Attachments

Attachment 1 Current State of the republic of the Philippines

(1) Politics

Geopolitical Position: The Philippines is located in the South China Sea, southwest of Japan, and is a key point on the maritime transportation route, not only for Japan but for the entire global economy. It is also an original member state of ASEAN, which was established in 1967, and continues to maintain a cooperative relationship with other ASEAN member states. On the other hand, it has long been at odds with China, which is located in the same sea area, over control of territorial waters in the South China Sea. Japan shares strategic interests and fundamental values with the Philippines such as democracy, rule of law and a market economy, and the country's stability, independence and development also contribute to the realization of a "free and open Indo-Pacific."

Domestic Affairs: Under the Constitution of the Republic of the Philippines (1987), the President is designated head of state, with a term stipulated as six years, without re-election. Executive authority rests in the President, and the Cabinet is made up of ministers from various ministries and agencies appointed by the President. The Congress is bicameral. The term of Senators is six years, and they can be elected for up to two consecutive terms. Elections are conducted in one national constituency with a plural ballot system, with a total number of 24 seats, half of which are re-elected every three years. Senators are elected from all over the country and are traditionally considered to have a high political status. The term of office for members of the House of Representatives is three years, and they can be re-elected for up to three consecutive terms. In addition to 238 members selected from local districts, a number of people not exceeding 20% of the total are elected under a proportional representation system from each political party. The term of office for the heads of local governments (provincial governors and mayors) is three years, and they can serve up to three consecutive terms. In the 2022 presidential election Ferdinand Marcos won an overwhelming victory with the highest percentage of votes in history to become the 17th president. The Marcos administration, which was inaugurated in June of the same year, and its medium-term fiscal framework is based on sound fiscal management and under the Philippine Development Plan 2023-2028, it aims to create jobs and reduce poverty through economic growth, through an infrastructure investment policy that basically follows on from the previous Duterte administration. As of January 2024, the government's approval rating remains high at 68% (Inquirer.net, 2024).

Diplomacy: The previous administration had reduced the former colonial dependence on the United States, due to a desire for an independent foreign policy, but the current administration has emphasized relations with the United States and is working to rebuild its relationship with its only ally, the United States. At a US-Philippines summit meeting in May 2023 they agreed to strengthen defense cooperation because of China expanding its activities in the South China Sea. In terms of relations with China, the current government has maintained dialogue, but also maintains a resolute stance on its territorial issues in the South China Sea. Since 2023 there has been frequent sabotage/contact to Philippine Coast Guard operations and illegal fishing from Chinese vessels in the Philippine Exclusive Economic Zone, and there is a strong sentiment towards China among the country's citizens, and voices of protest and dissatisfaction are increasing.

Relations with Japan: During World War II, the Philippines is said to have suffered serious damage, with up to 1 million deaths, and while sentiment towards Japan after the war was poor, relations have gradually improved since the Reparations Agreement between Japan and the Republic of the Philippines in 1956. In 1977, then Prime Minister Fukuda announced the "Fukuda Doctrine," with three principles of Southeast Asian diplomacy, and regarding ODA loans, Japan has maintained a close relationship with the Philippines since 1978 through large-scale support as a top bilateral donor (OECD, 2022). The level of trust in Japan by Filipinos is very high at 92% (Publicus Asia, June 2023), which is the highest in the world. Currently more than 1,434 Japanese companies (Ministry of Foreign Affairs, 2022b) have expanded into the Philippines, and direct investment from Japan is approximately PHP52 billion (JETRO, 2022), making it number one in the world. The exchange of personnel is also active. At the Japan-Philippines summit meeting in February 2023, economic cooperation on a scale of JPY600 billion was announced for the public and private sectors by FY 2022-2023.

In addition, against a backdrop of rising tensions in the area mainly around the South China Sea, the security relationship between the two countries is also being strengthened. The first Japan-Philippines Foreign and Defense Ministerial Meeting ("2+2") was held in April 2023. In addition to strengthening maritime security capabilities through ODA support to the Philippine Coast Guard, in November 2023 the Japanese government provided a coast monitoring radar system (JPY600 million) to the Philippine Navy as the first project under Government Official Security Assistance (OSA), and negotiations are underway on a Reciprocal Access Agreement (RAA) to promote mutual exchange between the Self-Defense Forces and the Philippine military.

Governance: In the Worldwide Governance Indicators published by the World Bank, the Philippines was behind Indonesia, Thailand, and Malaysia in five of the six target items, "political stability," "government effectiveness," "regulatory quality," "rule of law," and "control of corruption,", and four of these items, aside from "regulatory quality" were also behind Vietnam (World Bank, 2023). Among the major countries in the region, the Philippines only ranks above Myanmar in terms of "political stability." Also, while the index for “political stability” and “government effectiveness” have increased compared to the year the previous administration was established (2016), the index for other items (“voice and accountability,” “regulatory quality,” “rule of law,” and “control of corruption”) has fallen, and it is thought that the policies of the former president are reflected in the index, from the tough measures against drugs, etc.

(2) Economy

Real Economy: Per capita GNI in 2022 was US$3,950 (World Bank, 2024a), and the current administration aims to become an upper-middle income country by 2025. Per capita GDP in 2022 was US$4,040 (World Bank 2024b). Against a background of robust private consumption and the active investment in infrastructure development promoted by the current administration, an economic growth rate of over 6% has been maintained since 2012, exceeding that of Indonesia, Thailand, and Malaysia. In 2020 there was a drop of 9.5% due to the spread of COVID-19 and quarantine measures in the country but following the resumption of economic activity in 2021 this recovered to 5.7%, the highest level in the ASEAN region, and in 2022 private consumption and investment accelerated to record a high growth rate of 7.6%. According to the government of the Philippines, the real GDP growth rate in 2023 was 5.6% (Philippine Statistics Authority, 2023a). This growth rate is expected to grow steadily to 6.0% (IMF, 2023) in 2024.

Industrial Structure: The GDP composition by industry for 2022 was at 9.5% for agriculture, forestry, and fisheries, 29.2% for mining and industry, and 61.2% for the service industry (World Development Indicators, 2023). The proportion of the service industry is increasing year by year, and the business process outsourcing (BPO) industry is also evolving, particularly due to low-wage English-language labor. On the other hand, the composition ratio of the number of employed persons is at 23.6% for agriculture, forestry, and fisheries, with mining and industry remaining at 18.4% (Philippine Statistics Authority, 2022. The service industry is 58.0%).

Financial Sector: The banking sector is the focus of the financial sector, with stock and bond markets remaining small. The non-performing loan ratio in the banking sector (2023) was 2.94% (Bangko Sentral ng Pilipinas, 2024a), remaining stable at a low level. The capital adequacy ratio (as of the end of 2022) was 16.1% (Bangko Sentral ng Pilipinas, 2024), exceeding the level of 10% or higher as required by the central bank. On the other hand, the further development of the stock and bond markets is still required to deepen the financial system.

Financial Policy: The inflation rate as of February 2024 was 3.4%, year-on-year, which is within the central bank’s target of 2-4%. The inflation rate accelerated from around April 2022, and then fell gradually to 8.7% year-on-year as of January 2023 (Bangko

Sentral ng Pilipinas, 2024b). After the central bank raised interest rates from May 2022, the rate was left unchanged after March 2023, but the policy interest rate was then raised to 6.50% in October 2023 in response to increasing supply-side inflationary pressure, strengthening the financial tightening.

Finances: In 2022, the financial deficit was 7.3% of GDP due to increased spending associated with higher prices, but the deficit decreased to 6.2% in 2023 due to restrained spending (Bangko Sentral ng Pilipinas, 2023). The current administration plans to expand the ratio of infrastructure investment to GDP, as described below, but to prevent the fiscal deficit from worsening due to increased spending the government is proceeding with tax reforms in parallel such as expanding the scope of the value added tax, with a policy of keeping the fiscal deficit to GDP ratio within 3%. The public debt to GDP ratio at the end of 2023 was 60.2%, but the debt structure consists mainly of medium and long-term bonds, with external debt also accounting for approximately 30% of the total.

Balance of Payments: The current account balance was mainly structured as a trade deficit to compensate for the surplus from services and remittances from overseas workers, but due to the recovery from increase imports associated with domestic demand and high energy prices in 2022 the deficit expanded to 4.5% of GDP. While external demand slowed down in 2023, the deficit was expected to decline to around 3% for the same period due to a decline in import value from the stabilization of international commodity prices. As of September 2022, 1.96 million Filipinos reside overseas (Philippine Statistic Authority, 2023), and in terms of GDP, remittances are equivalent to approximately 10% (US$34.9 billion, 2021). The capital account is in surplus. Of this, direct investment has increased significantly to US$9.2 billion in 2022 (World Development Indicators, 2022). Foreign exchange reserves as of January 2024 amounted to 7.7 months of imports (Bangko Sentral ng Pilipinas, 2024c). The ratio of external debt to GDP at the end of 2023 was 28.1% (Bangko Sentral ng Pilipinas, 2024d).

(3) Society

Population: In 2021, the population was 113 million, and the average annual population growth rate since 2018 is 1.06%. The median age is 24.5 years, and according to United Nations forecasts the period in which the working age population will increase as a proportion of total population (demographic dividend period) is expected to continue until 2050 (UN, 2019). This is a strength which is not had by the likes of Thailand, whose demographic dividend period has already ended, and Malaysia and Indonesia, whose demographic dividend periods are expected to end around 2020-2030.

Employment: The unemployment rate in December 2023 was 3.1% (Philippine Statistics Authority, 2024b), and this has been improving in recent years. However, underemployment (percentage of people who are not completely unemployed but are unable to work as many hours as they would like) is 11.9% (as above), amounting to a total of 15.0%, which is not fully taking advantage of the strengths of the demographic dividend mentioned above. In addition, it is highly likely that remittances from overseas will also decrease, so if this is not handled properly this could lead to the destabilization of society as a whole.

Poverty: Over the past 30 years, the Philippines has rapidly reduced poverty through structural adjustments and sustainable economic growth, with the poverty rate [1] declining from 49.2% in 1985 to 26.6% in 2006 and 20.7% in 2022 (World Bank, 2022), and as of 2023 it is 16.4% (Philippine Statistics Authority, 2023). However, there are still income disparities within the country, with the top 1% of income earners accounting for 17% of national income and the bottom 50% of earners accounting for 14% of national income (World Bank, 2022). In addition, the spread of COVID-19 and lockdown measures, etc. had a significant impact on employment in the country, with approximately 8.1 million people losing their jobs for an unemployment rate of 17.7% as of April 2020. The poverty rate in 2018 was 16.7%, but in 2021 it rose to 18.1%. The unemployment and poverty rates have been recovering in recent years, but with long-term unemployment leading to a decline in worker skills and a polarization of the labor market with the increase in low and high-skilled employment, there is a possibility that income inequality will be further widened. Reducing inequality through support for workers, support policies aimed at improving access and quality of education, and the promotion of comprehensive agricultural development remains a challenge (World Bank, 2022).

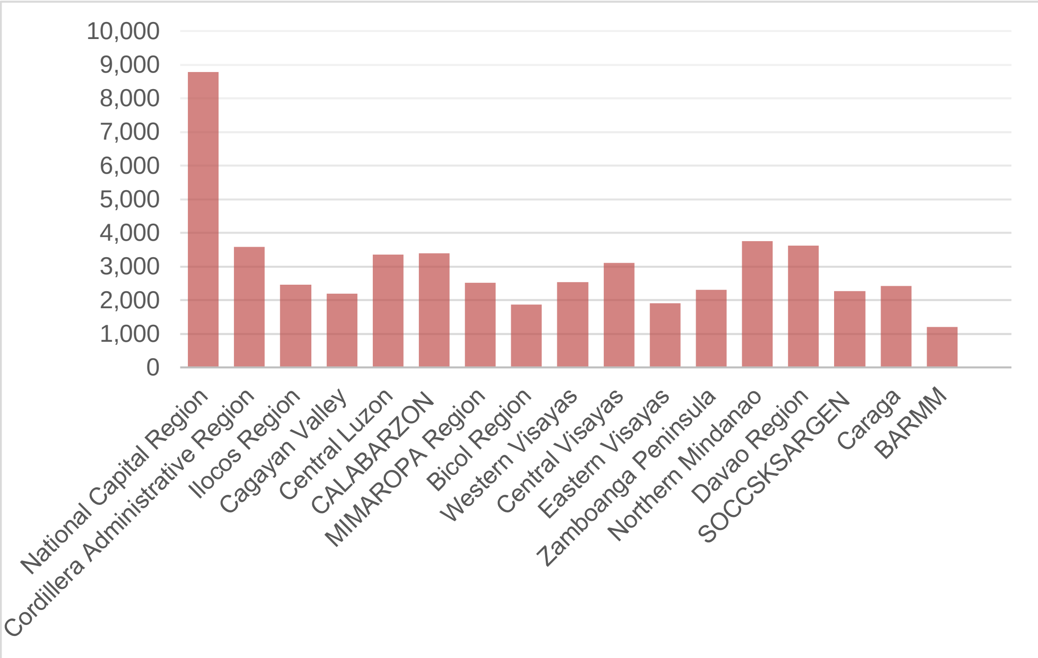
Income Disparity: The Gini coefficient in 2021 was 0.407, which is higher than both Indonesia (0.379) and Thailand (0.351) (World Development Indicators, 2021). Per capita GDP by region in 2022, as shown in Figure 1, was approximately US$8,700 in Metro Manila, compared to approximately US$1,200 in BARMM (the Bangsamoro autonomous Region in Muslim Mindanao). In addition, there are also traditional income disparities between the wealthy class, represented by conglomerates and large landowners, and the poor class.

[1] Defined by the government of the Philippines as “Filipino with incomes that are not sufficient to buy their minimum basic food and non-food needs.”

[Figure 1] Per capita GDP by Region (2022)

Units US$

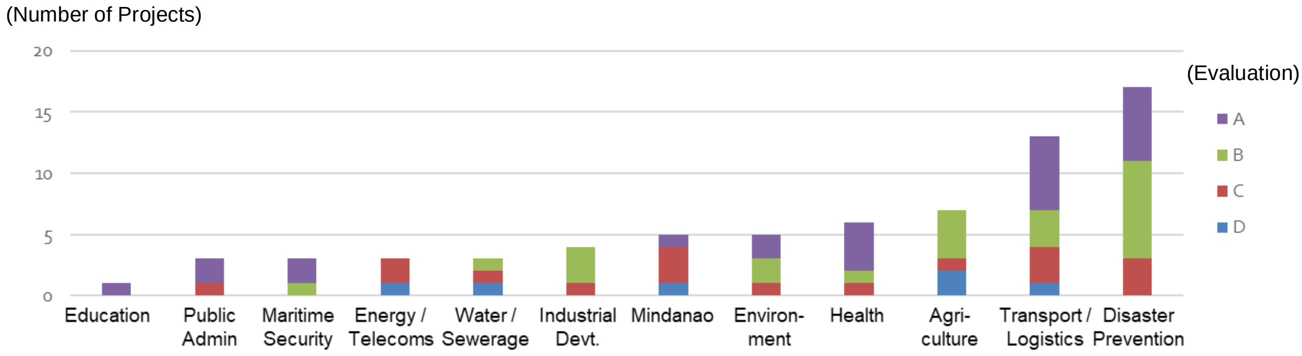
Source: Philippine Statistics Authority. 2022



Attachment 2　Lessons Learned from Past Cooperation

An analysis of 70 ex-post evaluations of projects (37 technical cooperation projects, 20 ODA loans, 13 grant aid projects) conducted by JICA over the past 10 years (2013-2023) showed that across four evaluation levels, 24 projects were evaluated “very highly” (A), 23 were evaluated “highly” (B), 17 were evaluated as having “some issues” (C), and 6 were evaluated “poorly” (D). Of the six projects evaluated “poorly” (D) (1 technical cooperation project, 4 ODA loans, 1 grant aid project) and the projects evaluated as having “some issues” (C), many projects were noted as having issues with “effectiveness/impact” and “efficiency.” Factors that led to a low evaluation of “effectiveness/impact” include insufficient systems and initiatives due to a lack of capacity of related organizations and coordination among related organizations, etc., an inability to achieve expected project impact due to delays in various permit procedures, etc., and insufficient measures being taken. In addition, factors that reduce “efficiency” were noted to include project schedule delays and project cost overruns for similar reasons. Based on this, also see “Chapter 5 Points to Note when Implementing Cooperation,” for lessons learned and things to keep in mind when implementing projects.

[Figure 2] Philippine Ex-post Evaluation (FY 2013-FY 2023) – Comprehensive Evaluation by Sector (Number of Projects)



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