0	3.0	2.9
Tax Expenditures	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Capital Outlays	5.3	5.3	4.9	5.2	5.7	5.4	5.3
Infrastructure & other capital outlay	4.4	4.5	3.8	4.3	4.5	4.3	4.2
Equity	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Capital transfer to local government units	0.9	0.8	1.0	0.9	1.2	1.1	1.1
National Government Financing	4.9	5.2	15.3	14.0	13.7	11.5	10.6
External (net)	1.7	1.6	4.1	3.0	2.8	2.7	2.7
Domestic (net)	3.3	3.6	11.1	11.0	10.9	8.8	8.0
National Government Debt	39.9	39.6	54.6	58.4	60.7	62.7	64.0

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

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Growth prospects hinge on the government's ability to manage the COVID-19 health crisis.** The medium-term growth trajectory depends on effective pandemic containment, mass delivery of vaccinations, and improvement in the global economy. Surges in COVID-19 cases in early March and August 2021 derailed economic recovery as tighter mobility restrictions were implemented.[4] The baseline growth projection assumes that vaccination will accelerate in the second half of 2021 with the arrival of more vaccine supplies. At a pace of 500,000 inoculations per day, the country will reach 70 percent vaccination coverage of its population by the second quarter of 2022.[5] Nonetheless, the authorities must address the challenge of vaccine hesitancy, which remains high, ranging from 15 percent to 58 percent of the population based on surveys. Health and quarantine protocols, including targeted lockdowns, are expected to be implemented during case surges as the government balances the threat to lives and livelihoods with the threat to the health of the economy. The projection also assumes that the government pursues fiscal consolidation by reducing the growth of recurrent expenditures while increasing tax revenues as the economic recovery picks up. The global economy is expected to rebound this year, allowing the export sector to return to growth.

13. **Growth is expected to recover over the medium term.** It is projected that the economy will grow at 4.3 percent in 2021 and an average of 5.6 percent from 2022 to 2024 (Table 3). Recovery in domestic activities and improvement in external demand will drive growth, although the pace of recovery is uncertain given case surges and community lockdowns. In 2021, private consumption is expected to recover as remittances resume and labor market conditions improve, albeit tempered by quarantine measures and elevated inflation. Public investment is expected to grow with the continued rollout of public infrastructure investment projects, whereas private investment will remain tepid because of subdued lending and elevated uncertainty. External demand is expected to increase with the recovery of trading partners. Although growth in government consumption is expected to moderate, its contribution to growth is expected to be large given the fiscal multiplier effect.[6] On the supply side, growth in manufacturing and construction activities due to recovering external demand and sustained public investment will propel industry growth. Services sector growth will be anchored in the performance of the information and communications, real estate, and financial and insurance subsectors. Agricultural growth will remain limited as structural weakness in the sector prevails.

14. **The fiscal deficit is expected to decline over the medium term as the government implements its consolidation plans.** The fiscal deficit is projected to reach 7.6 percent of GDP in 2021 before moderating in succeeding years. The declining trajectory is supported by the economic recovery and

[4] Metro Manila and four nearby provinces shifted to stricter quarantine in March and August. The area was placed under night curfew with exceptions for authorized persons, cargo vehicles, and public transportation. Public transportation, priority construction projects, and essential businesses will continue to operate subject to government guidelines. Nonessential gatherings are capped at 10 people. Those younger than 15, 65 and older, and with immunodeficiency and comorbidities are required to remain at home at all times.
[5] The government is expecting about 20 million doses each month from August to December, with the total number of doses reaching 137 million by the end of the year.
[6] The fiscal impulse in the Philippines is estimated to be larger in the medium term because of the wider output gap caused by the sharp growth contraction. Estimates reveal that the fiscal impulse reached 1.3 percent in 2020, higher than the 0.2 percent to 0.9 percent in the preceding 3 years.

the government's commitment to fiscal discipline.[7] The government is exploring new sources of revenue. A bill to impose taxes on digital services has been approved in the House of Representatives and is under discussion in the Senate.[8] In addition, the president lifted the 9-year ban on new mining permits. Additional mining operations are expected to contribute to higher tax collections in the medium-term, but it could harm the environment in the long run. Efforts to digitalize tax administration and customs will also increase revenue. Moreover, a proposed bill on Philippine offshore gaming corporations[9] is expected to generate Php60 billion (0.3 percent of GDP) in additional revenues in 2021 and 2022. However, corporate income tax revenues are expected to fall by 0.37 percent of GDP per year between 2021 and 2030 because of passage of the CREATE law.

Table 3. Supply- and Demand-Side Contributions to Growth

	2018	2019	2020	2021	2022	2023	2024
	Actual			Projected			
Real GDP growth, at constant market prices	**6.3**	**6.1**	**-9.6**	**4.3**	**5.8**	**5.5**	**5.5**
Private Consumption	4.2	4.3	-5.7	2.5	4.1	3.8	3.8
Government Consumption	1.5	1.1	1.3	1.1	1.4	1.1	1.0
Capital Formation	2.9	0.9	-9.1	4.0	3.5	2.9	3.0
Exports, Goods and Services	3.4	0.8	-4.7	3.7	3.1	2.8	3.0
Imports, Goods and Services	5.7	1.0	-8.7	6.9	6.3	5.2	5.3
Real GDP growth, at constant factor prices	**6.3**	**6.1**	**-9.6**	**4.3**	**5.8**	**5.5**	**5.5**
Agriculture	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Industry	2.2	1.7	-4.0	1.8	1.9	1.9	1.9
Services	4.0	4.3	-5.6	2.4	3.7	3.5	3.4

Sources: Government of the Philippines for historical and World Bank for projections.
Note: Numbers may not add up because of rounding errors or statistical discrepancies.
GDP, gross domestic product.

15. **The pace of public spending is expected to decelerate over the medium term.** Recurrent operating expenditures will decline steadily, from 17.9 percent of GDP in 2021 to 16.5 percent of GDP in 2024. Lower growth of personnel services, maintenance, and other operating expenditures, and of subsidies as the government winds down its pandemic response, will drive the decline. Meanwhile, capital outlays are expected to increase in 2021 before slowing in succeeding years. The government remains committed to pursuing the infrastructure investment agenda, with capital outlays representing 5.2 percent of GDP in the 2021 budget, increasing to 5.9 percent in 2022. The government's commitment to accelerate infrastructure spending will help increase business confidence and accelerate the recovery through job creation while closing its long-standing infrastructure gaps.

16. **Public financing needs are expected to remain high in the short term because of the pandemic and in the medium term because the fiscal deficit will remain large.** It is estimated that financing needs

[7] The Philippines has a track record of fiscal discipline across multiple administrations and recent measures to introduce new revenue sources, suggest that fiscal discipline will continue.
[8] The standard 12 percent value-added tax rate is to apply.
[9] The Senate of the Philippines passed Senate Bill No. 2232, known as the Act Taxing Philippine Offshore Gaming Corporations, on its third and final reading on June 3, 2021. The bill will impose a 5 percent tax on gross gaming revenues of all offshore gaming licenses and a 25 percent withholding tax on employees.

will reach 14.3 percent of GDP in 2021, driven by the high fiscal deficit and amortization,[10] before declining in succeeding years in line with fiscal consolidation (Table 4). Throughout the forecast horizon, the financing profile is expected to be manageable, with the government having conveyed its intention to rely heavily on domestic financing sources (75 percent of total financing).[11] Placements of domestic bonds by the Bureau of the Treasury have been consistently oversubscribed, but yields have started to rise, alongside U.S. treasuries, since February 2021.

17. **Although public debt is expected to increase in the medium term, it remains sustainable owing to the expected recovery in growth and fiscal consolidation.**[12] With high financing needs from 2021 to 2024, the debt-to-GDP ratio is projected to increase in the short term and peak at 64.0 percent in 2024 before declining (Figure 1). This debt path classifies the country as 'higher scrutiny', yet debt remains sustainable as debt path reverts downward after 2024 because of fiscal consolidation and the return to a positive interest-growth differential.[13] Although contingent liabilities have been manageable and have declined in recent years, a prolonged downturn in activities may lead to a rise in contingent liabilities as balance sheets come under stress.[14] To keep debt levels sustainable, the government is pursuing fiscal consolidation over the medium term by limiting growth of public expenditures and increasing tax revenues. Moreover, although a portion of the debt mix relies on external funding, 69.4 percent of outstanding debts are peso denominated, and long-term debt accounted for about 94 percent of the external portfolio as of the end of 2020. The debt composition is expected to remain stable, with low shares of short-term and foreign currency–denominated debt, in line with the government's debt management strategy.

18. **The debt dynamics appear to be resilient against growth, interest rate, real exchange rate, and primary balance shocks.** Four scenarios were considered, including shocks to the real growth rate, interest rate, real exchange rate, and primary balance. Of these scenarios, the most significant shocks are those originating from the real GDP growth rate. A real growth shock with projected growth rates trimmed by one-third in the next two years leads to a higher debt path, with a debt ratio reaching 66.8 percent in 2024. A real exchange rate shock (6 percent real exchange rate shock with a 0.25 pass-through to inflation), an interest rate shock (425 basis point interest rate increase), and a primary balance shock would also raise the debt path but not as high as a real GDP growth shock (figure 1).

[10] The higher amortizations in 2021 and 2022 partly reflect repayment of non-interest-bearing short-term loans from BSP. The debt portfolio still consists mainly of medium- to long-term debt, at 85 percent.
[11] The government's reliance on domestic financing sources risks crowding out the private sector. Nonetheless, the interest rate environment is expected to remain subdued, with BSP and the U.S. Federal Reserve conveying their intentions to keep interest rates low to support economic recovery. Moreover, Philippine authorities are pushing for reforms on foreign investment, with the aim of attracting foreign investor participation.
[12] In the debt sustainability analysis, public debt comprises the national government's outstanding debt from domestic and external sources. Domestic borrowings are mainly in the form of treasury bonds and treasury bills, while external borrowings are bilateral and multilateral loans, and commercial bonds such as U.S. dollar bonds, Eurobonds, Yen bonds, and peso-denominated bonds. The debt-to-GDP ratio reached 54.6 percent in 2020 from 39.6 percent in 2019, owing to new debt incurred in response to the pandemic. Similarly, the debt-to-revenue ratio picked up to 3.4 percent in 2020 from 2.5 percent in 2019 and is expected to rise in the next two years due to elevated financing needs before declining in 2024.
[13] 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.
[14] Outstanding contingent liabilities of the national government include national government guarantees to government-owned or -controlled corporations and guarantees that the national government assumed from government financial institutions.

Under the worst-case scenario of combined macro-fiscal shock, the debt ratio would reach 70.7 percent in 2024.

19. **Monetary policy is expected to be supportive of growth as inflation is managed within the target range over the medium term.** Headline inflation is expected to reach an average of 4.3 percent in 2021 and decline in succeeding years[15]. Inflation is likely to remain high this year, reflecting the impact of supply constraints on key food commodities and the projected increase in international oil prices. As supply constraints are resolved through nonmonetary measures, including import measures, and oil prices stabilize next year, inflation is also expected to retreat to within the 2 percent to 4 percent target range. The passage of the Rice Tariffication Law in 2019, which removed quantitative restrictions on rice imports and replaced them with import tariffs, helped manage rice supply and prices in the country. Monetary policy is expected to remain accommodative to growth in response to less economic activity. Although monetary policy accommodation in advanced economies is expected to continue, there may be a shift in potential accelerated monetary tapering and timetable to increase interest rates given rising inflationary pressures.

Table 4. Government's Medium-Term Financing Plan

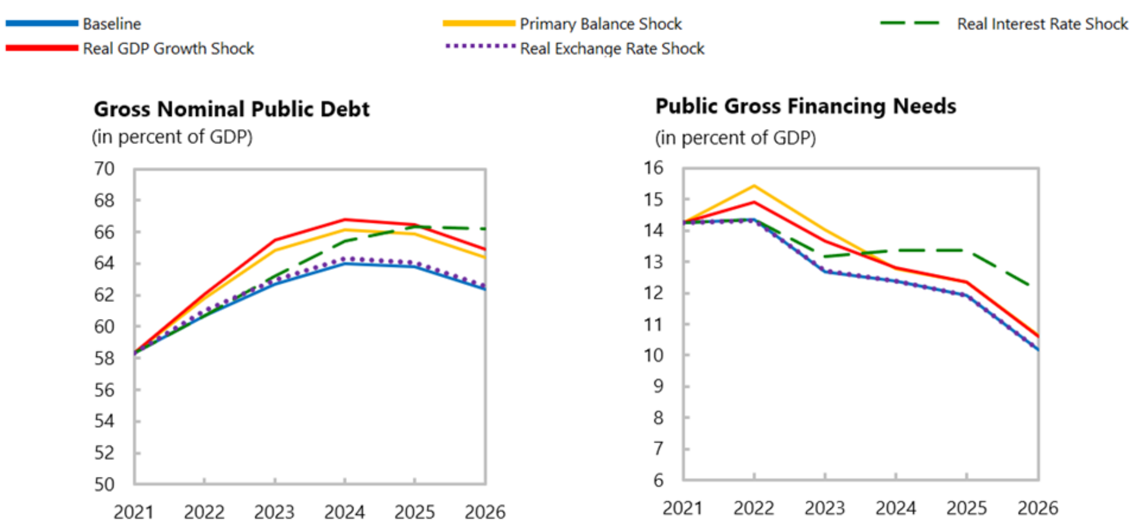
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
	Actual			Projected			
	in percent of GDP unless otherwise indicated						
Financing needs	5.1	5.9	10.9	14.3	14.4	12.5	12.0
Amortizations	2.1	2.5	3.2	6.7	7.2	6.0	5.9
Domestic 1/	1.5	1.8	2.5	5.3	6.1	3.7	3.7
External	0.6	0.7	0.8	1.4	1.1	2.4	2.2
Primary deficit	1.1	1.5	5.5	4.8	4.2	3.5	3.1
Interest payments	1.9	1.8	2.1	2.8	3.0	3.0	2.9
Financing sources	4.9	5.2	15.3	14.3	14.4	12.5	12.0
External	1.7	1.6	4.1	3.2	3.0	2.7	2.6
o/w this operation				0.1			
o/w World Bank			0.4	0.2			
o/w Asian Development Bank			1.1	0.2			
o/w Asian Infrastructure Investment Bank			0.2				
o/w Agence Francaise de Developpement			0.1				
o/w Japan International Cooperation Agency			0.7	1.0			
Domestic	3.3	3.6	11.1	11.1	11.4	9.8	9.4
o/w ST borrowing from BSP				4.4			
Change in cash 2/	-0.3	-1.2	3.9	-	-	-	-

Sources: Government of the Philippines for historical and World Bank for projections.
Note: 1/This refers to domestic amortization in the BTr National Government Cash Operation Report, which includes redemption from the Bond Sinking Fund. For 2021, the amortization includes repayment of short-term advances/loan from BSP.
2/Historical change in cash is obtained from BTr National Government Cash Operation Report.

[15] This figure corresponds the World Bank's forecasts for headline inflation. The government forecast for headline inflation is 4.4 percent.

20. **The most significant downside risk is a prolonged incidence of the COVID-19 pandemic, which may lead to recurrent strict lockdowns.** Flattening the infection curve remains the primary challenge to the authorities, with new virus variants having led to case surges in August. Failure to contain the virus will result in recurrent stricter lockdowns, which could lead to significant loss of jobs and incomes and prolong the weakness in domestic activities. Moreover, institutional changes in 2022, including the change in administration and implementation of the Mandanas Ruling, which increases unconditional block grant transfers to local government units and devolves certain executive branch functions to them, will increase operational risks associated with the transition. Finally, natural disaster risk remains an ever-present threat, with the onslaught of typhoons of increasing destructive force. Based on the Philippines catastrophe risk model, it is estimated that the country will incur average damage of Php176.7 billion (US$3.5 billion) from typhoons and earthquakes each year (accounting for approximately 1 percent of GDP), two-thirds from the agricultural sector. Box 1 summarizes a downside scenario that quantifies these risks.

Figure 1. National Government Debt-to–Gross Domestic Product Projections Under Alternative Scenarios
Macro-Fiscal Stress Tests



Source: World Bank staff calculations.
Note: GDP, gross domestic product.

21. **Risks also emanate from external factors.** The limited global vaccine supply risks slowing the arrival of vaccine inventories to the Philippines amid competing demands, which is complicated by the decision of some developed countries to implement booster shots. The risk of a slower-than-expected global recovery may lead to sluggish demand for the country's exports, scarce FDI flows, and smaller remittance inflows. Disruptions in international logistics and global value chains, if not resolved quickly, may greatly affect the country's external trade. With international flights still limited, prospects for international tourism remain weak, which affects the Philippines, where tourism activities accounted for 12.7 percent of GDP in 2019. Finally, trade protectionism may intensify given the ongoing trade tensions between the United States and China and emerging vaccine nationalism, with wealthy countries cornering supplies.

22. **COVID-19 may lead to instability in the financial sector, which faces reputational risks due to weaknesses in the effectiveness of the Anti-Money Laundering and Combating the Financing of Terrorism regime.** Although the financial system has broadly withstood the impact of COVID-19, it faces significant downside risks because of its interconnectedness with nonfinancial corporations.[16] Immediate risks to financial stability arise from significant interlinkages between banks and nonfinancial corporations through mixed-conglomerate ownership structures and large lending exposure, with the potentially significant negative impact of the COVID-19 crisis on nonfinancial corporations in some sectors, including tourism and the airline industry. Moreover, regulatory forbearance measures allowing banks to delay nonperforming loan recognition until the end of 2021 and credit loss recognition gradually over 5 years subject to BSP approval could pose risks to banks' capital and asset quality. In June 2021, the Philippines was put on the Financial Action Task Force grey list because of weaknesses in the effectiveness of the Anti-Money Laundering and Combating the Financing of Terrorism regime. Although the government has taken actions to address the deficiencies in the regime, including financial sanctions, deficiencies in the regime pose risks, including reputational risks to the financial sector, and could increase costs for businesses.

23. **Climate change is inflicting economic costs and it threatens to forfeit the Philippines development dividends**. From 2010 to 2019, the total damages incurred by the Philippines due to extreme events and natural disasters amounted to Php463 billion (US$9.2 billion). Based on the Philippines catastrophe risk models, the country is estimated to incur on average damages of Php176.7 billion (US$3.5 billion) from typhoons and from earthquakes each year, accounting to around one percent of GDP. The prospect of future economic losses are high, as The Philippines remains vulnerable to multiple hazards due to its unique geography. The country ranks ninth as the most affected country globally from extreme weather events, second highest among Asian countries based on the World Risk Index of 2020. Around 60 percent of the country's total land area and at least 74 percent of Filipinos are vulnerable to multiple hazards, including typhoons, earthquakes, floods, storm surges, tsunamis, volcanic eruptions, and landslides. Average temperatures are projected to increase by 2.9°C by 2080-2099, which will likely intensify the risk. In addition, and despite uncertainty of projections for future precipitation trends, the intensity of sub-daily extreme rainfall events is clearly increasing with temperature, increasing the risk of crop failures and food insecurity in various parts of the Philippines.

24. **The macroeconomic policy framework is adequate for the purposes of the proposed operation.** The government is taking necessary steps to mitigate the impact of the crisis while remaining committed to maintaining macroeconomic stability. On monetary policy, the BSP is committed to the inflation-targeting objective and is responsive to global interest rate movements. It has maintained a market-determined exchange rate regime as the first line of defense against external shocks and accumulated sizable foreign exchange reserves as a second line of defense. It is also supporting the government in its recovery effort by extending a zero-interest loan advance up to the amount allowed by law. On fiscal policy, the authorities are committed to fiscal consolidation over the medium term, which is credible considering the conservative expenditure policy over the past 10 years, which created fiscal space allowing the expansion of public expenditure to manage the effects of the COVID-19 pandemic,

[16] World Bank, Philippines Financial Sector Assessment, March 2021; IMF, Philippines Financial Sector Stability Assessment, April 2021.

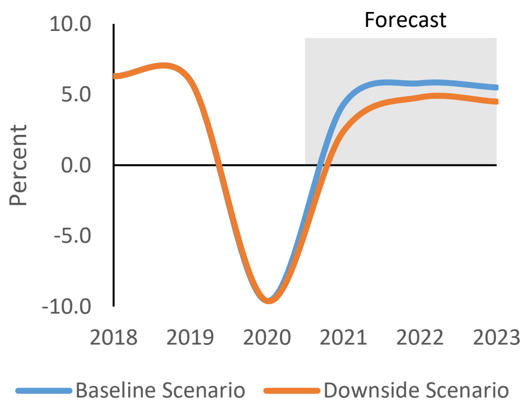
and a public investment program to support recovery. In addition, the government's commitment to accelerate the pace of structural reforms as part of the recovery will promote competitiveness and support growth. Public debt is sustainable owing to the expected recovery in growth and fiscal consolidation.

Box 1. A Downside Scenario

Growth could decelerate to 2.4 percent in 2021 and 4.8 percent in 2022 in the event of an uncontained surge in Delta variant cases, prolonged economic restrictions, slower-than-expected vaccination effort, and the impact of natural disasters. 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 difficulty can be exacerbated by a slower vaccination effort that could arise due to global supply inequity and public vaccination disruptions. The downside scenario assumes that a) the Philippines faces severe and prolonged bouts of the Delta cases that can continue until Q4 2021; b) vaccination effort will be delayed into end-2022 instead of the government's target of end-2021; and c) natural disasters will have negative impact on agriculture and other economic activities. Under this scenario, public consumption and investment activities weaken towards the end of the year, which will spillover to early 2022 as vaccination efforts are delayed. Growth is thus projected to fall to 2.4 percent in 2021, and 4.8 percent in 2022 from the baseline scenario (Figure a1).

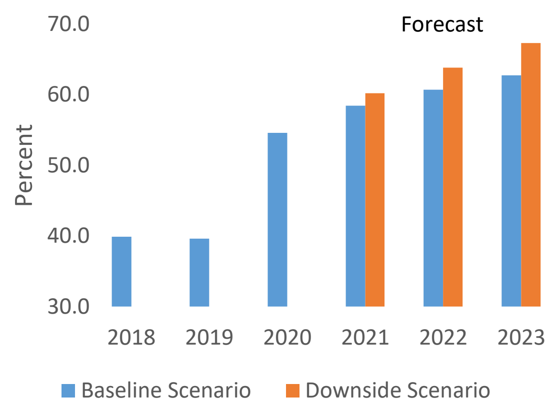
Under this downside scenario, the public debt ratio will pass the 60 percent mark in 2021. Government revenues are expected to be tempered due to disruptions in business activity, losses of income, and tepid consumption growth. It is expected to fully execute its spending program in 2021, realign funds to expand public health system capacity, and protect vulnerable businesses and individuals. This will result in a higher fiscal deficit and financing needs that would peak at 15.4 percent in 2022 before decreasing in succeeding years. Consequently, the public debt ratio is expected to rise to 60.2 percent in 2021 and 63.8 percent in 2022, passing the 60 percent mark a year earlier than the baseline scenario (Figure a2).

Figure a1. Baseline vs. Downside Scenario Gross Domestic Product Growth, 2018-2023



Source: Philippine Statistics Authority, World Bank staff calculations.

Figure a2. Baseline vs. Downside Public Debt Ratio, 2018-2023)



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

2.3. INTERNATIONAL MONETARY FUND RELATIONS

25. **The Philippines does not have an ongoing program with the International Monetary Fund (IMF).** The most recent IMF program expired at the end of 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 June 2021 and the staff report released in August. The press release and the summary of the staff report are included in Appendix 3. The IMF has remarked that the economy is recovering after a major pandemic-induced downturn in 2020. The current macroeconomic policy settings are appropriate. To build back better, the IMF recommends continued efforts to monitor financial sector risks, accelerate structural reforms, and reinvigorate the infrastructure investment program for a more equitable and greener future while rebuilding policy buffers over the medium term.

3. GOVERNMENT PROGRAM

26. **The government remains committed to achieving more-inclusive growth, with a special focus on resilient recovery given new challenges posed by COVID-19.** The government's long-term vision for the Philippines, encapsulated in AmBisyon Natin 2040, is supported by the Philippine Development Plan (PDP) 2017 – 2022. However, the COVID-19 pandemic that led to the country's worst economic crisis in post-war history prompted the government to recalibrate its plan. In 2020, it updated the PDP 2017-2022, which remained anchored towards the achievement of the country's long-term vision. The updated PDP contains major programs designed to build the resilience of individuals, families, businesses, government, and society under the new normal: health system improvement, food security and resiliency, learning continuity, digital transformation, and regional development through the Balik Probinsya Bagong Pag-asa Program.

27. **The government has continued to introduce competitiveness-enhancing reforms that have become vital to the recovery.** The reform agenda, supported by this DPL series, includes measures to simplify regulations; promote competition and competitiveness; and enhance social, financial, and fiscal resilience to shocks. The government has strengthened the National Competition Program by eliminating regulations that put barriers to market entry and limit competition in key sectors: retail, transportation, telecommunication, and banking. In addition, the most prominent agencies, including the Anti-Red Tape Authority (ARTA), Department of Information and Communications Technology (DICT), and Food and Drug Administration, have expanded the coverage of streamlined permitting and licensing procedures in food, pharmaceuticals, logistics, and telecommunications. Before the pandemic, the government passed the Ease of Doing Business and Efficient Government Service Delivery Act, to boost competitiveness by simplifying business regulations, and the Rice Tariffication Law, to liberalize the rice import sector and maintain stable food prices. During the pandemic, the government continued to liberalize the economy and promote investment. The President has certified key investment reforms as urgent, which has accelerated the legislative process. The CREATE Act rationalized investment incentives and lowered corporate income taxes to promote tax efficiency and increase the country's regional competitiveness. In addition, an important amendment to the RTLA was passed to ease foreign investment restrictions in the retail sector, which accounted for 14.0 percent of GDP in 2019.

28. **The government continued to implement reforms to increase the country's resilience.** The mass registration of the national ID program (PhilSys) progressed despite the pandemic, which aims to

improve resilience to shocks through financial inclusion and strengthened social protection delivery system. The government further advanced in the adoption of the PhilSys for social protection for a more efficient delivery system because it facilitates validation and verification. To further increase financial sector resilience, the BSP has operationalized the regulatory framework for the National Payment System, which reduces systemic risk and introduces better regulation for participants thereof. The BSP upgraded its Real-Time Gross Settlement System, which is the backbone of the financial infrastructure, in July 2021. These have helped support Php1.4 trillion worth of digital payments in 2020 as consumers shift to online transactions amid the pandemic.[17] The government also adopted claims management procedures for the National Indemnity Insurance Program (NIIP) to link prearranged financing directly to funding channels for rapid response using the newly established Web-based National Asset Registry System (NARS).

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

29. **The DPL series supports reforms aligned with long-term government aspirations for development and immediate recovery needs emerging from the COVID-19 pandemic.** The original pillars in these series were chosen to promote inclusive growth by promoting competitiveness and enhancing fiscal sustainability and resilience, in line with the government's flagship development strategies PDP 2017-2022, the 0-to-10 Point Agenda, AmBisyon Natin 2040. In DPL2, the policy matrix was adjusted to promote economic recovery from the pandemic by including a renewed focus on easing trade, accessing international demand and investment, and enabling businesses adaptation to the new normal through the digital economy.

30. **The design of the series takes into consideration key lessons from previous operations in the Philippines and the region.** DPL3 supports a variety of implementation-stage reforms to ensure continuity of progress along the reform cycle. Implementation capacity has been highlighted as a key challenge in previous operations. Considering implementation challenges, the series has been designed to build reform momentum using a sequential approach that starts with introducing the foundational legal framework and ends with practical but critical implementation milestones to deliver transformational change. Furthermore, robust technical assistance activities have accompanied implementation of these reforms. Technical assistance activities include relevant global experience and analytics that contribute to policy dialogue, shape the design and implementation of reforms, and inform policy decisions in the context of the Philippines. The series has drawn on the multidisciplinary pool of expertise to address competitiveness and resilience holistically. The design of the series and the composition of the policy matrices have taken into consideration complementary reforms being deployed in parallel, such as streamlining incentives in the CREATE Act and removing barriers to FDI in the retail sector. Similarly, expansion of broadband infrastructure will benefit the use of electronic payments and of PhilSys. This operation complements the reforms supported in the Philippines Financial Sector Reform Development Policy Financing, the Philippines Customs

[17] In 2020, the volume of PESONet transfers surged to 15.3 million transactions, up 376 percent year on year. The value of PESONet transactions rose by 188 percent to Php951.6 billion. During the same period, payments made through InstaPay reached 86.7 million transactions, up 459 percent. These transactions were valued at Php463.4 billion—a 340 percent increase.

Modernization Project, and the Fourth Disaster Risk Management DPL with Catastrophe-Deferred Drawdown Option (DDO).

4.2. PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

31. **DPL3 supports structural reforms that remain crucial amid COVID-19 while expanding to new reform areas to support inclusive recovery.** The government had been committed to advancing reforms to promote competitiveness under the DPO series when the pandemic hit. Several of these reforms were targeted at promoting competition in traditional non-tradeable service sectors, such as telecommunications, and retail, which had been blocked to new entrants and international operators. The COVID-19 shock not only increased government commitment to advancing and implementing reforms, but also provided an opportunity for new reforms. The new areas of focus on competitiveness included accelerating digital economic transformation, facilitating trade and investment, opening up FDI in the retail sector, and increasing the efficiency of the tax incentive scheme to encourage private investment. The scope of the resilience pillar was extended to include financial and social resilience. Removal of the fiscal pillar has not affected the government's commitment to fiscal sustainability as the government continued to advance its revenue mobilization efforts. Prior actions under this operation are aligned with the indicative triggers proposed under DPO2. Additional information on the conversion of DPL2 triggers to prior actions in DPL3 is provided in Appendix 6.

32. **The series has made some progress toward achieving the expected results, and the scheduled set of reforms for this operation remains on track.** For instance:
    - The government has demonstrated its commitment to simplify the business environment. A new automated business portal was completed because of joint efforts of several government agencies involved in starting a business on January 28, 2021.
    - Liberalization of rice imports narrowed the gap between domestic and international prices from 68 percent to 34 percent by 2020, benefitting millions of net rice buyers.
    - The mass registration of PhilSys launched in October 2020 has had impressive results (40.8 million registered by August). Attention has now moved to helping individuals with unique identification to open bank accounts. In addition, the Department of Social Welfare and Development (DSWD) is using the unique identification in social protection registries.
    - Implementation of the National Payment Systems Act has contributed to an increase of more than 10 percentage points in the growth of the share of the volume of digital payments over total retail payments since 2018.
    - On disaster risk financing, the number of types of financial instruments increased from two in 2018 to six in 2020. Similarly, more than 60 percent of assets in the five key agencies were captured in the NARS by the end of 2020, achieving the target set for the DPL series.

33. **Other areas of reforms faced challenges in progressing toward their targets, partly because of the impact of the pandemic on economic activities.** For instance, investment in telecommunications declined from US$2.1 million in 2018 to US$1.7 million in 2020 (although the mobile internet penetration rate increased from 45.5 percent in 2019 to 49.2 percent in 2020), similar to the decline in approved private investment by investment agencies. Similarly, the economic contraction caused

by the pandemic has led to lower excise tax collections in 2020. These results reflect the scale of the pandemic shock globally and locally.

34. **The CREATE Act (tax reform) and the RTLA (FDI reform) were included in this operation as new reform areas that will support economic recovery.** On March 26, 2021, the government passed the CREATE Act, a reform that addresses the long-standing legacy causes of low corporate income tax efficiency, which was driven by perpetual incentives granted to a group of 3,000 firms, with forgone revenue estimated at 2.7 percent of GDP in 2017. With CREATE, tax incentives will be time bound, performance based, and targeted, providing incentives to innovative investments to boost the country's competitiveness. The Act also improves tax incentive management by consolidating the operations of previously fragmented investment agencies and enhancing investment screening and monitoring. The RTLA amendments reduce FDI restrictions in the retail sector by easing requirements on minimum paid-up capital, equity limitations, and sourcing requirements from locally made products.

Pillar I: Promoting Competitiveness

Promote Investment in Telecommunications

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
	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.	**Prior Action 1**: Through, JMC 1-2021, issued by DICT, DILG, DPWH and other government agencies, the government has introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process.

35. **Affordable, reliable, widely available Internet is essential to economic recovery and long-term digital transformation of the economy.** The Internet system in the Philippines needs urgent, substantial improvements. The pandemic has made access to digital networks an imperative. Only 70 percent of Filipinos are active mobile broadband subscribers, compared to 88 percent of people in the Association of Southeast Asian Nations (ASEAN), and only 5 percent of Filipinos were subscribed to fixed broadband in 2019, compared with 10 percent in ASEAN. These gaps must be closed for the digital economy to contribute fully to economic recovery and to develop service exports such as business process outsourcing.

36. **The gaps in broadband infrastructure are the result of underinvestment in Internet networks, which is the result of insufficient competition.** In the Philippines, new telecommunications operators entering the market must invest substantial capital 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 implementation of broadband in other emerging economies is infrastructure sharing for fixed networks. Deployment of tower and broadband networks depends on permits and

other bureaucratic requirements to deploy communication infrastructure and equipment.[18]

37. **DPL2 supported measures enabling shared tower infrastructure to encourage investment in cell sites for mobile telecom service.** This included implementation of the common tower policy, which guided removal of foreign ownership restrictions on independent tower companies (ITCs), specified mode of engagement of ITCs and specified financial and technical qualifications on ITCs. The policy measure was expected to improve network coverage and quality of service, particularly in un- and underserved areas. The reform also simplified permit requirements, shortening the permit process for cell site construction from 200 days and 24 steps to 16 days and 8 steps.

38. **DPL3 supports reduction of entry barriers for fixed broadband infrastructure investment**. The DICT Joint Memorandum Circular (JMC) promotes infrastructure sharing among service providers and access to network segments on fair, reasonable, nondiscriminatory terms. This initiative is expected to reduce fiber placement costs by targeting pole attachment, which is critical for cable broadband operators and aerial fiber deployment. As a complementary step, the Department of Public Works and Highways (DPWH) will provide greater access to government right of way and limit requirements on telecommunications infrastructure. The enhanced coordination among national agencies and private stakeholders is expected to reduce greenhouse gas emissions, support national efforts to increase the resiliency of infrastructure to climate change and encourage undergrounding of aerial cables. For instance, the JMC requires that local government chiefs coordinate stakeholders to encourage single excavation efforts for erection or construction of improvements to national and local roads to reduce the scale and number of repeated excavations related to road projects for installation and maintenance of broadband infrastructure.

39. **Expected result:** The supported measures are expected to continue opening the market to new investors in mobile and broadband infrastructure. Infrastructure-sharing policies will lower entry barriers for new players, resulting in more investment and greater access to the Internet. Investment in telecommunication is expected to expand from US$2.1 billion in 2019 to more than US$3.0 billion by 2022.[19] In 2020, investments in telecommunications decreased to US$1.7 billion, mostly because of the pandemic. The mobile Internet penetration rate measured as a percentage of the population with a unique subscription to a mobile Internet service increased from 45.5 percent in 2019 to 49.2 percent in 2020; further implementation of these measures is expected to increase this rate to 57.0 percent by 2022.

Reduce the Cost of Doing Business

Prior Action for DPL 1	Prior Action for DPL 2	Prior Action for DPL 3
Through the Ease of Doing Business and Efficient	Through creation of plantilla positions, approval of organization	**Prior Action 2**: Through JMC 1-2021, issued by ARTA, DICT, SEC

[18] A mobile network provider in the Philippines must secure separate permits to establish a radio station, import equipment, and obtain a radio station license. These requirements determine the radio equipment, location, and frequencies to be used for the network.

[19] This is a yearly growth rate that is 30 percent faster than historical averages. Note that US$2.1 billion investment in 2019 represents approximately 0.55 percent of GDP.

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 business.	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).	and other government agencies, the government has streamlined and automated national and local government processes for starting a business.

40. **The government has advanced significant reforms to improve the business environment.** The extensive number of cumbersome procedures needed to register a business affected the business environment in 2019, stifling entry of new enterprises and thereby indirectly favoring incumbents. Simplification of entry regulation has been somewhat effective at fostering entrepreneurship and encouraging formalization,[20] and the government introduced a series of structural reforms in 2019 and 2020 to reduce the regulatory burden that restricted trade, competition, and private investment.

41. **This DPL series has supported a sequence of reforms to implement the Ease of Doing Business Act.** DPL1 supported development of the strategic policy framework, a necessary step toward building a solid legal foundation. DPL2 supported operationalization of ARTA, the agency that implements the Ease of Doing Business Act. ARTA and the Securities and Exchange Commission (SEC) have worked with the Bureau of Internal Revenue to limit application requirements and combine business registration and obtention of official receipts into a single process. These reforms were enhanced through the support of local government units.

42. **DPL3 further supports implementation of the Ease of Doing Business Act by modernizing government processes to start a business.** In cooperation with DICT, Department of Trade and Industry (DTI), SEC, Bureau of Internal Revenue, and other local and national agencies, in January 2021, ARTA approved JMC 1-2021, which provides guidelines on the business registration system and assigns roles and responsibilities to participating agencies. It supports a one-stop-shop process that allows applicants to apply and submit required documentation electronically, make digital payments, and use digital signatures to register their businesses. Further enhancements of the operating system include making end-to-end online business registration available to other business types (e.g., sole proprietors, cooperatives), enabling completion of business license renewal and amendments, and fully integrating the process across multiple local governments and national agencies involved in secondary business registrations.

43. **Philippine Environmental Impact Statement System processing has been streamlined to expedite issuance of an environmental clearance certificate.[21]** At the same time, additional climate-related information is being required, particularly on a project's contribution to climate change mitigation and adaptation options. The Environmental Impact Statement System screening form serves as a guide for formulation of an enhanced environmental management plan, which has integrated climate

[20] Although lowering the cost of registration is necessary, it must be part of a holistic approach to supporting firm development.
[21] Whether a project requires an environmental clearance certificate depends on project type (environmentally critical project) and thresholds, as well as whether it is located in an environmentally critical area. Examples include roads and bridges; hydropower facilities; buildings, including housing, storage facilities, and other structures; food, food by-product, and beverage manufacturing plants; and tourism and leisure projects.

change adaptation and a disaster risk reduction plan as an input to overall project design. To facilitate the process, the government has facilitated access to the GeoRiskPH database to provide a more informed hazard profile for evaluation of projects. Project-level information required for the environmental clearance certificate similarly includes calculation of projected greenhouse gas emissions and sequestration, which will be used to help the government formulate climate change mitigation strategies and adaptation policies.

44. **Increasing women's participation in business ownership and management, especially women with high educational attainment and entrepreneurial savviness, will be important to promote firm competitiveness.** Unfortunately, not only is female labor force participation lower than men, but women are also paid less than men with the same educational attainment. A 2015 Enterprise Survey revealed that only 30 percent of private enterprises in the country had female top managers. Meanwhile, there is a data gap as to women's ownership of firms. The sex-disaggregated data that DTI collected on registration of sole proprietorships show that there were more women-owned sole proprietorship (around 54 percent) compared to men (46 percent). However, at renewal time after five years, men outnumbered women (55 percent versus 45 percent). This may indicate that some women were unable to sustain their businesses, although it could be that these businesses were converted into corporations. Unfortunately, the Philippines is unable to capture whether these sole proprietorships have evolved into legal corporations, because corporate registration data are not sex disaggregated.

45. **The SEC has not been able to collect sex-disaggregated data on registration of corporations and partnerships.** Until the passage of the revised Corporation Code in 2019, the SEC had required at least five incorporators for the creation of a business, which meant that most companies had multiple stockholders at the onset, and the gender of the stockholders were not collected. For new business registration, it would be important moving forward to collect data on the sex of stockholders.

46. **In streamlining the process of starting a business, the SEC will collect sex-disaggregated data on new business registrations for one person corporations.** Institutionalizing a sex-disaggregated data collection system will help create a useful dataset to understand whether the registration process is inclusive in its treatment of male and female entrepreneurs, and what gender gaps, if any, exist in corporation business registration. The collection of sex-disaggregated data is critical and ensures that the process of registering a business is fair to both genders. The collection of sex-disaggregated data will allow SEC to identify requirements or processes that inadvertently discriminate against female owners, and reform such processes if needed. Beyond this, the sex-disaggregated corporate data can further inform DTI to craft policy options to help close the gender gap in business ownership and management.

47. **Expected result:** Supported measures are expected to shorten the number of days to start a business. The first step is to register with the SEC as a corporation, which historically has taken the longest.[22] In

[22] Once a business incorporates, it must register with the Bureau of Internal Revenue, Philhealth (health insurance), Social Security System (pension), Pagibig (housing), and the local government for a business permit to start operation.

2019, 43.5 precent of business registrations with the SEC took 3 days or less.[23] Although the SEC experienced challenges in implementing a new automated business registration system in 2019, these were resolved, and in 2020, the share of business registrations taking 3 days or less increased to 75.1 percent. The proposed reforms are expected to further increase the share of business registrations taking 3 days or less by more than 80 percent by 2022. The SEC will also regularly collect and make publicly available sex-disaggregated data on new business registrations for one-person corporations, which has not previously been done.

Improve Trade Facilitation by Modernizing Customs Procedures

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
	Through JOA 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.	**Prior Action 3**: Through Customs Memorandum Orders 21-2020, 02-2021, 09-2021, and 26-2021, the Bureau of Customs has strengthened regulatory framework for implementing risk-based controls and enhanced cargo selectivity.

48. **The COVID-19 pandemic has highlighted the weakness of the external trade environment, characterized by high trade costs.** Trade costs in the Philippines are some of the highest in ASEAN, with investors in the Philippines facing the highest import costs and the second highest export costs. A container takes 120 hours to clear customs and associated inspection procedures, much longer than in neighboring Vietnam (56 hours), Thailand (50 hours), or Malaysia (36 hours). Results from the 2018 Logistics Performance Index highlight the low efficiency of the clearance process by border agencies, including Customs. In March 2020, these weaknesses were exacerbated within days of implementation of the enhanced community quarantine. Because consignees were unable to collect their containers from the ports, the international seaports of Manila became congested.

49. **Under DPL2, the Bureau of Customs modernized customs processing and payments transactions, boosting its response to the pandemic**. Although the government started to introduce standards to modernize customs procedures (including digitization) in 2016, the reform progress has been slow. COVID-19 and imposition of mobility restrictions increased the importance of automating and streamlining trade-related procedures. The need to digitalize to adapt to the new normal gave impetus to customs modernization. The Bureau of Customs fast-tracked adoption of online filing, processing of incomplete applications, acceptance of digital payments, and creation of a one-stop-shop clearing house for medical supplies. These automation and digitalization processes were expanded to include other port-related transactions such as payments for cargo handling, storage, and transportation scheduling, supported by this operation.

[23] As measured by the SEC, the indicator presents the share of business registrations according to interval of processing time: 0.5 days or less, 1 to 3 days, 4 to 7 days, 8 days or more. In 2019 (baseline), the densities for each interval were as follows: 0.5 or less, 0.9 percent; 3 days or less, 43.5 percent; 7 days or less, 75.1 percent. This indicator includes firms of all sizes.

50. **DPL3 supports further efforts to improve trade facilitation by strengthening the regulatory framework for implementing risk-based controls and enhanced cargo selectivity**. As part of implementation of the Trade Facilitation Agreement and the Customs Modernization and Tariff Act, the Bureau of Customs has enhanced the Cargo Selectivity System. A series of customs memorandum orders, including use of automated customs processing (electronic to mobile[24]) for informal entry of commercial goods and clearance procedures for express shipments and establishment of the Authorized Economic Operators program, provides implementation guidelines to promote additional automation and expediency. The automation of processes by the Bureau of Customs and other port-related service providers will increase accountability, significantly reduce the number of face-to-face interactions, reduce delays, and minimize discretionary actions by government officials. The reform also improved interagency coordination by creating the Customs Risk Management Steering Committee.

51. **Expected result:** The supported measures are expected to shorten the average container clearance time from 10 days in 2019 to 8 days or less in 2022. Findings from a recent time-release study suggests that processing times for container clearance have shortened and that the 8-day target established as a result indicator for 2022 is within reach.

Increase Agriculture Productivity through Regulatory Reforms

Prior Action for DPL1	**Prior Action for DPL2**	
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.	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.	

52. **The DPL series has supported the passage and implementation of the Rice Liberalization Act.** Historically, domestic rice prices in the Philippines had consistently and increasingly been higher than international export prices from Thailand and Vietnam. The Philippines also had one of the slowest agricultural productivity growth rates in the region. The Rice Liberalization Act, supported by DPL1, eliminated quantitative restrictions on rice imports and replaced them with a minimum import tariff of 35 percent, which gives the Philippines among the lowest comparable average most-favored-nation tariff rate for rice in the region.[25] The Rice Competitiveness Enhancement Fund (RCEF)[26] was created in 2019 to support rice-producing farmers during the adjustment phase of liberalization to enable

[24] The electronic-to-mobile system allows Customs officers and traders to process most customs transactions electronically, although importers are still required to submit hard copies of import documents and attachments to the Entry Processing Unit for verification.
[25] Thailand (52 percent), Malaysia (40 percent), and Vietnam (37.5 percent).
[26] Tariffs collected from rice imports in excess of Php10 billion were earmarked for additional financial assistance to rice farmers, titling of agricultural lands, expanded crop insurance for rice, and crop diversification.

them to become more productive by increasing access to high-yield rice seeds, loans and credit, training and extension, and mechanization. DPL2 supported implementation of transparent eligibility criteria[27] for farmers to access the RCEF.

53. **As a result of this reform, domestic rice prices have declined substantially.** The gap between international and domestic prices of rice narrowed from 68 percent in 2018 to less than 40 percent in 2020, although it increased to 66 percent in the first 8 months of 2021. The decline in export prices of Thai rice to a 2-year low, due to the depreciation of the baht and sluggish demand, has in part driven the substantial increase in the price gap. After implementation of the act, imports soared from 1.8 million tons in 2018 to 2.9 million tons in 2019 and reached 1.7 million tons in the first 8 months of 2021. As of July 2021, the average farmgate price of *palay* (unmilled rice) and average retail price of regular milled rice had fallen by 4.0 percent and 2.8 percent, respectively, year on year. Further convergence with global prices will continue as global trade and logistics recover from the pandemic.

54. **The government has continued to advance implementation of key strategies to increase agricultural productivity and minimize the short-term negative impact from rice liberalization.** Small-scale rice farmers can increase their productivity if they have access to targeted, reinforcing support services: agricultural credit, insurance and grants, technology, extension services, clustering, collective marketing, and consolidation activities. Since the rice liberalization reforms were instituted, the Department of Agriculture (DA) has continued to support small-scale rice farmers, establishing an institutional policy framework enabling integrated, coordinated planning and monitoring to consolidate fragmented programs[28] under the umbrella of a "One DA Reform Agenda." Coordinated deployment of these support services will increase productivity and market connectivity for farmers.

55. **Expected result:** The supported measures from DPL1 and 2 are expected to continue to drive results and narrow the gap between international and domestic rice prices, which was already reduced from 68 percent in 2018 to less than 40 percent by end of 2020, exceeding the target for the series.[29] In addition, wider use of the RCEF combined with the new framework for harmonization of programs is expected to increase rice yield in target areas of RCEF from 4.04 metric tons per hectare in 2019 to 4.18 metric tons per hectare by 2022.

Promote Foreign Investment in the Retail Sector

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
		Prior Action 4: Through (i) the approval by the Bicameral Conference

[27] RCEF programs support purchase of seeds, mechanization, extension, and credit programs. All of these programs have broadly similar eligibility criteria, with a few differences related to the nature of each program. Broadly, these programs require that beneficiaries be farmers registered in the Registry System for Basic Sectors in Agriculture or be part of an accredited farmers' cooperative or association.

[28] Bayanihan Agri Cluster, agri-industrial business corridors with fisheries management areas, Inclusive Agribusiness Program, province-led agriculture and fisheries extension systems programs.

[29] Calculated as the difference between domestic (wholesale regular mill) and international (Thailand 25 percent broken free on board plus 15 percent shipping cost) rice prices as a percentage of international rice prices. Source: Food and Agriculture Organization.

		Committee of Senate Bill Number 1840 and House Bill Number 59 amending the Retail Trade Liberalization Act of 2000; and (ii) the commencement of the process of transmitting the said Bill(s) by the Congress to the President, the government has reduced capital requirement for foreign ownership, and relaxed qualification and local inventory requirements for foreign retailers.

53. **The Philippines lags behind its peers in the region in terms of FDI inflows, including in its retail sector.** FDI benefits countries in terms of capital, technology, and skills; promotes knowledge spillovers; and increases competition, boosting productivity growth. Between 2010 and 2019, the Philippines had relatively low FDI inflows, accumulating less FDI than Thailand, Malaysia, Vietnam, or Indonesia. FDI inflows in the retail sector were 0.7 percent of total FDI inflows in the Philippines in 2019, lower than in Vietnam (7.1 percent), Indonesia (18.5 percent), Malaysia (3.5 percent), or Thailand (12.3 percent). This is partly because of the Philippines' FDI regulations, which are the most restrictive of its peers, according to the Organisation for Economic Co-operation and Development FDI restrictiveness index. Retail represented about 23 percent of the total services industry output in the Philippines before the pandemic. The retail industry's gross value added was 14.0 percent of GDP in 2019.

54. **The RTLA amendments reduce FDI restrictions in the retail sector.** The government is committed to promoting FDI by reducing barriers to entry in all sectors. The package of reforms, which is designed to reduce FDI restrictions, included several bills: the RTLA focused on opening retail trade, the Public Service Act targeted at services defined as "utilities," and the Foreign Investment Act which restricts FDI in a list of sectors. President Duterte has certified these bills as urgent to promote investment and reactivate the economy. The amendments to the RTLA are critical to reducing barriers to foreign investment in the retail sector.[30] Key provisions include reducing minimum paid-up capital requirements for foreign investors to engage in retail trade to US$500,000 from US$2.5 million without an equity limit; removing provisions limiting the maximum shares of stock that foreign investors may acquire from local retailers to 60 percent; removing provisions requiring foreign retailers to offer a minimum of 30 percent of their equity to the public within 8 years of their

[30] In the Philippines, a bill that the bicameral conference committee has approved represents an advanced stage in the legislation process because it is expected to become law once the President signs it. During the current administration, 646 bills were either signed or lapsed into law, and nine were vetoed. Legislators (Congressmen or Senators) typically propose bills for new legislation or amendments to existing legislation independently or in collaboration with the executive branch. A bill may originate from either the House of Representatives or the Senate. Once a proposed bill is filed, it undergoes a series of deliberations and approvals. If approved, the bill is transmitted for action to the Senate and House of Representatives, which undergo the same process of deliberations and approvals. Once the House and Senate versions of a bill are approved, a bicameral conference committee is created to deliberate and reconcile both versions. The bicameral committee version of the bill is then transmitted by the Congress to the President, who may approve or veto certain provisions of the bill (cannot add or modify, and congress can override a presidential veto by a two-thirds vote). Should the president not take any action, the bill lapses into law after 30 days of receipt.

operations; abolishing stringent requirements for foreign retailers to have a minimum net worth, a minimum number of retail branch, and a minimum period of 5 years of retail operation; and relaxing the requirement for foreign retailers to have 30 percent of their inventory be locally made products. A summary of the proposed RTLA amendments is presented in Appendix 6.

55. **Expected result:** The opening of the retail industry to foreign investors is expected to promote foreign investment in the retail sector by leveling the playing field between domestic and foreign operators. It is also expected to generate employment, widen the array of consumer products, and increase the inflow of new technologies. Net equity capital[31] of FDI in retail and wholesale as a share of GDP is expected to increase from 0.021 percent in 2020 to 0.025 percent in 2022.

Pillar II: Enhancing Resilience

Enhance Fiscal Resilience

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
Through RA No. 11346, the government has increased excise taxes on tobacco products, effective January 1, 2020.	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.	**Prior Action 5**: Through enactment of the CREATE Act, the government has rationalized tax incentives and improved process for monitoring and evaluation.

58. **Enhancing fiscal resilience is a policy priority that is critical to retaining a fiscal buffer against shocks, including the COVID-19 pandemic.** Since 2016, the government has committed to passage of a comprehensive tax reform package to increase tax effort and the efficiency of the tax system. It passed several revenue-enhancing tax policy and administration measures, beginning with the Tax Reform for Acceleration and Inclusion in 2017. Additional revenue-enhancing reforms included an increase in excise taxes on tobacco products in 2019, supported by DPL1. In 2020, supported by DPL2, the Department of Finance (DOF) further adjusted excise taxes on alcohol and e-cigarette products and earmarked the revenue to support Universal Health Care. The DOF estimates that the additional revenue from these two reforms will reach a total of Php63.9 billion (0.3 percent of GDP) from 2020 to 2022.

59. **To further enhance fiscal resilience, the government is addressing weaknesses in the tax incentive regime.** The previous tax incentive regime was not targeted and lacked proper monitoring and evaluation provisions, leading to low tax efficiency. The main tax incentive scheme, a 5 percent tax on gross income earned, was not time bound. As a result, most firms availed gross income earned for over 50 years. The system also relied on numerous laws and was implemented by several different government agencies, making it complex, nontransparent, and challenging to navigate. For instance, each investment promotion agency had discretion to approve projects and to decide on the eligibility

[31] Net equity capital of FDI is placement less withdrawals and excludes reinvestment of earnings and debt instruments, such as intercompany borrowing. Balance-of-payments accounting regularly captures this metric, which ranged between 17.7 percent and 62.4 percent of total FDI between 2010 and 2019, with a median of 27.8 percent.

and composition of incentives without performing an ex-ante cost benefit analysis. This provided space for conflict of interest, tax competition across investment promotion agencies, and domestic transfer pricing.

60. **The CREATE Act, which the President signed in March 2021, rationalizes the tax incentive system.** The law unifies the previously fragmented tax incentive administration system and is expected to increase tax efficiency through a consolidated tax incentive management system. It also enhances tax incentives, making them performance based, targeted, time bound, and transparent. The Fiscal Incentives Review Board will enhance monitoring and evaluation of granted incentives to increase transparency and reduce tax expenditures.[32] It included introduction of a cost-benefit analysis framework to aid in incentive decisions. The Act also reduce the corporate income tax rate from 30 percent to 20 percent for micro, small, and medium-sized enterprises, which account for 99 percent of businesses, and from 30 percent to 25 percent for the rest of firms.[33] Although a lower corporate income tax reduces revenue in the short run, rationalization of tax incentives is revenue enhancing in the long term.[34] Estimates show forgone revenue of 0.37 percent of GDP in corporate income taxes from 2021 to 2030 but an increase in investment in the medium to long term—as much as 1.5 percentage points by 2029.[35]

61. **Expected result:** Measures supported in DPL1 and 2 are expected to increase excise tax revenues from 2.1 percent of GDP in 2018 to more than 2.4 percent in 2022. These figures were revised down from the original baseline, 2.3 percent in 2018 and a target of more than 2.9 percent in 2022, to more than 2.4 percent[36]. This is taking in consideration of two factors: the release of the revised, rebased GDP numbers in 2020 and the impact of the pandemic on economic activity and tax revenue collections. Nonetheless, the target is a 0.3–percentage point increase from baseline. To further enhance fiscal resilience, the authorities have established new procedures for screening and managing investments that all investment promotion agencies are intended to use. These measures are expected to increase tax efficiency. The target is that at least half of all investment promotion agencies adopt the new Fiscal Incentives Regulatory Board cost-benefit analysis framework.

[32] It is estimated that forgone revenue from more than 3,000 firms that benefited from the perpetual special corporate income tax was 2.7 percent of GDP in 2017, which will subside as sunset clauses come into effect.
[33] CREATE provides an immediate 10–percentage point reduction in the corporate income tax rate from 30 percent to 20 percent for domestic corporations with a taxable income of Php5 million and below and with total assets of not more than Php100 million. All other domestic corporations will benefit from an immediate reduction from 30 percent to 25 percent. Foreign corporations currently paying the regular rate will also benefit from the 25 percent rate.
[34] The new incentive system abolishes the perpetual special corporate income tax. In its place, a time-bound income tax holiday of 4 to 7 years will be followed by a hybrid system that includes the special corporate income tax[34] or a set of enhanced deductions. The Act includes a sunset clause for current beneficiaries of tax incentives for a gradual transition to the new tax incentive regime ranging from maximum of 12 years for domestic-oriented firms to 17 years for exporters.
[35] Staff used a global integrated monetary and fiscal model (a dynamic stochastic general equilibrium model) to measure the response of key macroeconomic variables to a fiscal shock on the economy. In this model, the shock from lower corporate income taxes is disseminated to the economy directly through the investment channel and indirectly through the consumption channel. The model's key parameters included the weighted average tax rate based on the number of large firms and micro, small, and medium-sized enterprises and the income elasticity of taxation.
[36] Using nominal GDP forecast by the World Bank team.

Increase Social Resilience through Better Digital Infrastructure for Social Program Delivery

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
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.	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.	**Prior Action 6:** Through a memorandum of agreement between the DSWD and PSA, the government has (i) adopted PhilSys as primary means of social assistance beneficiary identification and verification and (ii) established guidelines for implementation thereof.

62. **The government has introduced PhilSys as a digital identification platform to foster the digital economy and increase access to public services.** The President signed the PhilSys Act (RA No. 11055) into law in August 2018, and the implementing rules and regulations were adopted in October 2018, supported by DPL1. As a first step of implementation, a pilot registration was completed in December 2019 to test the system in preparation for mass registration starting in 2020, supported by DPL2. The implementing rules and regulations were updated in March 2021 to strengthen the security and privacy of the permanent PhilSys number with additional provisions related to tokenization of the permanent PhilSys Number (PSN). The government has also incorporated the Principles on Identification for Sustainable Development37 into the design and implementation of the PhilSys and is pioneering the use of open-source software and privacy-by-design features.

63. **The pandemic highlighted the urgency of operationalizing PhilSys use cases to enhance social resilience.** Challenges in enrolling new beneficiaries and verifying information for digital payments has delayed delivery of the Social Amelioration Program (the large social assistance program launched as part of the first fiscal package to respond to COVID-19). The PhilSys can help address this challenge for future and existing programs because it provides a unique, verifiable digital identity accessible to all Filipinos and resident aliens. Moving forward with PhilSys, DSWD and other government agencies will be able to enroll, validate, deduplicate, and cross-check the eligibility of beneficiaries securely and in a privacy-preserving way in accordance with the country's Data Privacy Act of 2012 and data protection provisions of the PhilSys Act of 2018. PhilSys-enabled electronic Know Your Customer (e-KYC) services will also enable financial service providers to open bank accounts and e-money wallets for digital payments.

64. **The Philippine Statistics Authority (PSA) re-designed, launched and accelerated PhilSys mass registration in response to the COVID-19 pandemic.** The PSA segmented the registration process into three steps to reduce public health risks and prioritized low-income households and co-located Land Bank of the Philippines account opening facilities at step 2 registration centers. Step 1 (online or assisted demographic capture) was launched in October 2020, followed by step 2 (on-site biometric

[37] The *Principles on Identification for Sustainable Development* providing a guiding framework for maximizing the benefits of digital ID systems while mitigating the risks. They have been endorsed by 30 organizations, including the World Bank Group. More information is available at: *https://id4d.worldbank.org/principles*.

capture and document validation) in January 2021. This effort was supported with technical assistance from the World Bank Group Identification for Development (ID4D) initiative. As of October 13, 2021, 43.4 million Filipinos had completed step 1, 36.1 million step 2, and 2.4 million step 3 (received their PhilID card and PSN). Furthermore, 5.7 million step 2 registrants have also opened bank accounts, many for the first time. The government aims to have 50 million Filipinos complete step 2 by the end of 2021, and 100 million by June 2022. The government has decided that the three first use cases of the PhilSys will be social protection delivery (with DSWD), issuance of civil registry documents (with PSA), and the vaccine information management system (with the Department of Health and Department of ICT).

65. **DPL3 supports adoption of PhilSys to enable the digital transformation of social protection delivery by the Department of Social Welfare and Development (DSWD)**. PSA and DSWD signed a memorandum of agreement in October 2021 through which DSWD has committed to a 3-year process of adopting PhilSys across all its programs and information systems. This includes use of PhilSys to identify and verify existing and future beneficiaries, which will help those beneficiaries to access social protection more easily and simultaneously help DSWD to transact with beneficiaries more efficiently. Similarly, incorporating PSN tokens into DSWD databases will ensure the quality and uniqueness of beneficiary records across multiple program information systems and enable development of a unified beneficiary database. DSWD is the first agency to commit to integration with the PhilSys, and this is an important milestone for digital social protection delivery, setting a platform for DSWD to use digital technology to transform how it operates and uses data. To this end, the Beneficiary FIRST Social Protection project (*P174066*) is supporting DSWD undertake investments and reforms, including to develop a unified beneficiary database with a seeded PSN token, complemented by technical assistance through ID4D and its sister initiative, Digitizing Government-to-Person Payments (G2Px).

66. **Expected result:** The supported measures are expected to increase access to and improve delivery of public services by providing Filipinos with a unique, verifiable digital identity. The foundational ID is expected to be used for key public and private transactions, including opening bank accounts, identifying and verifying social assistance beneficiaries, and making pension payments by 2022.

Increase Use of Electronic Payments through More Efficient Payment Systems

Prior Action for DPL1	**Prior Action for DPL2**	**Prior Action for DPL3**
Through the National Payment System Act (NPSA) (RA No. 11127), the government 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.	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).	**Prior Action 7**: Through issuance of Circulars 1126 and 1127, BSP has strengthened payment system governance framework and risk management.

67. **During the COVID-19 pandemic, the volume of digital payment transactions has increased**

significantly. The number of transactions at inter-institution retail payment systems PESONet and InstaPay combined was 136 percent higher in September 2021 than in September 2020. The pandemic has created a high demand for digital financial services for e-commerce and other online transactions. With the availability of more digital financial services and the expanded usage of such services, people can reduce physical contact in retail and other transactions, consistent with health measures and protocols necessary to curb the spread of COVID-19.

68. **The payment system is a fundamental financial infrastructure that is necessary for expanding access to and use of digital financial services.** It is also critical for financial stability, as a safe and efficient national payment system ensures that obligations are settled on time. Payments and payment services are an important part of facilitating economic activities. 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 framework. Two key interoperable electronic fund transfer retail payment systems—PESONet and InstaPay—have been serving the needs of individuals and firms for safe, efficient, fast fund transfer payment services.

69. **Under the leadership of BSP, the government continues developing reforms to provide secure, efficient, resilient payment systems and create an enabling environment that supports an increase in digital payment transactions.** Building on the National Payment Systems Act (RA 11127), supported by DPL1, and a series of regulatory reforms such as the National Retail Payment System framework, supported by DPL2, the BSP issued the Digital Payments Transformation Roadmap in November 2020, which is designed to convert 50 percent of the total volume of retail payments into digital form and lead to 70 percent of Filipino adults having an account. Guided by the roadmap, BSP has issued a new regulation on digital banks and open finance to expand digital financial services and enable users to control their own information in accessing digital financial services.

70. **DPL3 supports further implementation of the National Payment Systems Act to strengthen governance and risk management of designated payment systems to promote safety in the national payment system and increase public confidence in digital payment transactions.** The BSP issued circulars on adoption of the principles for financial market infrastructure (BSP Circular 1126-2021) and on the Governance Policy for Operators of Payment Systems (OPS) (BSP Circular 1127-2021). Adoption of principles for financial market infrastructure and international standards for financial market infrastructures, further strengthens the risk management of designated payment systems[38] in the areas of access of participants to the system; management of liquidity, credit, operational, settlement, and general business risks; efficiency of the payment system; and transparency. The circular on governance policy clarifies and strengthens OPS governance requirements in the Payment System Oversight Framework (BSP Circular 1089-2020).[39] The Governance Policy of OPS provides for requirements of governance framework of OPS such as responsibilities of owners and board of directors, risk governance since the circular recognizes OPS's important role in sustaining the safe, efficient flow of payments in the economy. These reforms are critical not only to improving the

[38] BSP identifies systemically important payment systems and prominently important payment systems as subject to stringent risk management and governance requirements.
[39] DPL2 supported BSP Circular 1089.

governance and risk management of the payment system in the Philippines, but also to increasing public confidence in the payment system, which leads to greater use of digital payment.

71. **Expected result:** The reforms will improve the Philippine payment system governance framework, leading to greater use of digital payments supported by the confidence of the public in digital payment transactions. The volume of InstaPay transactions yearly increased from 2.5 million in 2018 to 232.9 million in 2020 and is expected to surpass 300 million by the end of 2022.

Improve Financial Risk Management to Natural Disasters and Climate Change

Prior Action for DPL1	Prior Action for DPL2	Prior Action for DPL3
The government has implemented its risk-layering strategy by setting up a combination of financial instruments to efficiently meet the funding needs of disasters of different frequencies and severities.	As evidenced by General Appropriations Acts 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.	**Prior Action 8**: Through a joint memorandum from DOF and DBM, the government has adopted claims management procedures for national indemnity insurance program to link pre-arranged financing directly to pre-arranged funding channels for rapid response.

72. **Since 2015, the government has adopted a comprehensive financial strategy to reduce and mitigate contingent fiscal risks resulting from natural disasters and climate change.** The Philippines incurs substantial losses of public and private assets because of natural disasters.[40] Historical analysis shows that between FY2015-2018, the Philippine government spent an average of Php91.9 billion (US$1.9 billion) per year (0.6 percent of GDP) on disaster-related response, recovery, and reconstruction activities. To make matters worse, bottlenecks in budget flows after disasters prevents rapid disbursement of funds to beneficiaries and implementing agencies. To mitigate the fiscal impact of natural disasters, the government has adopted a strategy that strengthens financial resilience at the national, subnational, and individual levels. Supported by DPL1, the government has gradually built out its menu of risk financing instruments using 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 financing instruments prearranged to respond to natural disasters, including use of market-based instruments such as catastrophe bonds and indemnity insurance.

73. **In 2020, supported by DPL2, the Bureau of the Treasury enhanced its protection strategy against financial risk and established a financial mechanism for protecting critical public assets.** The NIIP, which transforms how 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, was approved in the third quarter of 2020. This program moves away from ad hoc resource mobilization for reconstruction toward prearrangement of required funding for rehabilitation of assets and restoration of services through risk transfers to international insurance markets. Development of the

[40] The major climate-related natural hazards affecting the country are cyclones, sea level rise, storm surge, floods, and droughts. Risk models estimate that, on average, the country will incur Php177 billion (1.0 percent of GDP) per year in public and private asset losses because of typhoons and earthquakes.

NIIP builds on many years of technical assistance that the World Bank has provided since the adoption of the government's Disaster Risk Finance and Insurance Strategy in 2015.

74. **DPL3 institutionalizes a process for management of claims from the NIIP to ensure that insurance payouts will flow effectively and efficiently to affected agencies for asset rehabilitation.** This completes the full end-to-end reforms for a new program to protect key public infrastructure financially. By adopting a claims management procedure for the NIIP through a joint memorandum between DOF and Department of Budget and Management (DBM) as oversight agencies, the government links pre-arranged financing directly to pre-arranged funding channels to speed up recovery and reconstruction efforts after a disaster.

75. **Expected result:** The supported measures are expected to increase the type and quality of prearranged financial mechanisms for disaster response. It has increased from two (national Disaster Risk Reduction Management Fund [DRRM] fund and local DRRM fund) in 2018 to six in 2020 (Emergency Cash Transfer program, catastrophe bond, contingent financing from Asian Development Bank, and from Japan International Cooperation Agency), exceeding the target set for the series. The proposed mechanisms include multiple types of financial instruments that cover different interventions in response to disasters and climate shocks, enhancing the complementarity with one another. As a result, cost and response time after disasters are expected to decrease, limiting economic damage from disasters, protecting affected populations in a timely manner, and minimizing fiscal risk from disasters.

Strengthen Risk Management of Public Assets to Natural Disasters and Climate Change

Prior Action for DPL1	**Prior Action for DPL2**	**Prior Action for DPL3**
Through DBCC resolution No. 2019-4, the government has established a standing body to formulate and recommend public asset management policies.	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.	**Prior Action 9**: Through a memorandum from Bureau of the Treasury, the government launched a pilot for the web-based National Asset Registry System.

76. **The government is undertaking reforms to strengthen management of nonfinancial public assets (e.g., schools, roads, bridges) in the face of high and growing disaster and climate risks.** Government asset management had been mostly limited to accounting and bookkeeping, with no dedicated policies on asset management, including no specific consideration of disasters and climate change. In early 2019, a dedicated Asset Registry Division was created under the Bureau of the Treasury to establish the NARS. It was the first comprehensive database of government-owned assets.[41] Data on assets collected from selected pilot agencies are now being used for placing the NIIP.

[41] By early 2021, the NARS contained data for 533,925 assets, including 348,938 school buildings under the Department of Education, 8,337 bridges and 33,119 kilometers of roads under the Department of Public Works and Highways, 247 irrigation facilities and dams maintained by the National Irrigation Administration, 122 social welfare centers of the DWSD, 1,580 towers of the DICT, 15 power plants under the Power Sector Assets and Liabilities Management Corp., and 268 government hospitals and 68 rehabilitation centers under the Department of Health.

77. **DPL1 and DPL2 supported development, adoption, and implementation of a comprehensive, dedicated approach to public asset management.** Supported reforms aim to improve delivery of government services and public balance sheet management and increase resilience to disasters and climate shocks. DPL1 supported establishment of a standing body under the Development Budget Coordination Committee composed of the key oversight agencies to prepare the Philippine Government Asset Management Policy. The policy sets an overarching vision for asset management in the country designed to improve decision making, manage contingent liabilities resulting from climate risk better, and reduce costs in government. The policy was adopted in 2020, supported by DPL2.

78. **DPL3 supports development of a web-based asset registry system and its use for financial risk management as mandated by the asset management policy.** The Philippine Government Asset Management Policy sets out the mandate for the NARS as the primary system to record the inventory of government assets. The policy outlines the role of the Development Budget Coordination Committee Technical Working Group on Asset Management to determine appropriate risk financing schemes to ensure financial protection for the government against damages or losses incurred from natural disasters and other hazards. The Bureau of the Treasury has launched the upgrading of the NARS into a web-based system that will allow government agencies to contribute directly to and use the data in the NARS. The pilot, with all local Treasury offices as participants, will inform the final system to be established in 2022 for roll out in all national government agencies. This is a key step in transforming the NARS from a passive registry into a system to inform improved asset management across the government. After design and testing in 2021, the system will be rolled out to all agencies in 2022. The joint memorandum between DOF and DBM (PA8) requires that the Department of Education, the first agency participating in the NIIP, to submit data to the NARS reinforces the institutionalization of NARS. This improves risk information data on government assets, which will ensure adequate coverage and efficient insurance placement under the NIIP.

79. **Expected results:** Supported measures are expected to improve management of public assets by allowing government agencies to use the asset registry to make informed policy decisions. As a first step, this will allow for adequate insurance coverage of these assets against natural disasters. The result will be measured by the increased share of public assets owned by five key agencies (Department of Education, Department of Public Works and Highways, National Irrigation Administration, DSWD, Department of Health) that are captured in the NARS from 0 percent in 2018 to more than 60 percent in 2022. As of the end of 2020, all assets of four of these agencies, and more than 60 percent of assets of the fifth agency, were fully captured in NARS, achieving the end target of the series. These reforms will further increase overall efficiency in use of public resources, support planning and maintenance of public infrastructure, and inform climate change adaptation policies.

80. **The DPL program builds on comprehensive analytical underpinnings, including technical assistance projects, economic and sector work, and capacity-building programs.** This includes Bank and other development partner programs, alongside government assessments. Appendix 5 outlines each proposed prior actions and their analytical underpinnings.

81. **The DPL series is fully aligned with the priorities of the country partnership framework (CPF) for**

2019 to 2023, which builds on the four pillars of the Philippines' Systematic Country Diagnostic (SCD). The SCD highlights that the Philippines has demonstrated a strong commitment to game changing structural reforms that opened trade, liberalized FDI, and expanded competition in several key sectors while developing a comprehensive climate and disaster resilience policy, and a financing reform agenda. To complement the 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.

82. **The DPL series supports the objectives under the CPF, which remain relevant amid the COVID-19 crisis.** This operation supports reforms designed to improve the business climate and promote competitiveness, which is necessary to create quality jobs; reduce poverty; and achieve rapid, sustained inclusive growth. Moreover, the reforms designed to enhance fiscal, social, and financial resilience to shocks support the CPF through the cross-cutting theme of governance, which will provide government the space and institutional strength to support expansion of human and physical capital investment and the flexibility to respond to changing needs in response to the pandemic. Meanwhile, reforms designed to facilitate the transition to an increasingly digital economy are crucial to allow the economy to adapt to the new normal. Finally, the government's efforts to increase 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.

83. **The DPL builds on several technical assistance and Advisory Services and Analytics (ASA) to achieve the outcomes of the CPF.** The Bank's analytical work and technical assistance are being used extensively in design of reform areas of the DPL series. Under the promoting competitiveness pillar, the Bank's team provided technical assistance to DICT to implement the common tower policy and streamline permits for tower construction. Technical assistance is also being provided to the DA to increase the competitiveness of the agricultural sector. Technical assistance is being provided to DTI and ARTA to simplify procedures through the Competitiveness Programmatic ASA, to the Bureau of Customs on trade facilitation through the Customs Modernization Project, and to DTI and DOF to implement investment screening and management under the CREATE Act. In addition, Identification for Development continues its technical assistance partnership with PSA and other government agencies for the national identification system. In the area of tax policy, the Bank continues its ongoing engagement in providing ASA through just-in-time technical inputs to the tax reform program. Technical assistance is being provided for development of a dedicated asset management strategy and policy while building capacity in agencies such as the Insurance Commission, Bureau of the Treasury, DBM, Development Budget Coordination Committee, and Government Service Insurance System.

84. **The DPL complements other ongoing bank operations and advisory services.** This operation complements the Philippines First Financial Sector Reform Development Policy Financing (P175008), through its support to financial sector reforms. It also complements the Fourth Disaster Risk Management Development Policy Loan with a CAT-DDO (P177125) to increase the country's resilience to natural disasters and climate change. In particular, PA8 supports the payout procedures of a

financial instrument, led by the national government, to accelerate the flow of funds after disasters. This complements the effort supported by catastrophe DDO4 (PA1), which accelerates funding flows from the national budget to local governments for disaster response. Furthermore, the competitiveness pillar is part of a broader agenda to promote competition and competitiveness. The Bank team has been providing technical assistance to the Philippine Competition Commission to promote pro-competition regulations, to encourage competitive neutrality among state owned enterprises, and to adopt best practices in competition enforcement.

85. **The program supports the World Bank Group's approach to maximizing finance for development, containing several reform actions that are expected to crowd in private sector investment.** As part of the promoting competitiveness pillar, the reform to expand telecommunication infrastructure is designed to lower barriers to entry and open the market for new investors in broadband and mobile services. Through the infrastructure sharing policy and the streamlining of the rollout process, the increased participation of the private sector will expand access to, and quality of, digital services for underserved Filipinos. Meanwhile, similar reforms that remove barriers to foreign competition in the retail sector through the amendments to the Retail Trade Liberalization Act are expected to crowd in private investment. The levelled playing field will improve the country's prospects to attract internationally competitive retail players, boosting employment, widening the array of consumer products, and increasing the inflow of new technologies sector.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

86. **The government has consulted with various stakeholders in preparation of the DPL series.** Broad policy reform consultation is conducted through Sulong Pilipinas with participation of a broad set of civil service organizations and representatives from the private sector, academia, and the government to provide feedback on implementation of the government reform program. The latest was conducted virtually in April 2021; the government presented priority policies and reforms to support economic recovery, many of which this operation supports. In addition, consultation on specific reform agenda such as ease of doing business with stakeholders was extensive to better understand process bottlenecks and jointly identify areas for process streamlining. Several consultations with implementing agencies were organized to identify bottlenecks and resolve interagency coordination failures to ensure progress of reform implementations.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

87. **The DPL series supports reforms that directly and indirectly reduce poverty and reverse the devastating effects of the COVID-19 shock in the short, medium, and long term.** The path to reducing poverty through the DPL series is not linear, and some of the reforms advanced under these operations are likely to have negative effects for certain vulnerable groups in the short term. Rice liberalization is likely to harm less-productive rice farmers in the very short term, forcing them to adjust and rely on other sources of income. Similarly, expanding the digital infrastructure will connect unserved communities to markets but may increase the digital divide for communities that are hard to reach in the short term, potentially exacerbating inequality between the haves and the have nots.

Notwithstanding these challenges, qualitative estimates of the impact of the reforms that this operation supports are net positive in terms of poverty levels (Appendix 3). Overall, reforms based on the competitiveness pillar will reduce poverty and inequality by increasing incomes by generating additional and high-quality jobs, supporting enterprise survival and adaptation to the new operating conditions, and enhancing consumer welfare through lower rice prices, among other drivers. Reforms based on the resilience pillar are expected to smooth incomes of vulnerable groups and increase access to social services, although the estimates also revealed that some reforms may have an immediate negative impact on some portion of the population (e.g., rice farmers affected by import liberalization) in the short run, but that the overall effects of reforms on poverty are neutral.

88. **The competitiveness pillar is expected to benefit poor households by facilitating adjustments for rice-producing farmers, lowering the cost of doing business, and increasing access to digital technologies.** Rice liberalization has reduced the price of rice, which helps poor households, which spend a large portion of their income on food, purchase this staple more affordably, decreasing the prevalence of malnutrition among children. Access to the RCEF will cushion the blow to displaced rice farmers who face greater competition from rice imports by smoothing their transition to alternative income-generation opportunities. Reforms that promote competition in broadband and mobile telecommunications will benefit a large portion of underserved populations by increasing coverage and quality of service, increasing their access to markets, as well as access to remote education and health services. Internet access has been essential during the pandemic as employed individuals have shifted to home-based work and school-aged children have relied on distance learning. Similarly, reforms that lower the costs of trade and improve the business environment are expected to benefit all firms but especially SMEs, which can purchase imported goods more cheaply and have access to a larger market for their products and services. The amendments to the RTLA are expected to increase competition in the retail sector and increase employment. Although some informal micro-retail and wholesale businesses may face greater competition, removal of barriers to international competition is more likely to affect larger, formal retailers. It is likely that the average household will benefit from lower prices and better-quality retail services.

89. **Reforms supported under the resilience pillar are expected to benefit poor households in several ways.** The CREATE Act will lower the corporate income tax for all firms, but especially for smaller firms, and streamline tax incentives, ending the perpetual incentive schemes that benefited mostly large firms. Overall, the net effect is likely to be progressive in the long term. Implementation of the foundational identification system that is expected to be used in key public and private transactions will increase access to public and private services of poor households. The design of PhilSys registration and use ensures all population are included. A local official can vouch for an individual with no supporting documents for participation, and the PSA distributes mobile registration kits to remote areas and homes of disabled and elderly people to increase its coverage. The system will also provide access to banks and other service providers for marginalized communities by ensuring that individuals have access to government-recognized identification documents and allowing them to establish credit histories. Measures related to financial resilience to natural disasters and climate change are expected to have direct, and indirect, benefits for poor households and vulnerable groups. Poorer households in the Philippines are highly exposed to natural disasters such as typhoons and floods and tend to have limited resources to manage the shocks resulting from these disasters. The

measures proposed that facilitate a rapid and effective government response to the need for reconstruction and rehabilitation of schools and public buildings will disproportionally benefit the poor. Better management of public assets supported under this pillar will also indirectly benefit poor households because it will facilitate insurance coverage of public assets, reduce contingent liabilities, and encourage more-efficient use of public resources, ensuring long-term fiscal sustainability.

5.2. ENVIRONMENTAL ASPECTS

90. **The environmental impact of the reform actions that the DPL supports is estimated to be positive overall.** Ongoing World Bank operations and ASAs supports the government to reduce technical barriers to enable adoption of risk-informed approaches to development, including through integration of climate change and disaster risk assessments in public investment projects and environmental risk and impact assessments. For example, the strengthening of financial sector mechanisms for climate and environmental risks has been incorporated into the 2019 and 2020 Financial Sector Assessment Program. Arrangement of dedicated funding for asset rehabilitation will support funding for reconstruction to ensure that public investment projects can be completed 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.

91. **The government is undertaking reforms to address 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 hydro-meteorological hazards. It has also initiated tagging and tracking of climate change expenditures and modernizing data management systems to enable policy makers to assess the national climate change response and institutional readiness for increasing access to and delivery of climate change finance for local governments. The government has recently introduced additional public finance mechanisms to mobilize and leverage private capital for adaptation.

92. **The Philippines has emphasized its orientation toward climate change and disaster resilience.** The National Climate Change Action Plan assesses the country's situation regarding climate change risks and outlines an agenda for adaptation and mitigation for 2011 to 2028. It prioritizes seven key thematic areas, among which are food security, ecological and environmental sustainability, and climate-smart industries and services, all of which this operation supports. The Philippines' nationally determined contribution to the United Nations Framework Convention on Climate Change on April 15, 2021, highlights its national development objectives and priorities, including transformation of its socioeconomic sectors toward a climate- and disaster-resilient, low-carbon economy. In addition, DBM, the Climate Change Commission, and the Department of Interior and Local Government issued JMC 2015-01 encouraging local government units to identify, prioritize, and tag climate change-related programs, activities, and projects in their annual investment program. Local government units formulated 1,394 local climate change action plans from 2005 to 2021.

93. **The Philippines uses a framework to assess the environmental impact of major infrastructure projects that will apply to reconstruction projects enabled through the public asset insurance pilot that this operation supports.** The Department of Environment and Natural Resources is responsible

for the Environmental Impact System, which assesses environmental impacts and risks of development projects, classified into four categories: A—environmentally critical projects such as major construction projects; B—projects located in environmentally critical areas, including disaster-prone areas; C—environment enhancement projects; and D—projects unlikely to cause harm. The Cabinet Cluster approved a climate change adaptation and mitigation and disaster risk reduction roadmap in 2018, with an overall goal of creating climate- and disaster-resilient communities supporting equitable and sustainable development. The Department of Environment and Natural Resources is mandated to oversee implementation of the cluster's program convergence budgeting. The National Climate Change Action plan converges with the national DRRM Framework and the national DRRM Plan (2011-2028), an interagency approach to DRRM. Finally, the Clean Air Act (RA No. 8749) and the Clean Water Act (RA No. 9275) provide a comprehensive air and water quality management policy and framework to protect the country's air and water from pollution.

94. **The Office of Civil Defense released an updated national DRRM plan for 2020 to 2030** that underwent consultations with national DRRM committee member agencies, regional disaster reduction and management councils, local DRRM offices, civil service organizations, academia, the private sector, development partners, humanitarian assistance actors, and other stakeholders at various levels to ensure a whole-of-society and whole-of-government approach to development of the plan. The updated national DRRM plan establishes linkages between DRRM, climate change adaptation, and human security by focusing on climate and disaster risks. The plan targets 23 outcomes, 50 outputs, and 206 activities, which will be reviewed and assessed according to three separate review timelines during its implementation.

5.3. PFM, DISBURSEMENT, AND AUDITING ASPECTS

95. **The Philippines has significantly improved public financial management (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 assessment indicated that three of the seven PFM pillars (transparency, policy-based budgeting, 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 the President of the Philippines signs it and it is made effective through passage of the General Appropriations Act.

96. **The government continues to make progress in the PFM reform agenda.** The Bank's Second and Third Philippines DPL to Foster More Inclusive Growth (2014) supported formulation and adoption of a unified accounts code structure to be used for budgeting, accounting, and reporting. A Treasury single account has been implemented, and the Bureau of the Treasury is working to expand its coverage. DBM is also developing links with other financial management systems, including fiscal planning and budget preparation, procurement, and payroll. 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. However, DBM suspended its implementation in July 2021 under the COVID-19 expenditure prioritization policy. DBM is currently working with DICT on an alternative system to track expenditure transactions in the meantime. In addition, to improve budget predictability and execution, the government has gradually shortened the validity period for obligations from 2014 until 2019, when an annual cash budget was adopted.

97. **The Philippines is an early adopter of e-procurement in Asia with the introduction of the Philippine Government Electronic Procurement System (PhilGEPS) in 2000.** Although features such as e-submission have not been fully deployed, PhilGEPS has supported most other steps of the procurement process for the last 20 years, which is an achievement that many other countries have not matched. The main challenge with PhilGEPS has been lack of compliance by procuring agencies performing and recording procurement activity in the system, leaving a significant gap in information available. The assessment highlighted the planned implementation of the modernized PhilGEPS, which will allow for use of full e-procurement, including procurement plans, e-submission, and contract management. The implementation would need to observe an improvement in compliance with the information collected and made available within the system and the open data portal.

98. **The Bank has assessed the Philippine public procurement system using the Methodology for Assessing Procurement Systems v2018.** The assessment revealed the impact of the country's sustained efforts to reform its public procurement system during the last two decades. It has achieved a fair level of adequacy and improvement. The assessment findings have particularly confirmed the impact of other major accomplishments of the previous reform in strengthening the institutional aspects of the current public procurement system, although there are still barriers to the current procurement system achieving the principles of competition and value for money. The primary barrier is eligibility requirements regarding licensing and nationality, which is a potential barrier to participation in the public procurement market for foreign bidders and may deprive the procuring entities, and the government as a whole, of the benefits of vigorous competition and achieving value for money.

99. **The Philippines has posted steady improvements in terms of the overall Open Budget Index over the past decade,** improving from 51 in 2006 to 55 in 2010 and 76 in 2019, ranking 10th worldwide. In 2014, the Philippines was a pilot country for the IMF's revised Fiscal Transparency Evaluation. The government is committed to pursuing further PFM reforms to enhance fiscal transparency by providing timely, complete, accurate information, which will be facilitated by deployment of the BTMS.

100. **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 World Bank and IMF have been relying on the audited financial statements released by COA. The auditor's opinions for the BSP audited financial statements from 2017 to 2019 are unmodified (unqualified). However, the audit opinions contain an "Emphasis of Matter" paragraph regarding 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 Standard 9 in 2018. 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.

101. **The proceeds from the loan will be deposited in U.S. dollars 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 a withdrawal application in required format in U.S. dollars.** 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 is thereby available to finance expenditures. The government will provide 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 pesos 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

102. **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 that this DPL supports are shared with the Bureau of the Treasury, and the Bureau of Customs (all of which are DOF agencies); the DBM, the National Economic and Development Authority (NEDA); PSA; BSP; ARTA; DICT; the DA; and DSWD. The government has designated the DOF International Finance Group as the Bank's main counterpart in the policy dialogue and monitoring of the operation.

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

104. **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 DPO may submit complaints to the responsible country authorities, appropriate local or national grievance redress mechanisms, or the World Bank's Grievance Redress Service, which ensures that complaints are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaints to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank noncompliance with its policies and procedures. Complaints may be submitted any time after concerns have been brought directly to the World Bank's attention and Bank management has been given an opportunity to

respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

SUMMARY OF RISKS AND MITIGATION

105. **The overall program risk rating is substantial, with a high degree of uncertainty regarding the duration and depth of the COVID-19 pandemic.** The macroeconomic, political economy, and governance challenges and weak institutional and implementation capacity are the key risks rated substantial using the Systematic Operations Risk-rating Tool (Table 5). The resurgence of COVID-19 and the return to stricter quarantine measures highlights the fragility of the health situation, which can exacerbate fiscal and economic conditions. A prolonged outbreak may delay economic recovery, pushing firms into closure and more people into poverty. If the risk materializes, it may divert the government's attention away from structural and long-term reforms toward more-immediate health and social protection actions, which may result in slower progress on implementation actions under the current DPL series and delay achievement of the PDOs.

106. **The macroeconomic risk is substantial given the impact of a prolonged COVID-19 outbreak.** The challenge of containing the pandemic and effectively delivering mass vaccinations limits the prospects of a swift economic recovery. The greater the likelihood is of returning to strict containment measures, the greater the risk is that consumer and business confidence will further deteriorate, diminishing the impact of government reforms, such as on infrastructure sharing in the telecommunications sector and RTLA, designed to encourage private sector investment. Moreover, the government may focus primarily on the health crisis and place less emphasis on or neglect implementation of several policy actions that the DPL series supports, including nationwide registration of the foundational ID to be used in key public and private transactions. Likewise, rising trade protectionism and a protracted United States–China trade war may amplify business uncertainty in the region, which may slow investment flows or delay investment decisions on key sectors such as retail and infrastructure in the Philippines. The government is taking measures to mitigate the impact of the crisis and maintain macroeconomic stability. On fiscal policy, the authorities are committed to fiscal consolidation over the medium term, with interventions to raise public revenue and limit the growth of public expenditures. On monetary policy, the central bank is committed to its inflation-targeting objective, maintaining a flexible exchange rate regime, and keeping sizable foreign reserves. On the health front, the authorities are expediting vaccination through partnership with the private sector, which has volunteered locations and staff for vaccination. Vaccine hesitancy is being addressed through measures such as social media promotion and material incentives.

107. **Political economy and governance risks can stall momentum for reform.** Successful delivery of reforms requires not only policy clarity and commitment, but also consensus among the government branches on the nature and implementation pace of reforms. Given the substantial economic slowdown due to the ongoing COVID-19 outbreak, consensus on prioritization of reform in the short term might be challenged. Moreover, the current administration has less than 1 year left of its term, which may halt structural reforms because incumbents' policy priorities are uncertain. Finally, the

transition to a new government in 2022 might break the policy continuity should the new administration have a different set of policy priorities. This is true especially with the fiscal consolidation effort and tax incentive governance, which face the risk of policy discontinuity if the next administration does not implement them. Nonetheless, the current administration is working on measures such as guidance on fiscal consolidation that can be passed on to the next administration. It has also beefed up the roll out of public investment projects that can be implemented right away in 2022. Meanwhile, the World Bank is preparing engagement notes to be shared with a new administration.

108. **Institutional capacity for implementation faces substantial risk.** Implementation capacity has often been blamed for poor delivery of public services in the country. The pandemic is again testing such capacity by overstretching the capacity of agencies implementing the reforms that the DPL series support. An emerging challenge is implementation of the Mandanas Ruling in 2022, which will significantly increase the internal revenue allotment of local government units but re-devolve to them responsibilities of national government agencies. It is unclear how the re-devolution will play out, but there is the risk that local government unit capacity may be overwhelmed and fall short of expected service delivery. In addition, the success of the CREATE Act depends on the quality of its execution, which will be largely left to the next administration. To mitigate this risk, the World Bank and other development partners continue to aid the government through targeted technical and financing assistance, in addition to medical and humanitarian aid from neighboring countries.

109. **Ongoing targeted technical assistance supports the government in delivery of reforms, mitigating implementation risks due to capacity constraints.** Past DPLs have highlighted that, in addition to strong ownership, continuous, responsive policy dialogue across agencies and branches of government is critical to supporting the government in implementing 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 technical assistance and advisory works are ongoing in support of the key pillars of this proposed DPL operation.

Table 5: 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

APPENDIX 1: POLICY AND RESULTS MATRIX

	Prior Actions			Results
Policy Areas	**Prior Actions under DPL 1 (completed)**	**Prior Actions under DPL 2 (completed)**	**Prior Actions for DPL 3**	**Results Indicators**
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.	**Prior Action 1:** Through, JMC 1-2021, issued by DICT, DILG, DPWH and other government agencies, the government has introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process.	**Result Indicator 1:** Share of population with unique subscription to mobile internet (percent) (baseline 2019: 45.5; current 2020: 49.2; target 2022: more than 57.0) **Result Indicator 2:** Fixed broadband subscriptions (per 100 people) (baseline 2019: 5.4; target 2022: more than 6.0) **Result Indicator 3:** Investment in telecommunication (US$ billion) (baseline 2019: 2.1; current 2020: 1.7; 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	**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	**Prior Action 2:** Through JMC 1-2021, issued by ARTA, DICT, SEC and other government agencies, the government has streamlined and automated national and	**Result Indicator 4:** Share of business registrations in the Securities and Exchange Commission taking 3 days or less (percent) (baseline 2019: 43.5; current 2020: 74.9; target 2022: more than 80)

	has defined a policy framework to simplify ease of doing business.	Doing Business and Efficient Government Service Delivery Act (RA No. 11032).	local government processes for starting a business.	**Result Indicator 5**: Sex-disaggregated data on new business registration for one person corporations regularly collected by the Securities and Exchange Commission and made publicly available (baseline 2018: no; target 2022: yes)
Improve Trade Facilitation by Modernizing Customs Procedures		**Prior Action 3:** Through JOA 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.	**Prior Action 3:** Through Customs Memorandum Orders 21-2020, 02-2021, 09-2021, and 26-2021, the Bureau of Customs has strengthened regulatory framework for implementing risk-based controls and enhanced cargo selectivity.	**Result Indicator 6:** Container average clearance time (days) (baseline 2019: 10; current 2020: 10; target 2022: less than 8)
Increase Agriculture Productivity through Regulatory Reforms	**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	**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		**Result Indicator 7**: Gap between domestic and international price of rice calculated as domestic price less international price as percent of international price (percent) (baseline 2018: 68; current 2020: 34; target 2022: less than 50)

	transparent tariff system.	Rice Liberalization Act and the Joint Memorandum Circular Number 01-2019.		**Result Indicator 8**: Average rice yield in the target areas of RCEF (metric tons per hectare) (baseline 2019: 4.04; current 2020: 4.09; target 2022: 4.18)
Promote Foreign Investment in the Retail Sector			**Prior Action 4:** Through (i) the approval by the Bicameral Conference Committee of Senate Bill Number 1840 and House Bill Number 59 amending the Retail Trade Liberalization Act of 2000; and (ii) the commencement of the process of transmitting the said Bill(s) by the Congress to the President, the government has reduced capital requirement for foreign ownership, and relaxed qualification and local inventory requirements for foreign retailers.	**Result Indicator 9:** Net equity capital of foreign direct investment in retail and wholesale as share of GDP (percent) (baseline 2019: 0.021; current 2020: 0.021; target 2022: 0.025)
Enhance Fiscal Resilience	**Prior Action 6:** Through RA No. 11346, the government has increased excise taxes on tobacco products, effective January	**Prior Action 5**: Through RA No. 11467, the Department of Finance has increased excise taxes on alcohol and e-cigarette	**Prior Action 5:** Through enactment of the CREATE Act, the government has rationalized tax incentives and improved	**Result Indicator 10**: Excise tax revenue as share of GDP (percent) (baseline 2018: 2.1; current 2020: 2.4; target 2022: more than 2.4)

	1, 2020.	products to finance implementation of Universal Health Care.	process for monitoring and evaluation.	**Result Indicator 11**: Share of Investment Promotion Agencies which have adopted the new Cost Benefit Analysis framework (percent) (baseline: 2018: 0; current: 2020: 0; target 2022: at least 50).
Increase 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.	**Prior Action 6:** Through a memorandum of agreement between the DSWD and PSA, the government has (i) adopted PhilSys as primary means of social assistance beneficiary identification and verification and (ii) established guidelines for implementation thereof.	**Result Indicator 12:** Use of foundational ID in key public and private transactions (baseline 2018: 0; current 2020: 0; target 2022: bank account opening, social assistance beneficiary identification and verification, pension payments)
Increase Use of Electronic Payments through More Efficient Payment Systems	**Prior Action 4:** Through the National Payment System Act (NPSA) (RA No. 11127), the government has established the institutional legal framework with the	**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	**Prior Action 7:** Through issuance of Circulars 1126 and 1127, BSP has strengthened payment system governance framework and risk management.	**Result Indicator 13**: Volume of InstaPay transactions per year (million) (baseline 2018: 2.5; current 2020: 232.9; target 2022: at least 300)

	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.	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).		
Improve Financial Risk Management to Natural Disasters and Climate Change	**Prior Action 9:** The government has implemented its risk-layering strategy by setting up a combination of financial instruments to efficiently meet the funding needs of disasters of different frequencies and severities.	**Prior Action 8:** As evidenced by General Appropriations Acts 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.	**Prior Action 8:** Through a joint memorandum from DOF and DBM, the government has adopted claims management procedures for national indemnity insurance program to link pre-arranged financing directly to pre-arranged funding channels for rapid response.	**Result Indicator 14:** Number of types of pre-arranged or improved financial mechanisms for disaster response (baseline 2018: 2; current 2020: 6; target 2022: 7 or more)
Strengthen Risk Management of Public Assets to Natural Disasters and Climate Change	**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.	**Prior Action 9:** Through a memorandum from Bureau of the Treasury, the government launched a pilot for the web-based National Asset Registry System.	**Result Indicator 15:** Share of public assets included in asset registry for five key agencies (percent) (baseline 2018: 0; current 2020: more than 60; target 2022: more than 60)

APPENDIX 2: FUND RELATIONS

INTERNATIONAL MONETARY FUND

PHILIPPINES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 8, 2021

KEY ISSUES

Context: The economy is recovering after a major, pandemic-induced economic downturn. The authorities have deployed a comprehensive set of policy responses that have helped to mitigate the socioeconomic impact and maintain financial stability. The economic recovery slowed in the first half of 2021 due to a second wave of COVID-19 infections. Vaccination has started and is poised to accelerate from midyear.

Outlook and risks: Continued macroeconomic policy support in 2021, further gradual improvements in the pandemic situation, and higher partner country growth are expected to drive the economic rebound in the remainder of 2021 and in 2022. The risks to the outlook are larger than usual and tilted to the downside, given risks of a protracted pandemic and uncertainty around the vaccine program. Banks benefit from strong capital and liquidity buffers but are facing rising asset quality risks.

Main policy recommendations:

- The expansionary fiscal stance in 2021 strikes an appropriate balance between recovery needs and fiscal prudence. Steadfast budget execution with flexibility to address evolving priorities would ensure the effectiveness of this support. Monetary policy should remain accommodative, given economic slack and inflation prospects.
- The Philippines has some fiscal space to respond if downside risks materialize. A medium-term fiscal strategy could serve to anchor the authorities' commitment to fiscal prudence and the gradual return to lower budget deficits, reinforcing confidence.
- For adequate credit provision during the recovery, banks should have the flexibility to use the capital conservation buffers as provided in the Basel capital frameworks. Dividend payouts should be limited for capital retention when needed amid higher asset quality risks, and regulatory forbearance should phase out as scheduled. Effective AML/CFT implementation would help prevent disruptions of cross-border financial flows from the Philippines' grey-listing by the Financial Action Taskforce.
- Steady structural reforms, combined with a continued public infrastructure push, could help rekindle investment and return to the high, pre-pandemic rates of economic growth. Increasing spending on social protection and education, strengthening public service delivery further, and meeting commitments on climate change would foster more inclusive and greener growth.

PRESS RELEASE

PR21/243

IMF Executive Board Concludes 2021 Article IV Consultation with the Philippines

FOR IMMEDIATE RELEASE

Washington, DC – August 6, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the 2021 Article IV consultation[1] with the Philippines.

The economy is recovering after a major, pandemic-induced economic downturn. Real GDP contracted by 9.6 percent in 2020. The authorities have deployed a comprehensive set of policy responses that have helped to mitigate the socioeconomic impact and maintain financial stability. While a moderate economic recovery started in the third quarter of 2020, the second COVID-19 wave of infections that emerged in early 2021 will likely slow the economic recovery in the first half of the year. CPI inflation averaged 4.4 percent through June 2021, above the authorities' target band of 2 to 4 percent, reflecting primarily food supply shocks and the price impact of pandemic-related transportation supply restrictions. A sharp import compression in 2020 resulted in a current account surplus of 3.6 percent of GDP. Vaccination has started and is poised to accelerate from midyear.

The recovery is expected to gain momentum in the second half of 2021 and in 2022. Real GDP is projected to expand by 5.4 percent in 2021 and 7.0 percent in 2022, due to continued easing of quarantine measures, progress in vaccinations, and macroeconomic policy support. Medium-term economic growth is forecast to return to the pre-pandemic rate of 6.5 percent. Headline inflation is expected to decrease to 3.3 percent by end-2021, as the transitory drivers taper off and reach the mid-point of the target band over the medium term. With the economic recovery, the projected rebound in investment, and a more expansionary fiscal policy stance, the current account surplus is expected to narrow in 2021 and reach a deficit of 1.8 percent of GDP in the medium term. The risks to the outlook are larger than usual and tilted to the downside, given risks of a protracted pandemic and uncertainty around the vaccine program. Banks benefit from strong capital and liquidity buffers but are facing rising asset quality risks.

Executive Board Assessment[2]

Executive Directors commended the authorities' comprehensive policy response to the COVID-19 pandemic, which has helped to cushion its socio-economic impact. Strong fundamentals and prudent macroeconomic policies have helped to maintain macro-financial stability. Directors noted that there are larger-than-expected uncertainties, including related to the pandemic and the vaccination program. They underscored the importance of continuing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

supportive macroeconomic policies and prioritizing health policy responses to sustain the recovery.

Directors agreed that the expansionary fiscal stance strikes an appropriate balance between recovery needs and fiscal prudence, with the priority given to health, social, and infrastructure spending. They noted that the Philippines has some fiscal space to respond flexibly if downside risks materialize. Directors welcomed the authorities' commitment to fiscal consolidation, and in this regard, emphasized the benefits of adopting a medium-term fiscal strategy, centered on revenue mobilization and expenditure control, to anchor their commitments. They encouraged continued efforts to enhance fiscal transparency and accountability, including procurement procedures.

Noting the economic slack and inflation outlook, Directors agreed that the monetary policy stance should remain accommodative and data driven, mindful of risks to financial stability. They recommended gradually phasing out direct budgetary financing to safeguard the central bank's operational capacity and independence. A clear communication strategy would help enhance the effectiveness of monetary policy as normalization begins. Directors observed that the large current account surplus in 2020, which led to a large buildup of foreign reserves, is likely temporary. They saw an important role for the exchange rate in absorbing external shocks.

Directors highlighted that adequate credit provisioning and measures to strengthen prudential supervision remain important to preserve banking system soundness. They recommended that regulatory forbearance be allowed to expire as scheduled, and generally saw merit in limiting dividend payouts to allow for capital retention when needed. Directors underscored the urgent need to strengthen the bank resolution framework and enhance AML/CFT implementation, in line with the 2021 FSAP recommendations. Steadfast efforts are needed to facilitate swift exit from the FATF grey list and reduce the risk of disruptions to cross-border financial flows.

Directors welcomed the authorities' emphasis on structural reforms to improve the business environment and foster more sustainable, inclusive, and greener growth. They stressed the importance of investment in training and education to facilitate sectoral reallocation. Directors also encouraged efforts to increase spending on social protection, strengthen public service delivery, and implement climate-related initiatives.

Philippines: Selected Economic Indicators

	2017	2018	2019	2020	2021 Proj.	2022 Proj.
	(Annual percentage change, unless otherwise indicated)					
National account						
Real GDP	6.9	6.3	6.1	-9.6	5.4	7.0
Consumption	6.0	6.8	6.3	-5.2	4.5	7.0
Private	6.0	5.8	5.9	-7.9	3.4	6.4
Public	6.5	13.4	9.1	10.5	9.9	9.6
Gross fixed capital formation	10.6	12.9	3.9	-27.5	5.6	10.3
Final domestic demand	7.1	8.2	5.7	-10.6	4.7	7.7
Net exports (contribution to growth)	-0.9	-2.3	-0.2	4.0	0.2	-1.4
Real GDP per capita	5.2	4.7	4.6	-10.8	3.8	5.4
Output gap (percent, +=above potential)	0.4	0.2	-0.1	-8.6	-3.9	-0.7
Labor market						
Unemployment rate (percent of labor force)	5.7	5.3	5.1	10.4	7.6	6.3
Underemployment rate (percent of employed persons)	16.1	16.4	13.8	16.2	...	...
Employment	-1.6	2.0	1.9	-6.1	5.2	3.2
Price						
Consumer prices (period average)	2.9	5.2	2.5	2.6	4.2	3.0
Consumer prices (end of period)	2.9	5.1	2.5	3.5	3.3	3.0
Core consumer prices (period average)	2.5	4.1	3.2	3.1	...	...
Residential real estate (Q4/Q4)	5.5	0.5	10.4	0.8	...	...
Money and credit (end of period)						
3-month PHIREF rate (in percent) 1/	3.3	6.5	3.1	1.3	...	...
Claims on private sector (in percent of GDP)	45.6	47.6	48.0	51.9	48.5	47.6
Claims on private sector	16.4	15.1	7.8	-0.6	1.0	8.0
Monetary base	13.7	6.4	-3.0	5.1	6.0	10.5
Broad money	11.3	9.0	9.8	8.6	6.2	9.1
Public finances (in percent of GDP)						
National government overall balance 2/	-2.1	-3.1	-3.4	-7.6	-9.6	-7.7
Revenue and grants	14.9	15.5	16.1	15.9	14.9	15.4
Total expenditure and netlending	17.1	18.7	19.5	23.6	24.5	23.1
General government gross debt	38.1	37.1	37.0	51.9	57.7	60.2
Balance of payments (in percent of GDP)						
Current account balance	-0.7	-2.6	-0.8	3.6	0.4	-1.8
FDI, net	-2.1	-1.7	-1.4	-0.8	-0.4	-0.9
Total external debt	22.3	22.8	22.2	27.2	25.0	24.4
Gross reserves						
Gross reserves (US$ billions)	81.6	79.2	87.8	110.1	103.6	98.3
Gross reserves (percent of short-term debt, remaining maturity)	419.3	364.9	398.3	552.6	508.3	459.0
Memorandum items:						
Nominal GDP (US$ billions)	328.5	346.8	376.8	361.5	400.6	433.6
Nominal GDP per capita (US$)	3,153	3,280	3,512	3,323	3,628	3,867
GDP (in billions of pesos)	16,557	18,265	19,518	17,939	19,390	21,320
Real effective exchange rate (2010=100)	103.4	100.5	105.4	111.5	...	...
Peso per U.S. dollar (period average)	50.4	52.7	51.8	49.6	...	...

Sources: Philippine authorities; World Bank; and IMF staff estimates and projections.

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

2/ IMF definition. Excludes privatization receipts and includes deficit from restructuring of the previous Central Bank-Board of Liquidators.

APPENDIX 3: 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		
Prior Action 1: Through, JMC 1-2021, issued by DICT, DILG, DPWH and other government agencies, the government has introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process.	Positive. The policy promotes infrastructure efficiency and promoting underground installation of the mobile, electric, and broadband poles and wire.	Positive. This will increase Internet access, especially in lower-income households, by reducing costs and increasing coverage. Expanded access to Internet services increases access to health, education, and economic opportunities for income generation.
Prior Action 2: Through JMC 1-2021, issued by ARTA, DICT, SEC and other government agencies, the government has streamlined and automated national and local government processes for starting a business.	Positive. Additional environmental and climate screening are required for certain businesses.	Positive. Ease of business registration will open opportunities for entrepreneurship.
Prior Action 3: Through Customs Memorandum Orders 21-2020, 02-2021, 09-2021, and 26-2021, the Bureau of Customs has strengthened regulatory framework for implementing risk-based controls and enhanced cargo selectivity.	This reform has no direct impact on the environment.	Positive. Trade may present short-term negative effects for producers as they face competition, but on the net, it will bring reduced prices for consumers, many of which are poor.
Prior Action 4: Through (i) the approval by the Bicameral Conference Committee of Senate Bill Number 1840 and House Bill Number 59 amending the Retail Trade Liberalization Act of 2000; and (ii) the commencement of the process of transmitting the said Bill(s) by the Congress to the President, the government has reduced capital requirement for foreign ownership, and relaxed qualification and local inventory requirements for foreign retailers.	This reform has no direct impact on the environment.	Positive. The reform might affect small scale retailers in the short term as it introduces more competition. However, it. will likely lead to additional employment, greater inflow of new technologies, and greater product variety for consumers, benefitting the entire population including the poor.

Operation Pillar 2: Enhancing Resilience		
Prior Action 5: Through enactment of the CREATE Act, the government has rationalized tax incentives and improved process for monitoring and evaluation.	No direct impact on environment.	Positive. This reform is expected to be progressive as it provides tax relief to micro and small enterprises, many of which are owned by the poor.
Prior Action 6: Through a memorandum of agreement between the DSWD and PSA, the government has (i) adopted PhilSys as primary means of social assistance beneficiary identification and verification and (ii) established guidelines for implementation thereof.	No direct impact on environment.	Positive. This reform will increase access to social assistance for poor and disadvantaged groups and promote efficient, fast delivery of assistance to beneficiaries, minimizing waste and reducing operational costs of delivery.
Prior Action 7: Through issuance of Circulars 1126 and 1127, BSP has strengthened payment system governance framework and risk management.	No direct impact on environment.	Positive. The payment system will expand financial inclusion and access to financial services for poor households.
Prior Action 8: Through a joint memorandum from DOF and DBM, the government has adopted claims management procedures for national indemnity insurance program to link pre-arranged financing directly to pre-arranged funding channels for rapid response.	Positive. Contributes to adaptation to climate change.	Positive. It protects communities from devastating effects of climate change by enabling faster responses.
Prior Action 9: Through a memorandum from Bureau of the Treasury, the government launched a pilot for the web-based National Asset Registry System.	Positive. Sets foundation for protecting community assets and public goods against climate change.	Positive. Protection of community assets can increase resilience of poor households to climate change.

APPENDIX 4: ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Promoting Competitiveness	
Prior Action 1: Through, JMC 1-2021, issued by DICT, DILG, DPWH and other government agencies, the government has introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process.	**The Philippines Digital Economy Report** provides the analytics behind the regulatory streamlining and policy formulations required to promote investments in digital and telecommunications infrastructure. **Competitiveness Programmatic ASA** provides advisory services, technical support, and capacity building to DICT, ARTA, and other implementing agencies on regulatory changes and procedural simplification to facilitate passage of infrastructure-sharing program. **Philippines Country Private Sector Diagnostics 2019** provides analytical insight into regulatory constraints for expansion of digital infrastructure, including inhibitors to FDI in telecommunications market, which insulates Philippines's telecommunications sector operators from foreign competition and prevented entry of new operators, and obtention of permits for installation of cellular towers.
Prior Action 2: Through JMC 1-2021, issued by ARTA, DICT, SEC and other government agencies, the government has streamlined and automated national and local government processes for starting a business.	**Game Changers ASA 2016-2020** supports government's reform goal of improving competition by providing technical assistance and capacity-building support to Philippine Competition Commission. World Bank produced Fostering Competition in the Philippines (2018) report, which details challenges of restrictive competitive environment in the Philippines and provided a tax incentive analysis to DOF that includes a tax simulation model, inputs for cost-benefit analysis, and detailed comparisons of tax incentive regimes in Association of Southeast Asian Nations-6 countries and Business Process Outsourcing comparisons of the Philippines and India. **Advisory services on improving the business environment 2017-2022** provided advisory services, technical support, and capacity building to DTI, ARTA, and implementing agencies such as SEC, Land Registration Authority, Bureau of Internal Revenue, and Quezon City on simplification of procedures to increase ease of doing business. **Philippines Country Private Sector Diagnostics 2019** shows that nontariff measures, including technical regulations, product standards, and customs procedures, increase costs of trade.
Prior Action 3: Through Customs Memorandum Orders 21-2020, 02-2021, 09-2021, and 26-2021, the Bureau of Customs has strengthened regulatory framework for implementing risk-based controls and	**Customs Modernization Project** is a US$88 million loan that will support modernization of Bureau of Customs' core Customs Processing System and requisite business process and organizational development requirements to fully modernize operations of Bureau of Customs. **Competitiveness Programmatic ASA** is a project that the U.K. Foreign and Commonwealth Office has funded that provides advisory services, technical support, and capacity building to Bureau of Customs and other trade-

enhanced cargo selectivity.	related agencies on implementation of World Trade Organization Trade Facilitation Agreement.
Prior Action 4: Through (i) the approval by the Bicameral Conference Committee of Senate Bill Number 1840 and House Bill Number 59 amending the Retail Trade Liberalization Act of 2000; and (ii) the commencement of the process of transmitting the said Bill(s) by the Congress to the President, the government has reduced capital requirement for foreign ownership, and relaxed qualification and local inventory requirements for foreign retailers.	**Competitiveness Programmatic ASA** is a project that the U.K. Foreign and Commonwealth Office has funded that provides advisory services, technical support, and capacity building to DOF, DTI, and other investment-related agencies on liberalization of FDI, analysis on the provisions of RTLA and Internet Transaction Act Bill, and implementation of Investment Priority Plan, which describes strategic interventions to promote investment and competitiveness in the Philippines. Legal reviews and notes on the RTLA have been completed, including a note on the RTLA and its proposed amendments (June 2021) and a note on the potential implications of the amendments of the RTLA to the pending Internet Transactions Act (June 2021).
Operation Pillar 2: Enhancing Resilience	
Prior Action 5: Through enactment of the CREATE Act, the government has rationalized tax incentives and improved process for monitoring and evaluation.	**Tax Policy Notes for More Inclusive Growth: Inputs to the New Administration.** Through a set of six policy notes on corporate income tax, personal income tax, capital income tax, value-added tax, excise tax on oil, and property tax prepared in 2014 to 2016, the World Bank informed and assisted the government in the design of its tax reform packages. This included the recent CREATE Act, which lowered the corporate income tax and rationalized fiscal incentives to be competitive with regional peers. **Game Changers ASA 2016-2020** supports the government with demand-driven technical support, just-in-time analysis, and capacity building for development and passage of CREATE. The World Bank provided an Annualized Effective Tax Rate (AETR) analysis and incentives benchmarking, among other analytical work. **Competitiveness Programmatic ASA** provides advisory services and analytics on promotion of investments and small and medium-sized enterprise linkages. These ASA support the updating of the investment promotion strategy, the suite of incentives, building capacity for the Board of Investments, and medium- to long-term structural reforms. Moreover, through these ASA, the World Bank team supports the DOF on development of the implementing rules and regulations of the law and capacity building on cost-benefit analysis methodologies. **Philippines Country Private Sector Diagnostics 2019** recommends

	removal of restrictions on and barriers to trade in services, including retail, on the basis that the Philippines is one of the most restrictive markets for trade in retail services. The report concluded that paid-up capital restrictions limit foreign ownership.
Prior Action 6: Through a memorandum of agreement between the DSWD and PSA, the government has (i) adopted PhilSys as primary means of social assistance beneficiary identification and verification and (ii) established guidelines for implementation thereof.	**Australian Department of Foreign Affairs and Trade and Identification for Development–funded ASA 2018-2020** has supported technical assistance for PSA on a wide range of matters related to design and implementation of PhilSys. This has included an Identification for Development diagnostic and advice on legislation and implementing rules and regulations (2018) and 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 multiagency PhilSys Policy and Coordination Council (2019 to present). **Beneficiary FIRST Social Protection Project** was designed to mitigate the impacts of COVID-19 on low-income households and strengthen the DSWD's social protection delivery systems through enhanced beneficiary experience, improved business process and information systems, and a better targeting mechanism.
Prior Action 7: Through issuance of Circulars 1126 and 1127, BSP has strengthened payment system governance framework and risk management.	**Financial market infrastructure technical note** found that no well-founded legal basis underpins the payment system and services in the Philippines; current oversight powers of the BSP over relevant payment systems, instruments, and services are inadequate; and BSP and any other relevant authorities should submit another comprehensive payment systems bill to Congress. **Analytical notes on financial market infrastructure and retail payments** highlight that enactment of the National Payment System Act and issuance of secondary regulations have strengthened legal certainty in the 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 of risk management is needed to enhance security of the national payment system. Upgrade of the Real-Time Gross Settlement System, underpinned by the National Payment Systems Act, will increase the security and efficiency of the payment system.
Prior Action 8: Through a joint memorandum from DOF and DBM, the government has adopted claims management procedures for national indemnity insurance program to link pre-arranged	**Lessons learned evaluation for Philippines Parametric Insurance Program (2020)** highlights key challenges faced during implementation of this pilot program, including importance of regular, predictable budget allocation. **World Bank, Financial Protection Against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance (2014)** summarizes global experience on disaster risk financing. Key lessons learned for efficient risk financing include that combining

financing directly to pre-arranged funding channels for rapid response.	financial instruments can minimize the cost of mobilizing post disaster resources; different instruments should be used for specific purposes; improving links between funding sources to contingency plans is key for effective response; and data are critical for fine-tuning financial instruments.
Prior Action 9: Through a memorandum from Bureau of the Treasury, the government launched a pilot for the web-based National Asset Registry System.	**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: missing data, data spread across multiple entities, low or irregular frequency of data updates, basis of asset values being stored limiting natural risk financial analysis, and lack of information on physical location of assets. **Developing a Public Asset Registry for the Philippines—Inventory and Conceptual Design (2018)** found insufficient and weak legislative framework and asset policies on asset management and asset insurance, unclear institutional accountability and absence of a single entity for asset data management, significant discrepancies in asset data maintained in property records and books of accounts, and no centralized information and communications technology systems for asset management. **Disaster Risk Finance ASA (2019-2020)** provided hands-on support to government to strengthen financial risk management of public assets, including institutional strengthening and development of national asset management policy, bringing in international good practice, for example, through a study exchange with New Zealand.

APPENDIX 5: CONVERSION OF DPL2 TRIGGERS TO PRIOR ACTIONS IN DPL3

Indicative Triggers for DPL3 as defined in DPL2	Prior Actions under DPL 3	Comment
The government has defined policies for fixed broadband internet use.	**Prior Action 1:** Through, JMC 1-2021, issued by DICT, DILG, DPWH and other government agencies, the government has introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process.	**Unchanged** Provided with more specificity of measures and how it will be operationalized.
The government has revised complementary regulations to streamline national and local government processes for starting a business.	**Prior Action 2:** Through JMC 1-2021, issued by ARTA, DICT, SEC and other government agencies, the government has streamlined and automated national and local government processes for starting a business.	**Unchanged** Provided with more details of proxy location for measurement and benchmark.
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.	**Prior Action 3:** Through Customs Memorandum Orders 21-2020, 02-2021, 09-2021, and 26-2021, the Bureau of Customs has strengthened regulatory framework for implementing risk-based controls and enhanced cargo selectivity.	**Unchanged** Minor changes in formulation to make measures streamlined and clear.
The government has adopted an operational framework for encouraging rice farmers to diversify to higher value commodities.		**Dropped**
	Prior Action 4: Through (i) the approval by the Bicameral Conference Committee of Senate Bill Number 1840 and House Bill Number 59 amending the Retail Trade Liberalization Act of 2000; and (ii) the commencement of the process of transmitting the said Bill(s) by the Congress to the President, the government has reduced capital requirement for foreign ownership, and relaxed qualification and local inventory requirements for foreign retailers.	**Added** To support competitiveness in attracting investments on retail sector.
	Prior Action 5: Through enactment of the CREATE Act, the government has rationalized tax incentives and improved process for monitoring and evaluation.	**Added** To support economic recovery of business, boost investment, and

		enhance fiscal resilience.
The government has launched the mass registration for PhilSys and adopted the PhilSys for social assistance beneficiary identification and verification.	**Prior Action 6:** Through a memorandum of agreement between the DSWD and PSA, the government has (i) adopted PhilSys as primary means of social assistance beneficiary identification and verification and (ii) established guidelines for implementation thereof.	**Unchanged** Minor changes in formulation.
The government has issued a regulation to promote adequate risk management for the payment systems.	**Prior Action 7:** Through issuance of Circulars 1126 and 1127, BSP has strengthened payment system governance framework and risk management.	**Unchanged** Minor changes in formulation to be more aligned with legal evidence.
The government has adopted mechanisms to link pre-arranged financing directly to pre-arranged funding channels for rapid response.	**Prior Action 8:** Through a joint memorandum from DOF and DBM, the government has adopted claims management procedures for national indemnity insurance program to link pre-arranged financing directly to pre-arranged funding channels for rapid response.	**Unchanged** Provided with more details of what it means to be operationalized.
The government has adopted a web-based National Asset Registry System at the Bureau of the Treasury (BTr).	**Prior Action 9:** Through a memorandum from Bureau of the Treasury, the government launched a pilot for the web-based National Asset Registry System.	**Unchanged** Minor change to reflect evidence to be furnished.

APPENDIX 6: RETAIL TRADE LIBERALIZATION ACT SUMMARY OF SELECTED AMENDMENTS

Original version (RA 8762)		Summary of proposed amendments
Foreign equity participation (section 5)	Foreign retailers can engage or invest in the retail trade business, under the following conditions: ▪ Category A—Enterprises with paid-up capital of US$2,5 million or less shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens. ▪ Category B—Enterprises with minimum paid-up capital between US$2,5 million and US$7.5 million may be owned by foreigners wherein foreign participation shall be limited to not more than 60 percent of total equity. ▪ Category C—Enterprises with paid-up capital of US$7.5 million or more may be owned by foreigners provided that in no case shall the investments for establishing a store be less than US$830,000. ▪ Category D—Enterprises specializing in high-end or luxury products with paid-up capital of US$250 thousand per store may be owned by foreigners. The foreign investor shall be required to maintain in the Philippines the full amount of the prescribed minimum capital and secure a certification from the BSP and DTI, which will verify or confirm inward remittance of the minimum required capital investments.	Foreign retailers should complete registration with the SEC and DTI. ▪ Categories A to D were eliminated. ▪ The new threshold for the minimum paid up capital is US$500,000. ▪ In the case that the foreign retailer engages through more than one physical store, the investment for each store must be at least US$100,000, provided that this requirement does not apply to a domestic corporation whose equity is at least 60 percent Filipino owned and controlled.
Foreign investment through local retailers (section 6)	Foreign investors acquiring shares from existing retail stores whose net worth is more than US$2.5 million may purchase only up to a maximum of 60 percent of the equity thereof within the first 2 years from the effectivity of this Act.	Eliminated
Public offering of shares of stock (section 7)	All retail trade enterprises under categories B and C in which foreign ownership exceeds 80 percent of equity shall offer a minimum of 30 percent of their equity to the public through any stock exchange in the Philippines within 8 years from their start of operations.	Eliminated
Qualification of foreign retailers (section 8)	Foreign retailers shall not be allowed to engage in retail trade in the Philippines unless all the following qualifications are met: ▪ A minimum of US$200 million net worth in its parent corporation for categories B and C and US$50 million net worth in its parent corporation for category D ▪ Five retail branches or franchises in operation anywhere around the word unless such retailer has at least one store capitalized at a minimum of US$25 million ▪ Five-year track record in retail ▪ Only nationals from, or juridical entities formed or incorporated in, countries that allow entry of Filipino retailers shall be allowed to engage in retail trade in the Philippines. ▪ DTI shall keep a record of qualified foreign retailers who may, upon compliance with law, establish retail stores in the Philippines.	Qualifications were eliminated. DTI is hereby authorized to prequalify all foreign retailers, subject to the provisions of this Act, before they can conduct business in the Philippines.

Promotion of locally manufactured products (section 9)	For 10 years after passage of this Act, at least 30 percent of the aggregate stock inventory in value of foreign retailers under categories B and C and 10 percent for category D shall be made in the Philippines.	At least 10 percent of the aggregate cost of the stock inventory of foreign retailers shall be made in the Philippines.

APPENDIX 7: DEVELOPMENT POLICY LETTER

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

DEVELOPMENT POLICY LETTER

DAVID R. MALPASS
President
World Bank Group
Washington, D.C.

Dear **President MALPASS:**

On behalf of the Government of the Republic of the Philippines, allow us to express our gratitude to the World Bank for its continuing support to our overall economic recovery efforts from the impacts of the COVID-19 pandemic, and in mobilizing the necessary external resources therefor.

This development policy letter outlines our reform agenda relating to the third part of our Promoting Competitiveness and Enhancing Resilience to Natural Disasters Development Policy Loan (PCERNDDPL) Series, and serves as an expression of our interest in obtaining a USD600 million budget support loan to sustain the progress already achieved under the series, and fund Government operations and priority reforms.

The present administration has adopted a collective long-term vision to achieve a strongly-rooted, comfortable, and secure life for Filipinos by 2040, otherwise known as *Ambisyon Natin 2040*. This serves as an anchor for development planning across administrations, the first of which is the Philippine Development Plan 2017-2022. The Philippine economy has been steadily gaining traction in meeting its development objectives, until COVID-19 arrested growth prospects and inflicted damage to lives, income, and livelihood. Due to this setback and the changes it brought on the global economic landscape, the Government is recalibrating its actions and paying increased attention to the health and resiliency of Filipinos, while maintaining macroeconomic stability and promoting competition.

Banking on the policy actions completed under the first and second subprograms of the PCERNDDPL, the Government is scaling up its initiatives in the key areas of (i) promoting competitiveness; and (ii) enhancing resilience, through the third subprogram.

To further promote investment in telecommunications, the Government introduced non-discriminatory access to poles, broadband infrastructure and the simplified fixed broadband network rollout process. On simplifying the business environment, following the enactment of the Ease of Doing Business and Efficient Government Services Delivery Act or Republic Act (RA) No. 11032, and the operationalization of the law through the creation of organizational structure and budget allocation for the Anti-Red Tape Authority (ARTA) under the PCERNDDPL2, the Government is streamlining and automating processes for starting a business under Subprogram 3. The streamlined business registration process allows electronic submission of documents, making digital payments, and using digital signatures in registering businesses.

In terms of trade facilitation, the previous subprograms saw the introduction of modernized customs processing. As a follow-through, the Bureau of Customs (BOC) is strengthening the regulatory framework for implementing risk-based controls and enhanced cargo selectivity through the issuance of relevant directives. The enhanced system promotes additional automation, increased accountability, and reduces delays in clearance procedures.

An additional area was also incorporated in the PCERNDDPL series to recognize the Government's commitment to reducing barriers to entry of foreign capital in the retail sector through the approved bicameral amendment to the Retail Trade Liberalization Act. The amendment reduces the capital requirement for foreign investors to engage in retail trade, and relaxes the qualification and local inventory requirements for foreign retailers.

To enhance fiscal resilience, the Government is moving forward in its Comprehensive Tax Reform Program (CTRP) aimed at making the tax system simpler, fairer and more efficient. Through RAs No. 11346 and 11467, the Department of Finance increased excise taxes on tobacco products, alcohol, and e-cigarettes to support the implementation of the Universal Health Care Act. For the PCERNDDPL3 period, the Government is rationalizing tax incentives through the enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. It will serve as a fiscal stimulus by providing tax relief and reducing corporate income taxes, and thus, helping businesses weather the effects of the COVID-19 pandemic.

The Government is also enhancing social resilience and fostering financial inclusion through digital infrastructures for social programs and payments systems. The creation of the legal and regulatory frameworks for the Philippine

Identification System (PhilSys) and the roll-out of registration under the previous subprograms is now being followed-through with the adoption of the PhilSys as a means of social assistance beneficiary identification and verification. It is expected to help beneficiaries access social protection systems more easily and for the Government to transact more efficiently with the beneficiaries. The greater use of digital payments systems is likewise being fostered through the strengthening of the payment systems governance framework and risk management by the Bangko Sentral ng Pilipinas.

Finally, the Government is improving risk management and resilience against natural disasters and the effects of climate change through the adoption of claims management procedures for the National Indemnity Insurance Program (NIIP), and the launch of a pilot for web-based National Asset Registry System (NARS).

Taken altogether, these reforms encompass the broad spectrum of strategies and initiatives critical to support the Government in rebuilding the economy. We recognize that while response is still continuing, it is also high time to move forward with recovery, for which the relentless support of and collaboration with the World Bank, and our other development partners and the international community, are imperative. Many economies faced an unprecedented threat from the COVID-19, and have weathered currents and surges into a previously uncharted course. It is still a long course, but with the continuing efforts, dedication, and genuine concern for the people, the country is setting the stage for a resurgence and is paving the way towards a better and more resilient future.

Very truly yours,

CARLOS G. DOMINGUEZ
Secretary of Finance
OCT 28 2021