The Republic of the Philippines

Ex-post Evaluation of Japanese ODA Loan Program
"Development Policy Support Program (II)(III)"

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0. Summary

The relevance of the program is high from the following perspectives: (1) formulation process of the policy matrix/actions, (2) advancement of reform implementation through Development Policy Support Program (DPSP) framework, (3) relevance of providing DPSP funds the size of DPSP funds, (4) relevance of JICA's participation in DPSP framework. The policy actions in the four DPSP reform areas ("maintaining macroeconomic and fiscal stability", "enhancing governance and anti-corruption strategies in public financial management", "strengthening the investment climate and infrastructure development", and "increasing social inclusion") have been fulfilled, and steady progress of reform can be observed. However, there are actions in which tangible effects on the ground have not yet clearly appeared as of the time of ex-post evaluation and therefore, continued reform efforts are expected. That said, if it were not for DPSP, reform progress could have been slower than the current situation in some areas, and thus, DPSP is deemed to have made contribution as a policy reform support tool. On the other hand, due to the external factor – i.e. change of political administration – it is unclear whether functions created and developed through DPSP implementation would retain in the future.

1. Program Description

Republic of the Philippines

Feedback Seminar

1.1 Background

Following the 1997 Asian currency crisis, economic growth in the Philippines had been sluggish. However, under the Arroyo regime,[1] 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 balanced in 1997, but following the Asian currency crisis, a fall in tax revenue, 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. The Arroyo administration had put up its policy objective to achieve balanced budget, and since around 2004, the Philippines government 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 submission of a bill on the Expanded Value-Added Tax Law to Congress. As a result of these initiatives, the ratio of fiscal deficit to GDP improved from 3.8% in 2004 to 0.2% in 2007. On the one hand, improving the fiscal balance contributed to the stability of the country's macro economy, but on the other hand, in terms of substance, much of the improvements relied on controlling expenditure, and thus various problems remain unresolved, such as decline in the government's service level, lags in infrastructure development, and inadequate support for the poor. In order to achieve long-term economic growth and poverty reduction, further reform efforts were needed, such as increases in tax revenue, improved expenditure efficiencies, improvement of the investment environment, and expansion of support for the poor.

In 2006, in light of discussions in the Medium Term Philippine Development Plan (MTPDP 2004-2010) and at the Philippine Development Forum (PDF), the Philippines government – 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 DPSP,[2] and appealed to donors for support for this initiative. In response to this, the World Bank provided DPL in December 2006 for USD 250 million, and the ADB extended DPSP in February 2007 for USD 250 million, respectively. Japan has been co-financing in DPSP since DPSP Ⅱ in the amount of 9,293 million yen in March 2009 (FY2008), and 9,220 million yen in March 2010 (FY2009) for DPSP Ⅲ. Both loans have been co-financed with the ADB – the ADB has financed USD 250 million in both September 2008 and September 2009, respectively.

1 January 2001 – June 2010

2 The World Bank calls this Development Policy Loan (DPL).

Table 1: DPSP/DPL Support from Relevant Donors

<table>
<tr><th></th><th>JICA</th><th>ADB</th><th>Reform Areas</th><th>World Bank</th></tr>
<tr><td>2006 (Calendar year)</td><td>—</td><td>—</td><td></td><td>Development Policy Loan I
(USD 250 million)</td></tr>
<tr><td>2007 (Calendar year)</td><td>—</td><td>Development Policy Support Program I
(USD 250 million)</td><td rowspan="4">(1) Maintaining macroeconomic and fiscal stability
(2) Enhancing governance and anti-corruption strategies
(3) Strengthening the investment climate and infrastructure
(4) Increasing social inclusion</td><td>—</td></tr>
<tr><td>Japanese FY 2008</td><td>Development Policy Support Program Ⅱ
(9,293million yen)</td><td>Development Policy Support Program Ⅱ
(USD 250 million)</td><td>Development Policy Operation
(USD 200 million)</td></tr>
<tr><td rowspan="2">Japanese FY 2009</td><td>—</td><td>Counter Cyclical Support Facility
(USD 500 million)</td><td>—</td></tr>
<tr><td>Development Policy Support Program Ⅲ
(9,220million yen)
Emergency Budget Support Japanese ODA Loan(13,830 million yen)</td><td>Development Policy Support Program Ⅲ
(USD 250 million)</td><td>—</td></tr>
</table>

Source: Compiled based on relevant documents

Note 1): In response to the global financial and economic crisis in 2008/2009, JICA provided Emergency Budget Support Japanese ODA Loan, together with DPSP, in FY2009 to facilitate fiscal stimulus measures by the Philippine government.

Note 2): Counter Cyclical Support Facility is the emergency budget support provided by the ADB to cope with the global financial and economic crisis.

Note 3): Development Policy Operation is the emergency budget support provided by the World Bank in response to food crisis to tackle soaring global food prices.

1.2 Program Outline

The program aims to promote continued economic and fiscal policy reforms, and policy dialogue between Japan and the Philippines in collaboration with the ADB: thus supporting economic and fiscal policy reforms and thereby contributing to (1) maintain macroeconomic and fiscal stability, (2) enhance governance and anti-corruption strategies, (3) strengthen the investment climate and infrastructure, and (4) increase social inclusion.

	DPSP Ⅱ	DPSP Ⅲ
Loan Approved Amount / Disbursed Amount	9,293 million yen / 9,293 million yen	9,220 million yen / 9,220 million yen
Exchange of Notes Date / Loan Agreement Signing Date	March, 2009 / March, 2009	March, 2010 / March, 2010
Terms and Conditions	Interest Rate: 1.4%, Repayment Period: 30	Interest Rate: 1.4%, Repayment Period: 30

	years, (Grace Period: 10 years) General untied	years, (Grace Period: 10 years) General untied
Borrower / Executing Agency	Republic of the Philippines / Department of Finance (DOF)	Republic of the Philippines / Department of Finance (DOF)
Final Disbursement Date	March, 2009	March, 2010
Main Contractor (Over 1 billion yen)	N.A.	N.A.
Main Consultant (Over 100 million yen)	N.A.	N.A.
Feasibility Studies, etc.	N.A.	N.A.
Related Projects (if any)	ODA Loan ・Emergency Budget Support Japanese ODA Loan Technical Cooperation ・Development of Human Resources in the BIR ・Assistance Project on Introduction of Customs Post Entry Audit ・Project on Philippine Customs Intelligence System (PCIS) for Enhancement of its System Environments and Training of Customs Officers ・Study on the Assets and Liabilities Management of PSALM and the Administration of Universal Charge Funds etc.	

2. Outline of the Evaluation Study

2.1 External Evaluator

Masumi Shimamura, Mitsubishi UFJ Research and Consulting Co., Ltd.

2.2 Duration of Evaluation Study

Duration of the Study: September, 2011 – August, 2012

Duration of the Field Study: November 30 – December 13 2011, April 22 – April 28, 2012

2.3 Constraints during the Evaluation Study

The evaluation was conducted focusing attention on “Relevance” and “Effectiveness” among the existing five criteria of DAC. “Efficiency” and “Sustainability” were excluded from the evaluation criteria since quantitative comparison between input and output is difficult to make for the former, and the effects of budget support are provisional or irreversible (subject to external factors) for the latter. As regards "Impact", while analyses were made based on available information and data, there were policy actions which have not yet led to tangible effects at the time of ex-post evaluation due to an existence of time lag. Therefore, the state of implementation of policy actions was assessed for reform areas which have not resulted in concrete effects. In addition, since evaluation of budget support takes into consideration of each country context, it was decided not to give unified rating for overall rating nor each evaluation criterion.

Support for policy and institutional reform through DPSP is an integral part of the Philippines government's own reform program, and it is difficult to separate out DPSP policy actions from the government's own program. In this sense, it is difficult to measure DPSP contributions to reform progress in a quantitative manner. In addition, policy and institutional reform is a dynamic process,[3] in which the Philippines government has been undertaking prior to the implementation of DPSP, and its reform efforts have been continuing even after DPSP implementation period is over. (Some of the achievements were made after the change in political administrations from the former President Arroyo to the current President Aquino.) Therefore, the scope of the evaluation was extended to assess the reform progress after DPSP support period was over. This evaluation used both quantitative data wherever possible as well as qualitative information form the actual voice of relevant stakeholders gathered through various interviews.

DPSP was provided at the end of the Arroyo administration, whereas the ex-post evaluation was conducted after the new Aquino administration came into place. As such, the evaluation work necessitated taking into consideration of external factors accompanying changes of political power. Since interviews were conducted to officials under the current Aquino administration, there are possibilities that skepticism toward the former Arroyo administration could have been reflected into their response.

DPSP is a program that contributes to framework setting such as the rules and regulations for policy and institutional reform. Therefore, it is important not only to confirm the implementation status of policy actions but also to observe their enforcement, i.e., effects of reforms on the ground. Therefore, it was considered critical to grasp the actual contribution of policy actions on investment climate, which Japan has been emphasizing, to Japanese companies operating in the Philippines. Hence, a separate detailed beneficiary survey was to be conducted targeting Japanese companies operating in the Philippines, and to confirm some concrete effects on the ground as a result of the implementation of policy actions. However, ratio of respondents remained low and it was

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[3] See "3.2 Effectiveness and Impact" for the background of each of the four reform areas: (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.

difficult to gather statistically significant number of data.[4] Therefore, qualitative data obtained from realized interview surveys to Japanese companies were utilized in this evaluation.

3. Results of the Evaluation

3.1 Relevance

In evaluating relevance, analysis was made from following four viewpoints: (1) relevance of formulation process of the policy matrix/actions; (2) relevance of reform implementation through DPSP framework; (3) relevance of providing DPSP funds and the size of DPSP funds; and (4) relevance of JICA's participation in DPSP framework. The viewpoint of each evaluation is as follows: (1) whether the formulation process of the policy matrix/actions was appropriate in light of the preparation process of the Philippines government's development policy, and whether perspectives which Japan attached importance to have been duly reflected in the policy matrix/actions; (2) whether policy reform support utilizing DPSP framework was relevant; (3) whether it was appropriate for JICA and co-financiers to provide DPSP funding in order to resolve the government's development issues and to participate in DPSP framework, and whether the size of DPSP funds provided by JICA was appropriate taking into consideration of the scale of the government's financial gap and the total amount of budget support including other donors; and (4) whether it was appropriate for JICA to take assistance strategy to participate in DPSP framework.

3.1.1 Relevance of Formulation Process of the Policy Matrix/Actions

DPSP policy actions, which make up policy matrix, are an integral part of the Philippines government's own reform program, and the reform areas targeted by DPSP is perfectly in harmony with the development policy and development needs of the Philippines government. Moreover, the policy actions are structured to support the achievements of assistance objectives directly.

Policy matrix/actions have been prepared based on the action plans, which the Philippines government is to push forward, duly identified in the Medium-Term Philippine Development Plan (MTPDP) and the discussions in the Philippines

[4] Constraint of the beneficiary survey came up since top managements of the Japanese companies were targeted as respondents due to the nature of the questionnaires. Although 130 sets of questionnaires have been sent in order to conduct interview surveys, and close follow-up was conducted through actual visits and telephone calls, many respondents hesitated to cooperate, and the number of effective response remained as much as 32. The reason behind can be considered that lack of incentive existed on the part of Japanese companies to cooperate to the survey since the linkage between DPSP and their daily business activities were not visible, and while there was no question related with issues on business judgment, thoughts may have emerged to the top managements to avoid answering questions from their standpoint.

Development Forum (PDF), which are periodic meetings conducted between the government and development partners. In addition, development/policy agenda of primary importance of the government[5] have been discussed under the Cabinet Cluster framework, which is a minister level, interministerial coordination framework. Priority agenda have been clarified and decision making within the government has been facilitated through this framework. The Cabinet Cluster system was established in December, 1989 during the Corazon Aquino administration[6] and was actively utilized during the Ramos administration.[7] The system was restored under the current Aquino administration[8] and five clusters corresponding with the MTPDP was established for discussions conducted almost every week: (1) good governance and anti-corruption, (2) human development and poverty reduction, (3) economic development, (4) security, justice and peace, and (5) climate change adaptation and mitigation.

The Japanese government's Country Assistance Policy for the Philippines (2008) puts high priority on "macroeconomic stability", "fiscal reform", "investment promotion", and "good governance" under its first assistance agenda – sustainable economic growth for employment creation – , and specifies Japan's cooperation including DPSP support. In light of this, JICA supports the Philippines government's policy and institutional reform in the areas of "administrative and fiscal reform, and governance" and "investment promotion" with many other related assistance.

3.1.2 Relevance of Reform Implementation through DPSP Framework

Supporting reform process through DPSP framework is considered relevant. DPSP espouses the Philippines country ownership and facilitates donor alignment. The policy matrix specifies responsible organizations and divisions in charge to implement each policy action, and thus continuous monitoring of implementation progress is realized and the results are shred within the government and with the relevant donors. There was a remark in an interview with an official in the Department of Finance (DOF) that the bottom up approach through DPSP process secures government responsiveness to the development needs of the country. In addition, donors also participate in the monitoring process through DPSP framework, and efforts to enhance aid effectiveness have been taking place through securing complementarities between DPSP and their individual project support and technical cooperation.

There was a remark from a government official that, "For successive administrations in

[5] They deal with the Philippines government's overall development/policy issues, and also cover the important reform issues taken up in DPSP framework.

[6] February, 1986 to June, 1992.

[7] June 1992 to June 1998.

[8] From June 2010.

the Philippines, the key to policy management have been to keep out political intervention to public administration as much as possible, and to facilitate consensus building toward reform. DPSP contains mechanism to avoid congressmen's arbitrary intervention towards reform efforts undertaken by the administrative organ, and enables government officials to administer policy autonomously." Continuous policy dialogue on government's reform program through DPSP framework secures high-level commitment within the government and signifies justification for implementing the said reform in and outside the government. Therefore, for reform programs taken up in DPSP framework, it may become less difficult to avoid arbitrary intervention from congressmen on funding during the budget process

3.1.3 Relevance of Providing DPSP Funds and the size of DPSP Funds

From the country's macroeconomic perspective, JICA needed to provide support to fill the Philippines' financial gap with DPSP fund. The size of DPSP fund was relevant with the view to the size of funds provided by other donors (the ADB and the World Bank). During the interview survey, officers from the DOF indicated the significance of DPSP funds as follows: "DPSP funds were important financial sources to fill budget deficit of the country". The high concessionality and certainty of DPSP fund were attractive in comparison with other financing options such as issuing bonds and borrowing from private sources. Conditions of JICA fund were more attractive than those of the co-financing ADB fund, and the Philippines government was able to diversify concessional financing sources. Additionally, the timely financing was highly useful".

Since 2008, the Philippines economy was concerned about its deterioration of economic conditions due to three major external factors: (1) soaring oil and food prices; (2) global economic crisis originated from the United States; and (3) long-term stagnation of global and the United States economy. The Philippines government postponed the balanced budget target year from 2010 to 2011 and revised downward the budget deficit target on ratio of GDP from 3.2% in 2009 (250 billion pesos) to 2.8% in 2010 (233.4 billion pesos). The government had predicted the decrease of revenues due to economic downturn and a need for public spending to stimulate the domestic economy. The trend in macroeconomic indicators (actual figures) is shown in the table below.

Table 2: National Government's Economic Conditions (actual)

	2007	2008	2009	2010
Real GDP growth rate (%)	6.6	4.2	1.1	7.6
Inflation rate (%)	2.9	8.3	4.1	3.8
Fiscal balance (in billion pesos)	▲12.4	▲68.1	▲298.5	▲314.5
(% of GDP)	▲0.2	▲0.9	▲3.7	▲3.5

Source: Department of Finance (DOF), Department of Budget and Management (DBM), Central Bank (BSP)

The amount of budget deficit in 2009 and 2010 (actual figures) were 298.5 billion pesos (equivalent to USD 6,266 million) and 314.5 billion pesos (equivalent to USD 6,971 million) respectively, and of which, 74.6 billion pesos (equivalent to USD 1,565 million) (2009) and 31.8 billion pesos (equivalent to USD 704 million) (2010) have been filled by the program loans from donors.

In 2009 (actual figure), the DPSP yen loan (equivalent to USD 96 million) accounted for 1.5% of the government's budget deficit, and 6.1% of the total budget support from donors. In 2010 (actual figure), the DPSP yen loan (equivalent to USD 113 million) accounted for 1.6% of the government's budget deficit, and 16.1% of the total budget support from donors. In addition, when combined with the amount of the Emergency Budget Support Japanese ODA Loan (EBS), which was attached to this DPSP, the total amount became equivalent to USD 282 million. That means, the total program yen loan (DPSP plus EBS) has covered 4.0% of the total budget deficit in 2010, which accounted for 40.1% of the total amount of donors' program loans provided to the country.

The amount of DPSP fund is low as 1.5 to 1.6% of the budget deficit, thus no particular problems in terms of absorption capacity of the government is seen. In addition, the amount of DPSP fund has increased from 6.1% (2009) to 16.1% (2010) of the entire program loans provided by donors, and it accounted for 40.1% in 2010 when the EBS was added to the DPSP funds. In this respect, Japan's contribution as a top donor to the Philippines is assumed to be sufficiently secured.

Table 3: National Budget (actual)

	2007 (bil. PhP)	2008 (bil. PhP)	2009 (bil. PhP)	Reference 2009 (mil. USD)	2010 (bil. PhP)	Reference 2010 (mil. USD)
Revenues	**1,136.6**	**1,202.9**	**1,123.2**	**23,577.0**	**1,207.9**	**26,777.4**
Tax Revenue	932.9	1,049.2	981.6	20,605.0	1,093.6	24,243.8
Non Tax Revenue	203.5	153.6	141.4	2,967.9	113.9	2,524.5
Grants	0.2	0.1	0.2	4.0	0.4	9.1
Expenditures	**1,149.0**	**1,271.0**	**1,421.7**	29,842.3	**1,522.4**	**33,748.1**
Current Expenditures	955.3	1,048.0	1,157.1	24,287.3	1,242.8	27,551.1
Capital Outlays	193.7	223.0	264.7	5,555.0	279.6	6,197.1
Surplus, Deficit	**▲12.4**	**▲68.1**	**▲298.5**	**▲6,266.1**	**▲314.5**	**▲6,971.1**
Financing	**99.1**	**160.1**	**229.8**	**4,824.3**	**351.7**	**7,795.4**
Domestic	43.0	169.3	77.4	1,624.0	218.6	4,845.9
Bonds etc. (Gross)	327.0	429.3	321.9	6,756.7	489.8	10,858.8
Amortization	▲284.0	▲260.0	▲244.5	▲5,132.7	▲271.3	▲6,013.1
Foreign	56.2	▲9.2	152.5	3,200.6	133.1	2,949.5
Program Loans	42.0	26.4	74.6	1,565.2	31.8	703.8
Project Loans	27.7	24.5	22.3	467.2	29.0	642.0
Others	48.8	20.4	154.5	3,243.8	196.7	3,694.3
Amortization	▲62.3	▲80.5	▲98.9	▲2,075.7	▲124.3	▲2,755.7
Financing Balance	**107.0**	**47.5**	**▲66.0**	**▲1,386.0**	**37.2**	**824.0**

Source: Bureau of the Treasury, DBM Foreign Exchange Rate: USD1=PhP47.64 (2009), USD1=PhP45.11 (2010)

Table 4: Program Loans from Donors (actual)

(mil. USD)

Donors	2008	2009	2010 (Plan)	2010 (Actual)
Japan (JICA)		96 (Note 1)	250	282 (Note 2)
ADB	584	750	350	0
World Bank		324	418	382
France (AFD)			213	198
Program Loans Total	584	1,170	1,231	878

Source: DOF, JICA appraisal documents
Note 1): 9,293million yen extended as DPSP II
Note 2): 9,220million yen extended as DPSP III, and 13,830million yen extended as EBS, respectively.

DPSP fund was provided in a timely manner to fill the financial gap of the Philippines government. There was a remark with high appreciation in an interview with the DOF that the size of the DPSP fund was relevant and was consistent with the financial plan of the government's 2009 budget. In this respect, if there were not for DPSP funds, uncertainty on budget funds could have emerged, which could have resulted in delay in reform implementation or even could have created a negative impact on real economy.

Financing plan and its target to cover the budget deficit of the Philippines government have been determined in the government's Development Budget Coordinating Committee (DBCC).[9] In considering the composition of financing from both domestic and international sources, the government scrutinizes the combination that would minimize the debt burden of government by taking into account of the appropriate balance of financing. In addition, Debt and Risk Management Division has been established in the DOF, and the government's public debt management plans have been developed (establishment of the said department is also one of the achievements of DPSP).

In determining the size of DPSP funds, the following five perspectives were given thorough consideration in JICA. (1) Principles and objectives of providing assistance to the Philippines; (2) reform and development needs of the Philippines; (3) the status of the "institutional and policy environment" in the Philippines; (4) aid absorption capacity of the Philippines; and (5) Japan's perspective to provide appropriate contribution as a top donor to the Philippines". As regards (5), it was pointed out that comparison with the size of the funds provided by the ADB (USD 250 million respectively for both DPSP Ⅱ, Ⅲ) was made, and perspective of "securing Japan's sufficient presence as a top donor" was taken into consideration in coming up with the funding size of DPSP. The size of the

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9 DBCC is organized by the Depart of Budget and Management (DBM), which is in charge of preparation and execution of investment and recurrent budget. Based on macroeconomic assessment, yearly budget ceiling, size of development budget, financing sources etc. are considered in the DBCC among the members of the DBM, the Central Bank (BSP), DOF, National Economic and Development Authority (NEDA) and the Office of the President for final submission to the President.

DPSP funds is deemed to have been relevant in consideration of these five perspectives. The amount of each fund, DPSP Ⅱ (9,293 million yen) and DPSP Ⅲ(9,220 million yen), was appropriate, without excess and deficiency to achieve Japan's objectives, considering Japan's situation and awareness of issue at the time.

3.1.4 Relevance of JICA's Participation in DPSP Framework

The fact that JICA has chosen DPSP is deemed to have been the right decision. When looking back on the time JICA first participated in DPSP, there were four objectives for JICA to be involved in the DSPS: (1) to be part of the policy dialogue platform with the Philippines government (to obtain the opportunity to participate in supporting the Philippines overall policy and institution development); (2) to facilitate policy dialogue with the Philippines government (to contribute to DPSP's four policy reform areas through policy dialogue, to increase channels for policy dialogue with the Philippines government, and to directly share the issues which Japan is concerned with the Philippines government); (3) to support the macroeconomic financial needs of the Philippines government; and (4) to facilitate synergy effects among JICA's different assistance scheme such as technical cooperation and yen loan in providing assistance to the Philippines. These objectives have been realized during DPSP implementation as well as at the time of evaluation.

In addition, the fact that Japan has participated in DPSP to support the government's reform programs is deemed to have been highly important when taking into consideration of Japan's assistance environment at the time of starting DPSP co-financing. Considering the fact that Japan has been the largest donor to the Philippines, and the Japan-Philippines Economic Partnership Agreement (JPEPA) has come into force at the time (December, 2008), it was expected that Japan strengthens bilateral relationship with the Philippines as one of the most important partner country for trade and investment. Through participating in DPSP framework, Japan was able to support the Philippines government's important reform issues including strengthening investment environment, and continuous policy dialogue with the Philippines government would enable Japan to support developing effective investment environment based on the needs of Japanese companies. To this effect, there was a remark in an interview with the Japanese Chamber of Commerce and Industry of the Philippines that, "It was important for Japan to utilize all possible channels to encourage the Philippines government to promote enhancing investment environment. Such approach is useful especially for a country like the Philippines where people can send out opinions comparatively freely. In this respect, it was relevant that Japan provided DPSP funds."

Since individual project assistance cannot deal with cross-sectoral reform issues that cover the government's overall reform, and in light of the fact that no other tool exists except DPSP which requires government to ensure achievements within a specific timeline, it can be said that DPSP was the only possible policy assistance tool for Japan to participate. Japan was expected to utilize DPSP strategically to take up and put development needs from the bilateral relationship between Japan and the Philippines on the multilateral table including the ADB and to strengthen enforcement of policy reform. In addition, the creation of the new JICA, through the JICA-JBIC merger, has been facilitating cross-scheme coordination such as coordination between yen loans and technical cooperation, as well as program approach in its assistance. In this respect, by supporting institutional reform through DPSP (loan) and providing finely-tuned technical cooperation on the ground in a complementary manner, it was expected that implementation of policy actions and enhancement of reform effectiveness to be strengthened. Furthermore, there seemed to be recognition that foundation for policy assistance has been already developed in Japan's side to provide inputs to the Philippines government in the course of preparing policy actions in each reform areas from a comprehensive viewpoint. In fact, utilization of policy advisors (long-term experts) deployed in each relevant organization such as the Bureau of Customs (BOC) and the DOF enabled this.

On the other hand, there was a remark from the local concerned party that, "Because Japan participated to DPSP from phase II, after DPSP's entire basic direction has been established, it seemed to require much efforts for Japan to well reflect its issues of concern into DPSP framework." In initiating DPSP I, the ADB and the World Bank have worked together with the Philippines government in preparing policy matrix in light of the country's medium-term reform direction. Therefore, the basic direction of the said DPSP series[10] has been already established through this initial work. Under such situation, Japan participated from DPSP II as a later comer, and seemed to have faced some difficulty in newly incorporating all the issues of Japan's concern.

Therefore, the implementation of DPSP is deemed relevant from the following four perspectives: (1) formulation process of the policy matrix/actions; (2) reform implementation through DPSP framework; (3) providing DPSP funds and the size of DPSP funds; and (4) JICA's participation in DPSP framework.

3.2 Effectiveness and Impact

In this section, the following four reform areas of DPSP are taken up, and the state of

[10] A DPSP cluster, consisting of three series of DPSP: I, II and III, has been set up.

their implementation and progress is analyzed: (1) maintaining macroeconomic and fiscal stability; (2) enhancing governance and anti-corruption strategies in public financial management; (3) strengthening the investment climate and infrastructure development; and (4) increasing social inclusion. The section looks into the state of fulfillment of DPSP policy actions as well as the progress and achievement of the reform areas which were targeted by DPSP assistance.[11] In addition, analysis is made on the progress of operation and effect indicators established during DPSP appraisal, and assessment is made on the effectiveness of DPSP as a reform support tool.

3.2.1 Maintaining Macroeconomic and Fiscal Stability

3.2.1.1 Achievements of Policy Actions

Policy actions taken up in this reform area and their state of performance are summarized in the following table (only the major actions are listed).

Table 5: Major Action Performance of Maintaining Macroeconomic and Fiscal Stability

	Policy Actions	Status
DPSP II	◆ National government overall deficit reduced from 1.2% of GDP in 2006 to 0.2% in 2007.	Fulfilled
	◆ The government proposed the establishment of the debt and risk management division (DRMD) in its proposed rationalization plan submitted to the Department of Budget and Management (DBM)	Fulfilled
	◆ The Bureau of Internal Revenue (BIR) began cleaning up and expanding the taxpayer database	Fulfilled
DPSP III	◆ National government overall budget deficit reduced from 1.2% of GDP in 2006 to 0.9% in 2008.	Fulfilled
	◆ Progress made to establish DRMD.	Fulfilled
	◆ Excise taxes on tobacco and alcohol increased.	Fulfilled
	◆ Progress made in streamlining and reinforcing tax registration database.	Fulfilled
	◆ A law enacted to increase in the ceiling on the deposit insurance from PhP250,000 to PhP500,000 to enhance depositors' confidence in the demes tic banking system.	Fulfilled

Source: JICA appraisal documents, ADB Completion Report on Philippines DPSP Cluster

DPSP series focused on supporting the government's fiscal consolidation program that began in 2005, which comprised following three areas: (1) securing fiscal discipline with the aim of balancing the national government budget by 2010;[12] (2) achieving sustainable increase in tax revenues; and (3) improving public debt management. As regards "maintaining macroeconomic and fiscal stability", successive administrations have taken

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11 DPSP is a backward-looking operation by its institutional design, in other words, DPSP loan agreement is concluded based on policy actions already achieved and disbursement is made immediately after the loan conclusion. Therefore, basically all policy actions identified have been fulfilled.

12 Given the effects from the 2008/2009 global financial and economic crisis, the Philippines government delayed the target year for the fiscal balance from 2010 to 2012.

up this agenda as one of the most important issues to tackle with regardless of DPSP period, and it is expected that the government will continue to make further reform efforts. While all the policy actions under this reform area have been fulfilled, a DPSP Ⅱ trigger,[13] "increase tax revenue-to-GDP ratio to 15% by 2010" was not achieved, and the trigger was dropped. Since this incidence, the ADB avoided to set numerical targets or forecasts for macroeconomic policy triggers, and opted for continuation of DPSP support through monitoring the performance in a flexible manner.

3.2.1.2 Progress of the Reforms and DPSP Achievements

The finances of the Philippines have been in the red structurally due to weak tax revenues base, the increase in the interest payment of national government debts, etc., and achievement of balanced finance has been regarded as one of the most important issues to cope with in the past administrations. In the Arroyo administration, budget deficit has reduced from 3.8% of GDP in 2004 to 0.2% of GDP in 2007 through reform efforts including cutting expenditures, enforcing laws for punitive measures against tax officials, strengthening detection of tax-evasion cases, amending laws on liquor and tobacco products, introducing a bill on the Expanded Value-Added Tax (EVAT) Law, and selling national properties. Policy actions in DPSP I and II are considered to have partly contributed to the above-mentioned fiscal reconstruction. However, budget deficit expanded to 0.9% in 2008 and increased to 3.7% and 3.5% in 2009 and 2010, respectively, due to fall in tax revenues and the implementation of fiscal stimulus measures (executing projects and expanding social security programs etc.) to respond to global economic crisis.

Fiscal demand is still high in the Philippines as a developing country and various efforts have been taking place in successive administrations to achieve tax revenues expansion for healthier public finances. However, while a temporary improvement was seen, it has not led to fundamental expansion of tax revenues in terms of results. Under DPSP framework, the Philippines government has been undertaking following reforms: (1) expansion of tax collection base through initiatives such as strengthening EVAT (2005), (2) implementing tax administration reform (starting from 2007), (3) strengthening effectiveness of the Bureau of Internal Revenue's (BIR's) Run after Tax Evaders (RATE) program and the BOC's Run after the Smugglers (RATS) program. However, while the tax collection revenues increased from 12.4% of GDP in 2004 to

13 Triggers are policy actions of great importance within the roadmap of each reform area, for which donors are to confirm their virtual achievements before the next round of DPSP starts. In other words, they are regarded as interim performance indicators in order to commence the next round of DPSP. As such, the analysis on the achievements of triggers takes place prior to the official start of the next round of DPSP process.

13.7% in 2006, it decreased in 2007, and a DPSP II trigger of "raising tax collection revenues to 15% of GDP by 2010." was not attained as mentioned above. In addition, delay of BIR's comprehensive tax administration reform has been pointed out. Although outstanding government debt (ratio to GDP) has worsened consistently since 2000, with a peak of 74.4% in 2004, it has improved to 54.8% in 2009, 52.4% in 2010, and 50.9% in 2011, respectively.

As regards institutional reform, a Debt and Risk Management Division (DRMD) was established in the DOF to prepare public sector debt management plan. The DRMD serves as a middle office in order to (1) institutionalize policy and debt strategy formulation to manage public sector debt; and (2) monitor, report, and ensure compliance with debt management policies. The establishment of the DRMD and formulation of debt management strategy are regarded as tangible achievements of DPSP. On the other hand, the DRMD was established recently in May, 2010, and thus it is necessary to discern a future development to evaluate the concrete improvement on the ground.

As regards rationalization of tax registration database, it has been pointed out that 20-28% of individuals and 12% of corporations were not registered, resulting reportedly in more than 100,000 people unreported in the metropolitan area of Manila alone.[14] Therefore, the database is still expected to be reinforced at the time of ex-post evaluation. Hence, it can be said that concrete effect on the ground has not seen yet.

Table 6: Philippine National Government Fiscal Performance (actual)

	2005	2006	2007	2008	2009	2010
Ratio of tax revenues (% of GDP)	12.4%	13.7%	13.5%	13.6%	12.2%	12.1%
Ratio of expenditures (% of GDP)	17.0%	16.7%	16.7%	16.5%	17.7%	16.9%
Ratio of fiscal balance to GDP	▲2.6%	▲1.0%	▲0.2%	▲0.9%	▲3.7%	▲3.5%
Fiscal balance（billion pesos）	▲146.8	▲64.8	▲12.4	▲68.1	▲298.5	▲314.5

Source: DOF

3.2.2 Enhancing Governance and Anti-corruption Strategies in Public Financial Management

3.2.2.1 Achievements of Policy Actions

Policy actions taken up in this reform area and their state of performance are summarized in the following table (only the major actions are listed).

14 Source: World Bank (2008) Accelerating Inclusive Growth and Deepening Fiscal Stability (Philippines Development Forum 2008, handout)
(Philippines Development Forum 2008, handout)

Table 7: Major Action Performance of Enhancing Governance and Anti-corruption Strategies in Public Financial Management

	Policy Actions	Status
DPSP II	◆ A more refined Medium-term expenditure framework (MTEF) drawn from an improved budget strategy paper.	Fulfilled
	◆ All publicly bid opportunities of the central offices of all 10 Government Procurement Policy Board (GPPB) member departments posted on Philippine Government Electronic Procurement System (PhilGEPS), and more than 77% of certified awards posted on PhilGEPS.	Fulfilled
	◆ New training courses designed and initiated to support the Revenue Integrity Protection Service (RIPS), Run after the Smugglers (RATS) and Run after Tax Evaders (RATE) campaigns.	Fulfilled
DPSP Ⅲ	◆ Based on the MTEF, forward budget estimates for a 3-year rolling period prepared for all 22 line ministries, and indicative budget ceilings applied for the 2010 budget.	Fulfilled
	◆ Taskforce established and study conducted to develop integrated government financial management information system (GFMIS).	Fulfilled
	◆ All 12 Government Procurement Policy Board (GPPB) member departments had posted bid opportunities and award notices, GPPB member departments had increased posting of bid notices and award notices, and progress made in expanding outreach to non-GPPB members (four departments).	Fulfilled
	◆ The Procurement Transparency Group became operational and monitoring of selected infrastructure projects underway.	Fulfilled
	◆ Guidelines for internal control system developed and printed for dissemination to agencies, government owned and controlled corporations (GOCCs) and Local Government Units (LGUs), and two internal control systems department pilots started.	Fulfilled
	◆ The Department of Budget and Management (DBM) approved the establishing the Special Prosecution Division (SPD) to specifically handle the prosecution of RATE cases.	Fulfilled

Source: JICA appraisal documents, ADB Completion Report on Philippines DPSP Cluster

DPSP series focused on supporting the government to improve governance in public financial management, which comprised following four areas: (1) implementing a medium-term expenditure framework (MTEF); (2) enhancing transparency in budget execution; (3) reinforcing implementation of a procurement reform law; and (4) strengthening anti-corruption initiatives. Compared with other ASEAN countries, governance level of the Philippines is lagging behind for items such as “Control of corruption”,[15] “Rule of law”,[16] and others in the Worldwide Governance Indicators,[17]

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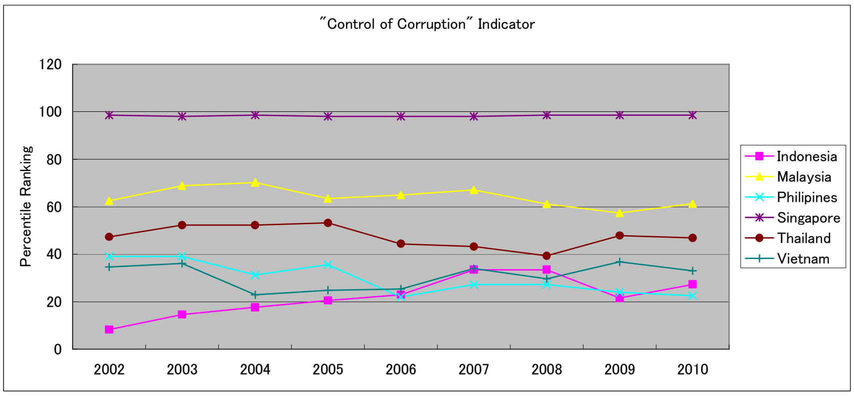
15 The level of authority and power exerted by a limited number of individuals for their own interest, regardless of the scale of corruption, including any dominance of the state based on interests of a handful of elites or individuals.

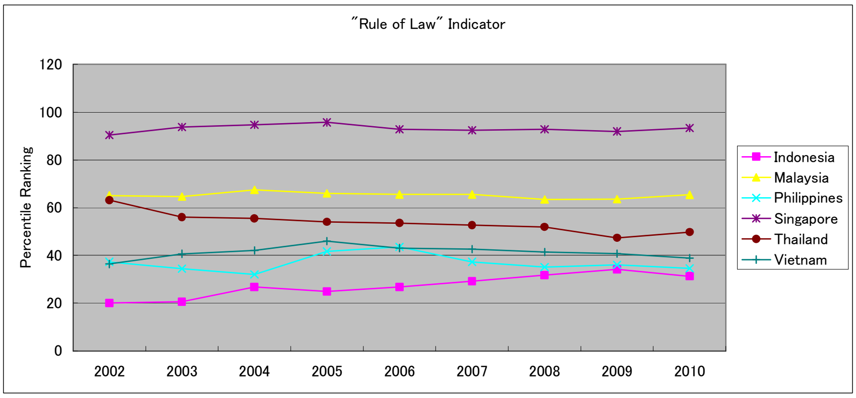
16 How much the parties concerned with public policies trust and abide by social laws, particularly in the aspects of fulfillment of contracts, quality of police and courts, likelihood of crimes and violence, and the like.

17 The Worldwide Governance Indicators (WGI) comprises six indicators: (i) voice and accountability, (ii) political stability and absence of violence, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption.

and thus the government has been undertaking various initiatives to improve governance. All policy actions under this reform have been taken as expected and their fulfillment should be evaluated as satisfactory.

Table 8: Comparison of Governance Situation among Major ASEAN Countries (2002-2010)





Source: Prepared based on the Worldwide Governance Indicators
Note 1): Situation is better with higher figures of percentile ranking near 100.

3.2.2.2 Progress of the Reforms and DPSP Achievements

As regards public financial management (PFM), budget system has improved since 1990s and computerization of budget execution within the Department of Budget and Management (DBM) has been achieved, however, establishing linkages with other departments and organizations remains an issue. Strengthening consistency between investment budget and recurrent budget[18] as well as improving coordination between central economic agencies and line agencies are regarded as continued challenge. Concrete achievement has seen in the implementation of the MTEF which is a part of

18 Insufficient consistency among the MTPDP, Medium Term Public Investment Program (MTPIP), and the annual budget strategy papers (investment and recurrent budgets) is identified as a challenge in the Philippines. The plan itself lacks consistency as a policy system. Fragmentation of roles and responsibilities among different ministries/agencies and even within the same ministry/agency, and inefficiency of organizational framework explain the reason behind this.

DPSP policy actions. The DBM has developed a budget plan based on the MTEF in 2009, and forward estimates on revenues and expenditures for all 22 departments and agencies for next three years. In addition, the DBM has specified indication of budget ceilings for budgets in 2010 and 2012, respectively. Furthermore, public announcement is advanced on the website of the DBM and other related departments[19] regarding performance evaluation of departments/agencies based on the Organization Performance Indicators Framework (OPIF) (an initiative to analyze the performance of each department/agency based on performance index). In addition, relevant project name, procurement plan, budget allocation and expenditure, contractor names for projects under control of each department/agency as well as allocation and expenditure of Priority Development Assistance Fund (so called pork barrel) distributed to congressmen are also disclosed in public in the website.

As an initiative to enhance transparency in budget implementation, a digitization of the government-wide financial system has been carried out. Concretely, it can be point out as notable achievements of DPSP that basic agreement on coordination and cooperation among relevant departments (Commission on Audit (COA), DBM and Bureau of Treasury) in developing a roadmap on Government Financial Management Information System (GFMIS) has been made and institutional arrangements for GFMIS has been developed. Based on the agreement, GFMIS steering committee has been established (Resolution No. 01-2011), and various adjustment work has expedited in order to facilitate clarification, simplification, and harmonization of financial management system among COA, DBM, DOF and other relevant departments/agencies, and integration of the said system. In addition, PFM reform roadmap has been drafted – the draft specifies (1) introduction of performance budgeting; (2) facilitation of single national account; (3) promotion of GFMIS; and (4) strengthening of contingent liability management. Enforcement and utilization of GFMIS are expected in the future.

As regards procurement, the Government Procurement Reform Act (GPRA) and its implementing rules and regulations came into effect in January and September 2003, respectively, and a unified system was developed for both the central government and Local Government Units (LGUs) to carry out procurement according to the same rules. In addition, an initiative to involve non-profit organization, Procurement Transparency Group, to participate in and oversee bidding process for improved transparency has been moving forward.

As regards anti-corruption, BIR's RATE program and BOC's RATS program have been moving ahead to implement on a permanent basis and efforts to introduce corruption

[19] This is stipulated in Article 97 (Transparency and Accountability in Government Operations) in the General Appropriations Act approved by the Congress in December 2010.

monitoring system in the government have been facilitated in sequence.

Many of the above-mentioned achievements have advanced after the change of government to the current President Aquino (June, 2010-) who has been emphasizing anti-corruption as the country's most important reform issue. It can be considered that a powerful external factor – change of political administration – has become a breakthrough to facilitate reform.

3.2.3 Strengthening the Investment Climate and Infrastructure Development

3.2.3.1 Achievements of Policy Actions

Policy actions taken up in this reform area and their state of performance are summarized in the following table (only the major actions are listed).

Table 9: Major Action Performance of Strengthening the Investment Climate and Infrastructure Development

	Policy Actions	Status
DPSP II	◆ A framework has been developed to simplify investment procedures.	Fulfilled
	◆ List of priority investment projects has been prepared.	Fulfilled
DPSP III	◆ Progress made in institutionalizing red tape reform. Draft Memorandum Order prepared and submitted to the President's office for approval mandating the National Economic and Development Authority (NEDA) to begin advocating a regulatory impact assessment program and develop action plan for implementing it across national government.	Fulfilled
	◆ A national single window for import licensing piloted at the port of Batangas, the Bureau of Customs (BOC) has implemented an import assessment system.	Fulfilled
	◆ The government submitted the instrument of accession to the Revised Kyoto Convention, subject to reservations, to the Senate.	Fulfilled
	◆ The Department of Agriculture (DA) assessed bottlenecks in distribution of agriculture products and made progress in defining appropriate public policy options for addressing identified bottlenecks.	Fulfilled
	◆ The government developed guidelines to govern joint ventures between government and private sector entities, drafted a set of standard transaction documents for public–private partnerships	Fulfilled

Source: JICA appraisal documents, ADB Completion Report on Philippines DPSP Cluster
Note 1): Policy actions underlined are those which have been advanced from Japan or those which have strong relationship with Japan

DPSP series focused on improving the Philippines business environment, which comprised following four areas: (1) reducing business and investment cost; (2) promoting policy and institutional reform to improve investment environment; (3) strengthening infrastructure development; and (4) facilitating public private partnership. While policy actions in this reform area have been duly fulfilled and progress of reform is observed steadily, the improvement process has a long way to see concrete enforcement on the ground, and thus tangible effects have not yet clearly appeared up to now.

Doing business ranking of major ASEAN countries between 2009 and 2011 based on the Doing Business Study conducted by the World Bank and IFC is shown in the table below. The ranking of the Philippines were: 144th (2009), 148th (2010), and 136th (2011) among 183 nations (economy) in the world. The Philippines ranks low in comparison with other ASEAN countries and its breakdown indices also remain low ranking especially for "Starting a business", "Resolving insolvency" and "Closing a business".

Table 10: Doing Business Ranking

Economy	Year	Ease of Doing Business Total Ranking	Starting a Business	Dealing with Construction Permits	Getting Electricity	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency	Closing a Business
Indonesia	2011	129	155	71	161	-	99	126	46	131	39	156	146	-
	2010	121	155	60	-	-	98	116	44	130	47	154	-	142
	2009	122	161	61	-	149	95	113	41	126	45	146	-	142
Malaysia	2011	18	50	113	59	-	59	1	4	41	29	31	47	-
	2010	21	113	108	-	-	60	1	4	23	37	59	-	55
	2009	23	88	109	-	61	86	1	4	24	35	59	-	57
Philippines	2011	136	158	102	54	-	117	126	133	136	51	112	163	-
	2010	148	156	156	-	-	102	128	132	124	61	118	-	153
	2009	144	162	111	-	115	102	127	132	135	68	118	-	153
Singapore	2011	1	4	3	5	-	14	8	2	4	1	12	2	-
	2010	1	4	2	-	-	15	6	2	4	1	13	-	2
	2009	1	4	2	-	1	16	4	2	5	1	13	-	2
Thailand	2011	17	78	14	9	-	28	67	13	100	17	24	51	-
	2010	19	95	12	-	-	19	72	12	91	12	25	-	46
	2009	12	55	13	-	52	6	71	12	88	12	24	-	48
Vietnam	2011	98	103	67	135	-	47	24	166	151	68	30	142	-
	2010	78	100	62	-	-	43	15	173	124	63	31	-	124
	2009	93	116	69	-	103	40	30	172	147	74	32	-	127

Source: Prepared base on the World Bank-IMF Doing Business data
Note 1): Ranking as of June 1st of each year

Major impediments for the Philippine investment climate have been pointed out as follows.[20]

- Complex and often delayed administrative procedures: long time of getting business licenses, delayed refund of VAT, high transaction costs for getting approvals, and long time of customs clearance;
- Weak infrastructure: insufficient transportation network, high electricity cost etc.;
- Insufficient laws and regulations: no mechanisms to assure fair competition due to lack of appropriate competition laws and antitrust regulations, insufficient dispute settlement mechanism, lack of a creditor and ownership protection etc.; and
- Weak governance: insecure political conditions, civil war, the peace and security issues, corruption, smuggling etc.

Consequently, successive program loan expected after DPSP – focusing on investment

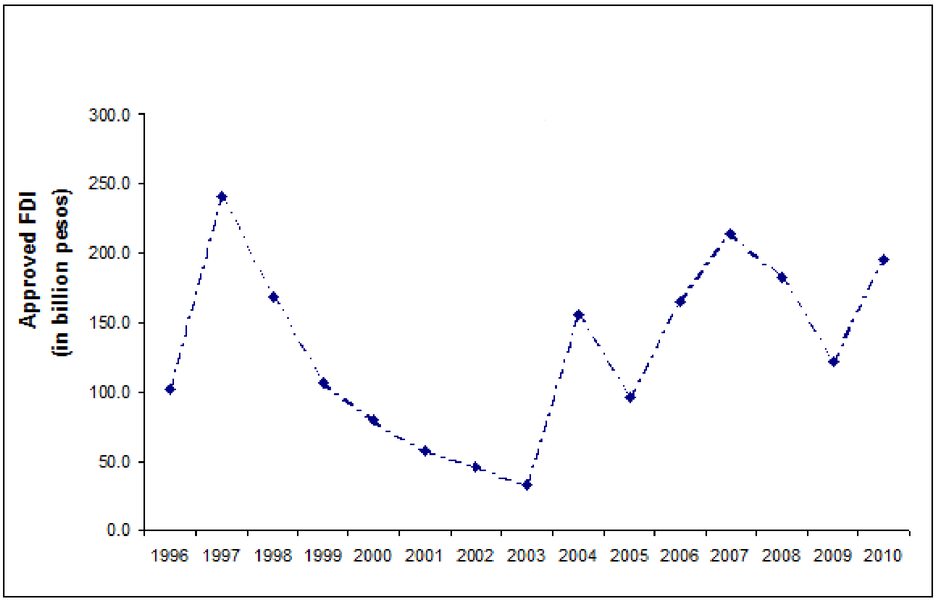
[20] Consolidated the information obtained from interview surveys with the Japanese Chamber of Commerce and Industry of the Philippines, Inc., and Japanese companies operating in the Philippines.

climate and an infrastructure development – has been under consideration.

3.2.3.2 Trend of Investment-Related Macroeconomic Indicators

The table below shows the trend of direct investment to the Philippines, and the foreign trade of the Philippines. As for the amount of recent direct investment (approval basis), while it has decreased in 2008 and 2009 with a peak in 2007, it has turned to increase in 2010. In 2003 and afterwards, the overall trend seems to be in the increase, repeating increase and decrease. As regards trade, while decrease in both export and import in 2009 is considered to come from the effects of global economic and financial crisis that originated in the U.S, the figures have recovered in 2010 and 2011.

Table 11: Trend of Direct Investment to the Philippines (approval basis)



Source: National Statistical Coordination Board (NSCB)

Table 12: Foreign Trade in the Philippines (FOB, million USD)

Year	Export	Import	Total
2005	41,254.68	47,418.18	88,672.86
2006	47,410.12	51,773.68	99,183.79
2007	50,466.00	55,514.00	105,980.00
2008	49,078.00	56,746.00	105,824.00
2009	38,436.00	43,092.00	81,527.00
2010	51,498.00	54,933.00	106,430.00
2011	48,042.00	60,144.00	108,186.00

Source: NSCB

The table below shows a transition of total amount of Japan's foreign direct investment (FDI) in the Philippines, and volume of bilateral trade between Japan and the Philippines. As regards FDI (approval basis), while the reduction in 2008 is assumed to be an influence of the economic recession in Japan, the amount has been increasing on the whole, and 2011 has recorded all-time high figure. As regards trade, reduction has seen in 2009, however, it has recovered in 2010 and is maintaining stably in general.

In reality, various external factors both in macro and micro levels such as global world economic trends, and individual corporate strategies and performances of companies undertaking trade and investment can have effects on the actual amount of investment and trade. Therefore, improved investment climate through implementation of policy actions does not necessarily lead to increased investment and trade.

Table 13: Japanese FDI in the Philippines (approval base) and Volume of Bilateral Trade

Year	Total Amount of Japanese FDI in the Philippines (bil. PhP)	Philippine Export to Japan (FOB, mil. USD)	Philippine Import from Japan (FOB, mil. USD)
2005	27.5	7,205	8,071
2006	20.0	7,916	7,270
2007	38.6	7,303	6,842
2008	16.1	7,706	6,604
2009	70.7	6,207	5,351
2010	58.3	7,840	6,744
2011	77.4	8,231	5,923

Source: NSCB, answers to the questionnaires

3.2.3.3 Progress of the Reforms and DPSP Achievements

It is particularly worth noting as one of DPSP achievements that progress has seen towards resolving the VAT refund issues, which Japan has been attaching great importance to for some time. VAT refunds have been made in the form of Tax Credit Certificate (TCC)[21] in place of cash, however, the Philippines government has decided to shift to cash refund from 2012, and has promulgated a new regulation[22] which prohibits transferring TCC to a third party. In addition, necessary budget has been allocated[23] for

21 TCCs were issued as VAT refund certificates to claim for a refund of tax which have been paid in the course of business transactions for importing materials for producing goods to be exported or business transactions with registry companies of the Philippine Economic Zone Authority (PEZA) etc.

22 Revenue Regulation No.14−2011（29th July, 2011）

23 Php 1bil. was proposed to be allocated in the 2012 budget,

government to take up TCC which has been already issued in the past. TCC was supposed to be refunded in cash within 120 days for BIR and 60 days for BOC, however, significant delay[24] has been taking place thus causing companies' cash flow to deteriorate. Therefore the VAT refund issues have long been considered as a bottleneck for local business activities since early 2000. Japan has been calling for cash refund without delay to the Philippines government using various channels through Business Environment Committee established under the Japan-Philippines Economic Partnership Agreement (JPEPA) and through the Japanese Chamber of Commerce and Industry of the Philippines (as well as the Joint Foreign Chambers consisting of Chamber of Commerce of seven countries) even before DPSP was initiated. Now that the government is shifting to cash refund, it is expected that transaction cost on accounting to be reduced and transparency to be enhanced, thereby leading to improved investment environment in the Philippines.

As regards starting a business in the Philippines, the government, in collaboration with private sector, has been undertaking enhancement of measures through the National Competitiveness Council (NCC) to simplify procedures. However, tangible improvement cannot be seen in the ranking of the Philippines for "Starting a business" in the Doing Business Ranking in Table 10, which indicates 162nd (2009), 156th (2010), and 158th (2011), respectively among 183 economies in the world.

As regards trade, while measures such as tariff reduction and abolition have been proceeding, transaction costs for getting approvals remain high, which has been regarded as a constraining factor to facilitate investment. JICA has assisted a Time Release Study (March 2010 – March 2011), which measured passing time at custom house to see the fastness and efficiency of import clearance procedures and system, aiming at simplifying and speeding up import procedures through identifying and analyzing issues of concern. The study result revealed that no statistically significant difference has been identified between the result of the study conducted in 2003 and that in 2010. The study concluded that the entire duration of customs clearance from the arrival to taking out cargos has not necessarily reduced although changes in system has taken place between 2003 when Automated Customs Operation System was implemented and in 2010 when E2M (application of IT system in custom procedures) was introduced. The study identified its reason that it is taking time to discharge and carry in cargo, which is not counted as the usual custom clearance procedures.

As regards infrastructure development, investment in infrastructure such as power and transportation has been decreasing since the Asian economic crisis in 1997 – the ratio of

[24] In fact, according to news report, it has been taking average of 3.8 year for BIR and average of 1.8 years for BOC. (Source: NNA. ASIA http://news.nna.jp/free/news/20110815php002A.html)

infrastructure investment to GDP has dropped from 8.5% in 1998 to 2.8% in 2002. Although improvement has seen in 2008, recent figures remain less than 5%. Activating public and private investment in infrastructure is required and in doing so, it is urgently necessary to develop a clear implementation framework in infrastructure investment (improvement of BOT scheme, enhancing financing environment for public infrastructure expenditures etc.).

The National Economic Development Authority (NEDA) has prepared a comprehensive infrastructure investment plan and has been promoting implementation of priority projects in order to facilitate the MTPDP, however, various issues remain unresolved including establishing appropriate allocation of risks for Public Private Partnership (PPP) projects, and clarification of relevant procedures.

3.2.3.4 Effects of Reform on the Ground

The achievements of DPSP were analyzed based on qualitative information through interview survey to Japanese enterprises in the Philippines, which are considered as DPSP beneficiaries. Focus was made to confirm whether concrete change has seen in their daily business activities as s result of implementing policy actions.

The table below summarizes the policy actions which have been advanced from Japan or the policy actions which have strong relationship with Japan.

Table 14: Policy Actions Suggested from Japan or have Great Relevance to Japan

	Policy Actions	Concrete Actions
DPSP II	◆ A framework has been developed to simplify investment procedures.	1) The National Competitiveness Council drafted and advocated a framework for addressing bureaucracy through regulatory review assessment. 2) Memorandum Circular No. 137 (30 July 2007) mandates NEDA to approve national agency proposals for changes to fees and charges. 3) National regulations began to streamline starting with improving visa procedures for foreign investors, including (i) BOI and Bureau of Immigration signed an MOU reapproving visa on arrival; (ii) Bureau of Immigration issued Circular No. MCL07-001 implementing proinvestor visa valid for 6 month stay with possible extension to 3 years. 4) Handbook published on best practice in LGU business registrations.
	◆ List of priority investment projects has been prepared.	NEDA Infrastructure Committee submitted to the DBM a list of priority investment projects at the start of budget preparation for 2008

DPSP Ⅲ	◆ A national single window for import licensing piloted at the port of Batangas, the BOC has implemented an import assessment system.	The E2M Customs Systems Project, of which the national single window is a component, was piloted at the port of Batangas (Customs Memorandum Order No. 10-2009, 5 March 2009). The import assessment system was also implemented under the E2M- Customs Systems Project.
	◆ The government submitted the instrument of accession to the Revised Kyoto Convention, subject to reservations, to the Senate.	The Government submitted the instrument of accession to the Revised Kyoto Convention, subject to reservations, to the Senate. <Recognition of current situation> In June 2010, the Philippines government became a member of the Revised Kyoto Convention, which globally aims to simplify and harmonize customs procedures. Within three years from the accession of the Convention, the government is required to complete development of its domestic law in compliance with the World Customs Organization (WOC). On the other hand, the government needs to facilitate tax revenue enhancement. Thus the government is required to achieve both objectives of speeding up custom procedures as well as tightly collecting taxes.
	◆ The DA assessed bottlenecks in distribution of agriculture products and made progress in defining appropriate public policy options for addressing identified bottlenecks.	The DA assessed bottlenecks in distribution of agriculture products and made progress in defining appropriate public policy options for addressing identified bottlenecks. The government and stakeholders of the PDF working group on agribusiness held a strategic agribusiness planning workshop in March 2009 to discuss formulation of the Strategic Agribusiness Development Plan. Discussions and recommendations focused on bottlenecks in agriculture, including production, post-production, marketing and distribution and financing sectors. Action plans were produced. (coordination with the ADB technical cooperation on farmer supply chains)
	◆ The government developed guidelines to govern joint ventures between government and private sector entities, drafted a set of standard transaction documents for public–private partnerships	The government issued a set of guidelines to govern joint ventures between government and private sector entities (completed) and is drafting the standard transaction documents for PPP. The Project Development and Monitoring Facility (PDMF) has been established by virtue of Executive Order No. 8 (dated 9 September 2010) as a revolving pool of funds from the Philippine Government and the Government of Australia under a Capacity Building Technical Assistance project from the Asian Development Bank (ADB) and the Canadian Government to enhance the investment environment for Public-Private Partnership (PPP) and to develop a robust pipeline of viable and well-prepared PPP infrastructure projects. The PDMF, which will be made available to Government Implementing agencies, will fund pre-investment activities, including preparation of project prefeasibility studies, feasibility studies and financial models, development of PPP options, project structuring, providing transaction advisory services during the bidding process and preparation of contract documents.

Source: JICA appraisal documents, ADB Completion Report on Philippines DPSP Cluster

Among the above policy actions, interview survey was conducted to Japanese companies[25] on following actions that are considered to have direct effect on their business activities: “developing framework to simplify investment procedures”, “piloting a national single window for import licensing at the port of Batangas, and BOC to implement an import assessment system”, “developing guidelines to govern joint ventures between government and private sector entities, and drafting a set of standard transaction documents for public–private partnerships”.

As regards “developing framework to simplify investment procedures”, while Japanese companies interviewed were not aware of this policy action, they have shown expectation towards improvement of visa procedure for foreign investors. In fact, many Japanese companies interviewed have been given preferential investment treatment under the Philippine Economic Zone Authority (PEZA) – they appreciate the administrative procedures and institutions of PEZA, which is corruption-free and highly transparent, and have shown high satisfaction. Among different investment promotion institutions, the largest number of Japanese companies enjoys PEZA treatment. It is said that the reason behind its high recognition mainly come from high-caliber Director General of PEZA.[26]

As regards “piloting a national single window for import licensing at the port of Batangas, and BOC to implement an import assessment system”, no concrete effect has been confirmed. Although the Port of Batangas, located 110 km south of Manila, was developed with the Japanese yen loan assistance in order to alleviate overconcentration to the Manila Port, there is only one company undertaking regular shipment and thus there is few merit for companies to use Batangas Port. There are mainly two issues behind this background: (1) since logistics companies and customs brokers are now concentrated in Manila, additional cost will be required for improving relevant facilities in order to utilize the Batangas Port; and (2) access to the Batangas Port was inconvenient since the completion of the expressways,[27] which had planned to open at the same time as the opening the Batangas Port, was significantly delayed[28] due to issues related with the acquisition of right-of-way and shortage of funding. In fact, among the Japanese companies interviewed, only one company had used the Batangas Port, and the company did not indicate any concrete improvement on customs clearance procedures.

As regards “developing guidelines to govern joint ventures between government and private sector entities, and drafting a set of standard transaction documents for public–private partnerships”, while Japanese companies have shown their recognition that

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25 Interview survey was conducted to Japanese companies in Cavite, Laguna, Batangas and Metro Manila.

26 The Director General has been consistently in its position since the establishment of PEZA at the time of Ramos administration up to now.

27 South Luzon Expressway (SLEX) and Southern Tagalog Arterial Road (STAR) Tollway.

28 The Expressways are already opened for traffic.

the current Aquino Administration has been promoting PPP for infrastructure development, they pointed out the necessity of developing legal and institutional frameworks, such as clarification of division of roles and risks between public sector and private entities. In addition, concern was shown that issues of corruption would put additional cost to investors.

Therefore, it can be said that although steady progress is seen through the implementation of policy actions, expected tangible effects on the ground have not yet appeared.

3.2.4 Increasing Social Inclusion

3.2.4.1 Achievements of Policy Actions

Policy actions taken up in this reform area and their state of performance are summarized in the following table (only the major actions are listed).

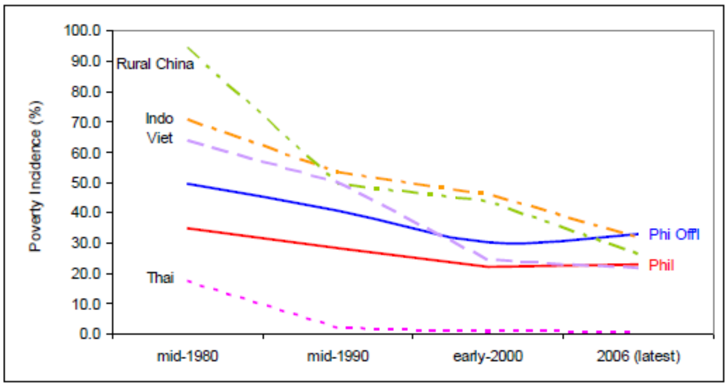
Table 15: Major Action Performance of Increasing Social Inclusion

	Policy Actions	Status
DPSP II	◆ Improve poverty, monitoring, targeting of social programs and expenditure.	Fulfilled
	◆ Conditional Cash Transfer (CCT) program was introduced.	Fulfilled
DPSP III	◆ the Department of Social Welfare and Development (DSWD) scaled up the CCT to cover 337,345 households by the end of 2008.	Fulfilled
	◆ The National Economic and Development Authority (NEDA) poverty monitoring mechanism became operational and first poverty report was produced in order to promptly grasp the impact of economic crisis on the poor.	Fulfilled

Source: JICA appraisal documents, ADB Completion Report on Philippines DPSP Cluster

All policy actions in this reform area have been taken as expected and their fulfillment including the introduction and scaling up the Conditional Cash Transfer (CCT), to be taken up later, should be evaluated as highly satisfactory. On the other hand, the trend of poverty rate remains almost unchanged since 2000 in the range between 26 to 27%. The poverty rate in 2009 was 26.5% which slightly increased from the rate in 2006 at 26.4%. Strengthening aid delivery on the ground is continued to be necessary.

Table 16: Poverty Reduction in the Philippines versus East Asian Neighbors



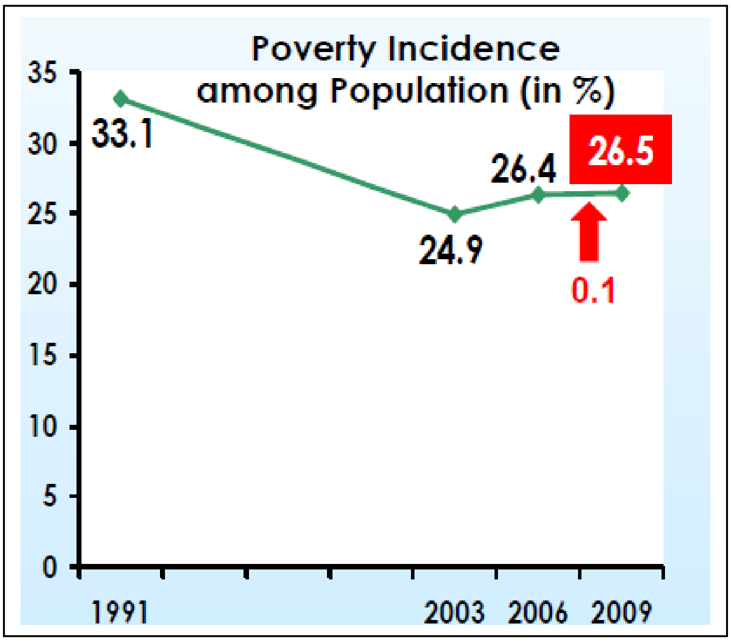
Source: The World Bank, County Assistance Strategy for the Republic of the Philippines 2010-2012

Table 17: Poverty Rate in the Philippines (%)

2007	2008	2009	2010
26.4(*)	N.A.	26.5	N.A.

(*) Actual figure in 2006

Table 18: Poverty Incidence among Population in the Philippines



Source: NSCB

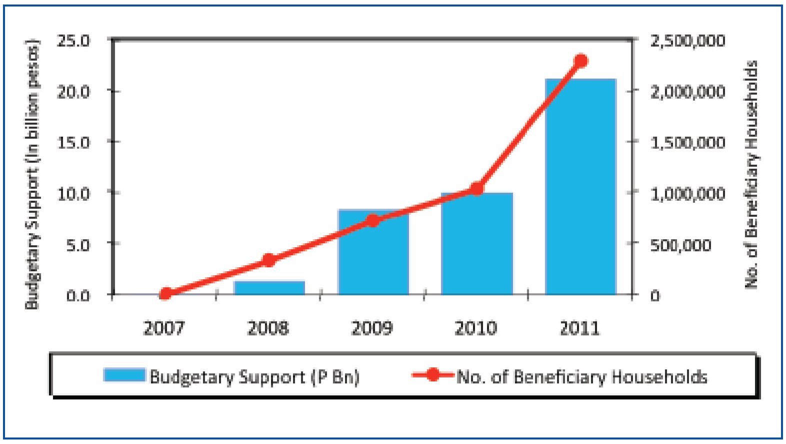
3.2.4.2 Progress of the Reforms and DPSP Achievements

The introduction and scale-up of the CCT program[29] can be considered as DPSP

[29] Conditions for receiving cash under the CCT program are as follows: households living in districts, municipalities and cities where the National Statistical Coordination Board has certified as the poorest in the

achievements in the area of social development. The CCT program is an integral part of the MDG initiatives, and is a National Poverty Reduction Program aiming to expand social safety net and to increase public spending to the poor in order to facilitate poverty reduction. The CCT program is regarded as the core initiative in the social security program undertaken by the Department of Social Welfare and Development (DSWD). The expansion of the CCT program also took place in government's economic stimulus measure (Economic Recovery Plan) to respond to the effect of global economic crisis to the country – additional 321,000 poor households were planned to receive the CCT. The CCT program has covered 2,226,192 households in 79 provinces, 950 municipalities and 77 cities as of November, 2011. Target has been set to increase 700 thousand households each year for the coming five years, and to achieve scaling up to 4.6 million households by the end of 2016.

Table 19: Trend of CCT Budget and Number of Beneficiary Households



Source: Fernandez, L. & Olfindo, R. (2011). Overview of the Philippines' conditional cash transfer program: the Pantawid Pamilyang Pilipino Program

3.2.5 Progress of Operation and Effect Indicators

The table below summarizes the operation and effect indicators which have been established at the time of DPSP program preparation stage.[30] For actual figures, reference

Philippines, below the provincial poverty threshold, and of those households with children aged 0-14 with attendance (daycare or preschool for children aged 3-5, elementary or high school for children aged 6-14) in 85% of classes per month, or pregnant women with childbirth overseen by trained health professional in health centers. The number of beneficiaries has been drastically increasing since the official start of the program in 2008 – it goes back to November 2006 when the DSWD initiated the program together with the World Bank, and pilot program to 4,459 households was implemented in March 2007. Compliance with conditions is very high – according to the DSWD, primary and secondary school attendance recorded as high as about 97%, and compliance with periodic check-ups for children and pregnant women recorded about 96%.

30 As regards impact and outcome indicators, the analysis focused on the operation and effect indicators, which JICA has individually agreed upon with the Philippines government at the time of appraisal.

was made for information and data from the Philippines government, the World Bank and IMF, and ex-ante evaluation document on DPSP II and III.

As regards (1) maintaining macroeconomic and fiscal stability, achievements cannot be measured yet since the target year is 2012. Since the implementation of DPSP, figures in both 2010 and 2011 have shown improvements and thus progress towards achieving targets can be expected.

As regards (2) strengthening the investment climate and infrastructure development, both targets at completion of program have been achieved. DPSP is deemed to have contributed to achieve improvements in investment environment and infrastructure development.

As regards (3) increasing social inclusion, budget allocated to social development has achieved its target. DPSP is deemed to have contributed to the government to secure budget funds for social development.

Table 20: Operation and Effect Indicators

(1) Maintaining Macroeconomic and Fiscal Stability

Indicator	Baseline (actual value in 2008)	Target (2009) [at completion of program]	Actual (2009)	Actual (2010)	Actual (2011)
Ratio of fiscal balance to GDP	▲0.9%	▲1.0% in 2012 (Note1)	▲3.7%	▲3.5%	▲2.0%
Ratio of government debt to GDP	56%	50% by 2012 (Note1)	54.8%	52.4%	50.9%

Note1): 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 the time, the target year was changed to during the third phase.

(2) Strengthening the Investment Climate and Infrastructure Development

Indicator	Baseline (actual value in 2008)	Target (2009) [at completion of program]	Actual (2009)	Actual (2010)
Number of days needed to start up a new business	52 days	Fewer number of days needed to start up a new business	41 days	41 days
Ratio of public investment to GDP	3.0%	3.2- 4.2% of GDP	3.6%	3.4%

(3) Increasing Social Inclusion

Indicator	Baseline (actual value in 2008)	Target (2009) [at completion of program]	Actual (2009) (*)	Actual (2010) (*)
Percentage of total budget allotted to promoting social inclusion	31%	Between 30-32%	30.7%	31.1%

(*) Prepared based on DBM budget document

3.2.6 Effectiveness of DPSP as a Reform Support Tool

Analysis is made to see whether following three effects have been created and enhanced through continuous policy dialogue, coordination among the development partners and formulation of grouped institutional frameworks in the course of DPSP process.

(1) Pushing effect: A “push up” effect impacting on the government’s reform initiative itself, through supporting champions within the government.

(2) Symbolizing effect: A “symbolizing” effect to demonstrate the strong commitment of the government towards reform, both in and outside the country.

(3) Coordination effect: A “coordination” effect to formulate an institutional framework for reform implementation and to facilitate and strengthen coordination within the government.

Following issues can be considered as specific examples for (1) pushing effect: progress being made towards resolving the VAT refund issues which Japan has been attaching importance to for some time (investment climate); basic consensus reached on the institutional arrangements for developing a roadmap on GFMIS (public financial management); and introduction and scale-up of the CCT (social inclusion). In the absence of DPSP, the speed of achievement of these reforms could have been slower as compared to those of the present situation.

As specifically mentioned in “3.2 Effectiveness and Impact”, Japan’s encouragements from various channels such as (i) DPSP framework, (ii) Business Environment Committee established under the JPEPA, and (iii) the Japanese Chamber of Commerce and Industry of the Philippines are considered to have contributed to speed up the reform to resolve the VAT refund issues. As regards development of GFMIS which the ADB has been placing high importance to, DPSP has been contributing to push up the Philippines government’s own reform to strengthen transparency in budget execution. As regards the CCT, DPSP has raised awareness and necessity of the reform to the high level officials in the government as a flagship program, and government’s commitment to the program has bolstered.

As regards (1) symbolizing effect, it is not clear as to whether DPSP was able to support the government's reform commitment both internally and externally, and to fully function as a reform support tool to strengthen credit enhancement of the government. As a result of the government's aggressive fiscal reform efforts to respond to the financial aggravation after the Asian currency crisis in 1997（rapid aggravation of budget deficit took place due to decrease of tax revenues, increase of the interest payments, etc.）, budget deficit has improved (the ratio of budget deficit to GDP improved to 0.2% in 2007 from 3.8% in 2004), and the GDP growth rate recorded high as 7.6%, which became the first time in 31 years. However, it was pointed out that as economic fundamentals recovered, sense of urgency towards promoting further reform have reduced, and the government's commitment and ownership towards reform have weakened.[31] The policy trigger mentioned previously – increase tax revenue-to-GDP ratio to 15% by 2010 – failed to achieve around that time.

As regards (3) coordination effect, it is ungraspable in a concrete manner to what extent DPSP has additionally contributed to the facilitate coordination within the government and between the government and donors. As mentioned above, the existing interagency coordination mechanisms such as the DBCC and the Cabinet Cluster have been utilized for implementation of DPSP. Therefore, DPSP is recognized among high level officials and officials in the central economic agencies. In this respect, DPSP is deemed to have made contribution to the government's decision making to a certain extent. On the other hand, many of the executive officials of political appointees (usually up to the director general, vice-minister, and assistant secretary level) are replaced when change of government takes place in the Philippines. Moreover, the Medium Term Philippine Development Plans are revised and priority reform issues change when new administration is established. In other words, the Philippines has a political system where policy coherence is difficult to secure. With that background, it is unknown to what extent the government would be able to utilize the mechanisms that have been strengthened through DPSP to promote further reform after the change of government from the former Arroyo administration to the current Aquino administration (June, 2010-). In fact, the recognition of DPSP is limited at the working level in the government. On that point, the DOF explained that since DPSP is integrated with the government's own reform program, line ministries and agencies in charge of reform implementation have a tendency to take them as part of their overall reform agenda, without recognizing the existence of DPSP.

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[31] According to the indication by the World Bank's DPL related document.

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

The relevance of the program is high from the following perspectives: (1) formulation process of the policy matrix/actions, (2) advancement of reform implementation through DPSP framework, (3) relevance of providing DPSP funds the size of DPSP funds, (4) relevance of JICA's participation in DPSP framework. The policy actions in the four DPSP reform areas ("maintaining macroeconomic and fiscal stability", "enhancing governance and anti-corruption strategies in public financial management", "strengthening the investment climate and infrastructure development", and "increasing social inclusion") have been fulfilled, and steady progress of reform can be observed. However, there are actions in which tangible effects on the ground have not yet clearly appeared as of the time of ex-post evaluation and therefore, continued reform efforts are expected. That said, if it were not for DPSP, reform progress could have been slower than the current situation in some areas, and thus, DPSP is deemed to have made contribution as a policy reform support tool. On the other hand, due to the external factor – i.e. change of political administration – it is unclear whether functions created and developed through DPSP implementation would retain in the future.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency (DOF)

It is desired that the executing agency further utilizes DPSP (or its successive program loan) in order to strengthen government's incentive to further promote implementation of policy actions. DPSP is an effective means to secure finance as well as an assistance tool to enhance reform enforcement, therefore, the very value added of DPSP is considered as its reform promotion effect. Because DPSP policy actions are integrated with the government's own reform program, the meaning and effects of DPSP fund are created on a different dimension from implementation and facilitation of reform. Many government officials have been grappling with reform efforts without recognizing the existence of DPSP. However, the executing agency should utilize DPSP as leverage to further educe the value added of DPSP and to facilitate reform process. Since the successive program loan expected after DPSP is to focus on investment environment and infrastructure development, it is critical to strengthen initiatives of the line ministries and agencies to implement reform on the ground as well as to facilitate their participation at the policy level. (In other words, there is no direct linkage between DPSP funds and policy actions – DPSP funds have a meaning to fill the financial gap (contributing to finance recurrent expenditures through financing chronic budget deficit)). To this end, it is important for the executing agency to deliberately create incentives for line ministries and agencies to consciously participate in DPSP. Strengthening linkage between policy and funding in the successive program loan would be one idea – while maintaining general budget support modality, creating a mechanism to allocate resources to ministries and agencies in charge of program loan's reform areas could be considered. To say further, it could be considered as one option to allocate more budget to certain ministries and departments with strong commitment to facilitate reform and achieving concrete results.

4.2.2 Recommendations to JICA

JICA will be further expected to send out and share information with the private sector (especially local Japanese companies) about its DPSP initiatives. Although steady progress toward enhancing business environment is seen through the implementation of policy actions, expected tangible effects on the ground have not yet appeared. It is also important, from the viewpoint of DPSP sustainability and strengthening effectiveness of the expected successive program loan which focuses on investment environment and infrastructure development, that JICA sends out such information to show that it is making continuous efforts through policy dialogue with the Philippines government and that it is attempting to expand opportunities for collaboration with the private sector and the perspective of PPP.

4.3 Lessons Learned

For a country like the Philippines where key members of the government bodies change by change of political administration, and the focus and priority of reform issues are altered by revision of development plans, it is necessary to keep in mind that there is a risk that policy and institutional coherence to be hampered during the program loan support period – period of time assisting the reform process through DPSP extends over a medium term on a continuous basis. Attention should be paid that not only changes in focus of policy and institution reform but also shift in personnel of high level officials would have an impact on the "coordination effect" and other effects that exert effectiveness of DPSP as a reform support tool. Backed by a favorable public support, the current Aquino administration has been strongly emphasizing the eradication of corruption, and has been criticizing the former administration. Many of the achievements under "enhancing governance and anti-corruption strategies in public financial management" were seen after the current administration came into power. In other words, change of government to the Aquino administration is considered to have served as a spur to reform facilitation. Therefore, when government change is expected, JICA is advised to nurture shared awareness with the Philippine sides on the policy orientation and priority reform areas of the new administration through conducting dialogue in advance with the 'key person' in the Philippines side.

[END]