Republic of the Philippines

FY2017 Ex-Post Evaluation of Japanese ODA Loan

"Development Policy Support Program – Investment Climate"

External Evaluator: Naomi Nakai, OPMAC Corporation

0. Summary

The objective of this program (hereinafter referred to as "the Program") was to improve the business investment environment and promote investment, especially Foreign Direct Investment (FDI) in the Philippines, by assisting various policy reforms related to the improvement of industrial competitiveness, the creation of an environment for Public-Private Partnerships (PPP) in infrastructure, and the facilitation of employment through budget support with the Asian Development Bank (ADB), thereby contributing to economic growth. The objective was consistent with the development policy and the development needs of the Philippines and with Japan's ODA policy. Some problems, however, were observed in terms of the appropriateness of program planning. Therefore, the relevance of the Program is fair. All the policy actions were achieved and the Japanese private sector, one of the beneficiaries of the Program, realized the effects of the Program to some extent. As far as impact of the Program is concerned, it is considered that a certain degree of contribution was made to the promotion and expansion of public investment by PPP, the attraction of foreign-affiliated companies, and growth of the manufacturing industry among various economic growth factors in the Philippines. The Program has largely achieved its objectives. Therefore, the effectiveness and impacts of the Program are high. Many of the program effects are maintained thanks to the succession of policies from the previous administration into the current administration and to ongoing monitoring by ADB. However, the maintenance of these program effects is not necessarily due to the monitoring system planned by JICA. Some problems have been observed in terms of the institutional aspect of monitoring. Therefore the sustainability of the Program effects is fair.

In light of the above, the Program is evaluated to be satisfactory.

1. Project Description

Project Location

Gantry Crane in Batangas Port

1.1 Background

The macroeconomic situation in the Philippines recovered dramatically from the negative impact of the global financial crisis, and the Philippines had achieved a Gross Domestic Product (GDP) growth rate of 7.6% in 2010. In 2011, although private demand remained steady, exports decelerated due to deterioration factors in the external environment such as the European debt crisis and US recession, in addition to a decline in the fiscal expenditure of the Philippine government in the first half year. The GDP growth rate was 3.7%, lower than the government's target of 4.5%. However, in 2012, consumption and investment led the growth rate of GDP to 6.7%. In contrast to many Association of South-East Asian Nations (ASEAN) countries which had put sustainable economic growth on track by attracting FDI in export-oriented industry sectors since 1980s, the Philippines was one of the countries recorded the lowest economic growth trend. The average annual growth rate of per capita GDP in the period from 1960 to 2008 was the lowest among the four leading ASEAN countries due to the fact that the growth of FDI in the Philippines had remained sluggish.[1]

Although the budget deficit as a percentage of GDP was 2.0% in 2011, which was 1.5% less than the year 2010, an upper limit target value for 2.6% of GDP, PHP[2] 286 billion, was indicated in President Aquino’s Budget Message in 2012. For these reasons, the Philippine government had a persistent budget deficit.

[1] Indonesia, Malaysia and Thailand averaged about 4.0%, while the Philippines was about 1.5%.
[2] PHP= Philippine Peso. Currency unit for the Philippines.

1.2 Project Outline

The objective of the Program was to improve the business investment environment and promote investment, especially FDI, in the Philippines by assisting various policy reforms related to the improvement of industrial competitiveness, the creation of an environment for PPP in infrastructure, and the facilitation of employment through budget support, thereby contributing to economic growth.

Loan Approved Amount/ Disbursed Amount	7,775 million yen / 7,775 million yen
Exchange of Notes Date/ Loan Agreement Signing Date	October 2012 / October 2012
Terms and Conditions	Interest Rate: 1.40% Repayment Period (Grace Period): 30 years (10 years) Conditions for Procurement: General Untied
Borrower / Executing Agency(ies)	The Government of the Republic of the Philippines / Department of Finance
Project Completion	December 2012
Main Contractor(s) (Over 1 billion yen)	N/A
Main Consultant(s) (Over 100 million yen)	N/A
Related Studies (Feasibility Studies, etc.)	"Preparatory Study for LRT Line 2 Extension Project" (January 2011 – October 2011) "Preparatory Survey for Expressway Projects in Mega Manila Region" (February 2011 – December 2011)
Related Projects	[Technical Cooperation] • "Project on Capability Building for a Comprehensive National Competition Policy" (March 2010 – March 2013) • "Project for the Study on Motor Vehicles Regulations and Certification" (July 2011 – July 2013) • "Utilization of Promotion Experts on the Subic Bay Port Development Project" (August 2011- February 2012) • "The Project for Capacity Development for Transportation Planning and Database Management in the Republic of the Philippines" (August 2011 – August 2014) • "The Development Study on Energy Efficiency and Conservation in the Republic of the Philippines" (January 2011 – March 2012) [ODA Loan] • "Development Policy Support Program (DPSP) Phase II and Phase III" (March 2009, March 2010) [Other donor: Co-financing Program] • ADB "Increasing Competitiveness for Inclusive Growth" (Loan Agreement Signing Date: July 2012)

2. Outline of the Evaluation Study

2.1 External Evaluator

Naomi Nakai, OPMAC Corporation

2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: October 2017 – January 2019

Duration of the Field Study: January 10, 2018 – February 15, 2018, April 11, 2018

2.3 Constraints during the Evaluation Study

Since the Program was a budget support type program, it was difficult to make a quantitative comparison of inputs (the financing of loans to the general budget of the Philippine government) and outputs (policy reform) so the efficiency of the Program was not evaluated. Regarding sustainability, it was difficult to identify the technology and finances required for the operation and maintenance of the reformed policies, so only the monitoring system (operation and maintenance system) and the progress of the current reforms were analyzed, without sub-ratings. Since sub-ratings for efficiency and sustainability were not applied, the evaluator has not given an overall rating.

At the appraisal of the Program, two phases were assumed and the Program targets were set accordingly. Phase I and Phase II, were independent programs and it was necessary to conclude separate loan agreements. Since the Philippine government did not request JICA assistance for the second phase program, however, they no longer had an obligation to achieve the targets or policy actions for Phase II nor the subsequent mid-term targets set at the appraisal of Phase I. In this ex-post evaluation, therefore, the evaluator analyzed the effectiveness using only the degree of achievement of Phase I.

3. Results of the Evaluation

3.1 Relevance (Rating: ②[3])

3.1.1 Consistency with the Development Plan of the Philippines

The mid-term development plan of the Philippines at the time of appraisal was the "*Philippine Development Plan (PDP) 2011-2016*" in which the vision for development was "inclusive growth". In order to realize this vision, PDP presented five basic strategies: (i) strengthening competitiveness for employment creation, (ii) accelerating infrastructure development, (iii) enhancing accessibility to finance, (iv) enhancing transparency in the government and (v) improving social services and security. At the time of the appraisal, it was confirmed that the

[3] ③: High, ②: Fair, ①: Low

objective of the Program, to improve the business investment environment and promote investment, especially FDI, in the Philippines by assisting various policy reforms related to the improvement of industrial competitiveness, the creation of an environment for PPP in infrastructure, and the facilitation of employment, was in alignment with the basic strategies shown in "*PDP 2011-2016*". At the time of ex-post evaluation, the new administration had announced "*PDP 2017-2022*". This plan had three pillars: (i) enhancing the social fabric, (ii) reducing inequality, and (iii) increasing growth potential, and fifteen strategies, including strategic infrastructure development, in addition to strategies to support each pillar, such as the expansion of economic opportunities. There has been no fundamental change in the policy direction of "*PDP 2011-2016*" and "*PDP 2017-2022*".

In light of the above, it can be considered that the Program objective reflected Philippine development policy consistently from the time of the appraisal to the ex-post evaluation.

3.1.2 Consistency with the Development Needs of the Philippines

3.1.2.1 Financial Situation of the Philippine Government

At the time of the appraisal in 2012, government expenditure was PHP 1,854,500 million, compared to government revenue of PHP 1,568,500 million, leaving a fiscal deficit of PHP 286,000 million. USD[4] 1,020.7 million (about PHP 42,000 million) out of this fiscal deficit was supported by the Japanese government (USD 100 million), ADB (USD 745 million), and the World Bank and other donors (USD 175.7 million). This covered funds that could not be covered by domestic funding (PHP 529,493 million) and project type support by donors. Based on the above, it can be seen that the Program was contributing to financing the needs of the Philippine government at the time of the appraisal (Table 1).

Table 1: Financial Situation of the Philippine Government at Appraisal and Ex-Post Evaluation

Unit: million PHP

	2012 (Appraisal)	2016 (Ex-Post Evaluation)
Revenue	1,568,500	2,195,914
Of which, tax	1,445,498	1,980,390
Expenditure	1,854,500	2,549,336
Budget Deficit	-286,000	-353,4225
Financial Demand (External Gross)	174,767	149,523
Total Amount of Budget Support	Approximately 42,000 (USD 1,020.7 million)	Approximately 37,000 (USD 745.09 million)

Source: Department of Finance (DOF) International Finance Group (IFG)
Note: The exchange rate from US dollar (USD) to peso (PHP) applies the exchange rate on December 27, 2012 and December 16, 2016, respectively.

[4] USD = United States' dollar. Currency unit for the United States of America.

During the previous administration (2011-2016), the annual average growth rates of revenue (tax revenue) following the commencement of the Program were 11.9% (2011-2016) and 8.8% (2012-2016), respectively, which show that tax revenue grew more than economic growth (6.6%: 2012-2016). Especially under the former administration, the fiscal balance improved from 2013 to 2015 as it focused on fiscal discipline and restrained expenditure (Table 2).

Table 2: Changes in Fiscal Balance

	2011	2012	2013	2014	2015	2016	2017
Fiscal Balance (billion PHP)	-30.85	-32.08	22.58	109.14	81.63	-53.75	-47.44
GDP ratio (%)	-0.32	-0.30	0.20	0.86	0.61	-0.37	-0.30

Source: International Monetary Fund (IMF) World Economic Outlook Database (April 2018)

On the other hand, under the current administration since 2016, the deficit in the fiscal balance has been expanding as the government aims for more aggressive economic management, such as expanding public investment (Table 2). However, the primary balance[5] is still steady, so finance is considered stable (Table 3).

Table 3: Change in Primary Balance

	2011	2012	2013	2014	2015	2016	2017
Primary Balance (billion PHP)	220.04	245.59	308.03	393.54	355.37	211.95	220.83
GDP ratio (%)	2.27	2.33	2.67	3.12	2.67	1.46	1.40

Source: International Monetary Fund (IMF) World Economic Outlook Database (April 2018)

3.1.2.2 Situation of and Challenges in the Sector

The challenge at the time of the appraisal was that the average annual growth rate of per capita GDP was the lowest among the other major ASEAN countries due to the fact that the growth of FDI in the Philippines had remained sluggish.

In the Doing Business Survey[6] conducted by the World Bank Group, overall rank of the Philippines was 136th out of 183 countries and regions in 2011. This was the lowest of the ASEAN excepting Lao PRD and Cambodia.[7] At the time of appraisal, in 2016, this ranking had improved to 99th out of 190 countries and regions. It was 113th in 2017 which improved more than at appraisal, but this was still the lowest among ASEAN countries after Myanmar, Laos and Cambodia (Table 4 and Table 5).

[5] Difference between total current revenue such as taxes net of borrowings and current government spending on goods and services net of principal and interest payments on past borrowings.
[6] The World Bank Group has published the reports annually since 2003.The ease of doing business in each country/ region is measured and ranked based on ten indicators such as dealing with construction permits, paying taxes, resolving insolvency etc. throughout the whole cycle of the business. (Items are somewhat different depending on the year)
[7] In the 2012 edition, Myanmar was not ranked.

Table 4: Ranking of the Philippines in the Doing Business Survey

Calendar Year	2011	2012	2013	2014	2015	2016	2017
Rank	136	138	108	95	103	99	113
Modified Rank	136	133	86	97	99	-	-

Source: WB Group, Doing Business, each year edition
Note: Up to the 2017 edition (posting 2016 data), the modified ranking of the previous year was posted. However, in the 2018 edition, the modified ranking of the previous year (data on year 2016) was not shown.

Table 5: Ranking of ASEAN Countries in the Doing Business Survey

2011		2016	
Ranking	**Country**	**Ranking**	**Country**
1	Singapore	2	Singapore
17	Thailand	23	Malaysia
18	Malaysia	46	Thailand
83	Brunei	72	Brunei
98	Vietnam	82	Vietnam
129	Indonesia	91	Indonesia
136	**Philippines**	**99**	**Philippines**
138	Cambodia	131	Cambodia
165	Laos	139	Laos
N/A	Myanmar	170	Myanmar

Source: WB Group, Doing Business, 2012 edition and 2017 edition

The current indicators in the Doing Business Survey differ from the items in 2011, so it is difficult to compare them simply. When a comparison is made, however, items which are seen to have improved are "registering property" (117th in 2011 to 114th in 2017) and "paying taxes" (136th in 2011 to 105th in 2017). The fact that the Philippines is ranked highly in newly added items, such as getting electricity (31st) and resolving insolvency (59th), is considered to be behind the improvement of its ranking in Doing Business[8] (Table 6).

Table 6: Ranking of the Philippines in Each Indicator of Doing Business (2011 and 2017)

Items	Ranking (2017)	Ranking (2011)
Starting a business	173	158
Dealing with construction permits	101	102
Getting electricity	31	-
Registering property	114	117
Getting credit	142	126
Protecting (minority) investors	146	133
Paying taxes	105	136
Trading across borders	99	51
Enforcing contracts	149	112
Resolving insolvency	59	-

Source: WB Group, Doing Business, 2012 edition and 2018 edition

[8] Since the items of Doing Business Survey do not correspond to the reform items of this project, this ranking does not necessarily indicate the effects of the project but only shows the ease of doing business generally.

On the other hand, according to statistics of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas) on FDI, which was considered as a challenge at the time of the appraisal (Table 7), net FDI inflows have greatly increased since 2014, and improved to USD 7.98 billion in 2016 and USD 8.73 billion in 2017. The central bank statistical data available at the time of the ex-post evaluation shows that the growth rate of the net FDI inflow from 2013 to 2017 was 133.5%.

Table 7: Net FDI Inflow

Unit: million USD

2013	2014	2015	2016	2017
3,737	5,740	5,639	7,980	8,726

Source: Bangko Sentral ng Pilipinas
Note: The figure for 2017 is an estimated value.

Comparing the FDI inflow in 2016 in major ASEAN countries, the Philippines was behind Vietnam and Malaysia, but accounted for 7.9% of the total FDI inflow in Southeast Asia, or 20 % of the total FDI inflow excluding Singapore (USD 39,502 million), which accounted for more than 60% (Table 8).

Table 8: FDI Inflow in major ASEAN countries in 2016

Unit: million USD

Country	FDI inflow
Philippines	7,980
Indonesia	2,658
Thailand	1,554
Vietnam	12,600
Malaysia	9,926
Singapore	61,597
Cambodia	1,916
Myanmar	2,190
South Asia	101,099

Source: UNCTAD (United Nations Conference on Trade and Development)

According to Japan External Trade Organization (JETRO), Japanese companies consider where they invest in the context of so-called “China plus one” and many have forayed into Vietnam which borders on China. However, as Vietnam's labor costs have risen in recent years, companies that are considering the Philippines as another candidate site for investment have been increasing. Especially in 2011 and 2012, major Japanese companies penetrated the Philippine market one after another. In fact, one Japanese company explained that preferential measures by the Philippine Economic Zone Authority (PEZA) encouraged it to foray into the Philippines together with the fact that the Philippines has a population of over 100 million people[9] including many young people, meaning no problem for the time being in terms of supply of labor force.

As for the trends of Japanese companies in recent years, sectors such as real estate and finance have begun to expand to the Philippines as the market has a high potential due to the large population and expanding domestic demand. However, the number of Japanese-affiliated companies entering decreased from 2015 to 2016. It seems that companies were biding their time due to the replacement of the President of the Philippines in 2016 and the erupting military battles in Marawi, Mindanao in 2017. On the other hand, investment from South Korea and Australia, in addition to the Netherlands, which has regularly invested in the Philippines, is increasing (Table 9). In particular, investment in manufacturing industry has expanded in recent years.

Table 9: Top Three Countries with FDI Investment in the Philippines

	2011	2012	2013	2014	2015	2016
1	USA	Netherlands	Virgin Islands	Japan	Netherlands	Netherlands
2	Japan	Japan	USA	Netherlands	Japan	Australia
3	Netherlands	USA	Japan	Cayman Islands	South Korea	USA

Source: Philippine Statistics Authority (PSA)

With the above in mind, the Program aimed at improving the investment environment and focusing on promoting FDI by supporting various policy reforms related to the improvement of industrial competitiveness, infrastructure development, and employment facilities in response to the challenge that FDI growth remained sluggish. It can therefore be said that the objective was to respond to the challenges or that it was consistent with development needs.

3.1.3 Consistency with Japan's ODA Policy

The Country Assistance Strategy for the Philippines in April 2012 indicated policies to support infrastructure development in the priority area, "sustainable economic growth through investment promotion". These included a transportation/ transport network with a central focus on Mega Manila[10], the energy and water environment, the development of administrative capacity, maritime security and the development of industrial human resources in order to improve the investment environment for the promotion of the domestic and foreign investment needed for the achievement of sustainable economic growth. Moreover, in the JICA Country Analytical Work prepared in FY 2011, "sustainable economic growth through investment promotion" by infrastructure development centered on the Mega Manila area and improvement of the investment environment were regarded as priorities.

[9] Among the ASEAN countries, only Indonesia and the Philippines have a population exceeding 100 million people.
[10] The metropolitan area that is centered around Metro Manila, Central Luzon, Calabarzon.

At the time of the appraisal, the Program objective was consistent with the policies and priorities described in the Country Assistance Strategy and the JICA Country Analytical Work.

3.1.4 Appropriateness of the Project Plan and Approach

3.1.4.1 Appropriateness of the Policy Matrix and its Logical Path

In implementing budget support, a policy matrix is usually formulated and shared among stakeholders. In the policy matrix, policy reforms (actions), reform items to be financed upon achievement (triggers), and indicators for confirming the degree of achievement are set and described, and the matrix is used for progress management (monitoring) of reform.

In the policy matrix for the Program, three pillars, (i) improving competitiveness, (ii) creating an enabling environment for PPP in infrastructure and (iii) employment facilitation, were set for improvement of the business and investment environment. Under these pillars, 28 actions were set, which were necessary to improve the policies and systems.

Traditionally, in the Philippines, JICA had funded budget support programs by "participating" in the policy matrix formulated by international organizations such as the World Bank and ADB. In the Program, however, JICA worked on setting unique actions by Japan through JICA technical cooperation projects with reference to two of the above three pillars: "improving competitiveness" and "creating an enabling environment for PPP in infrastructure". This was in response to concerns and requests for improvement of the business and investment environment, and the positive involvement of JICA in the policy matrix formulation process can be appreciated.

As there was the necessity to incorporate into the policy matrix a diversity of issues that the related parties were concerned about, together with requests for improvement as well as actions to be supported through related technical cooperation projects, even in one of the pillars, "improving competitiveness", twelve actions were set in various fields. These included the introduction of regulatory impact assessment (RIA), the improvement of the value added tax (VAT) refund system, the implementation of strategic FDI promotion, the drafting of comprehensive competitive laws, the computerization of customs procedures, the establishment of vehicle standards and regulations and the harmonization of business licensing across local government units (LGU). This made it difficult to understand the logical path of the policy matrix. In addition, it has made monitoring difficult as the relevant agencies conducting actions were also diverse.[11]

The policy matrix was shared with ADB as the Program was co-financed with ADB. However, some of the actions that were supposed to be common had slightly different contents, and some

[11] For example, ADB sharing the same policy matrix limited the number of related organizations, conducted pilot projects within their scope, and monitored the project efficiently.

trigger settings were different. Furthermore, cases were found in which targets and indicators were different.

3.1.4.2 Appropriateness of the Process of Preparation for the Policy Matrix

As mentioned above, JICA was actively involved in the formulation of the policy matrix of the Program, including response to concerns and requests for improvement raised by stakeholders and actions through related technical cooperation projects in the policy matrix. On the other hand, the policy challenges were analyzed mainly by ADB together with related Philippine government agencies. This meant that many Philippine agencies did not fully recognized JICA's contribution to analyzing the policy challenges in the process. In some cases, JICA's intention in the Program purposes and policy actions were not recognized by organizations in the Philippines.

3.1.4.3 Appropriateness of the Monitoring Plan

At the time of the appraisal, three types of monitoring system were planned; (i) “Monitoring Meetings” or “Steering Committee” implementing together with ADB, (ii) monitoring by a “Private Sector Forum” to be newly established by the private sector bearing in mind the purpose of improving the investment environment and the importance of private involvement, and (iii) monitoring, regarding the actions that Japanese companies are highly interested in, through the “Business Environment Sub-committee of the Japan-Philippines Economic Partnership Agreement (JPEPA)”. The idea of strong collaboration with the Private Sector Forum and the JPEPA Business Environment Sub-committee was a very good one considering the purpose of the Program to support policy reform relating to improvement of the business environment. However, since requests for monitoring were not made explicitly to the Private Sector Forum and the JPEPA Business Environment Sub-committee, monitoring of the Program did not take place, despite involvement in accordance with the interest of each party.

3.1.4.4 Appropriateness of Approach

Generally speaking, the following effects can be expected through co-financing with international organizations such as ADB:

(i) Since several organizations are involved in the assistance framework, even in a wide range of policy reforms, each donor can focus on the assistance that they have traditionally carried out and where they have strengths. Meanwhile, the beneficiaries have more advantages in that they can receive various kinds of technical assistance.

(ii) There can be a greater expectation of the leverage effect of co-financing on policy reforms than in the case of stand-alone financing due to united efforts to monitor the shared policy matrix.

(iii) Through collaboration with “international organizations”, it becomes easier to include delicate policy issues such as competition policy[12] in the policy matrix.

Regarding the first point, it was largely advantageous to the Program in that a wider field of policy reforms could be covered than in the case of a stand-alone operation of the Program, such as the incorporation of reforms of competition policy into the policy matrix through JICA’s participation. However, as stated above, the scope of policy reforms of which JICA was in charge was not narrowed down, and it is undeniable that the wide range of scope influenced monitoring. As for the second point, as mentioned above, the policy matrix shared between JICA and ADB was slightly different, so it was not possible to monitor policy reforms consistently. Moreover, as the policy matrix changed only on ADB side from time to time prior to the implementation of Phase II, there was almost no leverage effect. In terms of (iii), it can be said that the approach of co-financing with international organizations worked well in including and working on delicate policy issues in the policy matrix. However, because of difficulties in handling, there is the need to maintain ambiguity regarding which institution is responsible for follow-up unless international agencies take responsibility in following policy matrix. This somewhat affected progress after the implementation of Phase I.

In addition, though it was not originally assumed, while JICA was unable to implement the Phase II program as there was no request from the Philippine government, the sustainability of the policy reforms could be secured to a certain extent through continuous monitoring by ADB, the co-financer of Phase I.

Although the approach of co-financing with international organizations is considered to have been appropriate, the policy matrix and its logical paths, the process of formulating the policy matrix and the monitoring plan were inadequate. Some problems have therefore been observed in the appropriateness of the project planning.

Based on the above, it can be seen that the Program has been highly relevant to the development plan and development needs of the Philippines, as well as to Japan’s ODA policy, but some problems were observed in the appropriateness of the project planning. Therefore its relevance is fair.

[12] In the case of bilateral aid, policies such as markets open to foreign companies can be taken as interference in domestic affairs, so it is hard to treat them as reform items..

3.2 Effectiveness and Impacts[13] (Rating: ③)

3.2.1 Effectiveness

As stated in "2.3 Constraints during the Evaluation Study", in this evaluation, the evaluation of effectiveness was carried out by confirming the policy action achievement status up to the decision on the financing of the first phase program[14]. Regarding impact, the Evaluator analyzed the economic growth of the Philippines, which was the overall goal of the Program.

3.2.1.1 The Achievement Status of Policy Actions

JICA verified that all the policy actions for Phase I had been achieved at the time of the appraisal (Table 10). The verification process was carried out appropriately with dialogue with the government together with a review of evidence. The background setting each actions, achievement status and progress after the completion of the Program were analyzed as follows:

Table 10: The Achievement Status of Policy Actions

	Major Achieved Actions
(i) Policies to Improve Competitiveness	[Promoting Competition Policy and Regulatory Efficiency] ✓ The Government (NEDA, DTI, DOT and DOLE) signed Memoranda of Agreement (MoA) to pilot RIA programs. ✓ The Government initiated reforms to the VAT refund system by shifting from the current TCC system to a cash refund system. (Development Budget Coordination Committee issued this decision.) ✓ The Government allocated budget for VAT cash refunds (PHP 8.3 billion) in the 2012 budget. ✓ The Government (DTI and BOI) continued the PIPP Steering Committee / Technical Working Group. [Measures to Lower Transaction Costs of Doing Business] ✓ An Executive Order (EO) for promoting competitive policy was issued. (DOJ was assigned as the focal point and responsible for establishing a competition office.) ✓ BOC initiated the drafting of necessary domestic laws and related rules to implement the Revised Kyoto Convention on the simplification and harmonization of customs procedures. ✓ DOTr completed a study on ways to harmonize vehicle standards and regulations with ASEAN partners. ✓ DTI continued to advocate the harmonization of business licensing across LGU through the Business Processing and Licensing Simplification Project.

[13] Sub-rating for Effectiveness is to be put with consideration of Impacts.

[14] Due to the nature of development policy type budget support programs, financial assistance is provided to the recipient government after an assessment of the progress of policy dialogues/reforms at the time of appraisal or ex-ante evaluation. Therefore, at the time of ex-ante evaluation, the perspective is backwards-looking. Especially in the case of a program which has only one phase, there is often a re-evaluation of the achievement of the targets confirmed at the time of appraisal, which is different to an ordinary project evaluation. For more information, please refer to JICA Annual Evaluation Report 2015 "An Examination of Evaluation Methods for Development Policy Operations: For Enhancing Evaluability" https://www.jica.go.jp/english/our_work/evaluation/reports/2015/c8h0vm0000a33ehq-att/part2_2015.pdf

	Major Achieved Actions
(ii) Creating an Enabling Environment for PPP in Infrastructure	[Infrastructure Development as Investment Environment] ✓ Public-Private Meetings on the utilization of Subic Port and Batangas Port were held to discuss economic development through the SCMB Corridor. [Infrastructure Development as Investment Opportunity] ✓ The Government made allocation in the 2011 General Appropriations Act and proposed in the 2012 national government budget, a total funding of 34 billion to the Strategic Support Fund and PMDF to finance the preparation of PPP projects and public capital expenditure. ✓ The Government drafted and circulated amendments to the implementing rules and regulations (IRRs) of the BOT Law. ✓ A Presidential EO was drafted to streamline the functions of the PPP Center and to strengthen the operations of the PDMF. ✓ ERC initiated consideration of feed-in-tariff (FIT) for renewable energy projects.
(iii) Employment Facilitation	✓ The Government Started to develop curricula for technical vocational training for the newly established grades 11 and 12. ✓ The Government piloted PESOs at LGU level.

Source: documents provided by JICA
Note: For abbreviations of organization names, please see the text in this report.

(1) Policies to Improve Competitiveness

In "Policies to Improve Competitiveness" which was one of three pillars of the Program, policy actions were set from the viewpoints of (i) Promoting Competition Policy and Regulatory Efficiency and (ii) Measures to Lower the Transaction Costs of Doing Business.

(i) Promoting Competition Policy and Regulatory Efficiency

At the time of the appraisal, there was the problem that sufficient consistency had not been secured among the related laws, procedures, and organizations, which made it difficult to implement projects, such as highway projects, by PPP. In order to improve the problems caused by lack of consistency in the system, the Philippine government introduced the RIA and considered a verification method for consistent regulation based on social benefits and costs analysis, and impact on the investment environment. At that time, the National Economic and Development Authority (NEDA) had already drafted Memoranda of Agreement (MoA) to pilot the RIA, and had concluded MoA with the Department of Trade and Industry (DTI), the Department of Tourism (DOT) and the Department of Labor and Employment (DOLE) with divisions in charge of RIA being set up in each department. However, DOT and DOLE were the only departments that were actually piloting RIA by the time of the ex-post evaluation.

VAT refund was a major problem at the time of appraisal and it took several years of the procedure of issuing and cashing Tax Credit Certificates (TCC) before VAT was actually refunded despite there being a system whereby VAT was refunded to foreign affiliated export oriented enterprises in the Philippines. The Executive Order (EO) on the cash refund system having been issued, at the time of the ex-post evaluation, in the full-scale tax reform, the Bureau of Internal Revenue (BIR) was obligated to refund in cash within 90 days from acceptance of a VAT refund application.

It was an issue, at the time of the appraisal, that strategic and effective FDI promotion was not being implemented as multiple investment promotion organizations, such as the Board of Investment (BOI) and PEZA, were conducting investment promotion activities without mutual cooperation. Based on the policy matrix, DTI/BOI and PEZA continuously hold Steering Committees and Technical Working Groups and share the policy direction in order for DTI and BOI to carry out investment promotion activities related to the priority sectors indicated in the Philippine Investment Priorities Plan (PIPP). PIPP have been announced once every three years at the initiative of BOI.

(ii) Measures to Lower the Transaction Costs of Doing Business

At the time of the appraisal, there were some problems with the execution of laws and regulations on competition policy as a whole, as there were duplications and contradictions in the regulations and different laws for each sector. There was no comprehensive legislation on competition/ antitrust, monopoly, and the collusion of private commercial transactions to secure fair trade, and the related laws and regulations were dispersed among various legal systems. Furthermore, domestic enterprises were in an oligopoly in many industries, as there were market entry restrictions for foreign companies. Therefore, an administrative agency that centrally controls competition law and competition policy was established within the Department of Justice (DOJ). At the time of the ex-post evaluation, DOJ had jurisdiction over administrative audits or reviews only, while the newly established Philippine Competition Committee (PCC) had jurisdiction over the enforcement of laws concerning the violation of competition law.

At the time of the appraisal, securing adequate tariff revenue through strengthening of the tax collection function was an urgent issue in the Philippines, reflecting the trend of lower tariff rates worldwide. In addition, the Bureau of Customs (BOC) was required to strengthen its crackdown on smuggling, while prompt custom clearance was also required from the viewpoint of trade facilitation. In response to this situation, BOC ratified the revised Kyoto Convention[15] and started preparing the domestic laws necessary for implementing the regulations, with the aim of further promoting modernization, transparency and the speeding up of customs procedures. At the time of the ex-post evaluation, BOC had implemented customs clearance data warehouses at all 18 ports in the Philippines and 30% of customs clearance procedures had been speeded up.

Regarding trade promotion, while the number of Asian countries among the trading partners of the Philippines was expanding, at the time of the appraisal, the Philippine government was

[15] This stipulates the international standards of customs procedures. The Kyoto Convention adopted in Kyoto in 1973 was revised. In the revised Kyoto Convention, modern customs procedures such as narrowing down the inspection target by utilizing information technology and risk analysis were actively adopted. The convention was adopted at the World Customs Organization General Assembly in June 1999 and effectuated in February 2006.

working on a roadmap toward the establishment of an ASEAN economic community. For example, a Committee for the Harmonization of Vehicle Standards and Regulations was established and concrete examination started. JICA implemented and supported the technical cooperation "Project for the Study on Motor Vehicles Regulations and Certification" from August 2011 to March 2012. However, the situation after the project could not be confirmed at the time of this ex-post evaluation.

At the time of the appraisal, due to different procedures for establishing a company by LGUs, there were complications which led to an increase in investment costs and this was pointed out as a factor impeding the investment environment. The harmonization of business licensing procedures at LGUs progressed at a pace that went beyond the target (procedures at 100 LGUs had been harmonized by 2016), and at the time of the ex-post evaluation, harmonization for new applicants has already been completed at 784 LGUs. Simplification of the business approval for renewals had already been introduced at 858 LGUs.

(2) Creating an Enabling Environment for PPP in Infrastructure

In "Creating an Enabling Environment for PPP in Infrastructure", policy actions were set from the viewpoints of (i) Infrastructure Development as Investment Environment and (ii) Infrastructure Development as Investment Opportunity.

(i) Infrastructure Development as Investment Environment

The Philippine government has developed a logistics corridor called the SCMB Corridor[16] through the development of the Subic Bay Port and Batangas Port, and has been working on relieving congestion and improving logistics in Metro Manila. At the time of the appraisal, however, neither of the ports were fully utilized (handling volume of container cargo at both ports in 2010: Subic Port 34,318 TEU[17], Batangas Port 6,194 TEU[18]), and this issue showed that the improvement of logistics in the SCMB corridor had not progressed sufficiently. At the time of the appraisal, it was confirmed that studies on the utilization of both ports, such as on the implementation of public-private councils and on the preparation of draft port utilization plans, were underway at the Department of Transport (DOTr) and PEZA initiative. At the time of the ex-post evaluation, the handling volume at Subic Port had increased to 124,707 TEU and

[16] Called the SCMB Corridor taking the initials of the four ports of Subic - Clark - Manila - Batangas.
[17] TEU = twenty-foot equivalent unit. A unit indicating the load capacity of a container ship. One TEU indicates one 20-foot container.
[18] According to the Ex-Post Evaluation Report on the "Subic Bay Port Development Project" (https://www2.jica.go.jp/en/evaluation/pdf/2014_PH-P215_4.pdf), the target handling volume of container cargo in 2014 was 738,000 TEU, while the ratio of handled volume in 2010 to the target volume was 4.6%. In the Ex-Post Evaluation Report of the "Batangas Port Development Project (Phase II)" (https://www2.jica.go.jp/en/evaluation/pdf/2011_PH-P187_4.pdf), the unit of the target indicator differs, but it was only 8.7 thousand tons, compared to a target of 6,220 thousand tons of handling volume in 2010. Only 0.14% of the target was achieved.

that at Batangas Port to 197,534 TEU (Table 11). Since Manila City strengthened regulations on track transportation in the city in 2014, companies that use Batangas Port to avoid Manila Port have been increasing.

Table 11: Handling Volume of Container Cargo at Subic Bay Port and Batangas Port

Unit: TEU

	2010 (Appraisal)	2016	2017
Subic Bay Port	34,318	123,510	124,707
Batangas Port	6,194	157,319	197,534

Source: DOTr

(ii) Infrastructure Development as Investment Opportunity

In order to promote infrastructure development under financial restrictions, various initiatives relating to PPP promotion were underway in the previous administration, such as the setting up of a policy to promote infrastructure development incorporating private funds by promoting PPP and the establishment of a PPP Center. However, progress remained limited at the time of the appraisal. For further promotion, it was necessary to revise the implementing rules and regulations (IRR) of the BOT (Build-Operate-Transfer)[19] Law and to revitalize the F/S fund (Project Development and Monitoring Fund: PDMF) under the jurisdiction of the PPP Center. At the time of the ex-post evaluation, it was confirmed that the IRR of the BOT Law had been effectuated on October 7, 2012 and that a cumulative total of 12 BOT-type PPP projects and 1 hybrid type (or vertical separation) PPP project[20] had been approved.

At the time of the appraisal, there was an increasing demand for electricity in the Philippines, and the medium term demand was expected to exceed the supply capacity at that time. Under these circumstances, the Department of Energy (DOE) formulated the Philippine Energy Plan 2008-2030 and was planning to increase power generation capacity with renewable energy. Responding to the Plan, the Energy Regulatory Commission (ERC) has been designing a Feed-in-Tariff (FIT) for a renewable energy system. At the time of the ex-post evaluation, it was confirmed that the FIT standard had been formulated and that pilot projects were being conducted using different types of renewable energy technology such as solar and wind. ERC is now reviewing prices.

(3) Employment Facilitation

In the Philippines, in 2011, the unemployment rate and the underemployment rate were at the high levels of 7.0% and 19.3% respectively. In "*PDP 2011-2016*" there was the promotion of efforts focusing on vulnerable unemployed people and workers on the supply side of

[19] BOT is a type of PPP, in which private enterprises construct public facilities, operate for a certain period and transfer to the administration after expiration.

[20] The hybrid type PPP (to be constructed as public works and operated by private sector) has become mainstream since the current administration. There was only one case before that. According to the PPP Center, even if the implementation of an ODA project has been decided, the PPP (private) part will be decided later, so there are some candidate projects besides one case approved by the former administration. However, an official answer could not be given.

employment, and on strengthening employment matching on the demand side. In addition, the former administration initiated educational reform to change the education system from 6 years of primary education and 4 years of secondary education to kindergarten plus 6 years of primary education, 4 years of secondary education, and 2 years of late secondary education, the so-called K+12 program. The Department of Education (DepED) began studying the curriculum of the late secondary education that would be extended for two years. At the time of the ex-post evaluation, the following had been confirmed: The new education system started from 2016. The developed vocational training curriculum was piloted at 19 schools in the Calabarson region. The number of high schools offering the vocational training curriculum had increased to 381 as of February 2018. However, it was not possible to clearly confirm the existence of a committee to develop a curriculum for the K+12 program including technical vocational training for grades 11 and 12.

At the time of the appraisal, efforts related to the strengthening of employment matching, such as the establishment of the Philippine Employment Service Office (PESO) as a pilot project at LGU level, were confirmed. At the time of the ex-post evaluation, the number of PESOs institutionalized in LGU was 495, the number of qualified people who got work through PESOs exceeded 1.8 million, and 83% of job seekers were employed (preliminary figures in 2017, provided by DOLE).

3.2.1.2 Qualitative Effects (Other Effects)

This project focused on the involvement of the private sector, especially Japanese companies, with the objective of improving the investment climate. In this section, therefore, the effect based on interviews with Japanese companies[21] was examined in particular, regarding the actions among the above policy actions that particularly interested the Japanese companies.

(1) Effects of VAT Cash Refunds

Companies that constantly require the VAT cash refund procedure report an improvement. On the other hand, in the case of companies that receive VAT cash refunds only once, the procedure is not smooth and the situation has not improved in some cases.

(2) Effect of Time Shortening by the Facilitation of Customs Procedures

Because the system capacity of the customs office is limited, when processing is concentrated on days such as the first day after holidays, the system goes down and the procedure may be delayed. However, in general, it is systemized compared to other countries such as Vietnam.

[21] The evaluator conducted key informant interviews with the Chamber of Commerce and Industry, the management class of Japanese companies and people in charge of the fields related to questions. The questions were prepared in advance and made as a semi-structured interview. The Chamber of Commerce and the three Japanese companies responded to the interview.

So, some person in charge in a Japanese company feels the customs procedures are relatively smooth.

(3) Effect of the Promotion of the Utilization of Subic Port/ Batangas Port

Many Japanese manufacturing companies have moved into industrial estates near Batangas Port. Therefore, many companies want to use Batangas Port. On the other hand, as few vessels call at Batangas Port or Subic Port, and as the fare is expensive, companies at present have difficulties using Batangas Port or Subic Port unless they have a lot of freight and bargaining power.

Companies that actually use Batangas Port want to use it more for reasons such as i) lack of traffic jams on roads accessing the port and no regulations of access time, meaning that users can read the leading time, ii) less land transportation costs as it is close to factories, and iii) utilization is smooth, because the port is not crowded. Since there is no direct shipping service from Japan, however, use at the moment is limited to cargoes from China.

(4) The Philippine Government's Efforts on Deregulation and Institutional Improvement

Respondents to the interview had been comparatively recently assigned, so they said they could not compare the current situation with the situation before 2012. Some answered that they had never felt inconsistencies with the system itself, but that there were inconsistencies in operations, such as different responses depending on the person in charge.

From the above, it can be said that Japanese companies feel effect of the VAT cash refund reform, the facilitation of customs procedures, and promotion of the utilization of Batangas Port, to some extent.

3.2.2 Impacts

3.2.2.1 Intended Impacts

In this project, contribution to economic growth in the Philippines was aimed for as an impact. At the appraisal, GDP growth rate in 2012 was 6.7%. Since then, it has been steadily fluctuating around 6% to 7%.

Table 12: Economic Growth Rate in the Philippines

Unit: %

Year	2012	2013	2014	2015	2016	2017	2018
Growth rate	6.7	7.1	6.1	6.1	6.9	6.5	6.7

Source: ADB

Note: Data for 2018 is an estimate.

Factors in economic growth in the Philippines include: (i) population growth, (ii) policies of the previous administration, (iii) policies of the current administration, (iv) expansion of private investment, and (v) expansion of consumer spending. The population exceeded 100 million in 2014 and is expected to reach 142 million in 2045. Increase in the productive population is especially remarkable, and it is estimated that it will be 96 million in 2045.[22] From 2010, the former administration promoted policies for sound public finance through reviews of revenue and expenditure, and for political stability by coping with corruption, and attracting foreign capital companies. In addition, the current administration since 2016 has been trying to expand public investment, including that by PPP, and to strengthen countermeasures against corruption and smuggling. Private investment is becoming active in the field of large-scale capital investment such as in the construction sector, and in machinery equipment and transport equipment. Consumer spending, which accounts for about two-thirds of GDP, increased by an average of 5.7% annually from 2010 to 2016. This was supported by remittances from migrant Filipinos, which accounted for about 8.6% of GDP (2014).

By sector, increases in the service industry and industry are noticeable. The service industry increased by 6.4% in the first half of 2017, especially in the areas of Business Process Outsourcing (BPO), trade, tourism, finance and real estate. Industry increased by 8.4% in the first half of 2017. In particular, the manufacturing sector accounted for 70%, an increase of 7.7% over the previous year. Construction increased by 7.4% in the first half of 2017 and by 13.8% in the second half. The number of PPP projects is still large. These sectors are the source of growth. Moreover, the water shortage caused by the El Niño phenomenon has been eliminated and agriculture has recovered (a 5.6% increase in the first half of 2017) which is also boosting economic growth.

It is very difficult to numerically show to what extent the policy reforms conducted under this Program contributed to this economic growth. Among the economic growth factors mentioned above, however, it is considered that there has been a certain degree of contribution to the promotion and expansion of public investment by PPP, to the attraction of foreign capital enterprises, and to the growth of the manufacturing industry. Specifically, it seems that reforms were advanced (at least to prevent stagnation) by being described as policy actions to be achieved on the policy matrix of this Project, deadlines being set for the establishment of organization and improvement of the legal systems. Due to the inputs of technical cooperation assistance from both JICA and ADB, for instance, as in the case of support by competition policy, the support of experts led to the smooth introduction of new organization and legal systems. Furthermore, unlike in the case of technical assistance only, cases where legislation was made through this Program and where legitimacy was given to policies enabling

[22] Fukoku Mutual Life Insurance Company, "Monthly Economic Report", 'Trends of Domestic and Foreign Economies – Strong Philippine Economy', Dec. 2015

sustainable implementation were also observed in the establishment of PESO for employment promotion.

3.2.2.2 Other Positive and Negative Impacts

(1) Impacts on the Natural Environment

No negative impacts on the natural environment through the Program were observed.

(2) Resettlement and Land Acquisition

No land acquisition and resettlement were required for the Program.

Each policy action for the first phase was completed and a certain effect was realized for the private sector, which is the beneficiary of the Program. Regarding impact, a certain degree of contribution was observed in the promotion and expansion of public investment by PPP, in the attraction of foreign capital enterprises, in the growth of the manufacturing industry, and among other economic growth factors, as a result of the promotion of reforms through the implementation of the Program. In light of the above, this program has largely achieved its objectives.

Therefore the effectiveness and impacts of the Program are high.

3.3 Sustainability

3.3.1 Institutional/ Organizational Aspect of Operation and Maintenance

As mentioned above, three types of monitoring system were planned; (i) "Monitoring Meetings" or "Steering Committees" implemented together with ADB, (ii) monitoring by a "Private Sector Forum", and (iii) monitoring through the "Business Environment Sub-committee of JPEPA" (Table 13).

Table 13: Monitoring Plan and Actual

	Plan	**Actual**
DPSP Steering Committee	• Joint monitoring with ADB • To confirm progress and share information with related agencies • Semi-annual meeting • Each policy action to be monitored/ promoted by JICA's technical corporation projects	• A workshop was held only once after disbursement was made at the timing of the appraisal of the second phase project carried out by ADB.
Private Sector Forum	• Participants: private sector including JCCIP • To establish a Public-Private monitoring framework • To be held at the same time as the DPSP Steering Committee	• JCCIP were not conscious of monitoring for DPSP in the Private Sector Forum.
Bilateral Information Sharing/ Monitoring Arrangements through JPEPA	• To share information and make recommendations to GOP in terms of Policy Actions in which Japanese companies are highly interested such as VAT cash refunds, the facilitation of custom procedures etc. • To request improvement related to JPEPA to the Philippine government through high-level consultation	• JPEPA does not aim to monitor this program.

Source: documents provided by JICA

In either case, the kind of roles and functions that the stakeholders could have was not clearly planned. Moreover, no explicit agreement was concluded in advance concerning the role that the parties should fulfill. Therefore, it is thought that sufficient monitoring has not been conducted. As a supplement to these three systems, consultants and experts in the related technical assistance were dispatched to ministries and agencies to follow up on progress. However, some related agencies commented that the consultants has less contacts than ADB. Consultants reported on progress to JICA in a timely manner. However, compared to ADB who contacted related agencies on a daily basis, gathered information and managed the program, it was difficult for consultants to conduct frequent monitoring because of the variety of the various agencies involved in the implementing policy actions that JICA should follow. Especially from around 2013, concentration was made on promoting activities in specific fields such as the use of Batangas Port, so meetings with related agencies were not held. Monitoring by the technical cooperation projects and experts ended in the middle of the Program for reasons such as the project period or dispatch period did not match the monitoring period of this Program and because monitoring of this Program was not made explicit in the terms of reference or instructions to the experts.

The Private Sector Forum and the JPEPA Business Environment Sub-committee acted very enthusiastically according to their own interests, and the effect of specific policy actions was high. However, the Private Sector Forum and the JPEPA Business Environment Sub-committee are not organizations that JICA can directly influence and control, so it seems that such institutions should not be incorporated into the monitoring system.

3.3.2 Status of Operation and Maintenance

Although there is no ongoing monitoring by JICA, ADB has conducted the second phase program, continues to monitor through the "Post Program Partnership Framework" since completion of the Program, and provides technical assistance as necessary. ADB listed monitoring through policy dialogue as key to success in its Completion Report of the Program. In addition, factors such as ADB being able to perform efficient monitoring using several consultants and ADB staff were also seen as a success. This was as a result of conducting actions while delivering concrete results by focusing on specific related agencies.

Many program effects have been maintained because of the continuity of policies from the previous administration to the current administration together with ongoing monitoring by ADB. As can be seen from the success of ADB, continuous monitoring after budget support greatly affects the continuation and development of program effects. Meanwhile, it is difficult to gain the cooperation of the related agencies in implementing only the monitoring of reforms without financial support and/or technical cooperation. Therefore, the followings should be considered as one of the ways to monitor actions that seems to be important policy reforms: i) to dispatch experts and/or conduct technical corporation continuously and ii) to monitor the actions by experts who are instructed clearly about the relevance to this project, and about the necessity and obligations of monitoring the program on their Termes of Reference (TOR).

At the time of the ex-post evaluation, many project effects were maintained because of the continuity of policies from the previous administration to the current administration and because of ongoing monitoring by ADB. However, the maintenance of this program effects is not necessarily based on the monitoring system planned by JICA. In light of the above, some minor problems have been observed in terms of the institutional aspect. Therefore the sustainability of the program effects is fair.

3.4 Added Value by JICA

In this program, JICA took the initiative and formulated a policy matrix for the first time in the Philippines. By inputting ongoing technical cooperation projects or newly planned projects, at that time, into the components supporting the Program, JICA was able both to provide assistance in the fields where they had a lot of advantages, and to resolve the concerns of Japanese companies. In that sense, it can be said that JICA was able to add value to its support. With regard to competition policy, in particular, while other donors have been conducting similar technical assistance, JICA's technical cooperation project introduced the ASEAN model and instilled a new concept into the Philippines. According to the Philippine related agencies, activities such as training in fictional cases, training in Japan and other countries had not been part of the support of other donors and these helped very much in promoting competition policy.

On the other hand, as it was JICA’s first attempt, there was the problem that monitoring by JICA was not adequate due to excessive policy actions in the policy matrix and in planning of the monitoring system. Furthermore, it is thought that not continuing monitoring after the completion of Phase I due to no request from the Philippine government for the second phase of the Program was also to some extent influential. Policy actions that were successful were those which ADB has been continuously monitoring. However, the current status of some actions that were supposed to be monitored mainly by JICA, such as reform of the electricity sector and of vehicle standards and regulations system, were ambiguous or unsatisfactory in progress at the time of the ex-post evaluation. Actions with strong initiatives by the private sector, such as VAT cash refunds and the promotion of the use of Batangas Port, have achieved a certain degree of outcome.

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

The objective of the Program was to improve the business investment environment and promote investment, especially FDI in the Philippines, by assisting various policy reforms related to the improvement of industrial competitiveness, the creation of an environment for PPP in infrastructure, and the facilitation of employment through budget support with ADB, thereby contributing to economic growth. The objective was consistent with the development policy and the development needs of the Philippines and with Japan's ODA policy. Some problems, however, have been observed in terms of the appropriateness of program planning. Therefore, relevance is fair. All the policy actions were achieved and the Japanese private sector, one of the beneficiaries of the Program, have realized the effects of the Program to some extent. As far as impact of the Program is concerned, it is considered that a certain degree of contribution was made to the promotion and expansion of public investment by PPP, to attracting foreign-affiliated companies, and to the growth of the manufacturing industry among various economic growth factors in the Philippines. The Program has largely achieved its objectives. Therefore, the effectiveness and impacts of the Program are high. Many of the program effects are maintained thanks to the succession of policies from the previous administration into the current administration and to ongoing monitoring by ADB. However, the maintenance of the Program effects is not necessarily due to the monitoring system planned by JICA. Some problems have been observed in terms of the institutional aspect of monitoring. Therefore the sustainability of the program effects is fair.

In light of the above, the Program is evaluated to be satisfactory.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

None.

4.2.2 Recommendations to JICA

None.

4.3 Lessons Learned

In implementing budget support, JICA must select approaches at various stages, from an overall framework to a concrete implementation framework; in addition to i) choosing between co-financing with an international organization (or another bilateral donor) or stand-alone financing, in the case of co-financing operation; ii) choosing whether to participate in a policy matrix prepared by other donors through financing or to incorporate JICA's or Japan's own policy actions into the policy matrix; and in the case of incorporating JICA's or Japan's own policy actions into the policy matrix, iii) what should be incorporated. Regarding these choices, the following lessons were obtained from the Program:

<u>Benefits and Issues of Co-financed Lending with International Organizations</u>

The following benefits of co-financing with international organizations can be expected:

(i) even in a wide range of policy reforms, each donor can focus on assistance where they have strengths and which they have traditionally carried out;

(ii) the leverage effect of co-financing on policy reforms can be expected more than in stand-alone financing as united efforts can be made to monitor the shared policy matrix; and

(iii) it becomes easier to include delicate policy issues in the policy matrix by collaborating with “international organizations”.

As for (i) above, particularly in the case of coordinating with multiple donors, it is possible to conduct policy reform widely. However, it is difficult for each donor to monitor well unless it provides focused support, such as supporting a specific sector with a track record. Otherwise, each policy action will simply be a goal written on paper, unless in the meantime, organizational structure and law are developed, but even then there is the risk that these are not accompanied by subsequent implementation. The current situation of the actions where monitoring has not been sufficient was unclear at the time of the ex-post evaluation.

In regard to the second point, the policy matrix was shared between JICA and ADB in the Program, but its descriptions were different, causing troubles in monitoring. In order to expect a leverage effect on the promotion of reforms, after sharing the same policy matrix with all related donors as well as sharing common perceptions on each donors’ scope of responsibilities for each donor monitors, it is necessary that all donors agree to judge the achievement of policy actions (make decisions on financing). Therefore, all stakeholders should explicitly agree not only on the sharing of the same policy matrix but also on the clear division of the roles played by each donor and the method of monitoring and the criteria for judgement of achievement the preparation of the policy matrix stage.

Although it is obvious that JICA supports the recipient country in the case of stand-alone financing operation, in the case of co-financing, there may be cases where its agencies do not recognize JICA’s support unless JICA actively participates or is involved in the policy matrix formulation process or the monitoring process. Depending on the mode of participation in the framework of budget support described in the next section, at least in the case of providing support with original policy actions, it is necessary that participation in the framework is made with a limited scope to facilitate active engagement.

<u>Mode of Participation in the Framework of a Program Loan by Co-financing and the related Issues</u>

As a mode of participation in the framework of budget support implemented by co-financing, there are choices between (i) participation in a policy matrix prepared by other donors in terms of financing, and (ii) JICA taking the initiative and incorporating its own policy actions in the policy matrix. The former is an assistance method found in many budget support programs in which JICA has traditionally participated. Particularly in countries where there are no offices in the field, or where the number of experts dispatched and where technical cooperation projects are limited, it is difficult to monitor policy actions, so the method of "participating" in the framework prepared by other donors can be effective in some cases. On the other hand, when incorporating unique policy actions, it is necessary that policy actions are selected from the viewpoint of what kind of structure can be used during implementation or monitoring. There is no need to consider whether to conduct technical cooperation projects or to dispatch experts when JICA can recruit consultants for monitoring each action by each related agency. However, in many cases, due to budgetary constraints, the scope of assistance should be limited to policy actions in areas where technical cooperation projects can be implemented or where experts can be dispatched to the related ministries and agencies. The benefit of limiting the fields is that JICA not only has expertise and knowledge of the challenges in the relevant sector of the relevant country but also that experts can make contact with stakeholders on a daily basis so it is easier to monitor progress even after the achievement of the policy actions. However, for continuous monitoring, it is necessary that the project period and expert dispatch period are set so as to provide cover from the policy matrix formulation process up to around two years after the achievement of the policy actions. In the Program, there was the problem that the project had ended and / or the dispatch of experts had ended in the middle of this process, and that the status of monitoring became ambiguous. Furthermore, in order to ensure monitoring, JICA should explicitly state on the TOR for the related technical cooperation projects and for the dispatched experts that their tasks are related to the budget support program and that the monitoring of policy actions is one of their obligations.

Necessity for a Concrete Monitoring Plan and its Implementation

In the case of budget support programs, there is, in many cases, only intangible outputs such as the development of organization and legal systems at the stage of completion of the program. Therefore, in order to make concrete the effect of the reform, monitoring after completion of the program is necessary.

In the Program, three types of monitoring system were planned; (i) Monitoring Meetings, (ii) a Private Sector Forum, and (iii) monitoring by the JPEPA Business Environment Sub-committee. In each case, the roles and responsibilities of organizations in charge of monitoring, the contents to be monitored, the methods of monitoring, and the frequency and methods of reporting were not explicitly agreed with the related parties. This meant that the monitoring function of these systems was not demonstrated. In addition, (ii) the Private Sector Forum, and (iii) monitoring by the JPEPA Business Environment Sub-committee meant meetings attended by external organizations that JICA cannot directly exert influence. As each has its own role and function, they did not monitor the policy actions beyond their own roles and interests. As a result, despite preparing several monitoring systems, these did not work well.

In order to avoid such a situation, external organizations that cannot be controlled by JICA should not be incorporated in the monitoring system. The monitoring meetings are a monitoring system that is generally set up, usually organizing a steering committee, and there is no problem in this in itself. However, at the time of the appraisal, it often happens that discussion takes place and agreement is made only with the executing agency. When there are many agencies related to the program, there is the risk that no meeting can be held at all without the cooperation of all the related parties. If there are co-financing partners, the role and responsibilities of each organization in charge of monitoring, the contents to be monitored, the method of monitoring, and the frequency and the method of reporting, should be agreed on with stakeholders, including the other donors, in advance. As a result, it would then be possible to reduce the risk of a meeting not being held because the stakeholders are not available.

End