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Report No: PGD466

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 699,105,000 (US$ 750 MILLION EQUIVALENT) TO

REPUBLIC OF THE PHILIPPINES
FOR THE

PHILIPPINES SECOND SUSTAINABLE RECOVERY DEVELOPMENT POLICY LOAN

June 6, 2024

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

Republic of the Philippines

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Currency Unit: Philippine peso

US$1.00 = PHP 56.97 (effective as of April 17, 2024)

US$ 1 = EUR 0.93214019 (effective as of April 30, 2024)

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AM	Accountability Mechanism
ASA	Advisory services and analytics
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BSP	Bangko Sentral ng Pilipinas
BTr	Bureau of the Treasury
BTMS	Budget and Treasury Management System
CA	Current account
CCC	Climate Change Commission
CCDR	Country Climate and Development Report
COA	Commission on Audit
CPC	Certificate of Public Convenience
CPF	Country partnership framework
CREVI	Comprehensive Roadmap for the Electric Vehicle Industry
CSE	Common use supplies and equipment
DAO	Department Administrative Order
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DOE	Department of Energy
DOF	Department of Finance
DOLE	Department of Labor and Employment
DPF/DPL/DPO	Development policy financing/loan/operation
DRM	Disaster risk management
D-SIBs	Domestic Systemically Important Banks
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
EAP	East Asia and Pacific
ECC	Environmental Compliance Certificate
ECR	EPR Compliance Report
IRR	Implementing Rules and Regulations
ITWG	Interagency Technical Working Group
JMC	Joint Memorandum Circular
LCC	Life cycle cost
LDP	Letter of Development Policy
LGU	Local government unit
MAPS	Methodology for Assessing Procurement Systems
MARINA	Maritime Industry Authority
MEPC	Marine Environmental Protection Command
MFD	Maximizing Finance for Development
MSMEs	Micro, small, and medium enterprises
MTEF	Medium-Term Expenditure Framework
MW	Megawatt
NAP	National Adaptation Plan
NEC	National Ecological Center
NEDA	National Economic and Development Authority
NGA	National government agencies
NPL	Non-performing loan
OE	Obliged Enterprises
OECD	Organization for Economic Cooperation and Development
OSW	offshore wind
PA	Prior Action
PAS	Philippine Accounting Standards
PCE	Private Capital Enabled
PCIC	Philippine Crop Insurance Corporation
PCG	Philippine Coast Guard
PDMF	Project Development and Monitoring Facility
PDO	Project Development Objectives
PDP	Philippine Development Plan
PEFA	Public Expenditure and Financial Accountability

EMB	Environmental Management Bureau	PEISS	Philippine Environmental Impact Statement System
EO	Executive Order	PEFA	Public Expenditure and Financial Accountability
EPR	Extended Producer Responsibility	PFM	Public Financial Management
ETCR	Energy Transition and Climate Resilience	PFRS	Philippine Financial Reporting Standards
EV	Electric vehicle	PFRAM	PPP Fiscal Risk Assessment Model
EVCS	Electric vehicle charging station	PhilGEPS	Philippine Government Electronic Procurement System
EVIDA	Electric Vehicle Industry Development Act	PHP	Philippine peso
EVOSS	Energy Virtual One-Stop Shop	PPA	Power purchase agreement
FDI	Foreign Direct Investment	PPIA	Philippine Plastics Industry Association, Inc.
FLFP	Female labor force participation	PPP	Public Private Partnership
FMIS	Fiscal management information system	PRO	Producer Responsibility Organization
FOREX	Foreign Exchange	PSA	Public Service Act
FSF	Financial Sector Forum	RE	Renewable energy
GAA	General Appropriations Act	RSBSA	Registry System for Basic Sectors in Agriculture
GDP	Gross domestic product	SCD	Systematic Country Diagnostic
GEAP	Green Energy Auction Program	SDG	Sustainable Development Goals
GHG	Greenhouse gas	SEC	Securities and Exchange Commission
GOP	Government of the Philippines	SUP	Single use plastic
GPP	Green Public Procurement	SPP	Sustainable Public Procurement
GPPB	Government Procurement Policy Board	TSO	Technical Support Office
GRS	Grievance Redress Service	UNDP	United Nations Development Programme
GW	Gigawatt	UNOPS	United Nations Office for Project Services
ITWG	Interagency Technical Working Group	USAID	United States Agency for International Development
IBRD	International Bank for Reconstruction and Development	US$	United States dollar
IC	Insurance Commission	USP	Unsolicited proposal
ICC	Investment Coordination Committee	VAT	Value added tax
ICT	Information & communication technology	WB	World Bank
IMO	International Maritime Organization	WBG	World Bank Group
IMF	International Monetary Fund		

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REPUBLIC OF THE PHILIPPINES

Philippines Second Sustainable Recovery Development Policy Loan

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P180336	Yes	2nd in a series of 2

Proposed Development Objective(s)

The DPL series aims to support the Government of the Philippines' reforms to: 1) accelerate the economic recovery and boost medium-term growth; and 2) protect the environment and improve climate resilience.

Organizations

Borrower:	Republic of the Philippines
Implementing Agency:	Bangko Sentral ng Pilipinas, Bureau of the Treasury, Department of Energy, Department of Environment and Natural Resources, Government Procurement Policy Board, Maritime Industry Authority, National Economic and Development Authority, Public-Private Partnership Center, Securities and Exchange Commission

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

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

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**750.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	750.00

PRACTICE AREA(S)

Practice Area (Lead)	Contributing Practice Areas
Macroeconomics, Trade and Investment	Energy & Extractives; Environment, Natural Resources & the Blue Economy; Finance, Competitiveness and Innovation; Transport

CLIMATE

Climate Change and Disaster Screening

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

OVERALL RISK RATING

Overall Risk	Moderate

RESULTS

Indicator Name	Baseline	Target
1. Cumulative quantity of passenger and cargo vessels imported.	139 ships (2020-2022 total)	158 ships (2023-2025 total)
2. Number of PPPs for which final decisions by the Approving Body are reached.	4 (2022-2023)	At least 5 (2025)
3. Completed advisory services (for project preparation, negotiation, and tendering of projects both solicited and unsolicited) aiding LGUs in their PPP activities (share of TA Agreements signed between LGUs and PDMF).	0 percent (2023)	At least 50 percent (2025)
4. Annual average investment (measured by the development cost) in solar projects[1] (percent of GDP).	0.02 percent of GDP (2017-2022 average)	0.06 percent of GDP (2023-2025 average
5. Number of Green Energy Auctions for offshore wind conducted.	0 (2023)	At least 1 (2025)
6. Share of electricity generation from renewable energy (percent).	22 percent (2021)	25 percent (2025)
7. Sustainability-related lending (said lending covers renewable energy, energy efficiency projects, and other economic activities or projects that contribute to climate change mitigation and adaptation objectives, and sustainable development goals) by Domestic Systemically Important Banks (D-SIBs) (PHP billion)	PHP 232 billion (2022)	At least PHP 255 billion (2025)
8. Recovery of plastic packaging as share of amount introduced into the market by Obliged Enterprises (OEs), Collectives, and Producer Responsibility Organizations (PROs) (percent).	0 percent (2022)	40 percent (2025)
9. Share of submitted EPR implementation programs with component on gender equality (percent).	0 percent (2022)	5 percent (2025)
10. Number of registered charging points operated by accredited electric vehicle charging stations (EVCSs).[2]	563 (April 2024)	1,000 (June 2026)
11. Share of total budget covering pilot projects under the broad categories is awarded on products and services according to the GPP green specifications (percent of total budget spent on these broad categories).	0 percent (2023)	At least 40 percent (June 2026)
12. Financial resilience of Philippine Crop Insurance Corporation (PCIC) measured by compliance with Insurance Commission (IC) regulation.	PCIC is not compliant with Insurance Commission regulation (2022)	PCIC is compliant with Insurance Commission regulation (2025)

[1] Defined as projects with service contracts with DOE.
[2] Refers to charging points per registered EVCS operated by accredited EVCS Providers.

IBRD PROGRAM DOCUMENT FOR A PROPOSED
SECOND SUSTAINABLE RECOVERY DEVELOPMENT POLICY LOAN TO THE REPUBLIC OF THE PHILIPPINES

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes the second operation in a programmatic series of two Development Policy Loans (DPLs) supporting a sustainable economic recovery, in the amount of US$ 750 million equivalent.** The Program Development Objectives (PDOs) and pillars of the operation are to support the Government of the Philippines (GOP) to: 1) accelerate the economic recovery and boost long-term growth; and 2) protect the environment and improve climate resilience. Pillar 1 supports reforms to attract private investment in infrastructure and renewable energy (RE) and to mobilize and scale up sustainable finance. Pillar 2 supports reforms to improve plastic waste management, promote green transport and green procurement, and strengthen the resilience of the agriculture sector. The first operation supported foundational reforms and general implementation frameworks. The second operation builds on these foundations, focusing on the implementation of these reforms.

2. **Advancing transformational economic reforms is vital to accelerate the economic recovery and boost long-term growth in the Philippines.** The Philippines has been one of the most dynamic economies in the East Asia Pacific (EAP) region, with GNI per capita more than tripling, poverty declining sharply from 33.5 percent in 2000 to 18.1 percent in 2021, and income distribution improving over the past two decades. However, this was partially reversed by the COVID-19 pandemic, as growth contracted significantly in 2020. While the economy has since rebounded, there remain considerable external and domestic risks that could hamper the recovery momentum. The Philippines also faces a complex range of structural challenges limiting its long-term growth potential.[3] Among these are (i) limited market competition in several key sectors; (ii) underinvestment in infrastructure, (iii) low foreign direct investment (FDI) resulting in part from regulatory restrictions, and (iv) low growth in the agriculture sector, heightened by vulnerability to natural disasters and institutional weaknesses. To achieve its long-term vision of sustaining high growth and creating quality jobs, the Philippines will need to overcome these longstanding constraints and challenges.

3. **Climate change poses major risks to growth and development in the Philippines**. Severe economic and fiscal shocks, due to natural disasters and climate change, threaten the country's socioeconomic development.[4] Without mitigation action, climate change will impose substantial economic and human costs, reducing GDP by as much as 13.6 percent by 2040, with the poorest households most affected. All sectors will be affected, with capital-intensive sectors likely to suffer most from extreme events, and agriculture suffering the most from slow-onset trends. Adapting to climate change, including extreme events and slow-onset problems, is thus critical for long-term development.

4. **Although the Philippines is a relatively low emitter of greenhouse gases (GHGs), emissions are expected to rise substantially over the next decade**.[5] The overall share of fossil fuels in the primary energy supply increased from 60 to 67 percent from 2010 to 2019 due to the rapid growth of coal-fired power generation and sustained growth in oil demand from transport. Regulatory hurdles have constrained investments in renewable energy generation capacity. Thus, the energy sector accounts for half of total emissions, while agriculture is the second largest source, accounting for a quarter. Transport is the biggest fossil fuel-consuming sector – and the largest source of air pollution, causing an estimated 66,000 premature deaths a year – with GHG emissions likely to quadruple by 2050 under current scenarios and policies. Plastic waste management is also a growing problem in the country, which is among the top five emitters of plastic waste in the ocean, causing marine pollution and flood risks in drainage infrastructure.

[3] Philippines Systematic Country Diagnostic (World Bank, 2019),
[4] Philippines Country Climate and Development Report (World Bank, 2022).
[5] The 2022 CCDR projects an increase in the GHG emissions from 234 MtCO2e in 2020 to 399 MtCO2e in 2030.

5. **The DPL series supports government reform efforts in accelerating the economic recovery, boosting long-term growth, and protecting the environment and improving climate resilience.** Pillar 1 supports reforms to attract private investment in public infrastructure, especially in domestic shipping, and in RE, especially in offshore wind (OSW), increase investment in infrastructure through public-private partnerships (PPPs), and mobilize sustainable finance. These reforms will facilitate the transition to a low-carbon economy while achieving greater energy security and lower energy costs. Pillar 2 supports reforms to enhance plastic waste management, promote the adoption of electric vehicles (EVs), mainstream green procurement, and protect the national budget and farmers from climate-related risks in the agriculture sector. Collectively, these reforms would contribute to climate change mitigation and pollution management and improve its resilience to climate risks. The reforms are in line with the priorities outlined in the Philippine Development Plan (PDP) 2023–2028, which calls for fundamental transformations across economic, institutional, environmental, and social sectors.

6. **The reforms supported by this DPL series are aligned with the Country Partnership Framework (CPF) and the corporate priorities.** The main filters for the selection of the policy areas were government demand, robust analytical underpinnings, reform impact, and availability of technical assistance to support implementation. Prior Actions (PAs) contribute to the World Bank Group's 2019-2023 CPF objectives, namely 5) enhanced competitiveness through regulatory reforms; 6) improved efficiency of public service sectors in selected areas; 7) improved income opportunities in agriculture; and 10) increased resilience to natural disasters and climate change. The PAs align with the Paris Agreement, promote gender equality, promote climate mitigation and adaptation, and enable private capital investment.

7. **These reforms are being implemented in the first two years of the current administration, which took office in July 2022 and has emphasized economic policy continuity.** The administration is providing reform continuity through the implementation of recently approved laws. This applies to investment, plastics, and revenue reforms. Recognizing the fiscal constraints and the need for private sector involvement in infrastructure investment, it has committed to using PPPs and improving the PPP framework. The World Bank has worked across government administrations to implement this reform agenda.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Economic growth continued to strengthen alongside a post-pandemic recovery in private domestic demand, which has fueled services growth.** The economy sustained its growth momentum, expanding by 5.7 percent year-on-year in Q1 2024. Services remained the main growth engine, as robust domestic demand fueled the growth of wholesale and retail trade, financial activities, and business services. The recovery of global tourism drove the growth of tourism-related industries. Industry likewise supported growth, as the recovery in goods trade and industrial activity led to a modest recovery in manufacturing. On the demand side, a robust labor market, steady remittance inflows, and credit growth underpinned household consumption. However, the growth in household consumption is the slowest since 2021 due to waning pent-up demand and higher cost of living. Investment spending also slowed because of uncertainties surrounding the global economic environment and high interest rates that slowed lending for production activities. The contribution of government consumption to the overall expansion in output was marginal due to ongoing fiscal consolidation.

9. **After peaking in 2023, inflation returned to the 2–4 percent target of the *Bangko Sentral ng Pilipinas* (BSP) in early 2024, albeit weighed by the sharp increase in rice inflation.** Headline inflation averaged 3.4 percent in the first four months of 2024 (7.9 percent over the same period in 2023), mainly due to slower upticks in food and fuel inflation, as well as favorable base effects. However, rice inflation soared from an average of 2.6 percent in the same period in 2023 to 23.6 percent through April 2024 because of high international prices and reduced production due to the impact of El Niño. The

central bank has kept the policy rate at a 17-year high to anchor inflation expectations, while the government lowered import tariffs for key commodities and provided financial support to vulnerable sectors.

10. **The current account deficit narrowed to 2.6 percent of GDP in 2023 (from 4.5 percent in 2022), driven by robust service exports, steady remittance inflows, and a narrower goods trade deficit.** The goods trade deficit narrowed due to lower international commodity prices, and decreased demand for capital goods and raw materials, and intermediate goods imports. In addition, services exports registered robust growth, due to the ongoing recovery of tourism activities and a strong IT-BPO sector. Meanwhile, inflows into the financial account increased due to higher other investment account inflows, such as private sector and government foreign borrowings, despite lower FDI net inflows and reversal to net outflows of portfolio investments. The Philippine peso slightly weakened against the US dollar in 2023 amid the hawkish stance of the US Federal Reserve and an increase in global oil prices. Gross international reserves increased to US$103.8 billion in 2023 (from US$96.2 billion in 2022), equivalent to 7.7 months of imports.

11. **The government remains on track with its fiscal consolidation agenda.** Public revenue increased from 14.6 percent of GDP in Q1 2023 to 15.3 percent of GDP in Q1 2024, owing to higher tax revenues. The increase in tax revenues was driven in part by robust private consumption and a shift in the schedule of VAT payments which pushed the crediting of Q4 2023 VAT payments to Q1 2024. Meanwhile, public spending rose by 0.3 percentage points (ppts) of GDP, in Q1 2024, as the government ramped up investment spending despite ongoing fiscal consolidation. As a result, the fiscal deficit narrowed by 0.3 ppt of GDP to 4.5 percent of GDP in the first quarter of 2024, well-below the full-year target of 5.6 percent. The national government debt remained steady at 60.2 percent of GDP by the end of March 2024 and is mostly long-term, peso-denominated, and from domestic sources.

12. **The financial sector, which consists mainly of banks, remained generally resilient but exposure to non-financial corporates, especially in the commercial real estate sector, warrants close monitoring.** The banking sector has adequate buffers to withstand potential adverse shocks, with a capital adequacy ratio of 15 percent and provisions for non-performing loans (NPLs) at over 100 percent. The system-wide NPLs remained steady at 3.4 percent in January 2024, slightly higher than ASEAN peer countries and its pre-pandemic level of 2.2 percent (March 2020), but lower than levels during the pandemic (4.5 percent). Given relatively scant information on financial conglomerates and vulnerabilities in the real estate sector, linkages between the financial sector and non-financial corporates, especially in real estate, warrant close monitoring. About half of consumer NPLs are concentrated in the residential real estate sector, while industry data indicate vacancies in the office sector remain elevated compared to their pre-pandemic average. Meanwhile, the expansion of total outstanding loans was tempered by elevated interest rates, primarily affecting loan growth for production activities.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **The growth outlook remains positive, averaging 5.8 percent in 2024-27, anchored on domestic demand.** The medium-term outlook will be driven by robust private consumption activity, supported by declining inflation, a healthy labor market, and steady remittance inflows. Private investment will improve on the back of investment reforms in key sectors such as transportation, logistics, and telecommunication. Private domestic demand will be buoyed by the decline in interest rates amid softening inflation. Despite ongoing fiscal consolidation, the government remains committed to its public investment program. Despite the moderation of global growth in 2024, a normalization in goods trade patterns will support export growth. In addition, the expected gradual global growth recovery will support external demand over the forecast horizon. While the growth outlook is slightly higher than potential growth of 5.7 percent, it remains below the pre-pandemic potential growth of around 6.2 percent due to the scarring impact of COVID-19 on investments, human capital accumulation, and productivity.

Table 1: Key Economic Indicators

	2021	2022	2023	2024	2025	2026	2027
	Actual			Projected			
	In percent of GDP, unless otherwise stated.						
Growth and inflation							
Gross domestic product (percent change)	5.7	7.6	5.5	5.8	5.9	5.9	5.8
Inflation (period average)	3.9	5.8	6.0	3.6	3.0	3.0	2.9
Public sector							
National government balance	-8.6	-7.3	-6.2	-5.7	-5.3	-4.8	-4.1
Total revenue (government definition)	15.5	16.1	15.7	15.8	15.9	16.1	16.2
Total spending (government definition)	24.1	23.4	21.9	21.5	21.2	20.9	20.3
National government debt	60.4	60.9	60.2	59.8	59.7	59.3	58.9
Balance of payments							
Total exports (goods and services)	22.3	24.5	23.7	24.1	24.4	24.6	24.7
Total imports (goods and services)	32.1	37.8	34.4	34.8	35.4	35.5	35.6
Remittances	8.9	8.9	8.5	8.7	8.9	9.0	9.1
Current account balance	-1.5	-4.5	-2.6	-2.2	-2.0	-1.8	-1.6
Foreign direct investment	3.0	2.3	2.0	2.0	1.9	1.8	1.7
Portfolio investment	-2.6	0.3	-0.2	0.3	0.2	0.2	0.2
International reserves and foreign exchange							
Gross official reserves (months of imports)	9.7	7.2	7.8				
US dollar (average)	49.3	54.5	55.6				

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

14. **Headline inflation will decline over the medium term, facilitating a more accommodative monetary policy stance from the BSP.** Headline inflation is projected to remain within the BSP target range of 2–4 percent, averaging 3.1 percent between 2024-2027. Low and stable inflation over the forecast horizon will be supported initially by the reduction of global energy prices in 2024 weighed by slower global growth and an improvement in agriculture supplies. Over the medium term, commodity prices are expected to stabilize, as global growth, trade, and industrial activity strengthen. Meanwhile, the BSP is expected to maintain its market-determined exchange rate policy, as it stands ready to intervene to maintain stability and manage extreme volatility given its ample foreign reserve buffer, with an average reserve coverage ratio of 6 months of imports over the medium-term.

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

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

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual				Projections			
				In billion US$				
Financing requirement	**-7.9**	**6.4**	**22.2**	**13.1**	**12.6**	**12.4**	**11.8**	**11.6**
Current account deficit	-11.6	5.9	18.3	11.2	10.9	10.8	10.5	10.5
General government amortization	1.2	1.2	1.0	1.3	1.7	1.7	1.3	1.2
Net Errors and Omissions	2.5	-0.8	2.9	0.6	0.0	0.0	0.0	0.0
Financing sources	**-7.9**	**6.4**	**22.2**	**13.1**	**12.6**	**12.4**	**11.8**	**11.6**
Net FDI	6.8	12.0	9.5	8.9	9.6	10.0	10.7	11.0
Net Portfolio Investments	1.7	-10.2	1.7	-0.9	1.4	1.0	1.0	1.1
Net All Other Flows	-8.9	0.3	-1.0	2.8	-3.3	-3.6	-4.3	-4.8
Gross general government borrowing	8.5	5.6	4.8	6.1	5.0	5.1	5.1	5.2
Change in reserve assets	-16.0	-1.3	7.2	-3.7	-0.1	-0.1	-0.8	-0.8

Note: Net All Other Flows includes private borrowing, derivatives, capital account, and currencies and deposits
Source: GOP for actual data and World Bank for projections.

16. **The pace of public spending is expected to slow in line with the medium-term fiscal consolidation program.** The fiscal deficit is projected to gradually decline to 4.1 percent of GDP by 2027. Reductions in recurrent spending will be driven by the drop in personnel services expenditures due to the government rightsizing program, reforms to the Military and Uniformed Personnel pension system, and the transition towards full devolution. In addition, several reforms are currently in the legislative pipeline that will help improve the efficiency of public spending, these include the New Government Procurement Reform Law and the Budget Modernization Bill. Capital outlays will decline initially but remain above 5 percent of GDP, as the government remains committed to strengthening public investments. The GOP will complement public infrastructure spending with more Public Private Partnerships (PPPs). There are currently 117 PPP projects in the pipeline, worth PHP 2.5 trillion, 15 of which are expected to be submitted for approval in 2024.

17. **Public spending consolidation will be complemented by additional revenue collection efforts.** In 2024, the adjustment in excise taxes from previous legislation and efforts to improve tax collection through improved tax administration reforms will lead to a modest increase in tax revenues. Furthermore, the expected approval of several priority tax measures[6] would lead to an increase in tax collections by about 0.2 percent of GDP over the medium-term.

18. **The combination of fiscal consolidation and growth recovery will keep debt levels sustainable.** The debt trajectory is expected to continue its decline over the forecast horizon to 58.9 percent of GDP by 2027, though still well above the pre-pandemic level. The recent reform to expand the use of PPPs for infrastructure investment is not expected to increase risks to the fiscal position. Although the PPP pipeline is expected to expand over the medium term, potential contingent liabilities are expected to remain manageable, amounting to an estimate of 1-1.3 percent of GDP under a low and high case scenario. Moreover, the contingency allocation in the budget is more than adequate. In 2023 for example, it amounted to 3.7 percent of GDP. The debt composition is expected to remain favorable, in line with the government's debt management strategy. Moreover, debt dynamics will remain resilient against shocks. In the worst-case scenario of combined macro-fiscal shock, the debt ratio would peak at 66.6 percent of GDP in 2026. A climate shock similar to Typhoon Haiyan would increase the primary deficit by 2 percentage points and lower GDP growth by 0.5 ppt, leading to an increase in debt-to-GDP ratio to 61.9 percent of GDP in 2025, 2.2 ppt above the baseline.

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

Table 3: Key Fiscal Indicators

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Estimate	Projected			
	In percent of GDP, unless otherwise stated.							
Overall Balance	**-7.6**	**-8.6**	**-7.3**	**-6.2**	**-5.7**	**-5.3**	**-4.8**	**-4.1**
Primary Balance	-5.5	-6.4	-5.0	-3.6	-3.1	-2.3	-1.8	-1.2
Total Revenues (and grants)	**15.9**	**15.5**	**16.1**	**15.7**	**15.8**	**15.9**	**16.1**	**16.2**
Tax Revenues	**14.0**	**14.1**	**14.6**	**14.1**	**14.2**	**14.3**	**14.5**	**14.6**
Taxes on net income and profits	5.8	5.5	5.7	5.8	5.8	5.8	5.8	5.9
Taxes on Domestic Goods and Services	4.2	4.3	4.1	3.7	3.9	4.0	4.1	4.1
General Sales, Turnover, or VAT	1.9	2.0	2.2	2.0	2.1	2.1	2.2	2.2
Selected Excises on Goods	1.6	1.6	1.4	1.2	1.3	1.4	1.4	1.4
Selected Taxes on Services	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Other Domestic Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on International Trade and Transactions	3.0	3.3	3.9	3.6	3.6	3.6	3.7	3.7
Other Taxes	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Non-tax revenue (including grants)	2.0	1.4	1.5	1.6	1.6	1.6	1.6	1.6
Total Expenditures	**23.5**	**24.1**	**23.4**	**21.9**	**21.5**	**21.2**	**20.9**	**20.3**
Current operating expenditures	18.5	18.0	17.4	16.2	15.9	15.8	15.3	14.7
Personnel Services	6.6	6.6	6.3	6.0	5.7	5.5	5.3	5.0
Maintenance and other operating expenditures	4.9	4.5	4.0	3.9	3.8	3.6	3.3	3.0
Subsidy	1.3	1.0	0.9	0.7	0.7	0.6	0.6	0.6
Allotment to Local Government Units	3.5	3.5	3.8	2.9	3.0	3.0	3.1	3.1
Interest Payments	2.1	2.2	2.3	2.6	2.5	3.0	3.0	2.9
Tax Expenditures	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Capital Outlays	4.9	6.0	5.9	5.8	5.6	5.4	5.6	5.7
Infrastructure & other capital outlay	3.8	4.6	4.6	4.9	4.8	4.6	4.7	4.8
Equity	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfer to local government units	1.0	1.1	1.2	0.9	0.8	0.8	0.9	0.9
Net Lending	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
National Government Debt	**54.6**	**60.4**	**60.9**	**60.2**	**59.8**	**59.7**	**59.3**	**58.9**

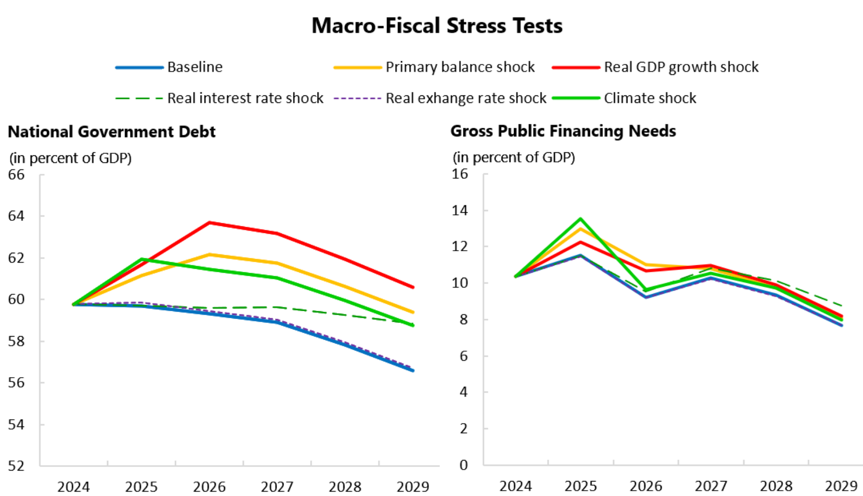
Source: Government of the Philippines for actual data and World Bank for projections.

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

	Percent of GDP
Total External Debt	**28.7**
Monetary Authorities	0.9
General Government	16.2
Banks	4.7
Other Sectors	6.9
of which intercompany lending	0.9
Long term	24.7
Short tem	3.9

Source: BSP, Philippine Statistics Authority.

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



Source: World Bank staff calculations.

19. **Risks to the outlook remain tilted to the downside.** On the domestic front, food security may be challenged given persistent weakness in agriculture output, especially in the presence of a stronger-than-expected episode of El Niño. Future energy and food shocks caused by protracted geopolitical conflicts, additional trade restrictions, and extreme weather events continue to be key downside risks in the foreseeable future. These could lead to persistently high inflation, which would erode purchasing power, and threaten to deepen poverty and worsen economic vulnerability. While the government is on track to meet the targets of its medium-term fiscal framework, the risk of delayed passage of key legislation on both revenue and expenditure presents risks to fiscal sustainability. The possibility of higher-than-expected global inflation, still tight global financing conditions, a further growth slowdown in China and escalating geopolitical tensions could cause a sharper-than-expected growth slowdown. In addition, the threat of sticky core inflation due to tight labor markets and resilient demand could delay monetary policy easing.

20. **The macroeconomic policy framework is adequate for the proposed operation.** The growth outlook is positive, driven by robust domestic demand, a recovering services sector, and a public infrastructure investment agenda that will gain steam over the forecast horizon. The commitment to structural reforms will increase competitiveness and support growth. The financial sector remains stable, while asset quality continues to improve, even with the removal of most pandemic-related forbearance measures. The credibility of both monetary policy and fiscal policy remains strong. The BSP remains committed to its inflation-targeting objective and is responsive to global interest rate movements. It is expected to maintain a market-determined exchange rate regime as the first line of defense against external shocks. On fiscal policy, the authorities have publicly laid out their medium-term expenditure plan, reflecting a steadily declining share of expenditures to GDP, and are expected to gradually raise revenues through tax reforms. The credibility of the medium-term fiscal program is supported by the government's history of fiscal prudence, and a legislative pipeline that supports fiscal consolidation. Potential liabilities from the expansion of PPPs pose marginal risk to the country's fiscal position and are managed by a contingency allocation in the budget, the realization of sellable asset value in the event of default, and the decreasing risk to projects in operation and those that are reaching completion within the portfolio.

3. GOVERNMENT PROGRAM

21. **The GOP remains committed to achieving the medium-term development objectives outlined in the PDP 2023-28.** The PDP's strategic framework is guided by *AmBisyon Natin 2040*, the long-term development aspirations of the country organized according to three objectives: a) develop and protect capabilities of individuals and families; b) transform production sectors to generate more quality jobs and produce competitive products; and c) foster an enabling environment encompassing institutions, the physical and natural environment. Underlying these priorities is a commitment to promote investment, including FDI, and to facilitate stronger partnerships with the private sector, including by strengthening and facilitating PPPs to upgrade infrastructure. Policies enabling open and competitive markets are expected to complement these reforms, and businesses are expected to benefit from lower transaction costs, a healthy regulatory environment, and protection from anti-competitive practices, leading to increased productivity.

22. **The GOP has put in place a comprehensive set of policies and strategies to facilitate a low-carbon economic transition and to strengthen ecosystem and disaster risk resilience.** Under the PDP, the GOP is committed to increase investment in RE to achieve a 50 percent share in power generation by 2040. The GOP will implement the Green Jobs Assessment and Certification Guidelines to operationalize the Green Jobs Act.[7] Concurrently, the PDP will strengthen the implementation of Green Public Procurement (GPP) as part of the initiative to guide consumer behavior towards sustainable products and services. To reduce air pollution from the transport sector, the GOP has promoted transition to

[7] This reform was originally an Indicative Trigger supported by the Second Sustainable Recovery DPL. However, the completion of this reform was beyond the preparation timeline for the DPL. The Bank team has continued its support to implement the Green Jobs Act.

EVs through the Electric Vehicle Industry Development Act (EVIDA) while committing in the PDP to implement the Comprehensive Roadmap for Electric Vehicle Industry (CREVI). Legislative reforms on solid waste and plastics management have gained momentum focusing on phasing out single-use plastics (SUP) and introducing a plastic bags excise tax alongside the Extended Producer Responsibility (EPR) Act. To enhance climate and disaster risk resilience, the GOP will boost multi-stakeholder partnerships on climate change adaptation and strengthen the capacity of LGUs and communities in disaster prevention and preparedness, increase public awareness of risk and vulnerability, and strengthen the implementation of the National Climate Risk Management Framework.

4. PROPOSED OPERATION

23. **The DPL series aims to support the reforms of the GOP to 1) accelerate the economic recovery and boost long-term growth; and 2) protect the environment and improve climate resilience.** The proposed operation is the second in a programmatic series of two operations. The DPL series is structured around the following two pillars corresponding to the development objectives:

- Pillar 1. Accelerate the economic recovery and boost long-term growth by supporting reforms to increase investment and productivity in public service sectors, especially domestic shipping, attract private investment in public infrastructure, increase the share of RE in the energy mix, and mobilize and scale up sustainable finance.
- Pillar 2. Protect the environment and improve climate resilience through reforms to enhance plastic waste reduction, recovery, and recycling, promote green transport, encourage more production and consumption of green goods and services through public procurement, and protect the budget and farmers from climate-related contingent liabilities.

24. **Reforms supported by the proposed operation will strengthen resilience to natural disasters and climate change and reduce emissions.** The Philippines is highly exposed to natural disasters and climate change. Without action, climate change imposes substantial economic and human costs, affecting the poorest households the most. The agriculture sector is highly sensitive to climate and geophysical hazards, and warming temperatures, extreme weather events, etc., which are expected to worsen significantly by mid-century. Investment in new infrastructure and agriculture measures to boost climate resilience could cost about 0.7 percent of GDP. All PAs except PA 1 are expected to contribute to climate change mitigation and adaptation.

25. **Reforms will also support narrowing the gender gap in the labor market.** The Philippines has attained a high standard of gender equality globally. Yet, female labor force participation (FLFP) rates are among the lowest in the region.[8] Earnings at every level of education are lower for women. Women are also at higher risk from conflict and disasters. The PDP 2023-2028 includes commitments to increase the FLFP to 52 percent by 2028 and to mainstream gender in green competencies. The proposed DPL aims to create opportunities and safe conditions for women involved in the plastic and waste management sectors through EPR Programs (PA 6).

26. **This operation maximizes finance for development by removing binding constraints to private investment.** Reforms under the program remove foreign equity ownership in the domestic shipping sector and open public service sectors to FDIs (PA 1), promote private investment through stronger risk management and streamlined approval and implementation of PPPs (PA 2) and by giving local government access to project preparation resources (PA 3), simplify permitting process for private off-shore wind energy projects (PA 4) and, adopt Sustainable Finance Taxonomy Guidelines to accelerate private financing towards sustainability-linked investments (PA 5). Cumulatively, the World Bank expects

[8] About half of working-age women participate in the labor market compared to three-quarters of men and the ratio of employment to working-age population is only 45 percent for women, compared to 70 percent for men. Women are confined to lower skill and less productive work and are relatively more represented in vulnerable forms of employment, including in the plastic sector.

that this set of reforms will unlock at least US$ 2.2 billion in private capital in key sectors.

27. **This DPL series is closely aligned with a proposed new Energy Transition and Climate Resilience (ETCR) DPL series supporting key reforms in the RE and EV sectors.** The first DPL in the Sustainable Recovery DPL series supported foundational reforms: lifting the foreign equity cap on solar and wind energy to increase foreign direct investment in these sectors; and issuing the implementing rules and regulations (IRRs) of the Electric Vehicle Industrial Development Act (EVIDA) to provide an enabling environment for the development and use of EVs. To provide certainty to investors in offshore wind (OSW) energy and to solve coordination problems in the EV sector, a broad package of further policy actions and investment is needed. In the OSW sector, this involves setting up a streamlined permitting system, conducting marine spatial planning, and upgrading ports and transmission lines. In the EV sector, this involves setting standards for EV charging stations, providing incentives for the adoption of EVs and attracting parts of the EV value chain, and setting adoption mandates for government agencies to create demand for the local EV ecosystem. The GOP is considering these policy actions. These will be supported by the Second Sustainable Recovery DPL as well as the ETCR DPL series (Board approvals expected in FY 25 and FY 26) (Annex 8).

28. **The DPL series benefits from longstanding and successful stakeholder engagements.** The DPL series builds on lessons in successful collaboration: the Bank and the GOP used policy dialogue to identify a reform pipeline early on, and to design technical assistance and capacity-building programs to advance and support the program. These engagements strengthened the timeliness and quality of reforms, resulting in a robust pipeline of game-changing legal, institutional, and regulatory reforms. Moreover, as implementation is one of the key binding constraints in the Philippines, the Bank is providing intensive technical support to assist in the implementation to increase the effectiveness of the reforms.

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

29. **The reforms supported by the DPL series are aligned with the PDP 2023–2028**. The reforms contribute to the following priorities under the PDP: (i) promoting trade and investment; (ii) promoting competition and improving regulatory efficiency; (iii) expanding and upgrading critical infrastructures; (iv) expanding employment opportunities, and (v) accelerating climate adaptation and strengthening disaster resilience.

30. **The policy matrix for this proposed operation is broadly unchanged from the matrix foreseen in the first operation.** Seven of the eight PAs are substantially unchanged from the Indicative Triggers for DPL 2. An additional PA to strengthen the PPP framework through a new PPP Code has been added (PA 2), which strengthens the PPP reform area. Indicative Trigger 4 on creating green jobs was not converted into a Prior Action as the timeline for implementing the reform was beyond the DPL preparation timeline. Indicative Trigger 7 on mandating government agencies to purchase EVs has been replaced by the regulation setting out the certification of EV charging stations (PA 7), as the mandate will be put in place in the second half of 2024. Indicative Trigger 9 on crop insurance was not converted into a Prior Action, as an Executive Order issued in May 2024 made the achievement of the result intended by the IT less likely (Annex 5).

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1. Accelerate the economic recovery and boost long-term growth.

Increase investment in public service sectors.

31. **Public infrastructure services in the Philippines suffer from high costs and low quality of service and have received low FDI.** Opening these sectors to 100 percent foreign investment is expected to increase competition, attract

investment, and catalyze productivity growth in these sectors. A recent estimate puts the increase in total factor productivity at 3.2 percent on average if the reform is fully implemented, as positive effects of competition spill over to downstream sectors.[9] FDI is expected to promote safety, align training programs with international standards, and bring expertise and know-how for new operations in transport and logistics, and link domestic firms to foreign know-how and global value chains. The amendment of the Public Service Act (PSA) supported by the first DPL is the first step in a reform to open key public service sectors.

32. **The second DPL supports the adoption of general and sector specific IRRs, which are critical to unlock the full potential of the PSA amendment, including in the domestic shipping sector.** The salient provisions of the general Implementing Rules and Regulations (IRRs) include (i) investment screening procedures in public services, (ii) clarifying definitions such as ownership and control of foreign investment, and (iii) setting the standard for the sector regulations (such as performance audits), providing oversight to improvements in public services. However, full gains require subsequent sector regulations to repeal all restrictions on foreign ownership, including mechanisms to ensure service cost reductions and quality improvements. Administrative agencies (regulators) need guidance in producing sectoral issuances to ensure consistency and timeliness. This operation supports the general regulatory framework and sector regulations, including in the domestic shipping sector, a sector that showed the highest level of restrictions to FDI in the Philippine prior to the PSA amendment.[10]

33. **Promoting foreign investment in domestic shipping will unlock the potential of domestic shipping to become competitive.** Given the archipelagic nature of the Philippines, marine transport plays a critical role in trade and connecting its various islands and destinations, efficiently moving goods and products across locations. A recent estimate puts logistics and telecom costs at 6 percent of input bills in any given sector, and at 4 percent of total inputs. However, the logistics index of 2018 revealed the Philippines ranked below peers, particularly in logistics quality and competence.[11]

34. ***PA 1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors[12] to 100 percent foreign ownership and establish investment screening procedures in public services; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations[13] and MARINA Memorandum Circular,[14] respectively.***

35. **The Prior Action supports the adoption of the IRRs of RA 11659, which implement the general framework for liberalization of key public service sectors, and the issuance of MARINA Memorandum Circular No. DS-2023-02, which implements it in the domestic shipping sector.** The PSA amendment IRRs guide the implementation of the law removing foreign equity restrictions on public service companies. It will reduce investor uncertainty by clarifying processes and procedures for investment screening in public services,[15] establishing regulatory mechanisms such as performance audits and clarifying definitions such as ownership and control of foreign investment. The IRRs repeal regulations that are misaligned with the new principles, keeping the regulatory burden manageable. The IRRs empower NEDA to assist sector

[9] Compared to a no-reform scenario. World Bank (2023), East Asia & Pacific Economic Update, October 2023.
[10] FDI restrictiveness in the maritime sector was rated 0.67 in the OECD FDI index, the fourth highest in a group of 84 OECD, non-OECD, and ASEAN countries.
[11] The Philippines scored 2.5 (scale of 1-5, with 5 being the highest), well below Vietnam (3.4) and Thailand (3.5), and Indonesia (3.1).
[12] "Public Service Sectors" means those sectors of the economy offering certain public services, for general business purposes, and which are identified in the Public Service Act (Commonwealth Act No. 146, as amended), Section 13(b).
[13] The Implementing Rules and Regulations of the Republic Act No. 11659 or an Act Amending Commonwealth Act No. 146, otherwise known as the Public Service Act, as amended.
[14] Maritime Industry Authority Memorandum Circular DS-2023-02 on the Guidelines on Domestic Shipping as "Public Service" Pursuant to Republic Act No. 11659 and its Implementing Rules and Regulations.
[15] To implement the provisions in the Amended PSA related to the reclassification of a public service to a public utility, national security review of investment transactions, and reciprocity requirement for investments in critical infrastructure.

regulators in developing supplementary regulations, and to track improvements in service quality and performance through annual performance audits and surveys of quality of regulation and service. The MARINA (Maritime Industry Authority) Memorandum Circular No. DS-2023-02 with scope over domestic shipping repeals residual restrictions to foreign ownership or nationality requirements in domestic shipping.[16]

36. **Expected result:** This reform is expected to increase investments in domestic shipping, measured by an increase in the cumulative quantity of passenger and cargo vessels imported from 139 (2020-2022 total) to 158 ships (2023-2025 total).[17,18] In the medium term, this reform will increase competition in the sector, resulting in higher quality of shipping services, and lower cost of transport.

Attract private investment in public infrastructure

37. **While the GOP relies on PPPs for infrastructure investment to sustain economic recovery, the operating environment for PPPs has deteriorated over the past few years.** The Philippines has a strong record of using PPPs for infrastructure. However, over the past years, several projects ceased due to uncertainty in government support. Investment through PPPs declined by 30 percent compared to the preceding 5 years (2013-2018). At the same time, several LGUs have turned to private operators to prepare complex infrastructure projects through unsolicited proposals. Overreliance by LGUs on directly negotiated projects has raised concerns about market concentration and absence of competition, which in turn leads to higher costs, and increased risks. Furthermore, most local partnerships use the joint-venture regulation, rather than the PPP process: a loophole for imposing lighter requirements and obtaining quicker approvals.

38. ***PA 2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act,*[19] *which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.***

39. **The reform improves the quality, and therefore, attractiveness, of PPPs by stronger regulation and by closing fundamental gaps in the PPP legal framework.** The PPP legal framework is a key vehicle for PPI in the Philippines, mobilizing nearly US$ 10 billion in the last 5 years for public infrastructure – capital outlay that government would not otherwise have been able to make upfront. Quality project development and risk management improve PPP attractiveness. Although the country significantly outperforms global averages on Infrastructure Development Benchmarks[20] in the aspects of preparation and contract management, including conflict resolution, the Philippines can do better, specifically in procurement management. The first DPL supported improvements in the implementing rules of PPPs within the scope of the pre-existing legal framework, much of which have been codified in the new PPP Code, but the regulatory improvements could not plug fundamental gaps that restricted the contestability of PPP procurement and the speed at which they are brought to market. To ensure that PPIs are fiscally sustainable and improve value-for-money (VfM), the new PPP Code[21] unifies PPPs and joint venture approval processes, which were used as a loophole to pursue

[16] *"Domestic Shipping"* refers to the transport of passengers or cargo, or both, by ships registered and licensed under Philippine law between Philippine ports and within Philippine territorial waters.

[17] Since most investments in domestic shipping will come in the form of fleet upgrades and since most of these will be imported, the importation data monitored by MARINA will be used as a proxy for the investment outcome.

[18] Since the implementation of the law relies on harmonized reforms at the sector level, this PA focuses on a sector that has already complied with the legal requirement and fits the growth objective of this operation (note: other sectors are covered in another DPO series that focuses on digital transformation). The data will be sourced from MARINA. As part of its ongoing TA, the Bank team is working with the authorities to put in place a M&E system to effectively track foreign investments in the PSA sectors.

[19] Republic Act No. 11966 Providing for the Public-Private Partnership (PPP) Code of the Philippines.

[20] https://bpp.worldbank.org/content/dam/sites/data/bpp/documents/BID-2023-PHL-PPP-Summary.pdf.

[21] https://www.officialgazette.gov.ph/2023/12/05/republic-act-no-11966/.

deals that were not well-scrutinized; streamlines the PPP approval procedures by raising authorization thresholds; and reduces the number of steps for unsolicited proposals (USPs), at the same time increasing the challenge period to promote competition. The Code introduces provisions for managing fiscal risks arising from PPPs by strengthening the role of the PPP Center in compliance reviews; expanding required disclosures; and by introducing a PPP Risk Management Fund that will be capitalized from general appropriations, PPP revenues, and other sources.[22] Altogether, the streamlining and strengthening of PPP governance is expected to lead to increased number of quality projects that attract investors.

40. **Projects under the new PPP Code are expected to contribute to climate change mitigation and adaptation.** Projects are required to consider climate resilience and sustainability. The Code enables climate resilient and mitigation projects through the promotion of climate financing and of carbon emissions reduction credits in PPPs.[23] A third of the PPP pipeline[24] is expected to reduce GHG emissions through renewable power generation and distribution, energy efficiency interventions (green building designs) and modal shifts in transportation through public transport projects.

41. **Expected result:** The reform will improve quality in PPP preparation by shortening the lead time of approval, streamlining requirements, increasing compliance oversight, managing exposures to risk from low-quality applications in PPPs and JVs proposals, and by improving the contestability of USP procedures. The expected result is an increase in the number of final decisions reached by the Approving Body[25] on national-level PPPs from 4 (in 2022-2023) to at least 5 (2025) (RI 2).

42. **The full potential of PPPs to significantly increase infrastructure execution at local levels is not realized.** Execution of infrastructure projects remains a constraint to local economic development. With short political cycles and weak project preparation capacities, local governments struggle to develop infrastructure projects, including through PPPs. The increased revenues available to LGUs create an opportunity to leverage these resources to attract private implementation partners that are efficient and can mobilize their own capital towards infrastructure projects, freeing up local funds for other public services. Although LGUs have access to PPP preparation support through the Project Development and Monitoring Facility (PDMF), a key barrier has been the requirement to reimburse the facility even where projects fail to reach commercial close due to no fault of the LGUs. Instead, LGUs have relied on privately initiated PPP deals that are prepared without close scrutiny for viability and VfM.

43. ***PA 3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines,*** [26] ***to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.***

44. ***The* PDMF reform seeks to improve the quality of PPP project design and implementation at the local level.** The reform, revising the PDMF guidelines, streamlines approval procedures and adjusts reimbursement conditions based on LGUs fiscal classification. Reimbursement requirements for preparation costs have been adjusted where PPP due diligence yields the PPP project infeasible or when the PPPs do not materialize due to circumstances outside the control of LGUs. The reform also enables government agencies to use PDMF funds to work with international financial institutions, UN specialized agencies and other international organizations in the same way that they are able to use their own budgets, thus removing the inconsistency between the funding sources. The participation of international agencies will enhance

[22] to be detailed by the Development Budget Coordinating Committee.
[23] "The Code allows the proceeds from green finance, i.e., "investments that create environment benefits in support of green growth, low-carbon, carbon avoidance and sustainable development and the use carbon credits, to be used in addition to private partner equity and debt." Regulations and systems for emissions reduction trading and carbon pricing will need to be put in place for PPPs to fully benefit.
[24] https://ppp.gov.ph/project-database/.
[25] This could be the implementing agency, Investment Coordination Committee (ICC), or the NEDA Board,
[26] Project Development and Monitoring Facility (PDMF) Guidelines dated October 2023, https://ppp.gov.ph/republic-act-no-11966/.

local capacity to develop successful PPPs and allow for increased oversight and risk sharing by the pooling of resources with international agencies in the event that PPPs do not achieve commercial closure. At the same time, the reform clarifies the cases when international agency participation is justified, ensuring no unfair competition where private advisers are capable of fulfilling demand.

45. **The revised PDMF guidelines facilitate access to resources for project preparation, helping LGUs identify, prepare, and implement PPP projects that bring VfM.** As part of the guidelines' implementation strategy, the PPP Center, with Bank assistance, is developing standard PPP models that incorporate climate mitigation measures in solid waste management, real estate and housing development and off-grid and small-grid electricity distribution, specifically, introducing RE to replace diesel-based generation.

46. **Expected results:** The reform will facilitate LGU access to PPP preparation resources as measured by an increasing portion of PDMF technical advisory resources being accessed by LGUs, as well as the completion of those advisory activities according to the TA agreements. The indicator is the portion of completed advisory services (for project preparation, negotiation, and tendering of projects both solicited and unsolicited) aiding LGUs in their PPP activities, as share of total TA agreements signed between LGUs and the PDMF from 0 percent (2023) to at least 50 percent (2025) (RI 3).

Increase the share of RE in power generation

47. **The Government set an ambitious target of 50 percent of RE in total power generation by 2040, but there are obstacles to investment in solar and wind energy generation.** As of 2022, the total installed generation capacity from solar and wind energy stood at 2.1 gigawatt (GW), a fraction of the 58 GW capacity expected for achieving the 2040 RE target. Bridging this gap will require commissioning 3.1 GW of solar and wind per year from 2023 to 2040, compared to less than 0.6 GW total added in 2020 and 2021. Most of this additional investment will come from private RE developers and investors, who cite complex and lengthy permitting processes as a key deterrent: processing and approval of RE projects takes an average of 1,876 calendar days with 359 signatories from 74 agencies required. Furthermore, the Government has not yet established permitting processes for OSW, without which investments cannot be made.

48. ***PA 4. To mobilize development of offshore wind (OSW) energy projects, the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order[27] and DoE Department Circular.[28]***

49. **Establishing a policy framework that mandates all relevant permitting agencies to integrate permitting processes for developing OSW will reduce uncertainty and unlock private investment in OSW projects.** The existing permitting processes for RE are not specific to OSW, and the lack of coordination between permitting agencies adds red tape and uncertainty over permitting timeframes. Executive Order (EO) 21 mandates the DOE to formulate a Policy and Administrative Framework for OSW and the DOE Department Circular DC 2023-06-0020 mandates permitting agencies to identify and submit a complete list of appropriate permits and clearances for DOE's review and integration in the Energy Virtual One-Stop Shop (EVOSS). By requiring the DOE to review, harmonize, and integrate OSW permitting processes proposed by all relevant permitting agencies, this reform will accelerate permitting processes, which otherwise would be slow and inconsistent if left to individual permitting agencies. The integration of OSW permitting processes in EVOSS will streamline processes and provide supporting guidance to OSW developers, regulators, and stakeholders, including

[27] Executive Order No. 21 (2023) Directing the Establishment of the Policy and Administrative Framework for Offshore Wind Development.
[28] DOE Department Circular DC 2023-06-0020 Policy and Administrative Framework for the Efficient and Optimal Development of the Country's Offshore Wind (OSW) Resources.

standard timelines for permit decisions for OSW projects.

50. **The reform also sets up the overarching policy and administrative framework for the timely development of needed ports and transmission network that will support the OSW project construction and operation.** OSW projects require availability of port infrastructure to support the storage, assembly, and transport of OSW components, as well as transmission system upgrades or expansion to absorb OSW generation. The reform mandates transmission network owners and operators to prepare the smart and green grid plan for the connection of OSW projects and the Energy Regulatory Commission to update its rules and regulations to support the capital expenditure requirements for the connection of OSW projects. The reform also mandates the Philippine Ports Authority to prepare a long-term Port Development Plan for the needed ports and harbor infrastructures for OSW projects. The DOE is required to collaborate with relevant agencies and develop marine spatial planning to identify OSW development zones and map the needed spatial data for OSW project planning and development. Together with the permitting processes, these are the critical building blocks for the efficient development of the Philippines' OSW resources, which will be supported by the ETCR DPL (see Annex 8).

51. **Expected result:** It is expected that the DOE will conduct at least one competitive Green Energy Auction to competitively procure long-term and large-volume power supply agreements from OSW project developers by 2025 (RI 5). This will take place once the marine spatial planning is completed and the arrangements for securing ports and grid connections have been established. These dedicated OSW auctions represent a significant milestone for OSW development, as they provide OSW developers and investors with long-term visibility and certainty of revenues that OSW projects will generate. In the long-term (2027-2030), the first set of OSW projects, along with the necessary ports and transmission network, will be constructed and become operational. It is expected that the first OSW projects will be installed around 2028.[29] This result indicator complements RI 4 (supported by DPL 1) to increase the annual average investment (measured by the development cost) in solar projects[30] from 0.02 percent of GDP (2017-2022 average) to 0.06 percent of GDP (2023-2025 average).

Mobilize and scale up sustainable finance

52. **Green and sustainable financial markets can play a central role in the Philippines by facilitating investments needed to transition the economy toward a sustainable growth trajectory, but domestic sustainable financial markets remain underdeveloped.** Investors seeking green investment opportunities are on the rise. However, domestic sustainable financial markets remain underdeveloped, and the Philippines has not attracted such foreign investments at scale.[31] A marked gap in climate-related information stands as among the most important institutional barriers hampering investments in sustainability.[32] A lack of definition of green and sustainable assets makes it difficult for financial institutions to identify green assets and projects, adding to increased uncertainty and heightened greenwashing risks.

53. ***PA 5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular***[33] ***and SEC Memorandum.***[34]

[29] World Bank (2022), *Offshore Wind Roadmap for the Philippines.*
[30] Defined as project with service contracts with DOE.
[31] Only US$2.8 billion (0.8 percent of GDP) was raised through green corporate bonds and syndicated loans between 2018-21.
[32] About 70 percent of surveyed banks and institutions in the Philippines cited the limited availability and complexity of climate-related information as core challenges for sustainable investing.
[33] BSP Circular No. 1187 Series of 2024 Philippines Sustainable Finance Taxonomy Guidelines.
[34] SEC Memorandum Circular No. 5 Series of 2024 Guidelines on the Philippines Sustainable Finance Taxonomy.

54. **To address the lack of clear standards and definitions of green and sustainable assets, the FSF,[35] an interagency initiative led by the BSP, has developed a sustainable finance taxonomy framework.** This framework provides a common standard and classification of green assets to facilitate private sector investments in green assets through capital markets and by financial institutions. It focuses primarily on climate change mitigation and climate change adaptation.[36] However, other environmental and social considerations could be considered through additional screening based on the 'do no significant harm' principle. The framework ensures that economic activities contribute to an objective and avoids harming other sustainability objectives.

55. **Expected result:** The expected result is an increase in sustainability-related lending (said lending covers renewable energy, energy efficiency projects, and other economic activities or projects that contribute to climate change mitigation and adaptation objectives, and sustainable development goals) by Domestic Systemically Important Banks (D-SIBs) by 10 percent from PHP 232 billion (or US$ 4.3 billion) in 2022 to PHP 255 billion (or US$ 4.7 billion) by 2025 (RI 7), which is a 10 percent increase compared to the 2022 baseline. The volume of sustainability-related lending would represent about 2 percent of total lending in 2023.

Pillar 2. Protect the environment and improve climate resilience

Enhance plastic waste reduction, recovery, and recycling

56. **Managing plastic waste is an important development challenge in the Philippines.** The Philippines, together with China, Indonesia, Thailand, and Vietnam, account for 55 to 60 percent of plastic waste entering the ocean. A reduction in the production of plastics and better management of waste is expected to benefit both climate change mitigation and adaptation.[37]

57. **The government set an ambitious vision[38] for plastic waste reduction, recovery, and recycling, relying on an Extended Producer Responsibility (EPR) mechanism**. The EPR Act and its IRRs (supported by the first DPL) require enterprises that generate plastic packing waste (called Obliged Enterprises or OEs)[39] to manage it throughout its lifecycle in either its post-consumer or its end-of-life stage. The mechanism compels producers to recover up to 80 percent of their plastic packaging waste by 2028. The reform facilitates the implementation of the National Plan of Actions,[40] which includes EPR as a measure to reduce waste and complements the LGUs' ban or regulating the use of plastic bags. The reform mandates firms to establish phase-in EPR programs with measures to efficiently manage plastic waste: reduced production, importation, supply, or use of plastic packaging deemed low in reusability, recyclability or retrievability through recovery and diversion scheme.

58. **The EPR Act also specifies the requirement to ensure gender equality in EPR Programs developed by OEs, Collectives, and PROs.** This provides an opportunity to improve the labor conditions of female waste pickers and sorters, among others**.** Picking recyclables and sorting waste from municipal waste, dumpsites, or landfills is often done by informal workers and women are overrepresented. Processing companies employ women to sort, clean, and separate recyclable material through the various stages of processing. In general, both women and men face similar challenges, such as health issues and the social stigma of being a waste sector worker, but women are further burdened by domestic

[35] The FSF is chaired by the BSP and consists of the SEC, the IC, and the Philippines Deposit insurance Corporation.
[36] Biodiversity and circular economy, as well as potential social objectives could be added in future iterations.
[37] Throughout their lifecycle, plastics emit 3.4 percent of global GHG emissions. Moreover, plastic waste can clog urban canals and drainage, exacerbating floods during extreme events. It leads to a faster and denser blockage and a more sudden backwater increase.
[38] "Zero waste to Philippine waters by 2040".
[39] These are large enterprises whose total asset value exceeds PHP 100 million (US$ 1.7 million) and that generate packaging waste.
[40] National Plan of Actions for the Prevention, Reduction and Management of Marine Litter (May 2021).

responsibilities and concerns around their physical safety[41] The EPR programs are therefore also required to have a component on gender equality.

59. ***PA 6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through a DENR Administrative Order,*** [42] ***the standards of annual EPR Compliance Reports that Obliged Enterprises, PROs, Collectives, and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.***

60. **The Compliance Reporting and Auditing Procedural Guidelines set the standards for the implementation of the EPR Programs, the status of progress and accomplishment of the OEs' plastic waste diversion targets.** This is an important building block to implement the EPR Act through guidance to the target participants including OEs, Collectives, and Producer Responsibility Organization (PRO) to develop their EPR Compliance Report (ECR) on the status of progress and accomplishment of their respective EPR Programs. The ECR will be based on the key documents including (i) the EPR Program submitted to EMB when registered by an OE, Collective or PRO, (ii) the schedule of plastic footprint; and (iii) the verification of the weight of the plastic packaging. The Guidelines also provide guidance to the independent third-party EPR compliance auditors for certification of the veracity of the plastic product footprint generation and recovery reported in the Compliance Reports, based on which EMB shall monitor and evaluate the compliance of OEs, Collectives, and PROs.

61. **The IRRs for the EPR Act programs have ensured gender equality is an explicit requirement.** To address gender disparities in the context of the EPR programs, the DENR/EMB is expected to provide guidelines about gender equality to instruct OEs, Collectives, and PROs on appropriate actions within the gender component of their EPR programs. These guidelines are expected to include specifications regarding the working conditions of women engaged throughout the plastic waste value chain, encompassing activities such as collection, diversion measures, and disposal.

62. **Expected result:** The expected result is that the recovery of plastic packaging introduced into the market by OEs, Collectives, and PROs will reach 40 percent by 2025 (RI 8).[43] RI 9 captures the commitment to increase the share of submitted EPR implementation programs with a component on gender equality to 5 percent. In the medium term, these reforms are expected to reduce environmental pollution, lower GHG emissions from plastic production, increase climate resilience, and improve labor conditions for women.

Promote green transport

63. **Transportation is the largest source of air pollution and energy-related GHG emissions in the Philippines and rapid growth in the number of vehicles is expected to cause GHG emissions to more than quadruple by 2050.**[44] The GOP recognizes that electrifying transport is an important pathway for faster transition to a low-carbon economy. To reduce emissions a combination of promoting uptake of EVs and scale-up of mass transit is needed. The 2022 EVIDA and its IRRs (supported by the first DPL) are supporting the first goal through *inter alia* providing an enabling environment for the development of EVs and promoting and supporting innovation in and use of clean, sustainable, and efficient energy.

64. **A successful EV transition requires addressing many barriers.** To implement the EVIDA the government formulated the Comprehensive Roadmap for the Electric Vehicle Industry (CREVI), published in April 2023, setting out targets for EVs (311,700 by 2028 under the business-as-usual scenario), EV charging stations (7,400) by 2028) and

[41] Ocean Conservancy, The role of gender in waste management. Gender Perspectives on Waste in India, Indonesia, the Philippines, and Vietnam (2019).
[42] DENR Administrative Order No. 2024-04 Compliance Reporting and Audit Guidelines for Republic Act No. 11898 or the Extended Producer Responsibility Act of 2022.
[43] There is no robust baseline data, but OEs' self-reporting suggests that some are already implementing some form of EPR programs.
[44] World Bank. 2022. Philippines Country Climate and Development Report. Washington: World Bank.

complementary policies. CREVI identifies such barriers as ownership costs, limited availability of technical and aftersales support, technology inertia and EV-related concerns on range, performance, and reliability. The Act and IRRs have provisions for addressing multiple supply and demand side constraints through use of (i) fiscal and non-fiscal incentives to bring down the cost of acquisition of EVs and incentivizing their use; and (ii) mandates to increase the share of EVs in the corporate and government fleets and (iii) directives to ensure availability of EV Charging Stations at specified public and private locations, among others.

65. ***PA 7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular[45] with the guidelines on accrediting EV charging stations' providers.***

66. **Setting up the accreditation framework for EVCS providers addresses a binding constraint to EV adoption, which is the lack of EVCSs.** The Department Circular 2023-05-0011 establishes the guidelines for accreditation of EVCS Providers with the goal of creating an enabling environment to support and accelerate the adoption of EVs through setting uniform and streamlined rules on the use, operations, and maintenance of EVCSs. Several other policies to promote EV adoption are already in place (duty exemption for imported EVs and parts) or in the pipeline, e.g., mandates for government agencies and commercial fleets to adopt EVs, mandatory parking slots for EVs, and an EV incentive scheme, which will reduce the cost of adoption and provide incentives for building up parts of the EV production value chain. Key policies are expected to be supported by the ETCR DPL series (Annex 8).

67. **Expected Result:** The expected result is an increase in the number of registered charging points operated by accredited electric vehicle charging stations (EVCSs)[46] from 563 (April 2024) to 1,000 (June 2026) (RI 10). This will mitigate one of the key obstacles to EV adoption. In the medium term, this is expected to contribute to reduced air pollution and reduced GHG emissions.

Encourage more production and consumption of green goods and services through public procurement

68. **While the GoP adopted a Green Public Procurement (GPP) Roadmap to procure goods and services with reduced environmental impact,[47] it has implemented it only partially.** The Government Procurement Policy Board (GPPB) adopted the roadmap in 2017. Based on the share of total government spending, GPP products only accounted for 0.14 percent and 0.4 percent in 2020, and 2021. Initial steps towards expanding the scope of the Government's GPP have been made by the GPPB through GPPB Resolution No. 08-2022 by establishing and enforcing a systematic monitoring system and a regular reporting on the implementation of the prioritized common use supplies and equipment (CSE) and non-CSE items (supported by the first DPL).

69. ***PA 8. To incentivize public procurement of green goods and services, the GPPB has issued a resolution[48] mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.***

70. **To further incentivize the procurement of green goods, GPPB issued Resolution 19-2023 adopting seven broad product categories for green public procurement.** These are efficient energy-consuming products and equipment; meeting, incentives, conferences, and exhibitions; food and catering services; sustainable textile fabrics; Information and Communication Technology (ICT) Systems/Services; motor vehicles; and construction materials. The adoption of these

[45] Department Circular 2023-05-0011 Guidelines on the Accreditation of Electric Vehicle Charging Stations Providers and Registration of Electric Vehicle Charging Stations Pursuant to the Electric Vehicle Industry Development Act.
[46] Refers to charging points per registered EVCS operated by accredited EVCS Providers.
[47] throughout their life cycle.
[48] GPPB Resolution No. 19-2023 Approving the Adoption of the Broad Product Categories with Specific Items or Products for Pilot Implementation in Relation to the Scaling of Sustainable Consumption and Production Project.

categories is based on market readiness, environmental impact, cost implications, practicability, support to Government environmental objectives, and support to the local economy. The Resolution mandates eight government agencies[49] to apply green technical specifications for procurement in the initial phase of implementation, while leaving it optional for other agencies. The specifications provide the minimum green criteria to address key environmental impacts and support the enforcement of sector policies relevant for sustainable development such as energy, water and material efficiency, waste reduction, pollution and emission prevention including climate change mitigation, greening the supply chains, among others.[50] The market readiness criterion will mitigate the risk that only a few large participants could dominate these markets.

71. **The GPP reform is the initial step towards adopting Sustainable Public Procurement (SPP).** An expected future amendment of the procurement law will allow the government to apply life cycle cost (LCC) beyond procurement planning and contract management for goods and infrastructure projects, and to include social considerations in the design and requirements of procurement projects such as gender parity and green jobs.

72. **Expected result:** The expected result is an increase in the share of the total budget covering pilot projects under the seven broad categories is awarded on products and services according to the GPP green specifications (percent of total budget spent on these broad categories) from 0 percent (2023) to at least 40 percent (June 2026) (RI 11). In the medium term, experience from GPP implementation in other countries suggests that it could substantially reduce CO2 emissions and create new jobs.[51]

73. **Analytical underpinnings for the supported reforms in this DPL are summarized in Annex 6.**

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

74. **The reforms supported by the DPL series are well aligned with the *2019–2023 CPF* for the Philippines and the WBG goals of ending extreme poverty and promoting shared prosperity on a livable planet.** They will contribute to the following development objectives of the CPF: 5) Promote regulatory reforms to enhance competitiveness; 6) Improved efficiency of public service sectors in selected areas; 7) Improved income opportunities in agriculture; and 10) Increased resilience to natural disasters and climate change.

75. **This DPL series builds on previous operations and analytics and will be complemented by future ones to maximize development impact.** It builds on pro-competition reforms supported by the Promoting Competitiveness and Enhancing Resilience to Natural Disasters DPL series, on green financial sector reforms supported by the Financial Sector Reform DPL series. It was informed by WBG's core diagnostics, including the *Philippines CCDR*, particularly promoting renewable energy including offshore wind, sustainable finance taxonomy, EV transition, green public procurement, and agriculture crop insurance, and other analytic. It is aligned with the *Philippines Country Gender Action Plan FY2020-2024*. In turn, this DPL series will be complemented by the *Second Digital Transformation DPL (FY24)*, which will support the implementation of the PSA reform in the aviation sector, and a future *Energy Transition and Climate Resilience* series (FY 25), which will deepen the RE and EV reforms (Annex 8). Further, a future IPF focusing on building smart power transmission lines will address physical constraints on the adoption of RE.

[49] Including Department of Public Works and Highways, Department of Transportation, Department of Health, and Department of Energy.

[50] They include national standards regulating emissions for vehicles, fuel efficiency, energy efficiency ratings, eco design and applicable standards, end of life service, polyester recycling requirements for textiles, having environmental policy for service suppliers, eliminating use of non-essential disposable products like single-use plastics and utensils, and use of recycled materials where possible, among others.

[51] The Republic of Korea's public green market has grown about seven times since its launch in 2005 to 1.6 billion US$ in 2012; GPP of 19 product groups resulted in CO2 emission reduction of 3.71 million tons and the creation of 14,335 new jobs. Source: The Philippine Green Public Procurement Roadmap: Advancing GPP until 2022 and beyond, 2017.

76. **The results framework is aligned with the WBG's corporate scorecard.** RIs 4 (annual average investment in solar projects), 5 (number of Green Energy Auctions for offshore wind conducted), and 6 (Share of electricity generation from renewable energy) are linked to the WBG result indicator on GW of renewable energy capacity enabled. RI 10 (Number of registered charging points operated by accredited EVCSs) is linked to the WBG result indicator on millions of people that benefit from improved access to sustainable transport infrastructure and services. Moreover, these RIs are also expected to lead to net reductions in GHG emissions of the two largest sources of emissions in the Philippines, energy and transport. Other RIs that are expected to contribute to a net reduction include RI 7 (sustainability-related lending (loans to promote Renewable Energy and Energy Efficiency)), RI 8 (recovery of plastic packaging as a share of amount introduced into the market), and RI 11 (Share of total budget covering pilot projects under the broad categories awarded on products and services according to the GPP green specifications).

77. **This program is aligned with the goals of the Paris Agreement and the Philippines' pathway towards low GHG emissions and climate-resilient development.** The operation is consistent with the Philippines' commitments to the 2021 Nationally Determined Contributions, the 2011 – 2028 National Climate Change Action Plan, the National Adaptation Plan (NAP), as well as the priorities to promote low-carbon, climate and ecosystem-resilient growth outlined in the Philippine Development Plan (PDP) 2023–2028. On mitigation, all PAs except 1 (PSA amendment) and 2 (PPPs) are not likely to cause a significant increase in GHG emissions. While PAs 1 and 2 could spur greater investment in infrastructure and potentially cause an increase in GHG emissions, they are not likely to introduce or reinforce significant and persistent barriers to transition to the Philippines' low-GHG emissions development pathways. On adaptation and resilience, risks from climate hazards are not likely to have an adverse effect on any of the PAs (Annex 7).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

78. **The GOP has actively consulted with key stakeholders in the formulation of policy actions supported by this operation.** The government organized public and private sector consultations for most of the reforms supported by this operation. Some of the key issues raised by stakeholders were: reclassification of domestic shipping from "public service" to "public utility", bond requirement on foreign investors only, application of cabotage rules, performance audits (PA 1 on PSA); the importance of the coordinating role of DOE and the need to work closely with other relevant permitting agencies to develop clear guidelines on issues where regulatory uncertainties and inconsistencies pose risks for OSW development (PA 4 on RE), the importance of gradually phasing in the regulatory taxonomy so that key stakeholders have ample time to be ready to adjust and comply (PI 5 on Sustainable Finance Taxonomy), importance of flexibility in the first year of implementation (PA 6 on EPR), the importance of building capacity at participating agencies to craft the green specifications for their products (PI 8 on GPP).

79. **The Bank is coordinating with development partners to maximize synergies and limit overlap.** The Bank has coordinated with the Asian Development Bank (ADB) which is supporting the implementation of the PSA amendment (PA 1) through a policy-based loan. The Bank consulted with the International Maritime Organization (IMO) to benchmark the domestic shipping regulations to support the implementation of the PSA amendment (PA 1). The PPP Center coordinates between the Bank, ADB, Australia, the Netherlands, and the United States Agency for International Development (USAID) on PPP and PDMF reforms (PAs 2 and 3). USAID (PA 4), United Nations Development Programme (UNDP) and United Nations Office for Project Services (UNOPS) (PA 6) are providing complementary TA on the implementation of the reforms.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

80. **The PAs in this second DPO will generally have positive impacts on poverty and inequality reduction.** The reforms will affect the income distribution through two main channels: first, changes in prices in goods and services will affect household incomes, and second, transformations of the labor market will affect workers.

81. **PA 1 (PSA), and PAs 2 and 3 (PPPs) will likely lead to a significant positive effect on poverty reduction**. This will come from improved business conditions that will encourage foreign and domestic investment, job creation, and technology upgrading. The influx of investments is expected to boost growth and create more jobs—green, or otherwise—and to decrease prices of goods and services through increased competition and technical efficiency. The reforms may then lead to increased economy-wide productivity, which can lead to increased wages, household incomes and standards of living. In particular, the opening of the domestic shipping sector in PA 3 will ensue efficiency gains on the movement of goods and services and result in lower prices. A study looking at the gains from roll-on-roll-off systems shows that lower transport costs increased inter-island trade by 35 percent and particularly benefited trade of agricultural products. Moreover, the study showed that lower transport costs could lead to increased market integration and farmers receiving higher revenues while retail prices are reduced.[52]

82. **PA 6 (EPR) is not expected to have any significant negative effects on poverty reduction**. There are two potential channels through which this PA could affect households and poverty: (i) employment; and (ii) prices. In the short term, firms are expected to focus not on adjustments to their production processes but on maximizing recovery of recyclables. This will not affect employment within the production processes and will increase employment in existing mechanisms of the plastics value chain for recovering plastic wastes (expansion in recycling related occupations, such as waste pickers, refuse sorters, garbage collectors, and an expansion of recycling facilities). The EPR Act currently applies only to larger OEs who have stated that they are meeting current diversion targets. While a substantial share of the cost of increased diversion is likely to be ultimately passed on to consumers, it is unlikely to lead to significant increases in hardship, given the share of increased diversion costs in total input costs and the share of plastics-related outputs in the consumption basket of poorer households. Results from focused group discussions recently conducted by the World Bank to understand the impact of plastics policies in the Philippines shows that consumers are concerned about expected increases in consumer goods prices; while large increases are not expected, the situation should be monitored. In the longer run, firms are expected to eventually adjust their production processes to use less plastic, which could affect employment. However, the total number of workers in the plastics production value chain is small nationally, there is time for firms and workers to adjust, and more new jobs will be created in other sectors, such as the production of alternatives to plastics and updated and more recycling facilities. In the context of shifting to "greener" jobs in the long run, recent estimates point to a potential increase of around 4 million more jobs compared to a business-as-usual scenario where there are no active policies meant to promote the shift towards a greener economy.[53]

[52] Eugenia Go, "Overland and Oversea: Domestic Trade Frictions in the Philippines", Asian Development Review Volume 39, Issue 02. September 2022. https://www.worldscientific.com/doi/epdf/10.1142/S0116110522500123.
[53] Abrigo, M., D. Ortiz, A. Orbeta, and G. Llanto. 2021. "Greening the Philippine employment projections model: New estimates and policy options." PIDS Discussion Paper Series No.2021-26. Quezon City: Philippine Institute for Development Studies.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

83. **The PAs of this proposed DPL are unlikely to cause significant adverse effects on the environment, forests, or other natural resources except PA 1.**

84. **PA 1 (PSA), aiming to boost investment in public infrastructure including domestic shipping, is expected to have a significant adverse environmental effect.** The development of these infrastructure services will lead to more use of land and natural resources and emissions including GHG. Potential key environmental impacts include marine and atmospheric pollution, marine litter, and biodiversity disturbance. The government's policy framework provides an adequate system to address these adverse environmental effects especially through the environmental impact assessment process, including proper planning and siting of the infrastructure. Moreover, MARINA, whose primary mandate is to ensure maritime safety, has issued several advisories and circulars for emissions reductions among shipping companies.[54] Lifting foreign equity restrictions would likely facilitate compliance with these advisories and circulars. Moreover, the reform is expected to increase investment in new vessels, promote the transfer of modern technology and management methods, which could address the negative impacts and increase fuel efficiency. With proper implementation of these policies including capacity building for relevant officials, the positive effects can be enhanced while the negative effects can be mitigated or minimized.

85. **PA 2 (PPP Code) and PA 3 (PDMF) are expected to lead to significant, positive environmental effects.** The PPP framework requires that the project cost is sufficient to achieve technical requirements to meet the environmental standards. It is structured in terms of managing and allocating risks, responsibilities, and sufficient resources to the appropriate party and for relevant tasks. This is in addition to the government's general environmental safeguards policy framework, which provides an adequate system to address these adverse environmental effects through the environmental impact assessment process, the enforcement of environmental and social quality standards and the management of the use of natural resources that could help in proper planning and sitting of the infrastructure. Specific performance standards in the preparation and implementation of PPPs are prescribed in the legal framework, and resources are made available through the PDMF for project preparation. These provide additional safeguards to enhance the effectiveness of environmental regulations currently being implemented by GoP and considered in the approval process of PPPs. Among the national level projects in the current PPP pipeline are public transport, rail and green energy projects which have potential positive impacts on air pollution and at the local level, solid waste management and water and sanitation projects that lower environmental pollution.

86. **PA 6 (EPR program) will lead to significant positive effects.** The policy will guide compliance reporting and auditing the EPR program submitted by OEs, providing clarity for information disclosure and achievement of plastic waste recovery target. It is expected to promote greater waste reduction, reuse, and recycling, whereby less plastic waste will leak to the environment and to the oceans.

87. **The Philippines has an adequate policy framework to address potential environmental risk and impact.** The Philippine Environmental Impact Statement System (PEISS) and its IRRs, the DAO 2003-30 to guide PEISS implementation, requires the compliance of every project that significantly affects the quality of the environment. The PEISS requires the identification of a wide range of measures to avoid, minimize, mitigate, and compensate adverse impacts caused by a project, including alternatives to project location, technology, and resources. It also requires including mitigation measures monitoring plans and corresponding institutional management, and financial arrangements for implementation. All projects that can potentially cause any form of significant negative impact to the environment are regarded as environmentally critical and are therefore required to secure an Environmental Compliance Certificate (ECC), which are subject to monitoring, validation, and evaluation/audit for performance assessment. The recently conducted assessment

[54] Marina Circulars 2020-06, 2021-05, 2022-33, and 2023-20.

recommends further capacity building for agencies for policy implementation. For example, regarding the policy on shipping industries, the capacity for pollution control, ambient water quality monitoring, and mapping and protection of marine resources of the Marine Environmental Protection Command (MEPC) of the Philippine Coast Guard (PCG), which plays a critical role in environmental risk management, should be further strengthened. Similarly, the capacity of the Local Government Units including barangay-level units in coastal areas, could be further enhanced for quick response in case of accidents that may cause extensive damage to the marine environment.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

88. **Public Financial Management (PFM) System:**[55] The GOP has significantly improved its PFM at the national level over the past decade. The 2016 Public Expenditure and Financial Accountability (PEFA) assessment showed improvement in three out of the seven PFM pillars (transparency of public finances, policy-based budgeting and asset and liability management) compared to the 2010 assessment. Reforms in the management of budget resources continue to be undertaken by the GOP under the PFM reform program. There is a *Unified Accounts Code Structure* in budgeting, accounting, and reporting. A Treasury Single Account has been implemented and the Bureau of Treasury (BTr) is expanding its coverage. Budget preparation and cash management have been strengthened, and the Budget and Treasury Management System (BTMS) has been adopted as the basis for a single national government financial information system. The national government budget is made available to the public on the Department of Budget and Management (DBM) website. Public procurement systems have strengthened over the past decades following the adoption of the public procurement Republic Act (RA) 9184 in January 2003. An assessment of the country's public procurement using the Methodology for Assessing Procurement Systems (MAPS) was completed in 2021 and the recommendations are guiding the GoP to strengthen its procurement system. The Philippine Government Electronic Procurement System (PhilGEPS) is undergoing modernization with the virtual store and merchants' registry already in place. The electronic bidding feature, which includes an online platform for the creation of the annual procurement plan, purchase requests, e-bulletin, e-bid submission, online conduct of post-qualification, online purchase order/contract management, and online filing of requests for reconsideration and protest, is under implementation with pioneer agencies. The eMarketplace will be piloted this year.

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

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

91. **Disbursement and Auditing Arrangements:** Upon withdrawal, the proceeds of the DPL will be deposited in Euros in a dedicated deposit account at the BSP, forming part of the country's official FOREX reserves. The GOP will transfer funds from the Euro account to the treasury single account in local currency (pesos) that will be used to pay government's budget expenditure. Within 30 days of the disbursement of DPL amount, the GoP will confirm receipt of these funds to the Bank. Disbursements of the loan will not be linked to any specific purchases, and no procurement requirements must

[55] See Annex 9.

be satisfied. The DPL should not be used for excluded expenditure or connected in engagements in corrupt, fraudulent, collusive, or coercive practices, as per the General Conditions for IBRD Financing for Development Policy Financing that became effective on July 15, 2023. Should this be the case, the Bank will seek for a refund from the GoP, which will subsequently be cancelled from the loan. Given the moderate fiduciary risk, there will be no requirement for the audit of the DPL.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

92. **The DOF is the main WBG counterpart for budget support operations, including the proposed operation.** Policy dialogue and monitoring and evaluation of the program supported by this DPL series also extend to the NEDA, MARINA, PPP Center, DOE, BSP, SEC, DENR (EMB), GPPB, and BTr. The pillars and RIs are aligned with government priorities and agencies, their reporting mechanisms will be used where appropriate. The loan closing date is expected to be December 2025 and the result indicator targets have been set for end-2025 to mid-2026.

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

6. SUMMARY OF RISKS AND MITIGATION

94. **The overall risk assessment is moderate.**

95. **The political and governance risk is substantial.** This risk relates to Prior Action 8 of DPL 1, which supports the DOF directing the Insurance Commission (IC) to supervise the state-owned Philippines Crop Insurance Corporation (PCIC). This strengthened the earlier regime surrounding PCIC's supervision. A recently issued Executive Order (EO) No. 60 of May 2024 moves the PCIC from the DOF to the Department of Agriculture for policy and program coordination. EO No. 60 does not annul IC's mandate to supervise PCIC. However, it increases the risk that Prior Action 8 under DPL 1 may not achieve its intended result. To mitigate the risk, the Bank continues engaging with the key agencies involved in the reform (including the Department of Finance, Department of Agriculture, PCIC, and other members of the inter-agency working group on crop insurance reform) to advocate for the benefits of continued IC supervision and for further reforms to improve PCIC's operations through TA and knowledge sharing.

96. **The institutional capacity for implementation and sustainability risk is substantial.** The reforms require inter-agency coordination, making their success dependent on institutional capacity. For example, NEDA leads the design of the IRRs for the PSA reform (PA 1), yet its successful implementation implies harmonization of definitions, and consistency of provisions, across the 17 sector regulators whose mandate will be affected by the reform. The EPR (PA 6) and EVIDA (PA

7) reforms also require substantial inter-agency coordination and capacity and institution building of DENR. The Bank is providing technical assistance to mitigate this risk.

97. **Stakeholder risk is substantial.** The PSA reform (PA 1) may face resistance from domestic incumbents, interested in preserving the status quo, for example, by introducing legal challenges to preserve the domestic shipping lines under the category of *critical infrastructure*, appealing to concerns of national security. Similarly, the EPR Act (PA 6) and EVIDA (PA 7) reforms are complex reforms with many private sector stakeholders. To mitigate these risks, the laws foresee incentives to encourage participation. It will be important that the central government agencies, DOF and NEDA, play a coordinating and advocacy role to keep the reforms on track. The Bank will remain engaged in these reforms, convene, and share knowledge with stakeholders who have shown an interest in removing restrictions in these sectors, and in bringing foreign expertise and capital to boost their performance. In addition, the Bank is providing implementation assistance to the relevant agencies.

Table 5: Summary Risk Ratings

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

Note on environment and social risks: There are allegations of forced labor in the production of solar panels and components. This DPF focuses on policies and institutional reforms in the Philippines. DPF proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results		
Prior Actions for DPL 1	**Prior Actions for DPL 2**	**Indicator Name**	**Baseline**	**Target**
Pillar 1. Accelerate the Economic Recovery and Boost Long-Term Growth				
1. To increase investment in infrastructure services, the Borrower has created the legal framework to open Public Service Sectors to 100 percent foreign ownership through the amendment of the Public Service Act (Commonwealth Act No. 146), as evidenced through the enactment of the Republic Act No. 11659 on March 21, 2022.	1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors[56] to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations[57] and MARINA Memorandum Circular,[58] respectively.	1. Cumulative quantity of passenger and cargo vessels imported.	139 ships (2020-2022 total)	158 ships (2023-2025 total)
2. To attract private investment in public infrastructure and increase certainty in the PPP framework the Borrower has: (a) amended the Build-Operate-Transfer Law IRRs; and (b) approved the Guidelines and Procedures on Processing PPP Proposals for NEDA Board/ Investment Coordination Committee (ICC) Evaluation and Approval, as evidenced by the	2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act[59] which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	2. Number of PPPs for which final decisions by the Approving Body are reached.	4 (2022-2023)	At least 5 (2025)

[56] "Public Service Sectors" means those sectors of the economy offering certain public services, for general business purposes, and which are identified in the Public Service Act (Commonwealth Act No. 146, as amended), Section 13(b).
[57] IRRs of R.A. 11659.
[58] No. DS-2023-02.
[59] Act Providing for the Public-Private Partnership Code of the Philippines (Republic Act 11966).

Prior Actions and Triggers		Results		
Certification of NEDA Board Approval of such Guidelines and Procedures on November 24, 2022.				
	3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines,[60] to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.	3. Completed advisory services (for project preparation, negotiation, and tendering of projects both solicited and unsolicited) aiding LGUs in their PPP activities (share of TA Agreements signed between LGUs and PDMF).	0 percent (2023)	At least 50 percent (2025)
3. To increase foreign direct investment in solar and wind energy, the Borrower, through the DOE, has amended Rules and Regulations Implementing the Renewable Energy Act to remove the 40 percent foreign equity cap on exploration, development, utilization and commercialization of natural resources, as evidenced by the DOE Department Circular DC 2022-11-0034.	4. To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order[61] and DoE Department Circular.[62]	4. Annual average investment (measured by development cost) in solar projects[63] (percent of GDP). 5. Number of Green Energy Auctions for offshore wind conducted.	0.02 percent of GDP (2017-2022 average) 0 (2023)	0.06 percent of GDP (2023-2025 average) At least 1 (2025)

[60] PDMF Guidelines dated October 2023.
[61] Executive Order 21.
[62] DoE Department Circular DC2023-06-0020.
[63] Defined as projects with service contracts with DOE.

Prior Actions and Triggers		Results		
4. To increase demand for renewable energy, the Borrower, through the DOE, has increased the minimum annual incremental generation required to be sourced from renewable energy resources from 1% to 2.52% starting 2023 for Mandated Participants,[64] as evidenced by the DOE Department Circular DC2022-09-0030.		6. Share of electricity generation from renewable energy (percent).	22 percent (2021)	25 percent (2025)
	5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular[65] and SEC Memorandum.[66]	7. Sustainability-related lending (said lending covers renewable energy, energy efficiency projects, and other economic activities or projects that contribute to climate change mitigation and adaptation objectives, and sustainable development goals) by Domestic Systemically Important Banks (D-SIBs) (PHP billion).	PHP 232 billion (2022)	PHP 255 billion (2025)
Pillar 2. Protect the environment and improve climate resilience				
5. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Borrower has: (a) enacted the Extended Producer Responsibility Act	6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through	8. Recovery of plastic packaging as share of amount introduced into the market by Obliged Enterprises (OEs), Collectives, and Producer	0 percent (2022)	40 percent (2025)

[64] "Mandated Participants" means electric power industry participants which are mandated to comply with the RPS annual requirement which includes entities enumerated in Rule 3, Section 11 of this RPS On-Grid Rules.
[65] BSP Circular No. 1187 Series of 2024
[66] SEC Memorandum Circular No. 5 Series of 2024

Prior Actions and Triggers		Results		
(Republic Act No. 11898); and (b) through its Department of Environment and Natural Resources (DENR), issued accompanying IRRs, mandating large enterprises to recover up to 80 percent of plastic packaging waste by 2028 and to submit EPR programs describing a component on gender equality.	a DENR Administrative Order,[67] the standards of annual EPR Compliance Reports that Obliged Enterprises,[68] PROs,[69] Collectives,[70] and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.	Responsibility Organizations (PROs) (percent). 9. Share of submitted Extended Producers Responsibility (EPR) implementation programs with component on gender equality (percent)	0 percent (2022)	5 percent (2025)
6. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the DOE, has issued IRRs to implement the Republic Act No. 11697, otherwise known as the Electric Vehicle Industry Development Act of 2022.	7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines[71] on accrediting EV charging stations' providers.	10. Number of registered charging points operated by accredited electric vehicle charging stations (EVCSs).[72]	563 (April 2024)	1,000 (June 2026)
7. To incentivize public procurement of green goods, the Borrower, through the	8. To incentivize public procurement of green goods and services, the GPPB has issued a	11. Share of total budget covering pilot projects under	0 percent (2023)	at least 40 percent (June 2026)

[67] DENR Administrative Order No. 2024-24 on EPR Compliance Reporting and Auditing Guidelines.
[68] Obliged Enterprises" or "OEs" means: (a) large enterprises, as defined in paragraph 6.27 of the EPR IRR, that generate plastic packaging waste and are required to implement an EPR program under Section 44-B of the Philippine Ecological Solid Waste Management Act of 2000, as amended by the EPR Act of 2022; and (b) micro, small, and medium enterprises where the total value of assets of all enterprises carrying the same brand, label, or trademark exceeds that of medium enterprises under Republic Act No. 9501.
[69] "PRO" means the organization, voluntarily formed or authorized by Obliged Enterprises under Section 44-H of the Ecological Solid Waste Management Act of 2000, as amended by the EPR Act of 2022, that shall serve as the viable platform to implement their EPR program.
[70] "Collective" means a group of Obliged Enterprises that organized themselves, not as a PRO, to implement a common platform for the implementation of their EPR program.
[71] DoE Department Circular No. DC2023-05-0011.
[72] Refers to charging points per registered EVCS operated by accredited EVCS Providers.

Prior Actions and Triggers		Results		
Government Procurement Policy Board (GPPB) has updated the GPP Roadmap by: (a) providing for a monitoring system based on green tagging; and (b) upgrading of green specifications; through GPPB Resolution No. 08-2022.	resolution[73] mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.	the broad categories is awarded on products and services according to the GPP green specifications (percent of total budget spent on these broad categories)		
8. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, has directed the Insurance Commission (IC) to conduct annual examinations of the Philippine Crop Insurance Corporation (PCIC)'s affairs, financial condition, and its method of business, as evidenced by Department Order No. 038-2022 and Circular Letter No. 2022-35.		12. Financial resilience of Philippine Crop Insurance Corporation (PCIC) measured by compliance with Insurance Commission (IC) regulation.	PCIC is not compliant with Insurance Commission regulation (2022)	PCIC is compliant with Insurance Commission regulation (2025)

[73] GPPB Resolution 19-2023.

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Accelerate the economic recovery and boost long-term growth	
1. Cumulative quantity of passenger and cargo vessels imported. (Number)	
Dec/2022	Dec/2025
139 ships (2020-2022 total)	158 ships (2023-2025 total)
2. Number of PPPs for which final decisions by the Approving Body are reached. (Number)	
Nov/2023	Nov/2025
4 (2022-2023)	A least 5 (2025)
3. Completed advisory services (for project preparation, etc. of projects both solicited and unsolicited) aiding LGUs in their PPP activities (share of TA Agreements signed between LGUs and PDMF). (Percentage)	
Dec/2023	Dec/2025
0 percent (2023)	At least 50 percent (2025)
4. Annual average investment (measured by development cost) in solar projects (percent of GDP). (Percentage)	
Nov/2022	Nov/2025
0.02 percent of GDP (2017-2022 average)	0.06 percent of GDP (2023-2025 average)
5. Number of Green Energy Auctions for offshore wind conducted. (Number)	
Nov/2023	Nov/2025
0 (2023)	At least 1 (2025)
6. Share of electricity generation from renewable energy (percent). (Percentage)	
Nov/2021	Nov/2025
22 percent (2021)	25 percent (2025)
7. Sustainability-related lending (covering RE, EE projects, and other economic activities or projects that contribute to climate change mitigation and adaptation, and SDGs) by D-SIBs (USD billion) (Amount(USD))	
Dec/2022	Dec/2025
4.3 billion	4.7 billion
Protect the environment and improve climate resilience	
8. Recovery of plastic packaging as share of amount introduced into the market by Obliged Enterprises (OEs), Collectives, and Producer Responsibility Organizations (PROs) (percent). (Percentage)	
Nov/2022	Nov/2025
0 percent (2022)	40 percent (2025)
9. Share of submitted Extended Producers Responsibility (EPR) implementation programs with component on gender equality (percent) (Percentage)	

Nov/2022	Nov/2025
0 percent (2022)	5 percent (2025)
10. Number of registered charging points operated by accredited electric vehicle charging stations (EVCSs). (Number)	
Mar/2024	May/2026
563 (April 2024)	1,000 (June 2026)
11. Share of total budget covering pilot projects under the broad categories is awarded on products and services according to the GPP green specifications (percent of total budget spent on these broad (Percentage)	
Nov/2023	May/2026
0 percent (2023)	At least 40 percent (June 2026)
12. Financial resilience of Philippine Crop Insurance Corporation (PCIC) measured by compliance with Insurance Commission (IC) regulation. (Yes/No)	
Nov/2022	Nov/2025
PCIC is not compliant with Insurance Commission regulation (2022)	PCIC is compliant with Insurance Commission regulation (2025)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes 2023 Article IV Consultation with the Philippines

December 15, 2023

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation [1] with the Philippines.

The Philippines' growth momentum started to moderate after a strong post-pandemic recovery. Growth moderated from 7.6 percent in 2022 to 4.3 percent in the second quarter of 2023, largely due to external headwinds, fiscal underspending, and normalization of pent-up demand. Headline inflation decelerated to 4.9 percent in October from the peak of 8.7 percent in January but is facing renewed price pressures and the BSP has preemptively raised the policy rate by a further 25bps in October. Core inflation also remains elevated at 5.3 percent in October. The labor market has normalized, driven by the service sector. The current account deficit is narrowing, supported by lower imports of fuel and capital goods and a strong recovery in the service sector. International reserves remain adequate. Domestic financial conditions have tightened due to more stringent credit standards and a weaker exchange rate.

Growth is expected to bottom out in 2023. Real GDP growth is expected to bounce back in the second half of 2023 and reach 6.0 percent in 2024, supported by an acceleration in public investment and improved external demand for the Philippines' exports. The government's infrastructure program, opening up of sectors to greater foreign investment, and private sector participation through PPP modalities will gradually crowd in private investment and help realize a growth potential of about 6–6½ percent over the medium term. Inflation is projected to gradually approach the target in early 2024, though recurrent supply shocks cloud the disinflation trajectory. The current account deficit is expected to continue to narrow in 2024. Risks to the growth outlook are tilted to the downside, mainly stemming from persistently high inflation, globally and locally, and a highly uncertain global economic and geopolitical environment. Upside risks to the inflation outlook include higher commodity prices and potential second-round effects.

Executive Board Assessment[2]

Executive Directors noted that, after recovering strongly from the pandemic, the Philippine economy has withstood a confluence of shocks. Against this backdrop, Directors commended the authorities for their appropriate policy response and the recent implementation of key structural reforms to stimulate exports, spur foreign investment, and raise growth potential. Noting that risks to the outlook are tilted to the downside, Directors recommended maintaining prudent policies to further rein in inflation, preserve fiscal sustainability, and increase financial resilience. Sustaining efforts to address structural challenges is also important.

Directors agreed that monetary policy has been tightened appropriately to anchor inflation expectations. They emphasized the need to maintain a restrictive policy stance until inflation fully returns to target and to remain ready to tighten further should upside risks to inflation materialize. While allowing the exchange rate to continue to absorb shocks remains crucial, temporary foreign exchange interventions under limited circumstances may be considered to ensure orderly market conditions and address risks to price stability. Directors also noted the importance of strengthening coordination between the central bank and the Bureau of the Treasury to further develop the benchmark yield curve.

Directors welcomed that the banking sector is well-capitalized and liquid. Noting potential pockets of vulnerabilities, they agreed that banks' exposure to commercial real estate and leveraged corporates warrants close monitoring. Directors welcomed the recent progress in strengthening financial supervision and regulation and the initiative to revamp the bank resolution framework, and encouraged continued efforts in these areas. They called for further strengthening the AML/CFT framework to exit the FATF grey list.

Directors supported the pace of fiscal consolidation envisaged under the medium-term fiscal framework. At the same time, they recommended adopting additional medium-term tax measures to create more fiscal space for policy priorities and social spending. Directors welcomed the authorities' commitment to reform the military and uniformed personnel's pension system and to improve expenditure efficiency through digitalization.

Directors agreed that sustained efforts to reduce infrastructure and education gaps and to harness the digital economy are needed to reap the benefits of the demographic dividend. They stressed the importance of strengthening governance and improving the ease of doing business. Directors also underscored that creating quality jobs and further enhancing education and social protection programs would help reduce poverty and inequality. They encouraged efforts to build resilience to natural disasters and climate risks, including by prioritizing climate resilient infrastructure.

Table 1. Philippines: Selected Economic Indicators, 2020–2025

	2020	2021	2022	2023	2024	2025
				Est.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
National account						
Real GDP	-9.5	5.7	7.6	5.3	6.0	6.1
Consumption	-5.3	4.7	7.7	4.0	5.7	6.5
Private	-8.0	4.2	8.3	5.0	6.2	6.9
Public	10.5	7.2	4.9	-0.4	3.0	4.3
Gross fixed capital formation	-27.3	9.8	9.7	7.7	11.2	10.8
Final domestic demand	-10.5	5.7	8.1	4.8	6.8	7.4
Net exports (contribution to growth)	4.0	-2.3	-2.2	0.0	-1.5	-1.8
Real GDP per capita	-10.7	4.3	6.2	4.1	4.9	5.0
Output gap (percent, +=above potential)	-8.5	-3.5	0.4	0.0	0.1	0.1
Labor market						
Unemployment rate (percent of labor force)	10.4	7.8	5.4	4.7	5.1	5.6
Underemployment rate (percent of employed persons)	16.2	15.9	14.2	12.8	...	...
Employment	-6.1	11.7	6.6	2.4	1.6	1.6

Price						
Consumer prices (period average)	2.4	3.9	5.8	6.0	3.7	3.0
Consumer prices (end of period)	3.3	3.1	8.1	4.5	3.2	3.0
Core consumer prices (period average)	3.4	3.0	3.9	...	...	...
Residential real estate (Q4/Q4)	0.8	4.9	7.7	...	...	...
Money and credit (end of period)						
3-month PHIREF rate (in percent) 1/	1.3	1.5	5.7	...	...	...
Claims on private sector (in percent of GDP)	52.0	49.9	48.9	47.7	48.3	48.6
Claims on private sector	-0.2	3.8	11.0	7.7	10.6	9.7
Monetary base	5.1	5.8	5.1	6.0	6.5	8.9
Broad money	8.7	8.0	7.8	7.6	8.9	8.2
Public finances (in percent of GDP)						
National government overall balance 2/	-7.4	-8.3	-7.2	-5.7	-5.0	-4.6
Revenue and grants	15.9	15.5	16.1	15.7	16.4	16.7
Total expenditure	23.4	23.8	23.3	21.4	21.4	21.3
National government gross debt	54.6	60.4	60.9	61.1	61.1	60.9
Balance of payments (in percent of GDP)						
Current account balance	3.2	-1.5	-4.5	-3.0	-2.6	-2.3
FDI, net	-0.9	-2.5	-1.3	-1.0	-1.1	-1.1
Total external debt	27.2	27.0	27.5	27.5	27.1	26.5

Gross reserves						
Gross reserves (US$ billions)	110.1	108.8	96.1	98.1	93.4	89.4
Gross reserves (percent of short-term debt, remaining maturity)	478.4	512.3	381.3	351.0	372.3	332.0
Memorandum items:						
Nominal GDP (US$ billions)	361.8	394.1	404.3	434.9	471.8	510.3
Nominal GDP per capita (US$)	3,326	3,576	3,624	3,853	4,133	4,423
GDP (in billions of pesos)	17,952	19,411	22,025	24,312	26,565	28,934
Real effective exchange rate (2010=100)	111.3	111.1	109.3	...	...	...
Peso per U.S. dollar (period average)	49.6	49.3	54.5	...	...	...

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 with privatization receipts, equity, and net lending excluded.

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[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 .

Source: https://www.imf.org/en/News/Articles/2023/12/14/pr23449-philippines-imf-exec-board-concludes-2023-art-iv-consult

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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

BAGONG PILIPINAS

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

SUBJECT: **Philippines Second Sustainable Recovery Development Policy Loan (PSR DPL2)**

Dear **President BANGA:**

On behalf of the Government of the Philippines (GPH), we would like to provide an update on the Philippine economy and our reform efforts to accelerate economic recovery, protect the environment and improve climate resilience. In this context, we express our interest in obtaining a budget support program loan from the World Bank - International Bank for Reconstruction and Development (WB-IBRD) through the Philippines Second Sustainable Recovery Development Policy Loan (PSR DPL2) in the amount of USD750 million in EUR equivalent, or EUR699.105 million.[1]

The Philippine economy has continued to recover from the setback of the COVID-19 pandemic. Driven by robust domestic demand, the economy finished strong with a 5.6 percent GDP growth rate in 2023. Outpacing regional peers, the country's real GDP in 2023 is higher by 8.6 percent compared to pre-pandemic level in 2019. The fiscal deficit narrowed from 8.6 percent of GDP in 2021 to 6.2 percent of GDP in 2023, and National Government debt-to-GDP fell to 60.2 percent, having peaked at 60.9 percent in 2022. Looking ahead, growth will remain anchored on domestic demand, supported by improved labor market conditions, continued public investment, and the cumulative effects of recent investment policy reforms to boost competitiveness and increase private investment. The Government's Development Budget Coordination Committee recently recalibrated the medium-term macroeconomic assumptions, growth targets and fiscal program in light of domestic and global developments. The fiscal deficit is expected to narrow to 3.7 percent of GDP by 2028 and the National Government debt-to-GDP is expected to settle at 55.9 percent by the end of 2028. This will be driven by enhanced tax administration reforms and tax policy reforms. On the expenditure side, the GPH will give budget priority to programs and projects that ensure social and economic transformation and will curb wasteful spending along with continued infrastructure spending of at least 5-6 percent of GDP annually.

The GPH has made significant strides in laying the groundwork for the Philippine Development Plan (PDP) 2023 – 2028 last year, as documented in the recently released

[1] WB FOREX rate: EUR1 = USD0.9321409 as of April 30, 2024

Philippine Development Report 2023. As outlined under the President's 8-Point Socioeconomic Agenda, the PDP aims to steer the economy back on a high-growth path and restore the gains previously achieved in poverty reduction through accelerating digitalization, enhancing connectivity, enabling a dynamic innovation ecosystem, harnessing public-private partnerships, prioritizing servicification, and pursuing strong collaboration between national and local governments. Recognizing the intersecting risks and vulnerabilities posed by climate change, the PDP also advances transformative solutions towards strengthening the resilience of communities, institutions, and ecosystems, while ensuring a just transition to low-carbon development underpinned by the Philippines' Nationally Determined Contribution (NDC) submitted to the United Nations Framework Convention on Climate Change.

Amid the foregoing economic and environmental context, we look forward to the Bank's continued support through the second operation of the PSR DPL series, which consists of two pillars and aims to bolster the GPH's reforms to (i) accelerate the economic recovery and boost long-term growth; and (ii) protect the environment and improve climate resilience.

Pillar 1: Accelerate the economic recovery and boost long-term growth

To increase investment in infrastructure services, the GPH has taken further steps to implement the Amended Public Service Act (PSA) (Republic Act No. 11659, amending Commonwealth Act No. 146) supported by the first DPL operation, which opened some public services from the list of sectors previously restricted to 60 percent Philippine ownership to full foreign ownership. More particularly, the National Economic and Development Authority (NEDA) has adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for Public Service Sector review. The Maritime Industry Authority (MARINA) has also harmonized its sector regulations by repealing all foreign equity restrictions in domestic shipping and provided guidance for the effective regulation of the sector. In total, 17 relevant regulatory agencies are also at various stages of implementing the Amended PSA by revising their relevant agency guidelines. The GPH is committed to upholding this increased openness to foreign investments and will ensure that further implementing regulations, including the national security review manual, will adhere to these core principles.

We note that the reform to liberalize domestic shipping aims to promote investment in vessels and shipping operations, which may have a negative environmental impact. The expected adverse environmental effects shall be addressed through the Government's policy framework that provides an adequate evaluation system through the environmental impact assessment process, which includes proper infrastructure design and placement. Moreover, the MARINA, whose primary mandate is to ensure maritime safety, has issued several advisories and circulars for emissions reductions from registered ships in the Philippines. In addition, lifting foreign equity restrictions is expected to increase investment in new vessels, promote the transfer of modern technology and management methods, which could address the negative impacts and increase fuel efficiency. The GPH is committed to implementing these policies fully, including capacity building for relevant officials in a way that the positive effects can be enhanced while the negative effects can be mitigated or minimized.

Another significant policy reform of the GPH to attract private investment in public infrastructure is the enactment of the Public-Private Partnership (PPP) Code (Republic Act No. 11966). The Code strengthens the regulation of PPP through a unified legal framework which incorporates measures for managing fiscal risks associated with PPPs, as well as enhancing the involvement of the PPP Center in compliance reviews for submissions, broadening mandatory disclosures, and establishing a PPP Risk Management Fund. Notably, the Code also includes incentives to promote sustainability and emissions reduction during PPP preparation.

Along with the abovementioned policy reform, the GPH has also taken concrete steps to enhance the quality of PPP project design and implementation by improving the capacity of local authorities. The reform seeks to provide comprehensive support to Local Government Units (LGUs) by offering them technical, legal, and financial advisory services in the identification, preparation, and approval of PPP projects, ensuring that the projects deliver better value for money. As part of the implementation strategy, the PPP Center is actively developing standardized PPP models that incorporate essential mitigation measures in solid waste management, real estate and housing development, as well as off-grid and small-grid electricity distribution, with support from the Bank.

The GPH also remains committed to its efforts to diversify energy sources towards achieving the target of 50 percent of renewable energy in total power generation by 2040. To further unlock investment in offshore wind (OSW) energy projects, the President's Executive Order (EO) No. 21 mandated the Department of Energy (DOE) to formulate a Policy and Administrative Framework for OSW in April 2023. The DOE subsequently issued the Implementing Guidelines, through its Department Circular, mandating permitting agencies to identify and submit a complete list of appropriate permits and clearances for DOE's review and integration in the Energy Virtual One-Stop Shop (EVOSS), to enhance clarity and efficiency in the overall process and offer valuable guidance to OSW developers, regulators, and stakeholders, including clear timelines for permit decisions and prioritizing OSW projects.

Further progress was also made towards mobilizing private sector financing to support a green economic recovery in the Philippines. Through the Financial Sector Forum (FSF), the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) have recently issued the Sustainable Finance Taxonomy Guidelines based on international sustainable finance guiding principles, the Philippines' Nationally Determined Contribution (NDC), and the ASEAN Sustainable Finance Taxonomy. It is expected to play a crucial role in fostering greater investment flows towards green endeavors and ensure that they contribute to sustainability objectives.

To further support green recovery, the GPH will implement the Green Jobs Act (Republic Act No. 10771), promoting the creation of jobs to help protect ecosystems and biodiversity, reduce energy, materials, and water consumption, decarbonize the economy, and contribute to climate change adaptation, with a focus on small and medium enterprises. The GPH has prepared the draft Technical Guidelines on Green Jobs Certification and a draft Joint Memorandum Circular on the inter-agency framework, which were originally part of this DPL's policy matrix. Meanwhile, the GPH is also preparing a National Just Transition Approach to deliver a pathway to low-carbon and climate-resilient development. The GPH plans to finalize and issue the Technical Guidelines and JMC on green jobs once the Just Transition Approach has been finalized. While this means that the reform will no longer be part of this DPL, we remain committed to the objectives of the Green Jobs Act and appreciate the support given by the World Bank in this area.

Pillar 2: Protect the environment and improve climate resilience
To protect the environment, the GPH has scaled up its waste minimization initiatives toward zero waste in partnership with LGUs, businesses, and civil society. The GPH is making progress in promoting plastic waste management through reduction, recovery, and recycling of plastic waste, in line with the Extended Producer Responsibility (EPR) Act (Republic Act No. 11898). As of December 2023, 863 EPR programs have been submitted by private companies to the Department of Environment and Natural Resources (DENR) for validation and monitoring. To set the standards for reporting the implementation of the EPR programs, the DENR has issued a Compliance Reporting and Auditing Procedural Guidelines for the participating bodies to report on the status of progress and accomplishment of their plastic waste diversion target.

The GPH has likewise taken further steps toward providing an enabling environment for the use of electric vehicles (EVs) following the enactment of the Electric Vehicle Industry Development Act (EVIDA) (Republic Act No. 11697) and the issuance of the Comprehensive Roadmap for the Electric Vehicle Industry (CREVI). To address the lack of electric vehicle charging stations (EVCS), DOE has released a Department Circular outlining the accreditation guidelines for EVCS Providers, which aim to provide uniform and streamlined rules governing the use, operation, and maintenance of EVCS.
Meanwhile, to encourage more public procurement of green goods and services, the Government Procurement Policy Board (GPPB) has recently issued a Resolution which directs selected agencies to use green technical specifications for product procurement, marking the first step toward the adoption of Sustainable Public Procurement (SPP).

Lastly, recognizing the crucial role of agriculture insurance in climate change adaptation in the Philippines, the GPH has undertaken further reforms to mitigate climate-related disaster risks to the government budget and to insured farmers. This Department, through its Bureau of the Treasury, has submitted to Congress a bill amending the Philippine Crop Insurance Corporation (PCIC) Charter (Presidential Decree No. 1467) to strengthen the targeting of premium subsidies, introduce new insurance products appropriate for vulnerable smallholder farmers and fisherfolk, and enhance the coverage and operations of the PCIC. This bill has been sponsored by key Members of Congress in both the House of Representatives and the Senate. The reforms are expected to benefit all farmers, especially the vulnerable ones, since they aim to ensure that farmers, lenders, and other stakeholders can rely on adequate payouts following climate disasters, improve regulatory oversight, reduce risk to the public budget, and better target government support aided by the completion of the Registry System for Basic Sectors in Agriculture (RSBSA) that is gender-disaggregated and accurately farm georeferenced.

Taken altogether, these programs of reforms, supported by the PSR DPL2, encompass a diverse range of initiatives aimed at steering the Philippines back to its high-growth trajectory, and enabling economic and social transformation for a more sustainable and resilient society as envisioned in the AmBisyon Natin 2040. The reforms will contribute to increasing private investment to drive the recovery and boost medium-term growth, strengthening the Philippines' climate mitigation and adaptation efforts while supporting gender equality.

The GPH greatly values the relentless support provided by the Bank over the years to finance the country's development priorities and the provision of technical assistance across a wide range of reforms. We look forward to your continued engagement and support in the coming years.

Very truly yours,

Digitally signed by:
Ralph G. Recto
Date: 2024.05.20

RALPH G. RECTO
Secretary of Finance

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant environment effects	Significant poverty, social or distributional effects
Pillar 1. Accelerate the economic recovery and boost long-term growth		
1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations and MARINA Memorandum Circular, respectively.	Significant negative effect	Significant positive effect
2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	Significant positive effect	Significant positive effect
3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines, to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.	Significant positive effect	Significant positive effect
4. To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order and DoE Department Circular.	Positive effect	Positive effect
5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular and SEC Memorandum.	Positive effect	Positive effect
Pillar 2. Protect the environment and improve climate resilience		
6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through a DENR Administrative Order, the standards of annual EPR Compliance Reports that Obliged Enterprises, PROs, Collectives, and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.	Significant positive effect	No significant negative effect
7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines on accrediting EV charging stations' providers.	Positive effect	No significant effect

8. To incentivize public procurement of green goods and services, the GPPB has issued a resolution mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.	Positive effect	Negligible negative effect in short term; likely positive long-term effect

ANNEX 5: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES

Original Pillars, Indicative Triggers, and Indicators	Updated DPF Results Framework	Comments
Pillar 1. Accelerate the economic recovery and boost long-term growth	No Change	N/A
PA 1. To increase investment in infrastructure services, the Borrower, through the NEDA and sector regulators, has approved the implementing regulations to open Public Service Sectors to 100 percent foreign ownership through the adoption of the General IRRs and sector IRRs.	PA 1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations and MARINA Memorandum Circular, respectively.	The original PA anticipated that the PSA Act reform would be implemented in one sector at a time, but it was not yet clear which sector would implement it first. The new PA focuses on the full implementation of the PSA reform in the domestic shipping sector. The impact of the PSA reform in other Public Service Sectors will only be realized once those sectors have adopted the PSA reform by amending their sector regulations. The application of the PSA reform in the domestic shipping sector can serve as a template for those reforms.
RI 1. Annual average foreign investment in Public Service Sectors (percent of GDP). **Baseline**: 0.55 percent of GDP (2017-2022 average) **Target**: 0.76 percent of GDP (2023-2025 average	**RI 1.** Cumulative quantity of passenger and cargo vessels imported. **Baseline:** 139 ships (2020-2022 total) **Target:** 158 ships (2023-2025 total)	The RI reflects the updated PA and focuses only on the expected impact of the reform in the domestic shipping sector.
Not available	**PA 2.** To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	The addition of the approval of the PPP Code strengthens the reform content of the matrix and contributes to the achievement of the objective.
RI 2. Time needed to reach final decision on PPPs by the ICC (Investment Coordination Committee) from receipt of a complete and compliant project proposal months). **Baseline:** 29.9 months (2022) **Target:** 12 months (2025)	**RI 2.** Number of PPPs for which final decisions are reached. **Baseline:** 4 (2022-2023) **Target:** At least 5 (2025)	The new RI reflects the expected impact of the DPL 1 and the DPL 2 reforms and is closer to the expected development outcome.
Not available	**RI 3.** Completed advisory services (for project preparation, negotiation, and tendering of projects both solicited and unsolicited) aiding LGUs in their PPP	This is a new indicator to track the implementation of the PDMF reform with focus on local government units, which is distinct from the

	activities (share of TA agreements signed between LGUs and PDMF). **Baseline**: 0 percent (2023) **Target**: At least 50 percent (2025)	implementation of PPPs at the national level.
PA 3. To increase foreign direct investment in solar and wind energy, the Borrower has streamlined permitting processes for renewable energy investment through a regulation.	**PA 4.** To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order and DoE Department Circular.	At the time of preparation of DPL 1 the Bank team considered several reforms to streamline permitting. After analysis and policy discussions, the Bank team assesses that this reform to set up the policy and administrative frameworks addresses the most critical constraint to OSW investment.
RI. 6. Share of electricity generation from renewable energy (percent). **Baseline:** 22 percent (2021) **Target:** 28 percent (2025)	**RI. 6.** Share of electricity generation from renewable energy (percent). **Baseline:** 22 percent (2021) **Target:** 25 percent (2025)	Change in the target for 2025. The original adjusted target reflects the minimum share of RE by 2025 that can be mandated by DOE under Department Circular DC2022-09-0030.
IT. 4. To support green jobs creation, the Borrower, through the Climate Change Commission (CCC), has launched an assessment and certification system for green jobs under the Green Jobs Act of 2016 by issuing Green Jobs Guidelines under a Joint Memorandum Circular (JMC).	**Not included in DPL 2.**	The government continues preparation of the assessment and certification system, but due to delays in approval, the completion of the reform could not take within the preparation timeline of the DPL. The Bank team has continued its support to implement the Green Jobs act.
PA 5. To mobilize sustainable finance, the Borrower, through the Financial Sector Forum, has issued the Sustainable Finance Taxonomy Framework based on international principles, as evidenced through a BSP Circular, a SEC Memorandum Circular, and an IC Circular.	**PA 5.** To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular and SEC Memorandum.	While the Insurance Commission (IC) is part of the Financial Sector Forum (FSF), which developed the Taxonomy, along with BSP and SEC, it will not yet issue an IC Circular mandating its use by the insurance sector, which reduces the scope of the reform. However, the IC has actively participated in the dialogue and consultation process. In addition, the insurance sector is relatively smaller than the banking and capital market sectors.
RI 7. New sustainable finance instruments (e.g., green bonds, sustainability bonds, sustainability-linked bonds) issued by domestic companies in line with the sustainable finance taxonomy (percent).	**Dropped**	This result indicator was dropped to focus on tracking the impact of the reform on the banking sector, which is the largest part of the financial sector.

Baseline: 0 percent (2022) **Target**: 100 percent (2025)		
PA 7. To provide an enabling environment for the development and use of electric vehicles and reduce dependence on fossil fuels, the Borrower, through the Department of Energy, has published a relevant issuance requiring and enabling the government agencies to buy a specified percentage of EVs in their new vehicle purchases.	**PA 7.** To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines on accrediting EV charging stations' providers.	The original PA is still under preparation and is expected to be issued in the second half of 2024**.** The Bank team and authorities identified the issuance on the EVCS accreditation as another key building block to provide an enabling environment for the use of EVs.
RI 10. Share of electric vehicles in the annual purchases of new cars by National Government Agencies (percent). **Baseline:** Less than 1 percent (2022) **Target**: At least 10 percent (2025)	**RI 10.** Number of registered charging points operated by accredited electric vehicle charging stations (EVCSs). **Baseline:** 563 (April 2024) **Target:** 1,000 (June 2026)	The RI reflects the updated PA.
RI 11. Share of the 10 non-CSEs (Common use supplies and equipment) have become mandatory under the GPP (percent). **Baseline:** 0 percent (2022) **Target**: At least 40 percent (2025)	**RI 11.** Share of total budget covering pilot projects under the broad categories is awarded on products and services according to the GPP green specifications (% of total budget spent on these broad categories) **Baseline:** 0 percent (2023) **Target**: At least 40 percent (June 2026)	The change in result target reflects the expanded coverage of the policy and a shift in the focus toward the impact of the policy.
IT 9. To mitigate climate-related disaster risks to the government budget and to insured farmers, the Borrower, through the DOF, will strengthen targeting of premium subsidies, introduce new insurance products appropriate for vulnerable smallholder farmers, and strengthen PCIC coverage and operations, as evidenced by submission to Congress of the amended PCIC Charter.	**Not included in DPL 2.**	This IT builds on two earlier reforms. The first reform, taken in 2021, attached the state-owned Philippines Crop Insurance Corporation (PCIC) to the DOF. The second reform directed the Insurance Commission to supervise the PCIC and to bring it in line with insurance market best practice and standards and reduce its fiscal risk (supported by PA 8 of DPL 1). A recently issued Executive Order (EO) No. 60 of May 2024 moves the PCIC from the DOF to the Department of Agriculture for policy and program coordination. EO No. 60 does not annul IC's mandate to supervise PCIC. However, it increases the risk that Prior Action 8 under DPL 1 may not achieve its intended result. At this stage it is not clear if there is sufficient political momentum to advance the House and Senate bills amending the PCIC Charter. IT 9 has therefore not been converted to a Prior

		Action for DPL 2. The Bank still supports these reforms through dialog, awareness building, and technical assistance with the key stakeholders of this reform.

ANNEX 6: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS SERIES

Prior Actions	Analytical Underpinnings
Pillar 1. Accelerate the economic recovery and boost long-term growth	
1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations and MARINA Memorandum Circular, respectively.	Ongoing technical assistance for NEDA and MARINA. World Bank (2023). "Quantifying the potential impact of a fully implemented PSA amendment" in Services for Development, EAP Economic Update, Fall 2023. WBG. 2022. FDI Screening and National Security Review: International Trends and Lessons of Experience. WBG & OECD. 2022. Product Market Regulations in the Philippines.
2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	2020 World Bank PPIAF COVID19 Rapid Response Technical Advisory on PPPs found the need to improve the fiscal commitment and contingent liability management and reporting in PPPs and introduced to GOP the PPP Fiscal Risk Assessment Model (PFRAM).
3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines, to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.	Ongoing technical assistance for Philippines Support to Local PPPs Based on IPG staff analysis of sector and inputs to the SCD and experience of IFC in supporting PPP transactions and of WB in upstream PPP program advisory.
4. To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order and DoE Department Circular.	The Philippines Offshore Wind Roadmap (published in April 2022) WBG. 2022. Philippines Country Climate and Development Report (CCDR). IFC, 2021. "Ctrl-Alt-Delete: A Green Reboot for Emerging Markets". IFC Climate Business Department. Philippines Competitiveness PASA: investment streamlining ASA.
5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular and SEC Memorandum.	Ongoing technical assistance for FSF, including the development of a technical consultation paper accompanying the release of the taxonomy for public comments. WB, 2020, "Developing a National Green Taxonomy: A World Bank Guide"
Pillar 2. Protect the environment and improve climate resilience	

6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through a DENR Administrative Order, the standards of annual EPR Compliance Reports that Obliged Enterprises, PROs, Collectives, and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.	Philippines: Plastic Diagnostics. Field and Remote Sensing, River Monitoring, and Microplastics Assessments. An Assessment of Municipal Solid Waste Plans, Collection, Recycling and Disposal of Metro Manila. The study assessed the 10-year solid waste management plans, and the plastic waste collection, recycling, and disposal status of the 17 Local Government Units (LGUs) in the Metro Manila area. Reducing Plastic Waste in the Philippines: An Assessment of Policies and Regulations to Guide Country Dialogue and Facilitate Action. The study analyzed existing and proposed national policies, legislation, and plans on plastic production, collection, and recycling in the Philippines. Market Study on Plastics Circularity Opportunities and Barriers. This study addressed the critical need for a private sector focused market assessment of plastics recycling in the Philippines. Combatting the Plastic Waste Crisis in the Philippines-Implementing Extended Producer Responsibility with Lessons Learned from Korea
7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines on accrediting EV charging stations' providers.	WBG. 2022. Philippines Country Climate and Development Report (CCDR). The World Bank (2022). An ESMAP-supported technical assistance study, entitled "Electricity Mobility Development for Public Transport in the Philippines."
8. To incentivize public procurement of green goods and services, the GPPB has issued a resolution mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.	MAPS, Philippines CCDR, 2020/2021 Data collection for SDG Indicator 12.7.1 of the UNEP, Philippines Country Report: Current Status of Green Public Procurement (GPP) Implementation of the Switch Asia Regional Policy Advocacy. WBG. 2022. Philippines Country Climate and Development Report (CCDR). The report shows the need for upgrading the Philippines GPP Roadmap: strong linkages between different Government institutions and agencies involved in implementing the GPP Roadmap; proper monitoring, assessment, and reporting mechanisms or tools on the impact of the GPP initiatives; and to expand the scope of the adopted market-based approach to include the procurement of civil works and infrastructure projects in the GPP Roadmap.

ANNEX 7: PARIS ALIGNMENT ASSESSMENT

Program Development Objective(s): The proposed series of two operations supports the Government of the Philippines' (GOP) reforms to: 1) accelerate the economic recovery and boost long-term growth; and 2) protect the environment and improve climate resilience.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	Answer: Yes. The operation is consistent with the Philippines' commitments to the 2021 Nationally Determined Contributions by accelerating the transition of its sectors into a green economy and delivering climate and disaster-resilient development. Specifically, The Philippines commits to (i) a projected GHG emissions reduction and avoidance by 75%, representing the country's ambition for GHG mitigation for 2020 – 2030 for agriculture, wastes, industry, transport, and energy sectors; and (ii) undertaking adaptation measures across its sectors, including agriculture, coastal and marine ecosystems, to preempt, reduce and address residual loss and damage. Informed by the 2022 Philippines CCDR, the operation is also consistent with the 2011 – 2028 National Climate Change Action Plan, the National Adaptation Plan (NAP), as well as the priorities to promote low-carbon, climate and ecosystem-resilient growth outlined in the Philippine Development Plan (PDP) 2023–2028.
Mitigation goals: assessing and reducing risks	
Pillar 1: Accelerate the economic recovery and boost long-term growth	
1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations and MARINA Memorandum Circular, respectively.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: Yes. Explanation: The reform focuses on increasing investment in infrastructure related to domestic shipping industry, which could spur greater investment in the sector domestic shipping and cause an increase in GHG emissions.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	Answer: No. Explanation: The inland water transport plays an important role in the transport sector in the Philippines, given the archipelagic nature of the country. However, the domestic shipping industry has experienced slow growth, been characterized by old and inefficient vessels due to lack of additional investments. With the lifting of foreign equity restrictions, sources of private sector financing and technologies for vessel upgrades will be expanded and the threat of new entrants could create a dynamic shift towards more efficient vessels. In supporting the development of the sector, efforts are being made to ensure the risks of increased emissions are addressed. Specifically, MARINA has also issued several advisories and circulars (2020-06, 2021-05, 2022-33, 2023-20) that seek to nudge emissions reductions among shipping companies by providing incentives for vessel upgrades as well as setting a target date for meeting emission targets. Lifting foreign equity restrictions would likely facilitate compliance with the above-mentioned advisories and circulars. Furthermore, this PA aims to remove barriers for foreign ownership to attract the much-needed private investment for overall sector development. It does not avoid future vessel improvement, including vessel renewal, supporting vessels to be retrofitted when lower carbon technologies become feasible. Thus, carbon lock-in and transition risks are low. In addition, the Philippines has also put in place the Environmental Impact Statement System (PEISS) which requires all investment projects to identify a wide range of measures to avoid, minimize, mitigate, and compensate adverse impacts caused by a project. It also requires

	estimation of projected GHG emissions, mitigation measures, monitoring plans and corresponding institutional management, and financial arrangements for implementation. All projects that can potentially cause any form of significant negative impact to the environment are required to secure an Environmental Compliance Certificate (ECC)[74], which are subject to monitoring, validation, and evaluation/audit for performance assessment.
Conclusion for PA 1: ALIGNED with the goals of the Paris Agreement.	
2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: Yes Explanation: The new PPP Code of the Philippines seeks to improve the regulation and management of PPPs in the country, including on issues related to climate and the environment. The reform will spur greater private investment in public infrastructure. Out of the 74 projects in the national PPP pipeline, 30 (41%) are projects considered universally aligned. The majority of these are electrified rail projects, water supply and renewable energy activities. Another 25 projects (34%) are 'low impact' or can be designed to be low impact. These projects include rail projects where it is not clear if they are electrified, development of roads that are mainly O&M (not expanding footprint), and irrigation system where the projects can be designed to introduce system-wide water use efficiency and energy efficiency. However, the remaining 13 projects (18%) in the building and the transport sectors, including airports and highways development projects, will likely have a moderate to high risk of increasing GHG emissions.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	Answer: No Explanation: On buildings, establishment, refurbishment or change in use of buildings, some of these buildings under PPPs are intended as green buildings, applying beyond feasible energy efficiency measures. The operation and design of these buildings do not prevent the adoption of lower GHG emission alternatives as they become feasible such as through reconstruction, rehabilitation, or renewal and replacement of equipment. On highways, the majority of national highway development PPP projects are related to road widening of highways (as opposed to greenfield construction) with existing connectivity and are expected to reduce congestion and shorten travel demand times, thereby indirectly reducing GHG emissions through lowering the consumption of fossil fuels. These investments in highways do not hinder the use by lower-carbon vehicles, such as electric vehicles, public transport, or transition to these lower-emission technologies. On airports, there are few feasible means of long-distance connectivity given the island context of the country. Most of the airport PPPs are related to the rehabilitation of existing airports and increasing safety. The transport system in the Philippines consists of road, water, air, and rail transport, given the country context. Investment in airport improvements will not significantly reduce passenger or freight traffic on these existing lower-carbon transport modes but improve overall system-wide transport connectivity, do not deter future investments in cleaner, alternative modes of transport, and do not create a risk of locking in higher carbon solutions via the market structure or the project's commercial arrangements. Furthermore, all PPP projects will be reviewed and evaluated by the government based on its sector strategic plan in line with the Philippine Development Plan to ensure that selected projects are the most feasible option in meeting the same development objective. In addition, the Philippines has put in place the PEISS which requires investment projects to identify a wide range of measures to avoid,

[74] To secure an ECC the project proponent must comply with the requirements of the Philippine Environmental Impact Assessment (EIA) System and show that the proposed project will not cause a significant negative impact on the environment through its EIA.

	minimize, mitigate, and compensate for adverse impacts caused by a project, including GHG emissions.
Conclusion for PA 2: ALIGNED with the goals of the Paris Agreement.	
3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines, to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No The reform increases access to PPP project preparation resources by local implementing agencies to support the increase of PPP project preparation resources that would spur greater private investment in public infrastructure. This supports institutional capacity building and would not likely cause a significant increase in GHG emissions. Many public infrastructure projects under the mandate of local governments and local entities are universally aligned, for example, water supply, energy efficiency and renewable energy integration in small power utilities groups (SPUGs). Other projects under local responsibility such as public building/real estate/housing development, wastewater treatment and solid waste management projects can be developed in such a way that they reduce GHG emissions through technology (e.g. introducing methane capture, incineration in lieu of landfilling, use of alternative energy and energy saving devices, etc.) and by situating the project within an integrated approach – e.g. integrated solid waste management that promotes reduction, reuse and recycling. Other projects, such as public transport development projects (e.g., bus rapid transit) reduce GHG emissions through modal shifts from private vehicle use to public transport, together with the government's overall policy in its NDCs to modernize public utility fleets and encourage high-density development. The PDMF guidelines require all PPP project preparation to evaluate climate resilience of the project design. Furthermore, the Philippines has put in place the PEISS which requires PPP projects under the mandate of local governments to identify a wide range of measures to avoid, minimize, mitigate, and compensate for adverse impacts caused by a project, including GHG emissions.
Conclusion for PA 3: ALIGNED with the goals of the Paris Agreement.	
4. To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order and DoE Department Circular.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No. Explanation: Establishing streamlined and harmonized permitting processes for offshore wind energy projects and related activities could facilitate more investments in wind energy. However, Energy generation using renewable energy from wind is considered to have negligible lifecycle GHG emissions and therefore electricity generated from these sources is considered aligned on mitigation.
Conclusion for PA 4: ALIGNED with the goals of the Paris Agreement.	
5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular and SEC Memorandum.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No. Explanation: The issuance of the Green Finance Taxonomy Framework is a critical step towards mobilizing green financing to support the Philippines' transition toward a low carbon economy.

	It is not likely to cause a significant increase in GHG emissions and is considered aligned on mitigation.
Conclusion for PA 5: ALIGNED with the goals of the Paris Agreement.	
Pillar 2: Protect the environment and improve climate resilience	
6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through a DENR Administrative Order, the standards of annual EPR Compliance Reports that Obliged Enterprises, PROs, Collectives, and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No. Explanation: The Borrower has established measures to improve solid waste management by establishing the legal framework for compliance monitoring and evaluation of EPR programs which leads to the reuse, recycling and recovery of plastic waste. It is not likely to cause a significant increase in GHG emissions and it is considered aligned on mitigation.
Conclusion for PA 6: ALIGNED with the goals of the Paris Agreement.	
7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines on accrediting EV charging stations' providers.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No. Explanation: The issuance on the EVCS accreditation will be a key building block to provide an enabling environment for greater of EVs and contribute to the Philippine government's broader efforts to reduce GHG emissions and bring significant local benefits, particularly lower air pollution for urban areas. It is considered aligned on mitigation.
Conclusion for PA 7: ALIGNED with the goals of the Paris Agreement.	
8. To incentivize public procurement of green goods and services, the GPPB has issued a resolution mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	Answer: No. Explanation: The implementation of green public procurement supports the Philippines' sustainable development efforts such as energy, water and material efficiency, waste reduction, pollution and emission prevention including climate change mitigation, greening the supply chains, among others, and hence is considered aligned on mitigation.
Conclusion for PA 8: ALIGNED with the goals of the Paris Agreement.	
Mitigation goals: PAs 3, 4, 5, 6, 7, and 8 are not likely to cause a significant increase in GHG emissions. While PAs 1 and 2 could spur greater investment in infrastructure and cause an increase in GHG emissions, they are not likely to introduce or reinforce significant and persistent barriers to transition to the Philippines' low-GHG emissions development pathways.	
Adaptation and resilience goals: assessing and managing the risks	
Pillar 1: Accelerate the economic recovery and boost long-term growth	
1. To increase investment in infrastructure services: (a) NEDA and select administrative agencies have adopted the general regulatory framework to open Public Service Sectors to 100 percent foreign ownership and establish procedures for public service sector review; and (b) MARINA has harmonized sector regulations by repealing all foreign equity restrictions in domestic shipping, through the General Implementing Regulations and MARINA Memorandum Circular, respectively.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	Answer: No. Explanation: While risks from climate hazards could have an adverse effect on investment in infrastructure services, risks from climate hazards are not likely to have an adverse effect on the PA's contribution to accelerating economic recovery and boosting long-term growth. Increased climate hazards raise the need for newer and more climate-resilient vessels for domestic shipping. Opening the sector to greater foreign equity expands the sources of financing as well as

	technologies for vessels and systems upgrades. Greater competition will also encourage incumbents and new entrants to upgrade services to capture greater market share. The direction of the reform is thus towards facilitating resilience-enhancing investments.
Conclusion for PA 1: ALIGNED with the goals of the Paris Agreement.	
2. To attract private investment in public infrastructure, the Republic of the Philippines has enacted a Republic Act which creates a unified legal framework for PPPs, including joint ventures, and strengthens the management of unsolicited proposals and fiscal risk.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	Answer: No. Explanation: While risks from climate hazards could damage infrastructure, including those built through PPPs and hamper economic activities., risks from climate hazards are not likely to have an adverse effect on the PA's contribution to accelerating economic recovery and boosting long-term growth through attracting private investment in public infrastructure. Climate resilient design is a requirement for all PPP projects. The PDMF Guidelines require consideration of climate resilient options in the design of PPPs. Private investors and financiers will consider climate resilient and sustainability of projects to ensure return on investment. Bringing in the private sector will also improve capacity and know-how to respond to climate risks and allows the public sector to share the risks of climate hazards.
Conclusion for PA 2: ALIGNED with the goals of the Paris Agreement.	
3. To incentivize transparent and better prepared PPPs at the local levels the Philippines PPP Governing Board has revised Project Development and Monitoring Facility (PDMF) Guidelines, to: (a) improve access of local governments to resources for project preparation, negotiation, evaluation, and bid management; and (b) provide a mechanism to also cooperate with the specialized agencies of the United Nations, international organizations, or international financial institutions' transactions advisory.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	Answer: No. Explanation: While risks from climate hazards could damage infrastructure, including those built through PPPs and hamper economic activities, risks from climate hazards are not likely to have an adverse effect on the PA's contribution to the PDO. Furthermore, climate resilient design is a requirement for all PPP projects. The PDMF Guidelines require consideration of climate resilient options in the design of PPPs. Private investors and financiers will consider climate resilient and sustainability of projects to ensure return on investment. Bringing in the private sector will also improve capacity and know-how to respond to climate risks and allows the public sector to share the risks of climate hazards.
Conclusion for PA 3: ALIGNED with the goals of the Paris Agreement.	
4. To mobilize development of offshore wind (OSW) energy projects the President's Office and the Department of Energy (DoE) have: (a) established the OSW policy and administrative framework for permitting, development of ports and harbors and transmission facilities, and marine spatial planning; and (b) mandated all relevant permitting agencies to develop permitting processes, through an Executive Order and DoE Department Circular.	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	Answer: No. Explanation: Risks from climate hazards are not likely to have an adverse effect on the PA's contribution to accelerating the economic recovery and boosting long-term growth through the establishment of policy and administrative framework and mandates to develop permitting processes. Furthermore, promotion of renewable energy by setting rules to attract investment does not pose material adaptation risks. All renewable energy projects are required to conduct Environmental Impact Statement (EIS), which includes screening, scoping, and assessment of the direct and indirect impacts of climate change. Assessment of risks from climate hazards is thus included in the permitting processes for renewable energy projects. Thus, this reform can be considered aligned on adaptation.
Conclusion for PA 4: ALIGNED with the goals of the Paris Agreement.	

<table>
<tr><td colspan="2">5. To mobilize and scale up sustainable finance, (a) the BSP has required banks to use the Sustainable Finance Taxonomy Guidelines; and (b) SEC has directed regulated entities to refer to those Guidelines, when extending credit, making investment decisions, or designing sustainable financial products and services, among others, through BSP Circular and SEC Memorandum.</td></tr>
<tr><td>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</td><td>Answer: No.

Explanation: Risks from climate hazards are not likely to have an adverse effect on the PA’s contribution to accelerating the economic recovery and boosting long-term growth through the development of the guidelines. In addition, risks from climate hazards could intensify efforts to scale up financing towards activities that positively contribute to a reduction of risks from climate hazards.</td></tr>
<tr><td colspan="2">Conclusion for PA 5: ALIGNED with the goals of the Paris Agreement.</td></tr>
<tr><td colspan="2">Pillar 2: Protect the environment and improve climate resilience</td></tr>
<tr><td colspan="2">6. To enhance plastic waste management through reduction, recovery, and recycling of plastic waste, the Department of Environment and Natural Resources has prescribed, through a DENR Administrative Order, the standards of annual EPR Compliance Reports that Obliged Enterprises, PROs, Collectives, and their respective independent third-party compliance auditors are required to adopt under the EPR Act of 2022.</td></tr>
<tr><td>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</td><td>Answer: No.

Explanation: Risks from climate hazards are not likely to have an adverse effect on the PA’s contribution to protecting the environment and improving climate resilience through the issuance of the EPR legal framework for compliance monitoring and evaluation of EPR programs. In addition, the framework is expected to lead to reduced plastic waste, hence reduced flood risks. It is considered aligned on adaptation.</td></tr>
<tr><td colspan="2">Conclusion for PA 6: ALIGNED with the goals of the Paris Agreement.</td></tr>
<tr><td colspan="2">7. To provide an enabling environment for the use of electric vehicles and to reduce dependence on fossil fuels, the Department of Energy has issued a circular with the guidelines on accrediting EV charging stations’ providers.</td></tr>
<tr><td>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</td><td>Answer: No.

Explanation: Risks from climate hazards, including sea level rise and flooding, are not likely to have an adverse effect on the PA’s contribution to protecting the environment and improving climate resilience through the issuance of the guidelines as it does not lead to any downstream physical infrastructure development such as roads, bridges and charging networks.</td></tr>
<tr><td colspan="2">Conclusion for PA 7: ALIGNED with the goals of the Paris Agreement.</td></tr>
<tr><td colspan="2">8. To incentivize public procurement of green goods and services, the GPPB has issued a resolution mandating selected agencies to use green technical specifications for procurement of products in seven broad categories.</td></tr>
<tr><td>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</td><td>Answer: No.

Explanation: Risks from climate hazards would not likely have a material adverse impact on the ongoing efforts to encourage more production and consumption of green goods and services through public procurement.</td></tr>
<tr><td colspan="2">Conclusion for PA 8: ALIGNED with the goals of the Paris Agreement.</td></tr>
<tr><td colspan="2">Adaptation and resilience goals: Risks from climate hazards are not likely to have an adverse effect on the contributions of any of the PAs to the Development Objectives.</td></tr>
<tr><td colspan="2">OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT: This operation is aligned with the goals of the Paris Agreement.</td></tr>
</table>

ANNEX 8: INTEGRATED POLICY MATRIX FOR RENEWABLE ENERGY AND ELECTRIC VEHICLES REFORMS

Renewable energy reforms, 2022-2025

Binding Constraint	Key Reform	Expected Result
Uncertain demand for RE	RE portfolio standard (RPS) requiring mandatory share of RE in supply mix(1) Mechanism for RPS compliance enforcement	Increased share of RE in power generation
Delays in permitting	Streamlining permitting and consenting process for RE projects(2)	Accelerated RE project delivery
Restricted access to finance, especially foreign capital	Removal of foreign ownership cap in RE projects(1)	Increased RE investments
Constraints in grid and other supporting infrastructure	Strengthening role of government in long-term transmission development planning and opening of transmission investments to third parties	Accelerated transmission investments
Deficiencies in market regulations	Proper pricing of ancillary services and reserves Competitive procurement of RE	Improved transparency and competition in electricity markets

Electric vehicle reforms, 2022-25

Binding Constraint	Key Reform	Expected Result
Lack of policy framework to address constraints to adoption of EVs	Unified legal and regulatory policy framework(1) and roadmap	Improved institutional coordination and policy execution
High cost and weak demand for EVs	Government and commercial EV adoption mandates Incentives for EV adoption by private citizens and businesses Electrification of public transportation Development of cost-competitive local EV value chain	Increased EV ownership
Lack of charging infrastructure and	Requirements and incentives for installation of charging stations Standardization and accreditation charging stations(2)	Increased number and locations of charging stations
Other supporting elements of EV adoption	Development EV related job skills	Increase in EV related jobs

Supported by Sustainable Recovery DPL 1 (1) or DPL 2 (2)

ANNEX 9: PFM, DISBURSEMENT AND AUDITING ASPECTS

98. **PFM Environment:** The PFM narrative has a strong underpinning that captures the strengths and weaknesses identified in the 2016 PEFA assessment. The GOP has significantly improved its PFM at the national level over the past decade and continues to be a strong performer in the region. The 2016 Public Expenditure and Financial Accountability assessment indicated that three of the seven PFM pillars (transparency, policy-based budgeting, and asset and liability management) are strong and have improved since the 2010 assessment. The financial statements of government agencies are audited annually. There were no major qualifications on the Department of Finance (DOF) annual financial statements in the most recent years, and most matters raised in previous years' audit reports were fully or partly addressed. The national government budget is made available to the public online through the DBM website, from the budget proposal stage (the National Expenditure Program) to enactment of the General Appropriations Act (GAA), to declaration of its effectivity through the signing by the President of the Philippines.

99. **The GOP continues to make strides in PFM reform.** The WBG Second and Third Philippines Development Policy Loan to Foster More Inclusive Growth in 2014 (P126580, P147803) supported the formulation and adoption of a Unified Accounts Code Structure to be used across budgeting, accounting, and reporting. A Treasury Single Account has been implemented and the Bureau of Treasury (BTr) is working to expand its coverage. The DPL for Improving Fiscal Management (P167651) 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.[75] To improve budget predictability and execution, the GOP gradually tightened the validity period for obligations since 2019 when an annual cash budget was adopted. The adoption of cash-based budgeting effectively limited the validity of obligations to the year funds are appropriated. The Budget Reform Bill is one of the priority bills of the current administration and there is a renewed commitment and support to pass the bill.

100. **The Government of the Philippines has made great strides during the last two decades towards strengthening the country's public procurement system through the adoption of the public procurement Republic Act (RA) 9184 in January 2003.** Several measures were taken under this law to address systemic procurement corruption, including inter alia the mandatory use of public bidding, periodic monitoring, and evaluation of the performance of the procurement system through the Agency Procurement Compliance and Performance Indicator system and the mandatory use of the Philippine Government Electronic Procurement System (PhilGEPS) feature of bid and contract award notification. These are monitored through the indicator on numbers of bid opportunities and subsequent procurement results. The estimated amount of contract versus the awarded prices, among others, are also available through PhilGEPS. It also established Government Procurement Policy Board (GPPB) as the public procurement regulatory and normative body, initiated the professionalization of public procurement practice, enhanced collaboration with Civil Society Organizations as procurement observers, and promoted sustainability through the introduction of the Green Public Procurement Roadmap in 2017. However, many challenges remain to be addressed in further reforms, especially with respect to eligibility and rules of participation, procurement approaches for optimal value for money and sustainable procurement, independent complaints review body, and modernization of PhilGEPS operational functionalities for increased efficiency. A comprehensive assessment of the Philippines public procurement system using the revised Methodology for Assessing Procurement Systems (MAPS) has been jointly conducted by the GPPB-TSO, the World Bank, and Asian Development Bank. The

[75] However, the use, rollout and further development of the BTMS was indefinitely suspended effective August 1, 2021 in view of the changes in the strategic direction of the envisioned Integrated Financial Management Information System (IFMIS) under the Public Financial Management (PFM) Reform Roadmap. The PFM Committee Resolution No. 1-2022 dated December 19, 2022, documented the initial decision of lifting the suspension. Further, in accordance with Executive Order No. 29, s. 2023, the PFM Committee continuously ensures the alignment of the BTMS in the overall strategic direction of IFMIS through its ongoing efforts of conducting policy review of key PFM processes and development of PFM Reforms Roadmap, among others.

assessment's recommendations, which were validated with the key public procurement stakeholders on May 17, 2021, are expected to guide the government in prioritizing the reform activities needed to enhance the effectiveness of the public procurement system in supporting government policy objectives and improve the efficiency in public services delivery while achieving value for money with good governance under a transparent environment towards sustainable development.

101. **To hasten project implementation and to effectively implement the government's initiative on implementing a cash budgeting system, the conduct of advance procurement has been strengthened and institutionalized through administrative issuances.** Transparency, being one of the governing principles in public procurement, has been at the forefront of various procurement reform initiatives of the government such as the posting of critical procurement information not only on the PhilGEPS website but also on the websites and official social media platforms of government agencies in the Executive department, and the development and the posting of blacklisting orders by the agencies in GPPB portal. One positive impact of the COVID-19 pandemic is the full implementation of agencies of various digital transformation initiatives launched by the GPPB pre-pandemic, such as the use of digital signature and use of videoconferencing and similar technology in the conduct of meetings/conferences. Pending the modernization of the PhilGEPS, electronic bid submission has likewise been allowed so as not to impede procurement activities during the COVID-19 pandemic. The PhilGEPS is currently undergoing its modernization with the virtual store and merchants' registry already in-place. The electronic bidding feature, which includes an online platform for the creation of the annual procurement plan, purchase requests, e-bulletin, e-bid submission, online conduct of post-qualification, online purchase order/contract management, and online filing of requests for reconsideration and protest, is under pilot implementation with pioneer agencies. The eMarketplace will be piloted this year.

102. **The BSP foreign reserves control environment is based on domestic assessments.** The Philippines does not have an active IMF program to develop safeguard assessments. The BSP is also not subject to international audit. Its financial statements are audited by the Commission on Audit (COA). The World Bank and the IMF have been relying on the audited financial statements released by the COA. The auditor's opinions in the BSP-audited financial statements related to calendar years 2020 to 2022 are unmodified (unqualified). The audit opinion on 2022 BSP's financial statements contains an "Emphasis of Matter" paragraph related to the BSP's position that having considered its responsibilities in the formulation and conduct of effective monetary policy, it is appropriate to differ, in some respects, from the adoption of the relevant Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS). The opinion of the auditor is not modified in respect to this matter.

103. **The proceeds of the DPL will be deposited in Euros in a dedicated deposit account at the BSP that forms part of the FOREX reserves** once the loan becomes effective and the World Bank is satisfied with i) the progress achieved by the GOP in carrying out the program, ii) the adequacy of the GOP macroeconomic policy framework, and iii) submission of withdrawal application in required format in Euro. The GoP will transfer funds from the Euro dedicated account to the treasury single account in local currency (pesos) that will be used to pay the government's budget expenditure. Immediately after disbursement of the loan, the GOP will ensure that the loan amount is promptly accounted for in the GOP budget system in the General Fund, and thereby is available to finance budget expenditures. The GOP will provide written confirmation to the World Bank within 30 days that this accounting and transfer has been completed, including the exchange rate applied to convert the loan proceeds into Philippine Peso, and the name and number of the government's bank account in which the funds have been deposited and that the exact amount of the funds received in the account. Disbursements of the loan will not be linked to any specific purchases, and no procurement requirements have to be satisfied, except that the borrower is required to comply with the standard negative list of excluded items that may not be financed with World Bank loan proceeds, as defined in the General Conditions for IBRD Financing dated December 15, 2018 (revised on August 1, 2020, April 1, 2021 and January 1, 2022). If any portion of the loan is used to finance excluded expenditures as so defined in the General Conditions, the World Bank has the right to require the GOP to promptly, upon notice from IBRD, refund the amount equal to such payment to the World Bank. Amounts refunded to the World Bank will be cancelled from the loan.

104. **Fiduciary Risk:** Based on the assessment of the PFM Systems and FOREX control environment, fiduciary risk is moderate. Given the moderate fiduciary risk, there will be no requirement for the audit of the DPL.