



### Project Summary Information

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<b>Project Name</b>	Philippines – Inclusive Finance Development Program (Subprogram 3)
<b>Project Number</b>	P000781
<b>AIIB member</b>	Philippines
<b>Sector/Subsector</b>	CRF-Economic Resilience/PBF
<b>Status of Financing</b>	Under Preparation
<b>Objective</b>	The Program objective is to support the Republic of the Philippines' inclusive economic recovery from the COVID-19 pandemic through: (i) leveraging the national identity system to expand financial inclusion; (ii) expanding the digital payment ecosystem; (iii) increasing the capacity of financial service providers through digital transformation; and (iv) reducing inequalities in women's access to finance and promoting women's economic empowerment.
<b>Project Description</b>	<p>The proposed Program will provide a policy-based loan under the COVID-19 Crisis Recovery Facility of the Bank and will be co-financed with the Asian Development Bank (ADB).</p> <p>The pandemic shock to the Philippines' economy resulted in widespread loss of income and increased poverty. Poverty incidence increased from 16.6% to 18.1% between 2018 and 2021 with approximately 20 million Filipinos living below the poverty threshold of around ₱12,030 per month for a family of five. The number of poor Filipinos increased to 30 million individuals (27% of the population) in 2022.</p> <p>The poor are most affected by the low levels of financial inclusion as financial exclusion deprives them of opportunities to increase their income and mitigate various risks through credit, savings, insurance, pensions, and remittances. The adverse impacts on poverty and income loss resulting from COVID-19 call for further improving financial inclusion measures as COVID-19 emergency subsidies exposed challenges in ensuring the timely provision of social assistance for the poor and the vulnerable, as many of the non-Pantawid Pamilyang Pilipino Program (4Ps) families (i.e., families who are not part of the conditional cash transfer program) were not identifiable from national databases, and most lacked deposit accounts to facilitate expedient and efficient transfers. Timely implementation of the national identification system with linkages to the finance sector is needed to improve access to social services by the poor.</p> <p>To support the government's efforts to further expand financial inclusion as part of COVID-19 economic recovery, the Inclusive Finance Development Program (Subprogram 3) (the Program) implemented 17 policy actions, all of which have</p>

	<p>been completed (note that Subprogram 3 ran from May 2020 to March 2023). Subprogram 3 builds on the previous initiatives made during ADB-supported Subprogram 1 and Subprogram 2 as part of the overarching Inclusive Finance Development Program. The overarching program’s reform areas include: (1) strengthening the institutional and policy environment for financial inclusion; (2) strengthening the financial inclusion infrastructure; and (3) increasing the capacity of financial service providers. ADB approved Subprogram 1 in October 2018 focused on scaling up use of digital financial services. Subprogram 2 was approved in August 2020 focused on implementing a national identity system, testing new initiatives such as insurance, and strengthening consumer protection and literacy.</p> <p>For Subprogram 3, the Program focuses on enrolling majority of the adult population in the national identification system; development of the updated National Strategy for Financial Inclusion 2022-2028 (with gender-focused targets); approval of the Financial Consumer Protection Act and other key legislations; expansion of the digital finance infrastructure (e.g., quick response code usage by payments service providers, promotion of government-to-person digital payments including for social protection programs, upgradation of regulatory technology solutions such as launching of regulatory sandbox for insurance); implementation of the Rural Bank Strengthening Program; adoption of measures to advance women entrepreneurs’ financial inclusion (e.g., issuance of a circular by the Insurance Commission mandating the collection of sex--disaggregated data to ensure effective inclusion of women in microinsurance, adoption of a national definition of women-owned and women-led business by the Department of Trade and Industry-led MSME Development Council); and increasing Islamic financial services through the creation of a Shari’ah Supervisory Board in the Bangsamoro Autonomous Region in Muslim Mindanao and capacity-development activities on Islamic banking.</p> <p>The Program will generate climate adaptation and mitigation benefits. Of the 17 policy actions under Subprogram 3, six enhance the climate resilience of vulnerable poor communities and climate sensitive MSMEs, and eight are supportive of adaptation and mitigation. Climate adaptation benefits are estimated at \$62.9 million and mitigation benefits at \$30.7 million. The Program helps to increase the resilience of vulnerable sectors through increased financial inclusion and financial safety measures such as insurance.</p> <p>The government has requested AIIB’s loan of USD300 million for this Program. This loan amount is based on the development financing needs of the country with a budget deficit of \$26.4 billion programmed for 2023. The government plans to raise about \$30.1 billion from the issuance of treasury bills and bonds, \$5.2 billion from official development assistance, and \$4.8 billion from external bonds.</p>
<p><b>Expected Results</b></p>	<p>The expected outcomes of the Program comprise increased social benefits, including reduced poverty; decreased inequality; improved financial stability; more opportunities for women; and increased climate resilience of the vulnerable poor, MSMEs, and financial institutions. By 2024, it is expected that the number of individuals holding an account at a</p>

	bank, or another type of financial institution will increase to 70% overall, with at least 70% of men, 70% of women, and 65% of youth holding an account. Further, it is expected that the poorest 40% by income (age 15+) with an account at a formal financial institution would increase to 55% (up from 18% in 2017), and that the proportion of rural inhabitants with accounts at a formal financial institution would increase to at least 65%, up from 27% in 2017.
<b>Environmental and Social Category</b>	C
<b>Environmental and Social Information</b>	<p>The Program will be co-financed with ADB as the lead co-financier, and the Program's Environmental and Social (E&amp;S) risks and impacts have been assessed in accordance with ADB's Safeguard Policy Statement (SPS) applicable to this Policy-based Loan (PBL). AIIB's Environmental and Social Policy (ESP) was designed to apply to investment projects and has no provisions for its application to PBL operations. Therefore, as permitted by the decision of the Board of Directors set forth in the Decisions to Support the Facility, AIIB will apply the provisions of ADB's SPS to this PBL in lieu of the ESP. This will provide for a harmonized approach to addressing the E&amp;S risks and impacts of the Program.</p> <p>Based on the E&amp;S assessments carried out according to the SPS requirements, no adverse impacts have been identified concerning involuntary resettlement, indigenous peoples or the environment. Therefore, ADB has categorized the Program as Category C for involuntary resettlement, indigenous peoples, and environment.</p> <p>Subprogram 3 is categorized as <i>effective gender mainstreaming</i>. Unlike in most countries, women in the Philippines have been more financially included than men in most areas such as account ownership, savings, credit, insurance, remittance, and making payments. While the majority of financial inclusion indicators for both men and women have increased, there has been a recent reversal in the gender gap for some indicators.</p> <p>The government, including the DOF, has assured ADB that implementation of the program shall conform to all applicable ADB policies including safeguards and gender as described in detail in the loan agreement.</p>
<b>Cost and Financing Plan</b>	Total project cost: USD 600 m AIIB amount: USD 300 m ADB amount: USD 300 m
<b>Borrower</b>	Republic of the Philippines
<b>Implementing</b>	Department of Finance

<b>Entity</b>			
<b>Estimated date of loan closing</b>	Q4 2023		
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<b>Estimated Date of Concept Decision</b>	Q3 2023		
<b>Estimated Date of Appraisal Decision</b>	Q3 2023		
<b>Estimated Date of Financing Approval</b>	Q3 2023		

<b>Independent Accountability Mechanism</b>	AIIB's Policy on the Project-affected People's Mechanism (PPM) addresses issues raised under AIIB's ESP, which does not apply to policy-based operations such as this one. Submissions to the PPM under the Program would, therefore, not be eligible for consideration by the PPM.
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