ODA Loan

Ex-ante Evaluation

1. Name of the Project

Country: Republic of the Philippines
Project: Development Policy Support Program (II)
Loan agreement: March 30, 2009
Loan amount: 9,293 million yen
Borrower: Government of the Republic of the Philippines

2. Project Background and Necessity

(1) Current State of Development and Issues in the Philippines

Economic growth in the Philippines dropped to low levels in the wake of the 1997 Asian currency crisis, but the country achieved high GDP growth rate of 6.2% in 2004, followed by annual growth rates of 5.0% and 5.4% in 2005 and 2006, respectively.

The government's financial situation had basically been stable in 1997, but took a rapid turn for the worse with the Asian currency crisis, which left the government with reduced tax revenues (17% of GDP in 1997 → 12.4% of GDP in 2003) and increased interest payments. By 2002, budget deficit had grown to 5.3% of GDP. To remedy this situation, the Philippine government launched aggressive financial reforms between 2004 and 2005. In addition to freezing wages, cutting back on public investment, and curbing social service expenditures, the reforms also included the revision of liquor and tobacco laws, establishment of taxation and personnel disciplinary laws, and submission of an expanded VAT Law bill to the congress. As a result of these initiatives, budget deficit improved from 3.8% of GDP in FY2004 to 0.9% in FY2006. At the same time, however, because the recent improvements in fiscal revenue and expenditure had been achieved mainly by restraining public spending, other issues emerged, mainly with regard to the deterioration of governmental services, delays in infrastructure development, and inadequate social support for the poor and other socially vulnerable groups in society.

(2) Development Policy of the Philippine Government and the Role of the Project

In 2006, the Philippine government announced a set of policy actions that aim at (i) maintaining macroeconomic and fiscal stability, (ii) enhancing governance and anticorruption strategies, (iii) strengthening the investment climate and infrastructure, and (iv) increasing social inclusion. The government also requested the support of the World Bank, ADB, and the Japanese government for executing those actions, and received a loan of US$250 million each from the World Bank and ADB in 2007. As a result, the country recorded a GDP growth rate of 7.2% in 2007, the best performance in 30 years, as well as significantly improved national government deficit to 0.2% of

GDP and lowered the inflation rate to 2.6% (from 6.2% in 2006). National government debt also dropped from 78% of GDP in 2003 to 59% in 2007.

However, the outbreak of rising prices accompanying a surge in food and oil prices and a global slowdown stemming from the subsequent financial crisis in the following years have fueled concerns over their impact on the country's macroeconomic and fiscal environment.

(3) Policies and Achievements of Assistance by the Japanese Government and JICA

Japan's country assistance program for the Philippines (2008) identifies macroeconomic stability, fiscal reform, investment promotion, and good governance as priority areas under the first development issue of achieving "sustainable economic growth toward the creation of employment opportunities," and clearly promotes cooperation programs that include assistance in the form of policy support programs. JICA emphasizes the same priority areas as Japan's country assistance program, and engaged in the technical cooperation for human resource development for the Bureau of Internal Revenue and Bureau of Customs, for establishment of the customs intelligent database system, as such.

(4) Initiatives of Other Aid Organizations

ADB approved a first loan (US$250 million) for the Development Policy Support Program (DPSP) in 2007 and a second loan (US$250 million) in September 2008. The World Bank approved a first loan (US$250 million) in 2006, as a development policy loan (DPL).

(5) Project Necessity

The Philippine government and its donors have held continuous dialogues on actions plans to be pursued by the Philippine government through the Philippines Development Forum, among others. The policy matrix of the Development Policy Support Program (hereinafter referred to as "the Program") was crafted by examining these action plans discussed, and JICA has contributed to in this process in cooperation with the local ODA task force chaired by Japanese Embassy, the Japanese Chamber of Commerce and Industry of the Philippines. Japan's participation in the Program to support the Philippine government's reform program is considered to be quite important, as Japan is one of the largest donors and one of the most important trade and investment partners to the Philippines. Supporting the program with ODA loans is therefore highly necessary and relevant.

3. Project Overview

(1) Project Objectives

The Program supports economic and policy reform in the Philippines in cooperation with ADB, to ensure the steady implementation of the country's economic and policy reform agenda and to advance dialogues with Japan, and thereby contributes to (i) maintaining macroeconomic and fiscal stability, (ii) enhancing governance and anticorruption strategies in public expenditure management, (iii) strengthening the investment climate and infrastructure development, and (iv) increasing social inclusion, in the Philippines.

(2) Project Outline

The Program aims at improving the following policies issues of the Philippines, with a view to accomplishing individual reform items toward (i) maintaining macroeconomic and fiscal stability, (ii) enhancing governance and anticorruption strategies in public expenditure management, (iii) strengthening the investment climate and infrastructure development, and (iv) increasing social inclusion.

Reform item	Actions accomplished	Future actions (DPSP (III))
1. Maintaining macroeconomic and fiscal stability	○ Reduced the ratio of national government deficit to GDP (2006: 1.2% of GDP → 2007: 0.2% of GDP) ○ Formulated a proposal for the establishment of a public debt and risk management dividion ○ Commenced the task of cleaning up and expanding the taxpayer database	○ Reduce national government deficit to within 1% of GDP ○ Establish a public debt and risk management division ○ Make substantial progress in cleaning the corporate taxpayers database and encoding the backlog of tax registration and tax return files ○ <u>Improve the procedure of issuing the tax refund certificate</u>
2. Enhancing governance and anticorruption strategies in public expenditure management	○ Formulated a budget based on a medium-term expenditure framework (MTEF) ○ Posted bid notices for all public procurement cases in 10 ministries and agencies, and posted 77% of all procurement results on the government's procurement website ○ Implemented training programs in support of the campaign against tax	○ Institutionalize the MTEF ○ Launch the development of an integrated expenditure management system ○ Post bid notices and procurement results for all public procurement cases in 15 ministries and agencies on the government's procurement website ○ <u>Introduce programs against tax evasion and smuggling on a full scale</u>

	evasion and smuggling	
3. Strengthening the investment climate and infrastructure development	○ Formulated a framework for streamlining investment procedures ○ Prepared a list of priority investment projects	○ Formulate an action plan for reviewing investment procedures ○ Prepare standard documents for PPP projects
4. Increasing social inclusion	○ Clarified assistance targets (emphasis on the poor) ○ Introduced the Conditional Cash Transfer (CCT) program	○ Expand the CCT program

Note: The underlined items are proposals made by Japan or items with strong relevance to Japan.

(3) Total Project Cost/Loan Amount

ODA loan: 9,293 million yen

(Co-financing: US$250 million by ADB)

(4) Implementation Structure

1) Borrower: Government of the Republic of the Philippines

2) Executing agency: Department of Finance (DOF)

(5) Environmental and Social Considerations, Poverty Reduction, Social Development

1) Environmental and Social Considerations

(i) Category (A, B, C, or FI): C

(ii) Reason for categorization:

The program is categorized as Category C, because it falls under a sector in which no particular environmental effects can be foreseen, and also because it does not have characteristics that make it likely to cause any impact, nor is it located in an area where it can be easily affected, as identified in the Environmental and Social Contributions Guidelines.

(iii) Environmental permissions or authorizations: None in particular

(iv) Pollution countermeasures: None in particular

(v) Natural environmental considerations: None in particular

(vi) Social environmental considerations: None in particular

(vii) Other considerations, monitoring: None in particular

2) Promotion of Poverty Reduction

The program contributes to promoting poverty reduction, as it includes measures for expanding the CCT program as a means of upgrading the social safety net, and calls for increased public spending toward improving social services for the poor.

3) Promotion of Social Inclusion (gender perspective, countermeasures for AIDS and other infectious diseases, participatory development, considerations to people with disabilities, etc.)

The program contributes to increasing social inclusion, as it includes measures for expanding the CCT program in recognition of the need to promote social protection programs for achieving the MDGs.

(6) Coordination with Other Donors

The program will be co-financed by ADB.

(7) Other Important Issues

The expected outcomes of the program, such as improvement of the investment climate, strengthening of infrastructures, and enhancement of governance, are expected to have a beneficial effect on the private sector in Japan.

4. Impact

Operation and Impact Indicators

Indicator	Reference values (2007)	Target values (2009)
1. Macroeconomic and fiscal stability	○ Ratio of national government deficit to GDP: 0.2% ○ Ratio of government debt to GDP: 72% (2005)	○ Balanced national government deficit (2010) ○ Reduction of government debt to 50% of GDP by 2009
2. Investment climate and infrastructure development	○ Number of days needed to start up a new business: 58 days ○ Ratio of public investment to GDP: 2.7%	○ Fewer number of days to start up a new business ○ Increase in the ratio of public investment to 3.2% - 4.2% of GDP
3. Social inclusion	○ Percentage of total budget allotted to promoting social inclusion: 28%	○ Increase in the budget allotted to promoting social inclusion to 28% - 30% of total budget

5. External Conditions and Risk Control

Changes in the economic environment surrounding the Philippines

6. Evaluation of Similar Projects Implemented in the Past and Lessons for the Project

Co-financed projects implemented in the past have shown that it is important to conduct in-depth information exchanges with relevant agencies, from the appraisal stage to the monitoring and supervision stage. Based on this lesson, the status of implementation of this program is expected to be monitored in close coordination with ADB, the co-financing institution.

7. Plans for Future Evaluation

(1) Indicators for Future Evaluations

1) Macroeconomic and fiscal stability (ratio of government debt to GDP, etc.)
2) Investment climate and infrastructure development (ratio of public investment to GDP, etc.)
3) Social inclusion (percentage of total budget allotted to increasing social inclusion)

(2) Timing of Next Evaluation: After completion of the program