Japanese ODA Loan

Ex-Ante Evaluation (for Japanese ODA Loan)

１． Name of the Program

Country：Republic of the Philippines

Project：Development Policy Support Program - Investment Climate

Loan Agreement：October 10, 2012

Loan Amount：7,775 million Yen

Borrower：The Government of the Republic of the Philippines

２． Background and Necessity of the Program

(1) Current State and Issues of the Investment Climate Sector in the Republic of the Philippines

The Philippines has achieved GDP growth rate of 7.6% in 2010 led by active consumer spending backed by remittance of Overseas Filipino Workers, export and recovery of fixed capital formation. In 2011, although private sector demand was steady, export was decelerated and GDP growth rate of 2.7% was below the government target (more than 4.5%) due to decrease of fiscal spending in the first half of the year and external factors such as European Debt Crisis and recession in the US. Nevertheless, the Philippines achieved around 6.5% real growth in 2012 because of recovery of consumer consumption and private investment (IMF, 2013). Unlike many ASEAN countries which got on track of sustainable economic growth by attracting foreign direct investment (FDI) in export-oriented industry sectors since 1980s, the Philippines recorded the lowest economic growth trend (average GDP annual growth rate per capita from 1960 and 2008) in major ASEAN neighbor countries (Indonesia, Malaysia and Thailand were averagely about 4.0%, while the Philippines was about 1.5%) mainly because FDI had not been expanded. Such low level of incoming FDI was due to delay of improving business and investment climate (According to Doing Business Survey in 2012 by World Bank/IFC, the Philippines was ranked as 136 out of 183 countries and regions. It was lowest in ASEAN but Lao PDR and Cambodia). Therefore it is urgently needed to enhance investment climate in the Philippines in order to attract FDI and thereby realize sustainable economic growth.

(2) Development Policies for the Investment Climate Sector in the Republic of the Philippines and the Priority of the Project

The main objective of Aquino Administration’s Philippine Development Plan (2011-2016) (hereinafter referred to as the “PDP”) is Inclusive Growth. In order to realize the objective, PDP shows five (5) basic strategies, namely (a)

Strengthening competitiveness for employment creation, (b) Accelerating infrastructure development, (c) Enhancing accessibility to finance, (d) Enhancing transparency in the government and (e) Improving social services and security. From the point of view of business and investment climate, “Strengthening competitiveness for employment creation” and “Investment in infrastructure development” are important policies. The Program is, in response to PDP, regarded to contribute to more FDI inflow to the Philippines through improving investment climate by enhancing competitiveness, developing infrastructure and promoting employment in formal sectors.

(3) Japan and JICA’s Policy and Operations in the Investment Climate Sector

Japanese Government’s Country Assistance Policy (April, 2012) prioritizes implementation of “transportation networks in Metro areas, development of energy and water infrastructure, enhancement of administrative capacities, securing maritime safety, human resource development” “in order to improve investment climate towards more FDI inflows which are necessary to realize sustainable economic growth” in one of the prioritized areas as “Sustainable Economic Growth through Employment Creation”. In response to the policy, JICA prioritizes “sustainable economic growth through investment promotion” by infrastructure development in Metro areas and enhancement of investment climate.

Also, in “Japan-Philippines Joint Statement on the Comprehensive Promotion of the "Strategic Partnership" between Neighboring Countries Connected by Special Bonds of Friendship” (September, 2011), both countries “confirmed the importance of improving the business environment and further promoting investment between the two countries” and “Japan will support the improvement of the investment environment through the active utilization of Official Development Assistance (ODA), and thereby promote private investment and contribute to the development of the Republic of the Philippines”.

JICA provided “Development Policy Support Program (DPSP) (II)” (9,293 Million Yen) in Japanese Fiscal Year 2008 and “DPSP (III)” (9,220 Million Yen) in Japanese Fiscal Year 2009 with co-financing of Asian Development Bank (ADB) in order to support economic reforms (including enhancement of investment climate and infrastructure development) of the Philippines.

(4) Other Donors’ Activity

ADB provided “DPSP (I)” (250 Million USD) in February 2007, “DPSP (II)” (250 Million USD) in October 2009, and “DPSP (III)” (250 Million USD) in September 2009. ADB also provided a program type loan focused on investment climate in July 2012 (co-finance of the Program).

The World Bank provided “Development Policy Loan (DPL)” (250 Million USD) in January 2007 (co-finance with ADB’s DPSP (I)). The World Bank also provided new DPL (250 Million USD) in May 2011 after the Aquino Administration took office.

(5) Necessity of the Program

As mentioned above, the Program is to contribute to enhancement of investment climate through more FDI Inflows which is a priority policy of the Philippines. Since the Program is aligned with the development policy of the Philippines and assistance policy of Japan and JICA, it is highly necessary and relevant for JICA to support the Program.

3. Program Description

(1) Program Objective(s)

The objective of the Program is to support (i) policies to improve competitiveness, (ii) creating an environment for PPPs in infrastructure, and (iii) employment facilitation by implementing policy reforms, and contributing to promoting the economic stabilization and development efforts of the Republic of the Philippines.

(2) Program Site/Target Area

Nationwide

(3) Program Outline

	Major Achieved Actions	Major Actions to be Achieved
Policies to Improve Competitiveness	(a) The Government agreed to implement Regulatory Impact Assessment (RIA) pilots in selected departments (b) The Government allocated budget for VAT cash refunds in the 2012 budget (c) Bureau of Customs (BOC) completed BOC’s clearance-related e2m system project and made 5 year strategic plan including measures to align customs procedures to international standards under the ratified Revised Kyoto Convention on the simplification and harmonization of	(a) The selected departments implemented RIA work plans (b) The Government continues budget allocation for VAT cash refunds; draft an Executive Order about the cash refund system, etc. (c) BOC designs and starts implementing the Philippine Customs Intelligent System (PCIS), and develop necessary domestic rules and regulations to implement the ratified Revised Kyoto Convention.

	customs procedures.	
Creating an Enabling Environment for PPPs in Infrastructure	(a) The Government allocated in the 2011 and 2012 budget, total funding of P34.8 billion to major government agencies and F/S Fund of PPP Center (b) The Government initiated review of Manila, Batangas and Subic port utilization plan.	(a) F/S implemented utilizing the F/S fund, and the Government approved the Implementing Rules and Regulations of BOT law (b) The government develops and approves the port utilization plan.
Employment Facilitation	(a) The Government started to develop curriculum of technical vocational training for newly established grades 11 and 12. (b) The Government continued advocating the institutionalization of the Philippine Employment Service Offices (PESOs) at Local Government Unit (LGU) level	(a) The technical vocational training programs are piloted (b) The Government in collaboration with PESO in selected LGUs designed and initiated programs providing job search assistance and internship programs for young, out-of-school youths.

(4) Estimated Project Cost (Loan Amount)

7,775 million Yen（equivalent to 100 Million USD as of March, 2012）

(5) Schedule

Target duration for the Program is from April, 2011 to March, 2012. The completion of the Program is December 2012 when the disbursement was made.

(6) Project Implementation Structure

1) Borrower：The Government of the Republic of the Philippines

2) Executing Agency：Department of Finance

3) Operation and Maintenance System: Department of Finance monitors the progress of actions for responsible government agencies.

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

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The Program is likely to have minimal adverse impact on the environment under the JICA Guideline for Environmental and Social Considerations (April, 2010)

2) Promotion of Poverty Reduction: N/A

3) Promotion of Social Development（e.g. Gender Perspective、Measure for Infectious Diseases Including HIV/AIDS、 Participatory Development、

Consideration for the Person with Disability etc.）: N/A

(8) Collaboration with Other Donors: Co-financing with ADB

(9) Other Important Issues:

① Since the Policy Matrix was made based on the collaboration with Japanese Chamber of Commerce in the Philippines and the discussions at Business Environment Subcommittee of Japan Philippine Economic Partnership Agreement, the Program is expected to improve investment climate which will be directly connected to needs of Japanese companies.

② JICA Technical Cooperation will be utilized to facilitate and monitor individual policy actions.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline （Actual Value in 2010）	Target (2012)	Medium Term direction (2016)
Policies to Improve Competitiveness	- Budget appropriation for VAT cash refund (0 peso) - Time Measurement Survey for Customs Procedures (Avg. 102 hrs) - The number of agencies to pilot RIA (0)	- Budget appropriation for VAT cash refund (8.3 Billion pesos in 2012 budget) - Time Measurement Survey for Customs Procedures (continuous progress) - The number of agencies to pilot RIA (3 agencies)	- At least 90% of eligible VAT refunds made (based on JCCIPI survey) - Time Measurement Survey for Customs Procedures (15 % reduced) - The number of agencies to pilot RIA (15 agencies, including agencies supervising public utility sectors)

Creating an Enabling Environment for PPPs in Infrastructure	- To promote utilization of international ports - Budget appropriation for PPP projects (0 peso)	- The Government initiated review of Manila, Batangas and Subic port utilization plan. - The Government allocated in the 2011 and 2012 budget, total funding of P34.8 billion to major government agencies and F/S Fund of PPP Center	- Increase of Container Traffic for Batangas and Subic Port - Six competitively tendered PPP projects prepared with F/S Fundt. - Six other types of PPP projects (e.g., “hybrid” PPP) approved by the Government - Approved new generation capacity is + 2,884MW （2012～2016）
Employment Facilitation	- Started to develop curriculum of technical vocational training for newly established grades 11 and 12 - The number of LGUs to pilot PESOs (0)	- To set up a committee to develop curriculum for technical vocational training - The number of LGUs to pilot PESOs (65) - The number of employment matching through PESOs (1,000/PESO)	- The number of schools introducing vocational training programs - The number of LGUs to pilot PESOs (100) - The number of employment matching through PESOs (10% increased per annum)

(2) Qualitative Effects

By implementing the Program, various reforms by the Government of the Philippines will be conducted to improve investment climate and thereby accelerating economic growth through investment promotion.

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Programs

(1) Evaluation of Similar Program

It was pointed out that, in co-financing programs, close information sharing among development partners is important through appraisal and monitoring stages. It was also pointed out that, in program loan, it is important to feedback policy issues discussed for policy matrix to implementation of technical assistance and thereby accelerating reforms.

(2) Lessons Learned

Since the Program is also a co-financing program, JICA will closely collaborate with ADB to monitor the progress of the Program. JICA will also facilitate and monitor the progress of the policy actions through technical assistance.

7. Plan for Future Evaluation

(1) Indicators to be Used

① Competitiveness (The number of VAT cash refunds, etc.)
② Infrastructure Development (The number of biddings of PPP projects, etc.)
③ Employment Facilitation (The number of employment matching through PESO, etc.)

(2) Timing

After the Program is completed