Japanese ODA Loan

Ex-ante Evaluation

1. Name of the Program

Country:	Republic of the Philippines	
Program:	Development Policy Support Program (III) and Emergency Budget Support Japanese ODA Loan	
Loan Agreement:	March 15, 2010	
Loan Amount:	Development Policy Support Program (III):	9,220 million yen
	Emergency Budget Support Japanese ODA Loan:	13,830 million yen
Borrower:	The Government of the Republic of the Philippines	

2. Background and Necessity of the Program

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

Following the 1997 Asian currency crisis, economic growth in the Philippines had been sluggish. However, under the Arroyo regime, the economy showed signs of recovery, and in 2006, the Philippines achieved GDP growth of 5.3%. The Government's fiscal condition had been basically stable in 1997, but following the Asian currency crisis, a fall in tax revenue (ratio to GDP of 17.0% in 1997 → 12.4% in 2003) and an increase in interest payments on debt caused the financial condition to rapidly deteriorate. In 2002, fiscal deficit was at 5.3% of GDP. From about 2004, the Government of the Philippines froze wage rises for public servants, reduced public investment and cut expenditures on social services, and at the same time, implemented aggressive fiscal reforms, such as amendments to laws on liquor and tobacco products, laws for punitive measures against tax officials, and the introduction of a bill on the Expanded Value-Added Tax Law into Congress. As a result of these initiatives, the ratio of fiscal deficit to GDP improved from 3.8% in 2004 to 1.1% in 2006. On the one hand, improving the fiscal balance contributes to the stability of the macro economy, but on the other hand, in terms of substance, much of the improvements rely on controlling expenditure, and so various problems remain unresolved, such as a decline in the government's service level, lags in infrastructure development, and inadequate support for the poor. For the purpose of long-term economic growth and poverty reduction, further reform efforts are needed, such as increases in tax revenue, improved expenditure efficiencies, improvement of the investment environment, and expansion of support for the poor.

(2) Development Policies in the Philippines and the Priority of the Program

In 2006, in light of discussions in the Medium Term Philippine Development Plan (2004-2010) and at the Philippine Development Forum, the Government of the Philippines—together with the World Bank, the Asian Development Bank (ADB) and Japan—compiled policy actions aiming at (1) maintaining macroeconomic and fiscal stability, (2) enhancing governance and anti-corruption strategies, (3) strengthening the investment climate and infrastructure, and (4) increasing social inclusion into the Development Policy Support Program (DPSP), and appealed to donors for support for this initiative. As a result of the effects of soaring food prices and fuel prices in the first half-year, and of the global financial and economic crisis in the second half-year, the GDP growth rate in 2008 backtracked to 3.8% (from a 30-year high of 7.1% in 2007). Despite this, the various policy actions were taken under this program, and the ratio of fiscal deficit to GDP improved to 0.9%, and the ratio of government debt to GDP improved from 78% in 2003 to 56% in 2008. Nevertheless, in response to the 2008 financial and economic crisis, the Government announced economic stimulus measures amounting to a total of 330 billion pesos (about 7 billion US dollars; including about 3.5 billion US dollars of government budget), and it significantly increased the overall budget for 2009 by 8% from 2008, and by 17% for 2010. Although increases in expenditure provide support for the economy, in response to the slowdown in growth and the decreases in tax revenue, the ratio of fiscal deficit to GDP is expected to be 3.2% in 2009 and 2.8% in 2010. In conjunction with development policy support, the program aims to contribute to the country's economic recovery by providing emergency financial assistance to spur on the Philippine Government's economic stimulus measures.

(3) Japan and JICA's Policy and Operations

The first development issue in the Government of Japan's Country Assistance Program (2008) is "sustainable economic growth aimed at creating employment opportunities," and within this, it identifies "macroeconomic stability," "fiscal reform," "investment promotion," and "good governance" as priority areas, and it clearly promotes cooperation programs that include assistance in the form of policy support programs. JICA also emphasizes these same priority areas, and is engaged in technical cooperation for human resource development at the Bureau of Internal Revenue, as well as for improvement and human resource development of the Philippine's customs intelligent database system. In March 2009, in cooperation with the ADB, Japan provided 9,293 million yen (equivalent to 100 million US dollars) to Phase II of the program.

(4) Other Donors' Activities

The ADB approved Phase III of the DPSP (250 million US dollars) in September 2009. The World Bank is currently in negotiations with the Government of the Philippines as to the Development Policy Loan (DPL).

(5) Necessity of the Program

Through the Philippine Development Forum, the Government of the Philippines and its donors have held regular discussions on the action plans to be promoted by the Government of the Philippines. The program takes into account these action plans, and JICA has contributed to the formulation of the associated policy matrix, in cooperation with the local ODA task force chaired by Japanese Embassy and the Japanese Chamber of Commerce and Industry of the Philippines. Japan is one of the largest donors and one of the most important trade and investment partners to the Philippines. Therefore, Japan's participation in the program, its ongoing support to the Philippine Government's reform program, and its financial assistance to support economic stimulus measures amid the financial and economic crisis are considered extremely important for the recovery of the Philippine economy. Supporting the program with ODA loans is therefore highly necessary and relevant.

3. Program Description

(1) Program Objectives

The Program supports economic and policy reform in the Philippines in collaboration with the

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 strategis in public expenditure management, (iii) strengthening the investment climate and infrastrutucture development, and (iv) increasing social inclusion, in the Philippines.

Furthermore, as part of this, the Emergency Budget Support Japanese ODA Loan aims to contribute to the sustainable development of the Philippines, which is experiencing difficulty implementing economic measures necessary to expand domestic demand due to the reductions in tax revenues following the global financial and economic crisis, by providing it with financial assistance to advance the Government's economic stimulus policies.

(2) Program Site/Target Area: The entire country

(3) Program Components

This program will take the following measures to achieve the objectives.

Policy Issues (Main/sub categories)	
(1) Maintaining macroeconomic and fiscal stability	
	Improvement of public finances
	Enhanced management of public debt
	Enhanced capacity to collect taxes
(2) Enhancing governance and anticorruption strategies in public expenditure management	
	Improvements in public expenditure management
	Improved efficiency and transparency for procurement
	Anti-corruption strategies
(3) Strengthening the investment climate and infrastructure development	
	Institutional strengthening of investment law
	Enhanced coordination of public infrastructure projects
(4) Increasing social inclusion	
	Clarification of the poverty reduction objective in social development projects and budgets

(4) Total Program Costs:

Loan amount:
Development Policy Support Program (III): 9,220 million yen (equivalent to 100 million US dollars) (cofinancing amount from the ADB: 250 million US dollars)
Emergency Budget Support Japanese ODA Loan: 13,830 million yen (equivalent to 150 million US dollars)

(5) Schedule:

The loan is scheduled to be disbursed in March 2010. The period covered by the program is from October 2008 to the end of September 2009 (12 months in total).

(6) Program Implementation Structure

1) Borrower: The Government of the Republic of the Philippines
2) Executing Agency: Department of Finance (DOF)

(7) Environmental and Social Consideration/Poverty Reduction/Social Development:

1) Environmental and Social Considerations
   (i) Category: C
   (ii) Reason for Categorization: The program is classified as Category C, because it falls under a sector (provides policy support and financial assistance) in which no particular environmental impact is expected, and because it does not have characteristics that are liable to cause adverse impacts nor is it located in a sensitive area, as defined in the "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (April 2002 edition).
2) Promotion of Poverty Reduction: The program contributes to the promotion of poverty reduction as it includes support for the poor through the promotion of social development.
3) Promotion of Social Development (gender perspective, measures for infectious diseases including HIV/AIDS, participatory development, consideration for persons with disabilities, etc.):
   With social protection programs in mind, expansion of conditional cash transfer programs has been included in this program as part of the efforts to achieve the Millennium Development Goals.

(8) Coordination with Other Donors: The program will be co-financed by the ADB.

(9) Other Important Issues:

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

4. Targeted Outcomes

(1) Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (actual value in 2008)	Target (2009) [at completion of program]
(1) Maintaining macroeconomic and fiscal stability	○ Ratio of fiscal balance to GDP: -0.9% ○ Ratio of government debt to GDP: 56%	○ Ratio of fiscal balance to GDP in 2012(Note): -1.0% ○ Reduce ratio of government debt to GDP to 50% by 2012(Note)

(2) Strengthening the investment climate and infrastructure development	○ Number of days needed to start up a new business: 52 days ○ Ratio of public investment to GDP: 3.0%	○ Fewer number of days needed to start up a new business ○ Increase ratio of public investment to GDP to 3.2% - 4.2% of GDP
(3) Increasing social inclusion	○ Percentage of total budget allotted to promoting social inclusion: 31%	○ Maintain the percentage of total budget allotted to promoting social inclusion between 30% and 32% of the total budget

(Note) During the first and second phases of the program, the target year for fiscal balance had been 2010 in accordance with the Medium Term Philippine Development Plan (MTPDP (2004-2010)). However, given the economic environment facing the Government of the Philippines at this time, the target year was changed to during the current third phase.

(2) Internal Rate of Return: Not calculated

5. External Factors and Risk Control

Changes in the economic environment surrounding the Philippines.

6. Lessons Learned from Findings of Similar Programs undertaken in the Past

From past cofinancing programs, it was learned that it is important to exchange information closely with relevant organizations, from the appraisal stage to the monitoring and supervision stage. Based on this lesson, the status of implementation of this program will be monitored in close coordination with the ADB, the co-financing institution.

7. Plan for Future Evaluation

(1) Indicators for Future Evaluation

1) Ratio of fiscal balance to GDP
2) Ratio of government debt to GDP
3) Number of days needed to start up a new business
4) Ratio of public investment to GDP
5) Percentage of total budget allotted to promoting social inclusion

(2) Timing of Next Evaluation: after the program’s completion