Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa

Case Studies of East Asia

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Japan Bank for International Cooperation
Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-saharan Africa

Philippines Case Study

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAE</td>
<td>Approved Agency Estimate</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ASFP-FMO</td>
<td>Autonomous Region in Muslim Mindanao Social Fund for Peace and Development-FundManagement Office</td>
</tr>
<tr>
<td>BPDP</td>
<td>Batangas Port Development Project</td>
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<tr>
<td>C-3 Project</td>
<td>Circumferential Road No.3 Construction Project</td>
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<tr>
<td>DA</td>
<td>Department of Agriculture</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DAR</td>
<td>Department of Agrarian Reform</td>
</tr>
<tr>
<td>DepEd</td>
<td>Department of Education</td>
</tr>
<tr>
<td>DILG</td>
<td>Department of Interior and Local Government</td>
</tr>
<tr>
<td>DND</td>
<td>Department of National Defense</td>
</tr>
<tr>
<td>DOF</td>
<td>Department of Finance</td>
</tr>
<tr>
<td>DOTC</td>
<td>Department of Transport and Communications</td>
</tr>
<tr>
<td>DPWH</td>
<td>Department of Public Works and Highways</td>
</tr>
<tr>
<td>DSWD</td>
<td>Department of Social Welfare and Development</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>EIRR</td>
<td>Economic Internal Rate of Return</td>
</tr>
<tr>
<td>FAPs</td>
<td>Foreign-Assisted Projects</td>
</tr>
<tr>
<td>F/S</td>
<td>Feasibility Study</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>JBIC</td>
<td>Japan Bank for International Cooperation</td>
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<tr>
<td>JOC</td>
<td>Japan Overseas Consultant</td>
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<tr>
<td>LGUs</td>
<td>Local Government Units</td>
</tr>
<tr>
<td>LLDA</td>
<td>Laguna Lake Development Authority</td>
</tr>
<tr>
<td>LRTA</td>
<td>Light Rail Transit Authority</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and evaluation</td>
</tr>
<tr>
<td>MDFO</td>
<td>Municipal Development Fund Office</td>
</tr>
<tr>
<td>MFC</td>
<td>Municipal Finance Corporation</td>
</tr>
<tr>
<td>MIMAROPA</td>
<td>Mindoro, Marinduque, Romblon, and Palawan</td>
</tr>
<tr>
<td>MM</td>
<td>Makati-Mandaluyong</td>
</tr>
<tr>
<td>MMETRO Plan</td>
<td>Metro Manila Transport, Land Use &amp; Development Plan</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>--------------</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>MTPDP</td>
<td>Medium Term Philippine Development Plan</td>
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<tr>
<td>NDF</td>
<td>Nordic Development Fund</td>
</tr>
<tr>
<td>NEDA</td>
<td>National Economic and Development Agency</td>
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<tr>
<td>NGOs</td>
<td>Non Governmental Organization</td>
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<tr>
<td>NHA</td>
<td>National Housing Authority</td>
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<tr>
<td>NIA</td>
<td>National Irrigation Administration</td>
</tr>
<tr>
<td>NIES</td>
<td>Newly Industrializing Economies</td>
</tr>
<tr>
<td>OCTA</td>
<td>Overseas Technical Cooperation Agency</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OECF</td>
<td>Overseas Economic Cooperation Fund</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Aid</td>
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<tr>
<td>OJT</td>
<td>On the Job Training</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>PBAC</td>
<td>Prequalification, Bids and Awards Committee</td>
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<td>PCUP</td>
<td>Presidential Commission for the Urban Poor</td>
</tr>
<tr>
<td>PD</td>
<td>Presidential Decree</td>
</tr>
<tr>
<td>PDO</td>
<td>Port District Office</td>
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<tr>
<td>PJFH</td>
<td>Philippine-Japan Friendship Highway</td>
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<tr>
<td>PIRs</td>
<td>Project Implementation Reviews</td>
</tr>
<tr>
<td>PNP</td>
<td>Philippine National Police</td>
</tr>
<tr>
<td>PNR</td>
<td>Philippine National Railway</td>
</tr>
<tr>
<td>PPA</td>
<td>Philippin Port Authority</td>
</tr>
<tr>
<td>PRRP</td>
<td>Pasig River Rehabilitation Project</td>
</tr>
<tr>
<td>PSR</td>
<td>Project Status Report</td>
</tr>
<tr>
<td>RA</td>
<td>Republic Act</td>
</tr>
<tr>
<td>RIMSS</td>
<td>Road Information and Management Support System</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>URPO</td>
<td>Urban Road Project Office</td>
</tr>
<tr>
<td>UTSMMA</td>
<td>Urban Transport Study in Metro Manila Area</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
SECTION 1: BACKGROUND

This paper reports the results of the case studies made in the Philippines for the Japan Bank for International Cooperation (JBIC) research project entitled: The Effectiveness of Aid to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa. The case studies attempt to validate the following two hypotheses:

- **Hypothesis 1**: That the sustainability of infrastructure services depends to a large degree on institutional spillover effects during project implementation promoting continuous institutional and policy reform, human resources development and capacity building; and
- **Hypothesis 2**: That the donor policy and aid modalities are factors that have significant effects on these institutional spillovers.

To achieve this, first, we selected the following two case projects: the Circumferential Road No.3 Construction Project (C-3 Project) and the Batangas Port Development Project (BPDP). Second, we examined the project overview, the project process and the project results by reviewing pertinent literature and by interviewing local stakeholders. Third, we analyzed the institutional spillover observed in the projects. We focused on identifying the single key event in each case and examined the spillover effects by identifying the major actors, mapping the institutional mechanisms/organizations involved, and investigating the characteristics of the key events. Fourth, we discussed the effects on policy, ownership and capacity development exhibited in the case projects. Finally, we showed the findings of our analysis and made recommendations for future projects.

This paper is divided into four sections. The first section describes the background of the case studies and the methodology of the analysis. The second section shows the results of the case study on the C-3 Project. The third section shows the results of the case study on the BPDP. The final section summarizes the findings and shows the recommendations.

1.1 ODA to the Infrastructure in the Philippines

General

The Philippines is the third largest recipient, following China and Indonesia, of official development aid from Japan. This has been a significant source of support for development projects in the Philippines since 1960.

A total of US$ 9.99 Billion has been disbursed in net terms, which is equal to 57% of all development assistance received from Japan and other Development Assistance
Committee (DAC) countries between 1960 and 2002 (TuJan, 2005). The share of Japan Official Development Aid (ODA) has varied from year to year, with a low of 21% in 1977 and a high of 74% in 1967. Between 1992 and 2002, the average share has been 60%, which is higher than for the whole 1960 to 2002 period.

The National Economic and Development Agency (NEDA) is tasked under Republic Act (RA) 8182 (the ODA act of 1996) to conduct annual reviews of the status of implementation of all projects financed through ODA, to identify the causes of delays, reasons for bottlenecks, cost overruns (actual and prospective) and continued project viability.

A look at the ODA portfolio review by NEDA for in the year 2006 (15th ODA Portfolio Review) shows that the total loan amount reached US$ 9.5 billion for 141 active loans, comprising 135 project loans supporting 123 projects and 6 program loans. These project loans make up 85% of the portfolio, with program loans making up the balance. On the other hand, ODA loans have decreased steadily over the past 7 years, from a peak of US$13.3 billion in year 2000, down to US$9.5 billion at the end of year 2006, corresponding to a 29 percent reduction within this period.

The same portfolio review also described the grant element of ODA loans. The concessionality of such loans is measured by the scale of their grant element. In accordance with the ODA Act, the weighted average grant element of all ODA at anytime shall not be less than 40 percent and each ODA must contain a grant element of at least 25 percent. Per the Department of Finance (DOF) computation, the grant element of all ODA loans, from the effectivity of the ODA Act in 1996, up to 2006 is 54 percent. In other words, the grant element is considered as the reduction enjoyed by the Philippines for debt service payments (principal and interest) expressed at their present values discounted at 10 percent are less than the face value of the loan or the loan grant. In 2006, the grant element of ODA loans was 53.58 percent.

Funding from the Government of Japan, including JBIC, comprises the largest share of ODA loans, taking US$ 4.7 billion Other funding sources include the Asian Development Bank (ADB) with 19 percent, the World Bank (WB) with 16 percent and the United Kingdom (UK) with 6 percent, followed by China with 5 percent. The combined ODA from other sources comprise the remaining 5 percent. Other sources include, Australia, Austria, Belgium, France, Germany, International Fund for Agricultural Development (IFAD), Korea, Kuwait, Nordic Development Fund (NDF), Netherlands, Organization of Petroleum Exporting Countries (OPEC), Saudi Arabia and Spain. On a per loan basis, ODA from China is the largest, with US$ 166.67 million while other sources average US$ 29.41 million. Japan ODA loans average US$
Table 1.1: ODA Funding Source, Loan Amount and Number of Loans

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Share in Percent</th>
<th>Loan amount in US$, billions</th>
<th>Number of loans</th>
<th>Average amount per loan, in US$, millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>JBIC/Japan</td>
<td>49</td>
<td>4.7</td>
<td>59</td>
<td>79.66</td>
</tr>
<tr>
<td>ADB</td>
<td>19</td>
<td>1.8</td>
<td>25</td>
<td>72.00</td>
</tr>
<tr>
<td>WB</td>
<td>16</td>
<td>1.5</td>
<td>24</td>
<td>62.50</td>
</tr>
<tr>
<td>UK</td>
<td>6</td>
<td>0.6</td>
<td>7</td>
<td>85.71</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>0.5</td>
<td>3</td>
<td>166.67</td>
</tr>
<tr>
<td>Other Sources</td>
<td>5</td>
<td>0.5</td>
<td>17</td>
<td>29.41</td>
</tr>
</tbody>
</table>

Source: JBIC materials

Sectoral Distribution

According to NEDA’s portfolio review, the bulk of ODA went to the Infrastructure sector, with 57% (US$ 5.5 billion with 71 loans). The Transportation sub-sector obtained the biggest share, taking $ 4.0 billion with 45 loans. This is followed by the Energy, Power and Electrification sub-sector with US$ 639 million for 5 loans. The next largest sub-sector was the Water Resources sub-sector with 15 loans making up a total of US$ 615 million.

The Agriculture, Natural Resources and Agrarian Reform sector came in a distant second with, having 33 loans totaling US$ 1.7 billion, or 18% of the overall total. This is followed by the Social Reform and Community Development sector with US$ 1.2 billion in 13 loans. On the other hand, the Industry, Trade and Tourism sector accounted for 11 percent with US$ 1.1 billion. Lastly, the Governance and Institutional Development sector had a 0.2 percent share with US$ 22 million of total ODA.

Key Implementation Issues and Measures Taken By Agencies

The following implementation issues and measures taken by agencies are based on the 2006 ODA portfolio review prepared by NEDA.

Budget/Financing Issues – the inefficiency of Congress in enacting the annual budget for 2006 meant that the amount provided did not fully cover the proposed requirements of the agencies, resulting in delayed releases which in turn affected the implementation of some projects implemented by National Irrigation Administration (NIA), Department of Agriculture (DA), Department of Public Works and Highways (DPWH), Autonomous Region in Muslim Mindanao Social Fund for Peace and Development-Fund Management Office (ASFP-FMO), Department of Agrarian
Reform (DAR), Department of Education (DepEd), Department of Interior and Local Government (DILG), Laguna Lake Development Authority (LLDA) and Department of Social Welfare and Development (DSWD).

In response, the agencies took the following measures: (a) Adjustment of expenditure to focus on priority components. Long delayed components and subcomponents were dropped from some projects and the freed-up allocated funds were utilized more strategically to finance other components requiring immediate funds resulting in an improved overall performance of the projects. (b) Due to the limited budget provided for certain ODA projects, extensions in implementation schedules and closing dates may be expected. However, these extensions are also likely to have an impact in the overall cost of implementing the project and mean delays in the delivery of benefits and outcomes that can be derived from concerned projects. (c) Changes in scope were also done due to non-availability of adequate budget or financing in the case of (1) Arterial Road Links Development Phase VI Project; (2) Arterial Road Bypass Project Phase I Project; and, (3) Northern Luzon Wind Power Project.

Procurement - Procurement periods were observed to be better than shown in last year’s review. However, these were still over the prescribed timelines per Republic Act 9184 or the Government Procurement Reform Act of 2.67 months for Goods, 3.33 months for Civil Works and 4.63 months for Consulting Services. The agencies cited the following reasons for encountering delays in procurement: (a) lengthy review process; (b) restraining orders and contest procedures filed by losing bidders; (c) pending approval from financing institution; and (d) failure in bidding/rebidding of contracts.

Measures taken to address these issues were as follows: (a) Recommended/adopted a two-stage bidding procedure without price proposal on first stage submission in subsequent procurement; (b) recruitment of procurement specialists to help fast-track procurement; (c) proposed the creation and implemented the actual creation of a separate Bids and Awards Committee-Foreign-Assisted Projects (FAPs) to fast-track procurement requirement of FAPs; (d) phasing of procurement packages; (e) rental of equipment in project operations, as a stop-gap measure; and (f) capacitation of Local Government Units (LGUs) to ensure that Bids and Awards Committee and Technical Working Groups are familiar and capable of undertaking procurement evaluation based on guidelines stated in the bidding documents and within the detailed procurement schedule.

Right-of-Way (ROW) /Land Acquisition - Among the major issues encountered on ROW and land acquisition are: (a) delayed judicial action on the titling of acquired
properties; (b) unresolved issues on land ownership; (c) change of LGU leadership leading to changes in LGU attitude towards project (d) relocation site no longer available; and, (e) new batch of informal settlers re-occupied the previously cleared areas;

A new Road Right-of-Way Procedures Manual was prepared by DPWH for its projects and is being utilized nationwide. A computerized system, the Road Information and Management Support System (RIMSS), was also developed and now in the pilot stage in two regional and two district offices starting 2006. In addition, RAP procedures and training manual to improve action planning for relocation of informal settlers affected by infrastructure right-of-way has been issued. The RAP is now a pre-requisite before starting any major project in the DPWH.

LGU Participation - Some issues facing LGUs: (a) The current National Government (NG)-LGU cost sharing policy combined with the lack of interest and/or limited financial capacity of LGUs to participate in some projects and put up the required funding counterpart for the priority subprojects, has affected project implementation. Lack of LGU equity has resulting in the possible delisting of two irrigation subprojects. Last year’s portfolio review showed that eight LGUs formally withdrew and 36 proposed subprojects were thus delisted.

To remove hurdles in the implementation of projects: where the 2004 Policy of zero-grant to the LGUs was applied, agencies requested Investment Coordinating Committee (ICC) in 2006 to change the mode of implementation from the proposed Municipal Finance Corporation (MFC, which did not materialize), back to Municipal Development Fund Office (MDFO) using the 2003 NEDA-ICC policy on NG-LGU cost sharing that the maximum allowable grant should not be more than 50% of the total subproject cost.

Poor Performance of Contractor - Specifically, poor performance of contractors for infrastructure projects were attributed to: (a) main contractor’s poor management over the sub-contractors; (b) late mobilization and/or insufficient equipment and materials on site; (c) insufficient technical manpower; (d) technical problems, i.e., frequent breakdown of equipment and changes in design concept; and, (e) uncertainty in the financial capability of the contractor.

While full cooperation of contractors is being requested on delayed contracts, agencies are also preparing documents to support possible rescission or termination of contract.
Measures Taken by the JBIC/Japanese Government to Improve Portfolio Performance

Other measures were undertaken in 2006 by oversight agencies, including the Office of the President, and funding institutions to address issues that impede implementation of ODA projects. With particular reference to the JBIC/Japanese Government, the JBIC/Japanese Government continued its practice of conducting bi-annual Project Implementation Reviews (PIRs) with executing agencies. The issue and action-oriented PIRs evaluated project performance (inputs, activities and outputs) with the view of resolving implementation bottlenecks by identifying time-bound actions and accountable persons to address these.

Also, JBIC/Japanese Government launched its new monitoring and evaluation (M&E) tool, the Project Status Report (PSR). The PSR is a standard format which incorporates the different levels in the project cycle (from preparation to implementation to completion) and follows four out of five Organisation for Economic Co-operation and Development (OECD) -DAC evaluation criteria (relevance, efficiency, effectiveness and sustainability). Monitoring of the JBIC/Japanese Government portfolio will be enhanced through timely identification of problems and needed actions, including persons or entities responsible for such actions. Executing agencies will update monthly progress of projects through the website.

Together with Philippine Government, the JBIC/Japanese Government proposed reforms in the administration of development projects through the provision of sector and program loans. The proposed “Enhancing Management of Public Investments Loan” aims to address the policy, institutional and operational weaknesses in the project cycle (preparation, appraisal, approval, implementation and post-evaluation). On the other hand, the proposed “Transportation Sector Loan” intends to address operation and maintenance problems in the road sector, policy/institutional weaknesses in the port sector and financial sustainability of the Light Rail Transit Authority (LRTA).

NEDA and JBIC/Japanese Government signed a Memorandum of Understanding (MOU) providing for the joint conduct of mid-term and ex-post evaluation of JBIC-funded projects; policy dialogues and feedback seminars; study groups to develop evaluation methods; and, institutional development. Through an external evaluator, a joint ex-post evaluation was conducted on selected projects completed two years ago, namely: Philippine-Japan Friendship Highway (PJFH) Rehabilitation Project Phases I and II, Maritime Safety Improvement Project II and Nationwide Air Navigation Facilities Modernization Project III.
1.2 Selection of Project Cases

The C-3 Project and the BPDP were considered for this study for the following reasons: First, both are infrastructure investment projects. The C-3 Project aimed to construct an urban road infrastructure and the BPDP aimed to construct a national port infrastructure. Second, the amounts involved in both projects are relatively large and are both recognized as significant projects by national and local authorities. Third, both projects were supported by the Overseas Economic Cooperation Fund (OECF) (the present JBIC) or Overseas Technical Cooperation Agency (OCTA) (the present Japan International Cooperation Agency: JICA). Finally, both projects were completed in the last 10 to 15 years. The C-3 Project was completed in 1995, whereas the first phase of the BPDP was completed in 1999. Considering that both facilities have already been operating for over 10 years, the social, economic and institutional effects of these projects may already be observed.

1.3 Main Research Questions

Our main research questions are summarized as:

- What are the institutional spillovers in the infrastructure investment project? How do the donor policy and practice influence the occurrence of institutional spillovers?

First, we analyze the institutional spillovers observed during the project. We raise the following sub-questions:

1. What were the institutional spillovers observed in the case?
2. Who were the main actors relating to the institutional spillovers during the projects?
3. What were the strategies of the main actors?
4. Why did the main actors choose the specific options?

Next, we analyze the impacts of the donor policy and practice on the institutional spillovers. We focus on the following three drivers impacting on the institutional spillovers: policy, ownership and capacity. We set up the following sub-questions:

1. What kind of learning took place? Did the lessons have any impact on policymakers and/or the donor?
2. How did the aid relationship in the project influence ownership?
3. How did the aid relationship in the project influence capacity development?
1.4 Description of Methodology

Basic approach

We adopted a qualitative approach to analyze the institutional spillovers and to assess the influence/effects of donor policy and practice on these spillovers. First, related information about the case projects were collected and reviewed. The data gathered mostly cover the social and economic context, the history of the processes involved in the project implementation, the key actors or players, and the impact of the projects. Second, from July to October of 2007, we visited the project sites and interviewed the local stakeholders. Further collection of data was made to include: project completion reports, project progress reports, related legal documents, and other pertinent materials. Then, we analyzed the cases. The analysis includes looking into the institutional spillovers and examining the donor’s policy and practice relating to these institutional spillovers.

Methodology of institutional spillover analysis

Generally speaking, there are the two types of institutional spillovers: the spillovers observed during the project and the spillovers observed after the completion of the project. The former results from the process in which the actors cope with the institutional problems faced while the project is being completed. While the latter stems from the project results. We should distinguish the former from the latter clearly. We focus on the specific cases which cover the limited period. It may be impossible to analyze the institutional spillover observed after the completion of the project. Therefore, we mainly analyze the spillover during the project.

To analyze the institutional spillover during the project implementation, we reviewed the process of the institutional changes observed in the cases. But since it was impossible for us to observe the whole decision-making process in detail, the actor-strategy analysis was used. First, we set up the hypotheses on a series of behaviors taken by the key actors. We also assumed the hypothetical strategic options of each actor in the process. Then, we analyzed the process under the assumption that the actors choose the best option by evaluating the options according to their own objectives. Thus the analysis included the identification of the actor’s perceptions and/or incentives, mapping of the institutional mechanisms/organizations involved, and the examination of the driving factor of the project sustainability. We then tried to check if the hypothetical process corresponded to the facts that we collected in the interview and literature surveys. Finally, we discussed the institutional spillovers in the case by applying aspects of simple non-cooperative game theory to analyze the interactions between the key actors.
Methodology of assessment of the influence of donor policy and practice on the institutional spillover

To analyze the influence of donor policy and practice on the institutional spillover, we reviewed the process of the institutional changes observed in the cases. Then, we described the main policy and/or practice of the donor which influenced the behavior and/or the practice of the stakeholders in the project. They include the lessons learned by the key actors during the project. We discussed the donor’s policy and/or practice from the viewpoints of policy, ownership and the capacity building.
SECTION 2: CIRCUMFERENTIAL ROAD NO.3 CONSTRUCTION PROJECT

2.1 The Substance of the Project

The C-3 Project was designed not only to rehabilitate the existing parts but also to construct new parts in the northern segment of C-3 located in Caloocan City and Quezon City. Moreover, The C-3 Project was also intended to improve and construct the Makati-Mandaluyong Road as a substitute road for the southern segment of C-3. The location of the Circumferential Road No.3 is shown in Figure 2.1. The project aimed to mitigate the urban transport problems especially the heavy congestion in Metro Manila. The road shares a major role with the formulated Conceptual Highway Network in the Metropolitan Manila Area. The original part of C-3 road in the project is the northern package (Package A-1 and A-2) of the project, which starts from Aurora Avenue and ends at Rizal Avenue Extension with a length of 7.1 km. This is a semi-circular road with a distance of about 9 km. from the Central Business District of Manila. The Makati-Mandaluyong road (Package B in the project) as an alternate road connect of the originally planned C-3 road is about 2.7 km which starts from the intersection of Makati Avenue and J. P. Rizal Street and terminates at the intersection of Shaw Boulevard and Nueve de Febrero Street.

Figure 2.1: The location of the Circumferential Road No.3

Source: JBIC materials
2.2 The Process of the Project

In 1973, the OCTA (present JICA) completed the Urban Transport Study in Metro Manila Area (UTSMMA). This study recommended three plans: (1) an arterial road network plan consisting of six circumferential and ten radial roads; (2) an urban high-speed mass transport plan that includes the construction of five express railway lines and the improvement of the Philippine National Railway (PNR); and (3) an urban expressway network plan. This was the first comprehensive basic urban transport plan in the Metro Manila. The C-3 was also included in the proposed road network plan. In 1977, JICA completed the Feasibility Study (F/S) of “Metro Manila Roads Project C-3, C-4 Roads Construction Project”. At the same time, the Metro Manila Transport, Land Use & Development Plan (MMETRO Plan) which was funded by World Bank was prepared. This plan recommended the construction of 10 circumferential and radial roads as well as other facilities in the Metro Manila. JICA completed the F/S of C-3 Project in March, 1978 and recommended the urgent implementation of the project.

The provision of engineering service budget for “C-3 Roads Construction Project” started in November, 1978. At the same time, the Makati-Mandaluyong (MM) road was included in the project. The MM road construction aimed to ease the traffic congestion between J. P. Rizal Road and Show Blvd. Although the original plan includes another road which runs parallel to the MM road, the construction of the original road was given up due to consensus-building problems. As the original road had been occupied by the squatters, the then-mayor around the construction area stated in 1981 that he would not relocate the squatters. Thus, the “C-3 Roads Construction Project” covered the following two project components for construction and improvement: (1) the northern part of the original C-3 plan with the three lanes in each direction; and (2) the MM road with the three lanes in each direction.

Although the area along the MM road was also occupied by many squatters, they were cleared under the order of the mayor around the construction site. Note that this mayor is different from the mayor who gave up relocating the squatters. One of the reasons why they were successfully cleared was because the road area was owned by DSWD. The detailed engineering of the C-3 and related roads was conducted from 1979 to 1981. Final loan agreement on the 13th ODA loan was signed in May, 1986. The construction commenced in June 1988.

RA 7279, the Urban Development and Housing Act should be discussed considering the significant impact of this law to the case projects. The law was enacted on March 1, 1992, in the time of President Corazon Aquino. The law is often referred to as the “Lina Law” after its main proponent, Jose Lina, a former secretary of DILG.
The law describes the procedures involved in the relocation of squatters, including compensation when they are relocated from the site of the investment project. Prior to this law, squatters were not eligible for any kind of compensation in the event of removal.

The C-3 Project was divided into three packages: Package A-1, Package A-2 and Package B. The sections corresponding to these three packages are shown in Figure 2.2. The Package A-1 is 4.67 km in length and is located in Quezon City, taking the west part of Original C-3 Road. The Package A-2 is 4.67 km from Aurora Blvd. to Sgt. E. Rivera along G. Araneta Avenue. The Package B covers the MM road with 2.72 km connecting Makati Avenue to Shaw Boulevard. The implementation processes of the above three packages are described in the following sub-sections. The overall process of the C-3 Project is summarized in Table 2.1.

Figure 2.2: Three packages in the C-3 Construction Project

Source: JBIC materials
Table 2.1: History of the Metro Manila Circumferential Road No.3 Construction Project

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Metro Manila Circumferential Road No.3 Construction Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>9</td>
<td>OTCA (present JICA) recommended basic urban transport plan in UTSMMA</td>
</tr>
<tr>
<td>1977</td>
<td></td>
<td>F/S by JICA: “Metro Manila Roads Project C-3, C-4 Roads Construction Project” was implemented.</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>MMETRO Plan: Metro Manila Transport, Land Use &amp; Development Plan was implemented by UK Freeman Fox Inc. with the Philippine Government budget (World Bank funding): recommendation on construction of 10 circumferential and radial roads, division of roles of buses and jeepneys, and introduction of light rail trains (LRT) etc.</td>
</tr>
<tr>
<td>1978</td>
<td>3</td>
<td>F/S by JICA: Completion of “Metro Manila Roads Project C-3, C-4 Roads Construction project”</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Provision of E/S budget for &quot;C-3/R-10 Roads Construction Project&quot;, Phase 2 of R-10: In the implementation stage, E/S for Makati-Mandaluyong road included, service completion in September 1982 (for 7th ODA Loan).</td>
</tr>
<tr>
<td>1983</td>
<td>8</td>
<td>As a project under the 12th ODA Loan, Government of the Philippines requested construction of No. 10 and No. 11 sections of of No. 10 and No. 11 sections of Circumferential Road No. 3, and construction of overpasses at Roosevelt, South and East Kamias and Ortigas intersections along Circumferential No.4 Road.</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Government of the Philippines requested to redirect the entire 12th ODA Loan to a commodity loan due to the economic crisis (US$230 million).</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>Government of the Philippines changed their request for a commodity loan under the 12th ODA Loan (US$150 million).</td>
</tr>
<tr>
<td>1984</td>
<td>2</td>
<td>Government of the Philippines requested three project loan as candidate for the 12th ODA Loan. But this project involves a heavy local currency budget burden and did not fall within the allowable scope for 12th ODA loan.</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>JICA prepared Metro Manila Urban Transport Study. Results of Persontrip Survey made under “Metro Manila Urban Traffic Improvement Project” (L/A in June 1980, ¥5,410 million) were utilized.</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Signing of 12th ODA Loan Agreement.</td>
</tr>
<tr>
<td>1985</td>
<td>2</td>
<td>Request for 13th ODA Loan: This project was requested to have its contents changed to sections 8, 9, 10, and 11 of Circumferential Road No. 3.</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Government of the Philippines made an additional request for the 13th ODA Loan.</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Metro Manila Urban Transportation Strategy Planning Project Part B2 was prepared by Renardet Inc., Italy with World Bank’s fund. Part A is a master plan of whole Metro Manila transport sector, Part B for F/S of traffic control etc., and Part B2 for F/S of roads network improvement.</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>The Japanese Government pledged the 13th ODA Loan (this project is included in the project loan).</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>Signing of E/N</td>
</tr>
<tr>
<td>1986</td>
<td>5</td>
<td>Signing of L/A (13th ODA Loan)</td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>Completion of project</td>
</tr>
</tbody>
</table>

Source: JBIC materials

Project Implementation Process: Package A-1

The first bidding was done for the package A-1 in December of 1987. J. H. PAJARA Construction Corporation submitted the lowest bid and won the contract for this package on February 17, 1988. The contractor started the construction after they received the Notice to Proceed on June 2, 1988.

The progress of the construction was behind schedule. This was mainly because
not all of the construction sites had yet been acquired. This made it difficult for the contractor to proceed with the construction efficiently. In addition to the delay in the land acquisition, the contractor also experienced a shortage of operating capital due to the very low bid price. For these reasons, the contractor lost interest in completing the project within schedule. Although the Urban Road Project Office (URPO) instructed and warned the contractors to improve their productivity, they found no remarkable improvement. Finally, DPWH agreed with PAJARA Construction Corp. to terminate the contract. DPWH allowed the contractor to complete whatever items of work had not yet been completed. At the time of this agreement, only 30% of the project was accomplished, although the construction had started approximately 20 months before. This termination was officially confirmed by the DPWH in February of 1990.

After the termination of the first contract, the bidding process for a new contract began in June of 1988. The new contract package included: the remaining works specified in the first contract, and the recommended additional works to raise the road level along the Talayan Creek (between Quezon and Del Monte Avenue) and the completion of the open channel waterway with stone masonry retaining walls from Calamba to Retiro Streets. The PAJARA Construction no longer joined the bidding process for the new contract. The Makati Development Corporation won the bid for the new project contract in 1990. The winning bid was higher than the original price by around 40 million pesos (about 70% of the original price).

The DPWH put high priority on completing the construction of the three sections included in the package before December of 1990. However, the construction once again fell behind schedule because the Makati Development Corporation suffered from the lack of the manpower and materials. The contractor was directed to improve the situation several times. But it was only in July 20, 1991 that the section of the project from Ma. Clara to Retiro Streets was finished and opened to traffic. Although one year behind deadline, most of the works were completed in December of 1991. And finally, on January 14, 1992, the C-3 Package A-1 was formally opened to traffic.

Project Implementation Process: Package A-2

The first bidding for the Package A-2 was opened to the public in December of 1987. But since there was no pre-qualified contractor that accepted the priced proposed by the DPWH, a failure of bidding was declared. Then, a second bidding was conducted in June of 1988. However, the lowest bid price was 22 percent higher than the Approved Agency Estimate (AAE) which was 52,341,171.65 pesos. The bidder with the lowest bid price rejected the proposal from the DPWH to accept the AAE price. The DPWH then started to negotiate with the second lowest bidder, the Makati Development Corporation. Although the Makati Development Corporation accepted the AAE price, the DPWH needed ten months to get the concurrence from OECF for accepting
the Makati Development Corporation as the contractor. This was because the price negotiation itself violated the guidelines of OECF. After 10 months of waiting a concurrence from OECF, the Makati Development Corporation requested the price adjustment due to the process delay. Finally, it seemed that the contract with the adjusted price was finalized on July 10, 1989. But the DPWH Secretary declared that no price adjustment will be made considering the higher cost demanded by the negotiated contract. This particular contract was eventually nullified.

Although, price negotiations between government authorities and bidders have been a common if not popular practice among the construction companies in the Philippines, the OECF’s guideline for the procurement under its loan states that a bidder shall not be required as a condition of award to undertake the responsibilities to modify the bid. The new Amendment of the Implementing Rules and Regulations of Presidential Decree (PD) 1594 was established in 1990.

The third bidding was conducted in May of 1990. The Makati Development Corporation finally won the bid for the Package A-2 at 78,888,583.10 pesos. This price was 50 percent higher than the original AAE price.

The project was also delayed by a whole year of legal battle between the URPO and the land owners due to the problems in valuation of necessary compensation. Previously, ROW acquisition cost was based on assessor’s and owner’s valuation. The lower value was adopted by the government for valuation purposes. However, oftentimes, the assessor’s valuation was not updated to current market levels, while the owner’s valuation is too subjective. This meant that the valuation was almost always unacceptable to the affected party. Also, the valuation only included land and structures, but not special facilities such as factory machines and the like. Thus, there were legal conflicts which were elevated to the Supreme Court of the Philippines. Eventually, DPWH lost the case.

**Project Implementation Process: Package B**

The Package B of the C-3 Project was also known as the Makati-Mandaluyong Road Project. This 2.72 km road connecting Makati Avenue to Shaw Boulevard consisted of two segments. The Satrap Construction Co. won the bid for this package at 29,501,735.11 pesos. They received the Notice to Proceed on October 24, 1988. The construction started in November of 1988.

The construction progressed very slowly, with only 6.73 % of total construction completed within 81% of the originally planned construction period. First of all, only 34.71 % of the route was ready to be worked on due to right-of-way problems.
and concerns about the design. But delays in the construction were evident even on the works scheduled for the workable area. The completion report pointed out the following reasons for the slow progress of the contractor: the scarcity of equipment, the lack of skill and the inefficient project management. Moreover, the report also included the bad weather conditions and the spiraling market price as part of the reasons for the delay. Although the DPWH revised the schedule several times and advised Satrap Construction Co. to improve its performance, the contractor did not show any significant progress in their work. The DPWH finally decided to terminate the contract in November of 1989. In order to minimize the negative impact of the unfinished construction on the general public, the DPWH decided to undertake some of the remaining works themselves.

Then, the DPWH divided the Package B into two parts: Package B-1 (Coronado and San Francisco Streets) and the Package B-2 (in the Welfareville area). The bidding for the Package B-1 was opened to the public on February 15, 1990. Manifold Construction Enterprises Inc. won with a bid of 36,550,791.30 pesos in April, 1990. Construction started in July of 1990 and finished on May 22, 1991. The route was opened to the traffic on May 14, 1991. In almost ten months this section of the project was completed because the contractor took all effort to fast track the construction. To illustrate, when additional piles were needed, instead of importing from Japan, the piles were procured from the local market. The cost may have been higher and the quality lower, nevertheless, construction proceeded without delay. In April of 1991, almost all major works were completed and only some minor items of work remained. Finally, it was completed on May 14, 1991, when the President of Philippines attended the opening ceremony. The improvement of Nueve de Febrero and Martinez Streets were completed under separate agreements between the DPWH, the Manila South Engineering District and the Local Government of the Municipality of Mandaluyong.

The bidding for the Package B-2 was postponed due to the occupancy of squatters at Welfareville. However, all the related agencies made many efforts to clear the site to start the construction. The bidding was conducted in February of 1991. Although the lowest bid offered by the E. Ramos Construction Inc. was 19.5% higher than the AAE price, the contract was awarded to E. Ramos Construction Inc. for this package. The contract was approved on June 18, 1991 together with the Notice to Proceed. The construction also started in June of 1991 because the contractor had already started mobilizing all necessary heavy equipment and manpower even before the issuance of the Notice to Proceed. The contractor had started working at its own risk to catch up with the fast track program of the DPWH. The construction was completed and the road was opened to the traffic on February 14, 1993. This was earlier than the officially inaugurated schedule.
2.3 The Effectiveness of the Project

We show the effectiveness of the C-3 Project by comparing the reference project. Here we use the Metro Manila Radial Road No. 10 as the reference project.

Quantitative Effects and Impacts

The JBIC post-evaluated the qualitative effects of the C-3 Project and the R-10 project by the cost-benefit analysis as of 1996 (JBIC, 1998). In the analysis, the following three benefit factors are assumed: (1) the reduction of travel costs, (2) the reduction of fixed costs, and (3) shortening travel time while the following two cost factors are considered: (1) construction costs including the land acquisition costs and (2) maintenance costs.

The followings are assumed for calculating the Economic Internal Rate of Return (EIRR):

- The project life was assumed to be 20 years from the time of the opening of the road.
- The residual value of the land is accounted for at 21st year from the commencement of the projects.
- Benefits are calculated based on the assumption that the traffic volume of the roads under the projects increases at the same rate as the growth rate for entire Metro Manila. However, the benefits are assumed to be constant from the year when the average traffic volume for the sections under the project reaches the average capacity of the road.
- Costs consist only of actual construction costs, and maintenance costs are neglected since the actual amounts executed are small.

Then, the two cases are prepared: With Case and Without Case. It is assumed that the With Case contains the road network as of 1996. Then, the road network in the Without Case for the C-3 Project is defined by extracting the C-3 road from the road network in 1996 while the road network in the Without Case for the R-10 project is defined by extracting the R-10 road from the road network in 1996.

The analysis results show:

- The daily travel cost in the Metro Manila in the With Case amounts to 308.206 million pesos. The daily travel cost in the Metro Manila in the Without Case (C-3) is estimated as 308.969 million pesos while the daily travel cost in the Metro Manila in the Without Case (R-10) is estimated as 309.938 million pesos.
- The economic benefit in the Metro Manila is evaluated as 0.763 million pesos per day (251.93 million pesos per year) for the C-3 Project while it is evaluated as 1.732 million pesos per day (571.56 million pesos per year) for the R-10 project.
The estimated EIRR at post evaluation indicates a high level of net economic benefits for both projects. The EIRR is estimated as 30.3 % for the C-3 Project while it is estimated as 24.5 % for the R-10 project.

Although the EIRR of the C-3 Project is higher than that of the R-10 project, the EIRR estimated at the time of appraisal for the C-3 Project was 120.7 % whereas that for the R-10 project was 24.0 %.

The EIRR came out to be worse than expected for the C-3 Project because the actual traffic volume was lower than initially estimated. However, this project remains highly beneficial.

Qualitative Effects and Impacts

In addition to the direct benefits from the construction of these roads, the following indirect effects and impacts were also obtained.

- Reduction of damages by flooding during rainy season
  The C-3 Road is located on a particularly low altitude in the Metro Manila. Flooding during the rainy season occurred with great frequency. However, the repairs made to the canals along with the rehabilitation and construction of roads successfully reduced the damages brought about by the constant flooding. Also, traffic flow interruptions due to flooding were reduced.

- Improvement of convenience and efficiency to users
  On account of the project, road capacity was increased since the road width was expanded facilitated by the underdraining of the canal near the intersections. Furthermore, the completion of the C-3 Roads and the R-10 Roads reduced the number of transportation transfers for most residents particularly for the office and school commuters taking public transportation (jeepneys and cars).

Post-evaluation of the land acquisition process

The C-3 and R-10 Projects suffered from the difficulties of land acquisition. In fact, all projects in the Metro Manila experienced delays in implementation and project cost escalation due to the land acquisition problems, which also became a factor leading to amendments in the project scope. The post-evaluation report pointed out that the ideal method to prevent the adverse effects of land acquisition difficulties on projects is to complete the acquisition of land prior to the commencement of each project. Unfortunately, in reality, this is not always easy to achieve. A possible alternative might be to establish effective relocation and resettlement programs for the residents.

2.4 Identification of Important Institutional Spillovers

One example of an important institutional spillover of the C-3 Project is the Amending of the Implementing Rules and Regulations of PD 1594. Midway in the
implementation of the C-3 Project, the DPWH changed the rules in the bidding system. To know what were the institutional influences of the change in the bidding system, the following were done: we described the case relating to this institutional change and we examined the socio-economic context of the institutional change (including the common negotiation practices in the locality and the external factors that have some bearing on the system change). To analyze the process of the change in the bidding system, we first identified the key actors. Afterwards, the actor’s strategies were examined by laying out their hypothetical options and hypothetical targets. Finally, the institutional spillovers of the amendment of PD 1594 were discussed.

Case Description

PD 1594 stipulates the basic rule of tendering in the Philippines. It clearly states that the successful bid price should not be above the given ceiling price. In other words, the bidder can only win the bid when his/her proposed price is lower than the given ceiling price. If the lowest bid price would be higher than the ceiling price, the contract could not be agreed. However, in such a case, it is said that the DPWH had often negotiated with the bidders to change the bid price into the lower price.

According to the interview with the Japan Overseas Consultant (JOC), it was the JOC that pointed out that the negotiation between the DPWH and the lowest price bidder violated the Guidelines for Procurement of OECF. The JOC took the role of advising the DPWH under the contract with the JBIC. The OECF guidelines stated that a bidder shall not be required as a condition of award to undertake responsibilities or to modify the bid (Section 5.09 Award of Contract/OECF), such as asking them to change their bid to the AAE. The JOC warned the DPWH of this violation during the implementation of the package A-1, in 1989.

Based on the indication of the JOC, the DPWH amended the Implementing Rules and Regulations of PD 1594 in 1989, to exempt projects funded by the foreign loans from the rule that requires that successful bids be priced under the ceiling price (AAE). In other words, bidders could win the tender even with the bid price higher than the ceiling price if the project was funded by foreign loans. This amendment was applied to the third bidding of package A-2 in the C-3 Project.

Social and Economic Context

In the Philippines, it is said that it has been for many years the common practice of the DPWH and the construction companies to negotiate the contract prices of projects. It appears that both DPWH and the construction companies have benefited from this scheme. For the DPWH, it gains from this price negotiation in two ways. It will no longer have to conduct another bidding process, thus, avoiding the additional
costs. Furthermore, DPWH will no longer need to raise the contract price if the bidder agrees to comply with the AAE. They can save on the contract cost with the low ceiling price. For the construction companies, negotiating the price with the DPWH is very important if not necessary to win the contract. And for most companies, winning a major contract with the government enabled them keep their company running.

However, the DPWH and the construction companies are not negotiating on an even playing field. The DPWH has the stronger bargaining power in the price negotiation. It makes the final decision on the contract, therefore, the construction companies will have to concede to the decisions made by the DPWH. As a result, the DPWH most often will succeed in negotiating for a contract price equal to the ceiling price.

But, this practice of price negotiation is notably one of the causes of the projects being delayed. To begin with, it makes the bidding process more complicated and time consuming. When bidders do not tender the best possible price, continuous negotiations will have to be made between the DPWH and the construction companies. Moreover, the practice of price negotiation can also lead to capital shortage on the side of the winning contractors. This may not only take away the incentive for higher productivity and faster project completion, but this too may destroy the morale of the construction industry. The forming of relationships that go beyond the professional level could also be a consequence of this long-standing practice of price negotiation between the authorities and the construction companies. This could possibly lead to many different kinds of corruption. But sadly, there is no evident effort to change this situation in the domestic construction market.

However, there were two external pressures that beleaguered the construction industry in the Philippines in the 1980’s. First is the construction boom that happened during the implementation of the C-3 Project. The construction companies suffered from the rapid increase of the domestic demand for construction materials and related resources. The construction boom caused the considerable increase of the market price for construction materials. In addition, the rapid growth in the construction industry also posed new challenges in managing the equipments and the human resources necessary for the projects. Unfortunately for the construction companies, while the market price increased, the contract price remained the same. Albeit knowing that the ceiling price will never cover the required cost of the project, the construction companies could do very little about the problem because DPWH will certainly negotiate for a contract price that does not exceed the ceiling price.

The second external factor that made an impact on the Philippine construction industry is the entry of the JOC into the domestic bidding system during the
implementation of the C-3 Project. As mentioned earlier, despite knowing about the various problems caused by the long-standing custom of price negotiation, the domestic stakeholders did not take any evident measure to change the system. Actually, the practice of price negotiation may have been favored by the authorities and the construction companies simply because they benefited from the said system. However, when the JOC joined in as the project adviser to the DPWH, changes started to happen. The JOC warned the DPWH of the problems arising from the bidding system, including its violation of the OECF guideline. As an outsider, the JOC can point out the problems without any political conflict. Finally, the DPWH decided to change the bidding system since the advice from the JOC was reasonable from the legal viewpoint.

Main Actors in the Case

The key actors in the case of the amendment of PD 1594 are the following: OECF (the present JBIC); DPWH and the Prequalification, Bids and Awards Committee (PBAC); and the JOC.

The OECF has a statutory mandate to undertake lending and other operations for the promotion of Japanese exports, imports and economic activities overseas. It is also directed to ensure the stability of international financial order. The OECF also pursues economic and social development activities in the developing economies. By and large, the OECF contributes to the sound development of the Japanese economy as well as the international economy. The OECF does not compete with financial institutions in the private sector. It was the OECF that funded the C-3 Project upon the recommendation of the JICA F/S and after consultation with Philippine Government.

The DPWH and PBAC were the agencies that stipulated the Amendment of PD 1594. The URPO was (and still is) an agency under the DPWH, responsible for implementing the project at the actual site. The other related government agencies cooperated and gave their assistance, however, the URPO was the lead agency that handled the relocation issues and conducted the actual resettlement of those affected. The PBAC was the government committee that dealt with the prequalification, bids and awards. It had the power to officially decide the ceiling price and monitor the bidding process organized by the DPWH.

The JOC was the consulting company hired by the JBIC to advise the DPWH on the C-3 Project. Part of their job was to check the bidding process and the project implementation.
Actor Strategy Analysis in the Process

Next, we examine the details of the decision-making process that may have occurred as amendments to the PD 1594 were introduced.

The DPWH's strategy

We start our analysis with the behavior of the DPWH. It was only after the JOC pointed out that the price negotiation system violated the OECF Guideline that the DPWH decided to amend the PD 1594. Essentially, the amended PD 1594 exempts foreign aided projects from the ceiling price regulation. Why did the DPWH make such a decision? What were the options available to the DPWH? To answer these questions, we examine the DPWH’s hypothetical options and enumerate their hypothetical targets.

The Hypothetical Options of the DPWH:
(D-i) To request the PBAC to revise its system and set a ceiling price that is estimated higher than the current price;
(D-ii) To amend the Implementing Rules and Regulations of PD 1594 to exempt only the foreign aided projects from the ceiling price regulation;
(D-iii) To amend the Implementing Rules and Regulations of the PD 1594 to exempt all projects from the ceiling price regulation;
(D-iv) To apply the exception only for this project; and
(D-v) Status-quo.

The Hypothetical Objectives of the DPWH:
(D-1) To implement the project at a lower cost;
(D-2) To complete the project earlier;
(D-3) To ensure the quality of project by working with well-qualified contractors; and
(D-4) To maintain a good relationship with the OECF/Japanese Government.

It is understandable that the option selected by the DPWH was considered in view of the above mentioned objectives. Based on the interviews conducted, it appears that the DPWH put high priority on implementing the project at a lower cost (D-1 Objective) and was also very much concerned about completing the project at an earlier time (D-2 Objective). The DPWH may have also recognized the importance of maintaining a good relationship with the OECF/Japanese Government (D-4 Objective), however, this was not readily observed. Furthermore, the DPWH may have also wanted to guarantee the quality of the project by working with well-qualified contractors (D-3 Objective). However, when the DPWH pushed for the fast-tracking of
the construction in the later stages of the project (particularly of Package B-2), they clearly showed that this objective was less important compared to the other targets.

This is how we evaluated the actions taken by the DPWH. First, it is clear that the DPWH did not choose Option D-iii which would have exempted all projects from the ceiling price regulation. However, a more problematic scenario in the bidding process can be expected if no degree of regulation is prescribed to all the projects. Therefore, to amend PD 1594 in this direction will potentially result in the government losing a huge amount of money. Hence, D-iii Option is incompatible with the DPWH’s D-1 Objective. Second, the DPWH did not choose D-iv Option which would have applied the exemption only for this particular project. Anticipating the possibility of the same problem arising in the future, the DPWH may have avoided Option D-iv. The DPWH may have anticipated that the JOC and the OECF might reject any temporary solution to the problem. But above all, stop-gap solutions do not offer long term answers to the problem and may even bring additional costs and time delay to the projects. Therefore, Option D-iv does not fulfill D-1 and D-2 Objectives of DPWH. Third, the DPWH did not choose the Option D-i which would have requested the PBAC to revise its system and set a ceiling price that is estimated higher than the current price. This option would have required many consultations and long discussions with pertinent government agencies (not only with the PBAC). Therefore, this option will also not satisfy the D-2 Objective of the DPWH. Finally, there was the option to keep the status quo (D-v). But since amendments were later made to the Implementing Rules and Regulations of PD 1594 to exempt foreign aided projects from the ceiling price regulation, DPWH evidently opted to pursue D-ii Option. The action taken by the DPWH was quite clear, however, to evaluate what the DPWH prioritized as their primary objective is neither simple nor obvious because none of the objectives are necessarily dominant over the others. However, it could be that after comparing the Objectives D-1 and D-2 with Objective D-4, the DPWH may have considered it more important to maintain a good relationship with OECF/Japanese Government (Objective D-4) rather than to keep a low construction cost and to complete the project early. But what could have been the reason for this consideration? It is possible that implicit threats to stop the loan by the OECF may have been made. The possible withdrawal of the loan may not have been communicated directly by the OECF because in principle the OECF never intervenes in the domestic affairs of the country receiving the loan. However, this may have been brought to the attention of DPWH by the JOC. We learned from the interviews, that the OECF and the JOC conducted a special seminar on the OECF Guideline during the project. So whether or not the OECF instructed the JOC to recommend a revision as a condition for the loan approval, somehow, the involvement of JOC in the project may have significantly influenced the DPWH to make the necessary revision to the bidding process.
The OECF’s strategy

Suppose that the OECF came to know (probably through the JOC’s report) of the violation made by the DPWH against the OECF Guideline in the bidding process. Then, what options did the OECF have hypothetically? We list OECF’s hypothetical options as follows:

The Hypothetical Options of the OECF:

(O-i) To indirectly request the DPWH to carry out changes to improve the bidding process. The OECF will not directly confront the DPWH about the violation against the OECF guideline. While it will not directly act upon the violation, however, it will carefully scrutinize the subsequent steps in the bidding process to ensure that it goes above board

(O-ii) To indirectly request the DPWH to carry out changes to improve the bidding process. The OECF will not directly confront the DPWH about the violation against the OECF guideline. While it will not directly act upon the violation, however, it will reject all the bids received by the DPWH.

(O-iii) To directly recommend the DPWH to stop the bid price negotiation for the projects funded by foreign aid; and

(O-iv) To halt the loans to the project.

The following are the hypothetical objectives that the OECF may have had:

The Hypothetical Objectives of the OECF:

(O-1) To safeguard the interests of Japan. This may include maintaining the good reputation of Japan in other countries.

(O-2) To contribute to the development of the Philippines.

(O-3) To strictly follow the Guideline/Rules that conform to international standards.

We now discuss the possible objectives considered by the OECF. What could have been first priority among their list of objectives? It is most likely that the O-1 Objective of safeguarding the interests of Japan preceded all other targets. However, the OECF may have also been concerned about the development of the Philippines (O-2 Objective). It is also very likely that the OECF may have also wanted to strictly follow the guidelines that conform to international standards (O-3 Objective). Essentially, to pursue O-3 Objective may also fulfill O-1 Objective. However, in some cases, these two objectives may get into conflict with one another. To illustrate, the reputation of OECF and consequently of Japan may be negatively affected if it will impose on the local government the strict implementation of the guideline/rules. In principle, the OECF does not interfere in the domestic affairs of the country receiving the loan, hence, it
difficult for the OECF to overtly pursue the O-3 Objective.

Next, we analyze the actions taken by the OECF vis-a-vis the options which they did not take. First, the OECF did not opt to halt the loan (O-iv Option). If this was the option taken by the OECF, we could expect problems relating to the diplomatic relationship between the Philippines and Japan. Hence, O-iv ran contrary to O-1 Objective. Second, since the OECF maintains a policy of never directly intervening in the local affairs, it did not choose the O-iii Option which is to directly recommend that the DPWH to stop the bid price negotiation for the foreign aid projects. Third, the OECF did not choose Option O-ii which is to not directly confront the DPWH regarding its violation of the OECF guideline, but instead reject all the bids received by the DPWH. If this was the choice of the OECF, this in effect will paralyze the bid process and will definitely bring about delays in the project completion. But more importantly, if all the bids received by the DPWH were completely rejected without any explanation from the OECF, tension/animosity may arise between the OECF and the DPWH. Option O-ii therefore does not achieve Objective O-2. Finally, the OECF has no other choice but to choose the Option O-i. So, did the OECF choose Option O-i? We have no evidence as to whether the OECF chose the option (O-i) or not. However, we suppose that the OECF had a strong incentive to follow the international standard at that time. In the interviews with the then-officers of the DPWH, they pointed out that the OECF projects used to be implemented less strictly than the other organizations such as the World Bank and the Asian Development Bank. We guess that the OECF had already become aware of such reputation among the local stakeholders. This could give the OECF the incentive to begin to operate in a stricter manner. If the OECF had strong incentive to change the situation, we may add to the above list another hypothetical option for OECF to choose from.

The Additional hypothetical option of the OECF

(O-v) To request the JOC informally to influence the DPWH to improve the bid price negotiation system.

The interviews with the JOC revealed that the JOC had the several discussions regarding the DPWH’s violation of the OECF regulation. Although the JOC did not explicitly state this, it appears possible that the OECF requested the JOC to recommend to the DPWH to implement changes in the bidding system. And even if the OECF did not make the request explicitly, the JOC might have taken some actions to influence the DPWH to voluntarily make the desired changes, after the discussions with the OECF.
The JOC’s strategy

It is supposed that the JOC came to know that the DPWH violated the OECF Guideline in the bidding process. What then were the options that the JOC had, hypothetically? We list the JOC’s hypothetical options as follows:

Hypothetical options of the JOC

(JOC-i) To ignore the violation and not discuss it with the OECF;
(JOC-ii) Not to confront DPWH regarding the violation, but discuss it with the OECF;
(JOC-iii) To warn the DPWH about the violation without discussing it with the OECF; and
(JOC-iv) To warn the DPWH about the violation and discuss it with the OECF.

The hypothetical objectives that the JOC had are summarized as follows:

Hypothetical objectives of the JOC:

(JOC-1) To work well in the project as an efficient adviser to the DPWH;
(JOC-2) To get much profit from the project; and
(JOC-3) To keep JOC’s good reputation especially with the OECF.

First, which objectives did the JOC prioritize most? On the one hand, the JOC should pursue the objectives (JOC-1) as a consultant. One of the ways to achieve the objective (JOC-3) is also by satisfying objective (JOC-1). On the other hand, the JOC also needs to pursue the target (JOC-2) as a private company. To get more profit, the JOC may need to take the efforts of reducing the cost and/or avoiding the unnecessary work. Thus, to achieve objective (JOC-1) may be, to some degree, in conflict with objective (JOC-2).

Next, how did the JOC evaluate the options? It may be better to discuss this by considering the following two sub-questions: how did JOC evaluate the options to discuss the violation with the OECF (JOC-ii) and (JOC-iv)?; and how did the JOC evaluate the options to advise or warn DPWH regarding the violation (JOC-iii) and (JOC-iv)? First, the JOC seems to have discussed DPWH’s violation with the OECF. This is probably because the JOC wanted to contribute to the OECF as an adviser. As shown earlier, this may lead to JOC having a good reputation with the OECF. Next, the JOC recommended that DPWH amend the implementing rules and regulations of PD 1594, since the JOC judged that continued violation of the OECF guideline is undesirable, especially from an ethical viewpoint. Additionally, the JOC may have been afraid that it would take a long time to complete the bid price negotiation between the DPWH and the bidders. If the negotiation process were to continue
longer, the JOC would also be burdened with more costs, in violation of the objective (JOC-2).

Institutional Spillover in the Amendment of PD 1594

To discuss the institutional spillover observed in the amendment of PD 1594 we focused on the interactions between the DPWH and the OECF. We looked into their interactions in two ways: first, is the situation in which the OECF does not have the option (O-v); and second, is the situation in which the OECF has the option (O-v). Note that the option (O-v) of the OECF means “to request the JOC informally to influence the DPWH to improve the bid price negotiation system”.

Suppose that the DPWH has the two options: (D-ii) and (D-v). Note that (D-ii) means “to amend the Implementing Rules and Regulations of PD 1594 to exempt only the foreign aided projects from the ceiling price regulation” and (D-v) means “status-quo”. Next, assume that the OECF has the two options: (O-i) and (O-iv). Note that (O-i) means maintaining “status quo” whereas (O-iv) means “to halt the loans to the project”. Let us examine the combination of these options between two actors as the following matrix. This can be regarded as a simple non-cooperative game between the two players.

Table 2.2: Game on the PD 1594 between the DPWH and the OECF (without the option (O-v))

<table>
<thead>
<tr>
<th>DPWH</th>
<th>Option (D-ii)</th>
<th>Option (D-v)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change the PD1594</td>
<td>[−a, +b]</td>
<td>[0, 0]</td>
</tr>
<tr>
<td>Status quo</td>
<td>[-M, -M]</td>
<td>[-M, -M]</td>
</tr>
</tbody>
</table>

OECF

<table>
<thead>
<tr>
<th>Option (O-i)</th>
<th>Option (O-iv)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status quo</td>
<td>[−M, -M]</td>
</tr>
<tr>
<td>Halt the loans</td>
<td>[0, 0]</td>
</tr>
</tbody>
</table>

Source: Prepared by the author

We set hypothetically the payoffs for each stakeholder in each pair of options. The left value in the payoff box means the payoff of the DPWH whereas the right value means the payoff of the OECF. First, assume that the payoffs are both zero when they choose the options of status quo. Second, both the DPWH and OECF receive the critical damages when the OECF chooses the option (O-iv). Third, under the condition that (O-i) and (D-ii) are chosen, the DPWF loses the benefit while the OECF earns the benefit. This is because the OECF can revise the PD1594 while the DPWH should take some efforts to change the PD1594. This game has the single Nash equilibrium, that is a pair of (O-i) and (D-v). We call this equilibrium as the “status quo equilibrium”.

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Next, let us introduce the new option (O-v) to the OECF options, replacing O-iv. The new game can be described as follows:

Table 2.3: Game on the PD1594 between the DPWH and the OECF (with the option (O-v))

<table>
<thead>
<tr>
<th>DPWH</th>
<th>OECF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Option (O-i)</td>
</tr>
<tr>
<td></td>
<td>Status quo</td>
</tr>
<tr>
<td></td>
<td>Option (O-v)</td>
</tr>
<tr>
<td></td>
<td>Intervene indirectly</td>
</tr>
<tr>
<td>Option (D-ii)</td>
<td>[-a, +b]</td>
</tr>
<tr>
<td>Change the PD1594</td>
<td>[0, +c]</td>
</tr>
<tr>
<td>Option (D-v)</td>
<td>[0, 0]</td>
</tr>
<tr>
<td>Status quo</td>
<td>[-d, ±e]</td>
</tr>
</tbody>
</table>

Source: Prepared by the author

First, we look at the case where the DPWH chooses (D-ii) while the OECF chooses (O-v) (located at the right-top box). We assume that the DPWH achieves a zero payoff. This payoff is equal to the payoff by choosing the option (D-v) when the OECF chooses the option (O-i). This reflects the DPWH’s situation in which no option is dominant over the other as shown earlier. On the other hand, OECF gains the positive payoff +c. This is because the OECF can bring about the revision PD1594 which will make it in line with its policies. Next, we take a look at the case where the DPWH chooses (D-v) while the OECF chooses the (O-v) (located at the right-bottom box). However, the DPWH gains the negative payoff –d because they may lose face or suffer a loss of reputation with the OECF. On the other hand, the net payoff of OECF may also be negative (-e) because they need to use resources in the effort to intervene in the local affairs despite of their principle.

The equilibrium in this game depends on the final nature of payoffs in the matrix, particularly the values of b and c. If b is greater than c, the game outputs the single Nash equilibrium, that is, the “status quo equilibrium”. If b is equal to c, the game outputs the two Nash equilibriums: the one is the “status quo equilibrium”; and the other is the pair of (D-ii) and (O-v). We call the new equilibrium as the “intervention equilibrium”. If b is smaller than c, the game outputs the single Nash equilibrium, the “intervention equilibrium”.

As the earlier sections show, the “intervention equilibrium” was observed in reality. This is taken to imply that b is equal to or is smaller than c. This probably means that the OECF finds the greater benefit in recommending the DPWH to amend the PD 1594 than doing nothing.
2.5 Assessment of the Influence of Donor Policy and Practice on Institutional Impacts

The donor’s intervention into the local discussion, the technical consultant’s role and the technology transfer from the consultant to the local staff are discussed in this section as examples of the influences of donor policy on the institutional impacts.

Donor’s Intervention into the Local Discussions

As mentioned in section 2.3, in the road projects in the Philippines, the bidding price negotiation system between the DPWH and the construction companies had become a kind of a long-standing practice. Thus, it had become difficult to change it with discussions only among the local stakeholders. This appears to be because the stable equilibrium has been achieved among the local stakeholders. Thus, this situation can be regarded as the locked-in system.

The outsider’s intervention into the local politics is often effective for the local stakeholders to overcome such the locked-in system. Especially when the outsider is the donor to the local project, the influence of their intervention may be greater than the usual case. In general, there are the following three ways of donor’s intervention. The first way for the donor to intervene is to halt the loans to the project. Once the loans are halted, the local stakeholders are forced to recover the loans. As shown later in the discussion of the Batangas Port Development Project case, the President of the Philippines reacted immediately to improve the situation. This was the most effective among the three types of intervention. However, this option is considered generally as the donor’s threat strategy. This is because to halt the loan causes huge damage to both the donor and to the local government. Even if suspending the loan is the threat option, it still holds the enough influence on the local stakeholders to shake up the locked-in system, in the hope of improving it.

The second way for the donor to intervene is to influence the domestic politics directly. This means that the donors will take part of the local political discussions and exert pressure on the local stakeholders to change the institutional system. This is also a powerful intervention which can change the locked-in system. However, this may cause the following problematic side-effects. First, this may lead to the new political disputes among the local stakeholders. It may damage the existing economic/political stability. Second, direct intervention may bring about a loss the local stakeholder’s ownership of the systematic improvements that the intervention seeks to encourage. This in turn could discourage the local stakeholders from developing the country properly. Third, the direct influence may not be appropriate to improve the institutional system. For instance, donors do not always have the enough knowledge and/or experience on the local issues. Thus, the direct intervention of donors may not be effective in bringing
change the local institutional system that they are seeking to bring about.

The third way of intervention is through indirect influence. This means that the donors never openly or publicly require or force the local stakeholders to change the local institutional system, but instead guide them to the better direction. This may be effective if the local stakeholders are allowed to solve the domestic problems by themselves under the donor’s guidance. This is the case found in the C-3 Project. As shown earlier, the OECF had the principle of non-intervention in the local political issues. Instead of direct intervention, they gave incentive (by showing the benefit) to the DPWH to move from the status quo option into the institutional change option. The consultant can take an important role in the donor’s indirect intervention. As an adviser to the DPWH, the JOC probably showed the benefit of changing the PD1594 to the DPWH. As the DPWH was not formally forced to change, they could keep the ownership of (and credit for) the project.

Technical Consultant’s Role

The JOC had an important role in the communication between the OECF and the DPWH. As the JOC is one of the technical private consultants, their main goals would ostensibly be to get much profit from the projects and to work well in the project as an efficient adviser to the DPWH. However, in addition to being merely an adviser, the JOC also worked as a liaison between the DPWH and the OECF. On the one hand, the JOC discussed the DPWH’s violation with the OECF. This is probably because the JOC wanted to project itself as upholding OECF rules and therefore a “team player” together with OECF. On the other hand, the JOC also recommended DPWH to move to amend rules and regulations pertinent to PD 1594, since the JOC judged that it cannot be permitted from an ethical viewpoint.

There are three important characteristics of the JOC’s contribution. The first is that the JOC knew that the OECF could not make direct recommendations to the DPWH regarding the issue because OECF tended to avoid direct intervention into the local issues. In this sense, the JOC partly substituted for OECF. The second is that the JOC worked very closely with the DPWH. The close work probably fostered trust by DPWH of the JOC. Unless the DPWH trusted the JOC, they would not have accepted the recommendation given by the JOC. The final characteristic is that the DPWH did not lose their ownership of the project even though some changes were recommended directly by the JOC or indirectly by the donors.

Technical Transfer from the Consultant to the Local Staff

The main part of the project was completed in 1992. URPO and the consultant (JOC) managed the implementations of the project together for four years, from 1988
to 1992. They had the counterpart working system which made the staff from URPO always work together with the member from the consultant team of JOC. During that period, URPO learned the various skills from JOC. It was considered as the “On the Job Training (OJT)” for the URPO engineers. This OJT helped to enable the URPO to better implement the acquisition of land right of way, which was a prerequisite to continuation of the construction activities related to the project.
SECTION 3: BATANGAS PORT DEVELOPMENT PROJECT

3.1 The Substance of the Project

The Batangas Port Development Project (BPDP) aimed first to improve the freight transportation between the Luzon Island and the Mindoro Island. Second, BPDP aimed to develop the regional economy in the hinterland. Third, the project was meant to complement the Manila Port as one of the major international ports serving Luzon island in the Philippines. The Batangas Port is located at 110 km south of the Metro Manila, on the northeast coast of the Batangas bay, which is at the southwestern part of the Luzon Island. (The maps are shown in Figure 3.1 and Figure 3.2.) Before BPDP, Batangas Port was used mainly for the Ro-Ro vessel service as a gateway to the Mindoro Island.

Figure 3.1: Ports in the Philippines and the Batangas Port

Source: Philippine Ports Authority materials
3.2 The Process of the Project

The Philippine Government and the JICA formulated the Batangas Port Expansion Program in 1984. JICA conducted a F/S for the Development of Batangas Port in December of 1985 upon the request of the Philippine Government. The F/S envisioned the Batangas Port as the main gateway to and from the islands of MIMAROPA (Mindoro, Marinduque, Romblon, and Palawan), the Visayas, and Mindanao. The F/S preparation also included a long-term plan and a short-term plan. The short-term plan aims to improve and expand the existing dilapidated facilities to increase the efficiency of distribution from the port, whereas the long-term plan aims to expand Batangas into a large-scale port. In the future, the Batangas Port was intended to be fully capable of handling foreign cargo, supplementing the service capacity of the Port of Manila. The first phase of BPDP corresponding to the short-term plan covered the area of 22 hectares at the cost of 1.6 billion pesos. The phasing of the BPDP is shown in Figure 3.3. The first phase aimed to solve the problems at the time and meet further growth in shipping demand. The BPDP Engineering Service was appraised by JBIC between May and June of 1987. Its loan agreement was signed in 1988.

Figure 3.2: Sea transportation network to and from the Batangas Port and relocation sites

Source: JBIC materials
In 1989, the Philippine Government requested formally the Japanese Government to make the CALABARZON Development Master Plan. The JICA started to study the Master Plan. During the conduct of the JICA study, President Corazon Aquino announced the CALABARZON Development Plan. On the other hand, the BPDP was appraised by JBIC in 1990, and its loan agreement for the project was signed in July, 1991. JICA submitted the final report, “The Master Plan Study of Project CALABARZON, Final Report” to the Philippine Government in February, 1992. This included the Expansion Plan of the Batangas Port and the Development Plan covering the five provinces at the East and South parts of the Metro Manila.

The Batangas Port Development Project was also included in the “Philippines 2000 Plan” proposed by President Fidel Ramos. The President spoke in 1993 that the “Philippines 2000 Plan” aimed to develop the country as the Newly Industrializing Economies (NIES) member until the end of the century. Under the “Philippines 2000 Plan”, the NEDA formally set up the “Medium Term Philippine Development Plan 1993-1998” (MTPDP). This emphasized the “Sustainable Agri-Industrial Development, Infrastructure Development” as a part of the basic frame of the development strategy.

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1 CALABARZON comes from key syllables of the names of 5 provinces, which are CAvite, LAguna, BATangas, Rizal, and QueZON, where you can reach in around 1 hour by car from Manila. It is one of the best places for the industry to have their factories.
in the Philippines. All the departments in the central government and the local
governments were required to take account of the balance of development between
in agriculture sector and the industrial sector when making their development
plans. It was the Department of Trade and Industry (DTI) that was responsible
for the CALABARZON Plan. The Plan was regarded as one of the most important
development plans in the country at that time. The main port construction actually
started in 1995.

3.3 The Comparison of Relocation Programs

We show the effectiveness of the Phase 1 of BPDP by comparing it with the
reference project. As the similar type of port development projects in the Philippines
is not found, the Pasig River Rehabilitation Project (PRRP) is selected as the reference
project particularly in the context of the relocation problem. The PRRP was supported
by the ADB. The project started in 1997 and terminated in 2002.

• Potential beneficiary families
  1,041 families in Balete and 426 families in Sico were listed as the beneficiary
  families in the BPDP while 10,000 families in the PRRP.

• Financial assistance
  10,000 pesos per family was paid for Balete and Sico in the BPDP while the
  minimum wage was compensated for five working days.

• Housing package
  In Balete, the core houses were funded jointly by DSWD and Philippin Port
  Authority (PPA) which costs 25,000 pesos per unit while 20,000 pesos cash was
  granted for those who opt to build their own houses. In Sico, 20,000 pesos cash was
  granted for those who opt to build their own houses. In the PRRP, amortization (if the
  beneficiary is a PAG-IBIG Fund member) or rent (if not a member) were paid in the
  following amounts: 400 pesos for the 1st year; 600 pesos for the 2nd year; 800 pesos for
  the 3rd year; 1000 pesos for the 4th year, 1200 pesos for the 5th to 10th years, and 1300
  pesos for the 11th year.

• Livelihood program
  In Balete and Sico, 1.5 million pesos Livelihood Fund was committed from the
  President’s Social Fund while the relocatees could work at the site in Montalban as a
  labor force for unit construction and improvement.

• Additional cash grant
  5,000 pesos per family was paid in the BPDP while no additional cash grant was
  paid in the PRRP.

• Facilities present in the relocation site
  In Balete, the following facilities were presented to the relocation site: (1) concrete
paved 8-meter roads; (2) Concrete open canal; (3) CHB-cyclone wire perimeter fence with three gates for both vehicles and pedestrians; (4) 12 units of street lighting; (5) 15 artesian wells and a deep well with an elevated water tank; (6) MERALCO power; (7) 5,000 square meter lot with an 8-classroom elementary school building; and (8) health center with personnel. In Sico, the following facilities were presented: (1) concrete paved 8-meter roads; (2) open canal; (3) deep well with elevated water tank; (4) MERALCO services were initially available after which services were obtained from BATELEC; (5) street lights installed in every corner; (6) day care and elementary schools; (7) health center with personnel; and (8) road to Sico. Finally, in the PRRP, schools were planned to be constructed while the fully equipped hospitals and clinics were proposed.

- Transportation assistance
  Two units of passenger jeepneys were provided in both Balete and Sico while no transportation service was provided in the PRRP.

- Sanitation
  8 public toilets and garbage collection twice a week were provided in Balete while 2 open pits were installed in the area of Sico. The garbage collection system was provided in the PRRP.

- Food assistance
  DSWD assisted the food for the relocated families both in Balete and Sico, including one sack of rice per month and groceries for three months, whereas 3 kilograms of rice was assisted in the PRRP.

3.4 Identification of Important Institutional Spillovers

The conflict encountered during the process of resettlement of the affected local residents during the project implementation is discussed in relation to important institutional spillovers.

Case Description

Barangay² Sta. Clara is located along the northeastern section of Batangas City. It is believed that this portion of the foreshore land was first settled by people even before the 1900s and had been passed down for the generations. Initially composed of the fisherfolk, the community found the other sources of livelihood as the vendors, stevedores, and so on when the port was constructed in the mid-1930s. It is said that many of them had tried to secure the formal ownership of the land since 1969, but

² A Barangay is a local government unit smaller in size and administratively subordinate to the municipality or city. It is headed by a Barangay Captain, supported by the Barangay Council (Sangguniang Barangay) composed of several councilors, all of whom are elected during regular elections.
most of them had failed.

Table 3.1: Details of the Port Development Project

<table>
<thead>
<tr>
<th>Project Scope</th>
<th>Plan (at the time of appraisal)</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Construction / improvement of Ro-Ro berths</td>
<td>Construction of 4 berths, Improvement of 2 berths (Water depth 5m, Length 120-130m)</td>
<td>Construction of 6 berths (all the berths were constructed)</td>
</tr>
<tr>
<td>• Foreign cargo berths</td>
<td>1 berth (Water depth 10m, Length 185m)</td>
<td>Same as left</td>
</tr>
<tr>
<td>• Multi-purpose berths</td>
<td>1 berth (Water depth 10m, Length 220m)</td>
<td>Same as left</td>
</tr>
<tr>
<td>• Creation of reclaimed land, construction of various buildings</td>
<td>Passenger terminal, warehouse, parking lot etc.</td>
<td>Same as left</td>
</tr>
<tr>
<td>• Small craft berth (with breakwaters)</td>
<td>1 place</td>
<td>Change to 7 fast craft berths</td>
</tr>
<tr>
<td>• Construction / improvement of domestic cargo berths</td>
<td>2 berths (Water depth 10m, Length 220m)</td>
<td>Cancelled (postponed to Phase II Project)</td>
</tr>
<tr>
<td>Construction of facilities supporting of relocated residents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Roads pavement from relocation site, Sico to city center</td>
<td>—</td>
<td>9km (addition)</td>
</tr>
<tr>
<td>• Vendor's terminal within the port site</td>
<td>—</td>
<td>1 building (addition)</td>
</tr>
<tr>
<td>Consulting Service</td>
<td>310 M/M</td>
<td>390M/M</td>
</tr>
<tr>
<td>Detailed design / construction supervision etc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: JBIC materials, Philippine Ports Authority materials

It was June 10, 1986 that the then City Mayor/Officer-In-Charge issued the Executive Order No.10, which was the first scheme for carrying out the resettlement for areas covered by the BPDP. This was requested by the Ad-Hoc Coordinating Committee for the Sta. Clara. The Ad-Hoc Committee for Sta. Clara was a civil society group of the Barangay Sta. Clara. The Special Committee for the Sta. Clara was also established, which consisted of the representatives from the Batangas City, the PPA, the DSWD, the Church, and the Ad-Hoc Committee for Sta. Clara. In December, 1986, the City Government of Batangas conducted the first socio-economic survey on the households that would be subjected to the relocation. This survey identified the 718 families living in the 606 (other source accounts say 660) structures. The survey results were presented to the Special Committee for Sta. Clara on February 19, 1987 and to the community on March 5, 1987. Then, the Executive Order No.159 (by the President of the Republic of the Philippines) was issued in 1987. This vested the PPA with the function of undertaking all the port construction projects under its port system and granted PPA financial autonomy. The Committee started to make the plans relating to the relocation. They deliberated and compared the four plan options for relocation. Finally, the Committee chose one of the plans which was proposed by the City Government. This plan recommended the Caedo Property (2 kilometers away from the port with the area of 10 hectares, shown as “Site 2” in Figure 3.2) as a relocation site. The National Housing Authority (NHA) also completed the inspection.
report on the four relocation plans on 23 March 1988. The report pointed out that the Caedo Property was available (the land owner was willing to sell) and the most suitable site.

The Inter-Agency Task Force consisting of the related agencies was established on March 29, 1988. The composition of the Special Committee for Sta. Clara was amended on April 15, 1988 in order to expand the membership. This intended to allow wider government participation and foster the exchange of ideas among the stakeholders. The Inter-Agency top level meeting which included the representatives from PPA, NHA, the DPWH, DAR, the local congressman, the Batangas City Government and the Special Committee for Sta. Clara, was held on 16 December 1988 to further examine the Caedo property. However, they could not reach a consensus on the Caedo property. This was because they found that a high development cost was needed and that the relocatees refused the Caedo property since the area was vulnerable to the flood. As a result, the Caedo property was eventually bought by a private individual.

The President Corazon Aquino issued Executive Order No. 385 on December 19, 1989, delineating the territorial jurisdiction of the Batangas Port. They restarted the process of selecting the relocation site and formulating the implementation system from the beginning. The liaison Monitoring Committee was formed on March 8, 1990 to search for alternative relocation sites. However, the three alternative sites that were under consideration were found to be unavailable. On September 17, 1990, the City Mayor, the Sta. Clara Barangay Captain and the Ad Hoc Committee Chairman for Sta. Clara met together and proposed the Serrano and Villa Anita properties as the new relocation sites. However, the PPA rejected this proposal due to the high cost of the properties in October of 1990. President Corazon Aquino then issued Executive Order No.431 on October 19, 1990 to carry out the initial implementation phase of the BPDP. This expanded the jurisdiction of the PPA under the Executive Order No.385 and delineated the port area to include the area occupied by the residents of Sta. Clara. The PPA, the NHA, the Provincial and City Government representatives and the Barangay Council started to make a detailed study on the selection of candidate relocation areas, and a the meeting was held on October 27, 1990. In this meeting, they confirmed that the Barangay Council members in the meeting were representing the affected residents. This means that they were tasked to communicate with the residents. The Assistant General Manager Engineering, the Port District Office(PDO)-Luzon District Manager, the City Mayor of Batangas, the NHA representative and the officials of Barangay Sta. Clara completed the evaluation work on the fifteen candidate sites in early January, 1991. They held the meeting for the relocation project during the selection process at the Batangas City Hall on February 23, 1991.
and on March 2, 1991 with the officers and the Barangay Captain of Sta. Clara. Three candidate sites with the highest priority were selected and then again inspected by them. However, in Gulod, the Barangay Council of Gulod protested the use of Gulod as a relocation site. The Barangay Council of Balagtas found that the half the property had been already sold in Balagtas. The remaining candidate, Balete (7 km away from the port with an area of 6.5 hectares, shown as Site 3 in Figure 3.2.) was considered as the most appropriate relocation site. Then, the District Congressman, the Batangas Governor, the Bantagas City Mayor and the Sta. Clara Barangay Captain sent a letter to the PPA General Manager endorsing Balete as the relocation site on May 9, 1991. The PPA purchased the Balete property at 5.61 million peso including approximately 65,952 square meters on May 24, 1991. However, the local residents in the Barangay Balete filed the petition to the Municipal Council, opposing the proposed relocation in Balete on July 8, 1991. In addition, the Barangay Captain of Balete aired the opposition of the Balete residents in the meeting on February 3, 1992 where the PPA Project Manager was invited.

The Urban Development and Housing Act (Lina Law), enacted on March 1, 1992, also affected the proceedings of the negotiations as the law secures the compensation for the squatters and specifies the process for the conduct the demolition when the relocation was held. The BPDP was the first national project to which the Lina Law was applied.

The public hearing on the relocation relating to the BPDP was held in September, 1992 although the land in Balete had been already purchased by the PPA. The Barangay Captain of Sta. Clara, who was the only local resident attending the public hearing, reported that the affected residents in Sta. Clara were opposed to the relocation project. However, the PPA answered that it was impossible to reselect the site since the huge amount of money had been already spent on the site development as well as the other options were unavailable. The local residents of Sta. Clara also insisted that the public hearings should be held in their places and they refused to attend the public hearing. However, the PPA concluded that there is no opposition against the PPA-proposed relocation project in the public hearing since there was little attendance by local residents.

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3 Later the area of Sico (15 km apart from the port with the area of 4.5ha. It is the Site4 in Figure 3.2.) owned by Batangas City was also provided to people.

4 The Captain himself was in favor of the relocation project.
The Presidential Commission for the Urban Poor (PCUP) conducted the survey on the area of Sta. Clara in 1992. It showed that 80 percent of the Sta. Clara population were the illegal settlers and also identified the 971 affected families. The first voluntary relocations took place on November 15, 1992. However, the resident opposition group hindered it with a barricade to prevent the relocation. The PPA completed the site development of Balete on November 30, 1992. Also a Notice to Vacate was issued on January 20, 1993. However, no residents moved. Then, the Presidential Management Staff called a meeting on February 15, 1993 to discuss the facilitation of mobilization activities. The Ad-Hoc Inter-Agency Committee was also set up under the instructions of the President. It attempted to explain the necessity of developing the port to the residents. The committee was composed of the representatives of the Department of National Defense (DND), the Department of Transport and Communications (DOTC), with the PPA, the NHA, the PCUP, the Presidential Advisory Committee, the Philippine National Police (PNP), the Batangas City, the Batangas Province, and the DSWD. The deadline for voluntary relocation was set as March 15, 1993. A strong opposition group supported by the thirteen Non Governmental Organization (NGOs) emerged suddenly and initiated the anti-relocation actions. They sent a joint letter to the President Fidel, Ramos on March 9, 1993. The deadline of the voluntary relocation was postponed due to the dialogue between the Inter-Agency Committee and the Sta. Clara leaders at the Camp Miguel Malvar, Batangas on March 12, 1993. Some local residents started to voluntarily move
in search of a peaceful life in March of 1993. Most of them found the government’s package attractive since they did not own their houses.

The PPA petitioned JBIC for the contract agreement on the construction portion on May 19, 1993. However, this was withheld by JBIC because of the lack of progress on the relocation problem. This made the Philippine Government notice that the relocation problem in the Batangas Port Development is extremely important and forced them to solve it soon. The PCUP and the NHA conducted a Census Revalidation Survey for the Ad-Hoc Inter-Agency Committee from June 6 to 12, 1993. They identified 1,467 families as the affected residents by the port project. Of the total number, 1,028 were the structure owners, whereas 151 were the renters and 381 were the sharers. The committee held the consultations with the local residents/squatters till the end of 1993. In any consultation, the committee had a discussion with the residents. The local residents demanded for more assistance while at the same insisting to move to nearer sites. Eventually, the community leaders proposed their own assistance package requiring the PPA to pay an extraordinary amount of compensation. The demanded compensation is 400 percent higher than the original cost (see the various assistance packages proposed in Table 3.2). Upon seeing the surprising demands proposed by the local opposition group, NGOs started to withdraw the support.

The committee conducted a census survey and validated the final list of the local affected families on October 26, 1993. It concluded that the total number of affected families was 1,465. The Evacuation Notice (Notice to Vacate) was issued again on January 20, 1994 and the next was issued on February 3, 2004. These indicated that a demolition would be carried out if the voluntary relocation has not taken place within one month. These notices followed the legal procedures shown in the Republic Act No.7279 (the Lina Law). The port was temporarily closed to preserve the public order on March 21, 1994, as there was friction between the opposition group and the PPA before the port temporary closure. The PPA issued the first Notice of Actual Demolition on April 20, 1994. This announced that the demolition would go ahead from April 25, 1994. However, the demolition was not carried out. It was postponed because on April 27, 1994 the JBIC requested the Philippine Government to find a peaceful solution. The NGOs and the media also pressured the government with the campaign against the project.
Table 3.2: Examples of the various assistance packages proposed

<table>
<thead>
<tr>
<th>Assistance Package Proposals*</th>
<th>Early in the Negotiation Process (around 1993)</th>
<th>Demands from the Community Leaders</th>
<th>Demands from the Community Leaders (after dialogue deadlock)</th>
<th>Final Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area and Location</td>
<td>For structure owners: Free 50 sqm. lot in Baliti. For renters/sharers: Free lot in Sinc.</td>
<td>Free 100 sqm. lot in a relocation area near the port.</td>
<td>Free 50 sqm. lot in Barangay Baliti.</td>
<td>For structure owners: Free 50 sqm. lot in Barangay Baliti. For renters/sharers: Free 70 sqm. lot in Barangay Sinc.</td>
</tr>
<tr>
<td>Housing Arrangement</td>
<td>For structure owners: Free core house and cash loan payable to 11 years with 6% interest per annum. For renters/sharers: Earning P4,000 and below - free core house.</td>
<td>A housing loan from P100,000 to P150,000 per family which will be paid in 25 years with 2% to 5 years moratorium.</td>
<td>A housing loan worth P40,000 to be amortized in 25 years.</td>
<td>For structure owners: Free core housing or P20,000 cash.</td>
</tr>
<tr>
<td>Livelihood</td>
<td>P3 million Livelihood Fund to start a cooperative. Job Priority Assurance Certificate for those qualified to work during the construction and operation of the port.</td>
<td>All application for business inside the port shall have prior approval of the community leaders.</td>
<td>Assurance of business opportunities during construction. P3 million Livelihood Fund from the President. Multi-Purpose Co-op will be awarded the right to operate at least 30% of the prevailing services at the port.</td>
<td>The President’s Social Fund allocated P1.5 million for the Transportation Cooperative in both relocation areas. Priority hiring for post construction projects.</td>
</tr>
<tr>
<td>Disturbance Pay</td>
<td>P10,000 per family</td>
<td>P50,000 - P50,000 per family.</td>
<td>P50,000 per family</td>
<td>P15,000 per family.</td>
</tr>
<tr>
<td>Damage Compensation</td>
<td>Not applicable</td>
<td>Structure owners shall be compensated for their demolished houses in accordance with their assessed value but not lower than P10,000.</td>
<td>Not applicable</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Conditions/ Additions</td>
<td>Free assistance in the form of one sack of rice per family for the first three months after relocation. No relocation shall take place unless all housing units are completed in the relocation area.</td>
<td>Subistence assistance for a transition period of 3 months.</td>
<td>Food assistance of one sack of rice per family for the first 3 months after relocation as well as some dry goods.</td>
<td></td>
</tr>
</tbody>
</table>

* The actual dates could not be ascertained from the documentation.

Source: JBIC materials

The leader of the opposition group was elected as the new captain of Sta. Clara Barangay in May, 1994. This made the relationship between the Government and the local residents even more strained. Although the PPA attempted to hold further dialogues with the affected families, it was rejected by the opposition group. This made the Government conclude that there was no way to avoid forcible demolition. Finally, the President Ramos approved the demolition. On June 24, 1994, the PPA again issued a notice that the site would be cleared and the buildings would be demolished on June 27, 1994. The local residents did not respond to the notice. The demolition started at 9:10 am on June 27, 1994 without any notification to the JBIC and the Japanese Government. It finished was on July 3, 1994. About 300 employees of the private construction companies were hired for the demolition work while about 300 PNP officers guarded the work by ensuring the security of the operation. The Government made much effort to conduct the demolition peacefully. However, in the turmoil of the first demolition day, several people were injured.

From the legal viewpoint, the demolition satisfied all the conditions stipulated in the Article 28, the RA No. 7279 and in the implementing rules of the article. However, the Japanese Government announced its strong dissatisfaction with the demolition to the Philippine Government on July 8, 1994. The Japanese Government also decided to defer the approval of contract for the construction and to suspend the loan. The affected local residents and the NGOs in both the Philippines and Japan pressured and requested the Japanese Government to suspend the ODA loan. The President Ramos started to work to improve the situation. He met the anti-relocation people
directly and talked with them on August 19, 1994. Led by the positive intervention of the President of the Philippines, the Prime Minister of Japan, Tomiichi Murayama announced that the finance to the BPDP would be resumed when the climate was right at a summit held in Manila on August 24, 1994. On December 19, 1994, the Japanese Government and the JBIC resumed the loan under the condition that the Philippine Government made the firm promise to have a “peaceful solution” with the relocated residents. The following three notes were exchanged between the Japanese Government and the Philippine Government:

- The first was to continue the efforts to persuade the dissenting residents and to accomplish the peaceful and legitimate relocation;
- The second was to take the measures to improve the lives of the relocated residents, including the employment at the port and the infrastructure improvement at Balete and Sico; and
- The third was to establish a monitoring committee with the participation of the both governments.

Then, the Japanese Government and the JBIC initiated efforts to support the improvement of the lives of the relocated residents by providing a grassroots grants\(^5\). This included the construction of a clinic in Sico and the provision of the medical equipment for the clinic in Balete. The main construction work of the project began on February 8, 1995. The road from Sico to the city center (9km) was also repaired using a portion of the project loan. Road repair, including crack repair, was carried out between January and November, 1997. The assistance package covered much more than what is stipulated in the RA No. 7279. It was also more comprehensive and expensive than any other case in the Philippines. On August 15, 1995, the Barangay Captain, who was also the representative of the opposition group Sta. Clara Community Based Organization (CLARA-CBO), went to Japan to meet the Prime Minister of Japan, Tomiichi Murayama and requested him to stop the construction in the Batangas Port. She also pointed out that the BPDP using Japanese money hurt the poor in the Philippines rather than helping them. She even stated that the project is the Japan’s invasion into the Philippines and its benefit goes only to the Japanese investors. By this time, 1,458 out of 1,467 of the affected families had received the financial assistance. The CLARA-CBO leader went to Japan again on October 31, 1995 in order to solicit the assistant funds from the Japanese NGOs and the Japanese people. This assistance fund partly financed the purchase of the Puyo Property. Puyo was the one of the relocate sites which were rejected by the PPA. Some affected

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\(^5\) Grassroots Grants is the Grant Aid for small projects proposed by local government or NGOs in the developing countries, to support the projects which are difficult to fund by ordinary grants through the diplomatic establishments abroad of Japan.
residents moved into Puyo by purchasing the land by themselves. The PPA made the surveys for the BPDP Phase 1 especially on the affected families after the start of the construction. The Court of Appeals in Manila promulgated the judgment on the case in which the 406 counter-claimants including the CLARA-CBO leaders sued the PPA on October 29, 1996. The Court stated that the demolition was simply done in a harsh manner, not sanctioned by law, without the adequate provision for its after effects. While the Court did not sanction the manner in which the demolition was effected, it sanctioned the taking of the property for the public use. The PPA has contested this ruling and is currently appealing the decision.

The construction of Phase 1 in the BPDP was completed in March, 1999, three years and seven months behind the original schedule shown in the JBIC appraisal. This was mainly due to the relocation problems mentioned above. The changes in the scope of the project also caused the delay in the schedule. This includes the additional construction of the facilities to support the relocated residents and the conversion of the small boat berth to the high-speed boat berth (indicated as A in Figure 3.6.). The high-speed boat berth was introduced because the high-speed boat service connecting between Mindoro and Batangas started. The constructions and improvements for the domestic cargo vessels were canceled in the revised design. After the completion of the Phase 1 in the BPDP, the PPA finally made the agreement with the local residents in the Batangas City about the compensation amounting to 34,995,938.72 pesos in December of 2000. It was the last computation of the net claims from the affected residents of the Batangas City involved in the project. The leader of the opposition group and the affected residents also signed for this. The finally agreed-to compensation was much more than the original price.

Figure 3.5: A vessel staying at the berth in the Batangas Port

Photo by Hironori Kato
Main actors in the case

There were five key actors in the conflict of the BPDP: (1) JBIC; (2) PPA; (4) the squatters/local residents; and (5) NGOs.

The JBIC has a statutory mandate to undertake lending and other operations for the promotion of Japanese exports, imports and economic activities overseas; for the stability of international financial order; and for economic and social development as well as economic stability in the developing economies, thereby contributing to the sound development of the Japanese economy as well as the international economy. The JBIC operates under the principle that it will not compete with financial institutions in the private sector. The JBIC funded the Phase 1 of the BPDP based on the JICA’s F/S with the request from PPA. The JBIC made the post-evaluation survey focusing on the resettlement of the local residents, which gave rise to serious conflict in the project implementation process.

The Philippine Government is the agent who requested the Japanese Government to finance the BPDP. The Philippine Government regarded the BPDP as one of the most important development plans in the development strategy in the Philippines. The President of the Philippines took an important role for the Philippine Government
especially in the negotiation with the local residents.

The PPA was the executing agency and is one of the public corporations established in 1974 under the supervision DOTC. It is responsible for the construction, operation and maintenance of state-owned ports. The PPA set up a project team for the BPDP with 30 members including its own staff and consultants. It allowed the private sector to participate in parts of the operation and management at the Batangas Port, such as in the passenger terminal operation and the provision of stevedoring services.

The squatters were people not legally settled, although they had lived there for a long time. In the BPDP, more than 1,400 squatters were forced to move from the Batangas Port area to the relocation sites outside of the Batangas port by the PPA. They were formally identified as the squatters in the several surveys, including the JICA’s feasibility study, the survey conducted by PCUP and the Census Revalidation Survey. The squatters can be categorized into several types by the house forms and the jobs. The different types of squatters showed the different attitudes toward the relocation package proposed by the PPA. Some squatters opposed to the relocation package while the other squatters accepted the relocation package. The leader of the opposition group was Ms. Thelma L. Maranan, who strongly opposed the project, with support from several NGOs.

The NGOs both from the Philippines and Japan supported the affected local residents as well as the opposition group. However, some NGOs withdrew from the support when they found that the compensation demanded by the opposing residents group became extremely high. The NGOs also played a big role in raising the awareness of the issue in the both countries.

Actor strategy analysis in the process

We examine the details of the decision-making process in relation to the conflict between the opposing residents groups and the PPA. We focus on the interactions between the PPA and the JBIC/Japanese Government.

The PPA’s strategy

We start our analysis with the PPA’s behavior. When the residents started to oppose the relocation project, the PPA tried to make agreements with them by going through the relocation site selection process several times. However, the PPA found it difficult to find the relocation site which satisfied the increasing requests of the opposing residents. Finally, the PPA gave up negotiating with the opposing residents and made the decisions to conduct the demolition without announcing it to the Japan side. Why did they make such the decision? What were the other options which the
PPA could take? To answer the questions, we list the hypothetical options which the PPA could take as the followings:

Hypothetical options of the PPA:
(P-i) To keep negotiating with the local opposing group mainly on the compensation under the condition that they prepare the relocation sites;
(P-ii) To continue searching for other relocation sites until they find the sites which satisfy the affected residents;
(P-iii) To postpone the demolition while requesting the JBIC to support the assistance package for the affected residents;
(P-iv) To conduct the demolition after getting the approval from JBIC; and
(P-v) To conduct the demolition without approval from JBIC.

To choose an option among the above choice list, we should examine the objectives of the PPA in the context of the BPDP. These can be listed as follows:

Hypothetical objectives of the PPA:
(P-1) To implement the project with the least cost;
(P-2) To complete the project on schedule;
(P-3) To get the consensus among the stakeholders; and
(P-4) To maintain a good relationship with JBIC/Japanese Government.

How can we explain the series of PPA’s behavior in the implementation process of the BPDP with the above lists of options and objectives?

First, did the PPA respect the objective (P-3) “to get the consensus among the stakeholders”? The answer is partly yes, but mostly no. Unfortunately, it is difficult to say that the PPA put the highest priority on the objective (P-3) during the project implementation. It is true that the PPA searched the various relocation sites with the other stakeholders including the NHA and the City Mayor. It is also true that the PPA tried to get the consensus with the local residents at the early stage of the project. However, after they found it difficult to get the acceptance on the relocation site from the local residents, they immediately created the Inter-agency Committee. In the discussions of the Inter-agency Committee, the PPA apparently did not respect the local residents, and only had respect for the public or official organizations in the Inter-agency committee. The PPA may not have invited the true representatives of affected residents as a member of the Inter-agency committee in a detailed study on the selection from the candidate relocation areas. Instead of the directly dealing with the local residents, they considered the Barangay Council members in the meeting as representatives of the affected residents. This is probably because they
expected the longer discussions and more cost for negotiating with the individual local residents. This is problematic since no direct validation (such as through survey) with the affected residents was conducted. It appears that PPA’s decision may have given rise to the series of the serious conflicts during the project. Thus, it seems that PPA accorded more importance objective (P-1) “to implement the project with the lower cost” and/or the objective (P-2) “to complete the project earlier”. As far as objective (P-4) “to keep the better relationship with the JBIC/Japanese Government” is concerned, the PPA only gave importance in relation to the release of the project funds.

Next we examine why the PPA gave up negotiations with the local opposing group. The PPA apparently felt that they had already given enough effort to search for appropriate relocation sites. Actually, in the public hearing, the PPA stated that it was impossible to change to another site since a large amount of money had been already spent on the site development. More importantly, the PPA believed that the other options were unavailable. These declarations reflect their objective (P-1) “to implement the project with the lower cost” and the objective (P-2) “to complete the project earlier”.

Then we look at why PPA conducted the demolition without notifying the Japanese Government. There are two hypothetical reasons. The first reason is probably because they did not give sufficient importance to the objective (P-4) “to keep the better relationship with the JBIC/Japanese Government”, despite the request of the JBIC/Japanese Government that a peaceful solution for the conflict problem be pursued. Instead of notifying it to the Japan side, they only sought approvals from the Philippine Government. This can be interpreted in two ways: (1) perhaps the PPA had no regard to the issue; or (2) PPA thought that the Philippine Government should be responsible to keep the good relationship with the donor, the Japanese Government, and that it was not PPA’s direct responsibility. Although we could not obtain any direct documentary evidence about the behavior of the Philippine Government, the Philippine Government might have contacted the JBIC and/or the Japanese Government about the demolition. Another reason might be because PPA may have wanted to avoid notifying the JBIC, knowing that the Japanese side would have no other choice than to oppose the demolition due to the nature of conflict. The PPA may have also felt that the demolition was necessary in order to break the gridlocked situation.

Finally, did the PPA the request the JBIC to support the assistance package for the affected people? We do not have any evidence to support this. There are two possible cases. The one possibility is that the PPA did not request it. In this case, the
PPA did not request it probably because they did not have any desire to improve the assistance package. As was shown earlier, the opposing group escalated the demand for the assistance including the proposal requesting the PPA to pay an extraordinary amount in compensation. The PPA might feel that the opposing people demanded the high compensation not because they intended to reach a consensus with the PPA but instead so that they could impede the project and/or to get a greater amount of compensation than was offered by PPA. Thus, the PPA would have subsequently concluded that any additional support for the assistance package would not help to solve the problem. The other possible case is that the PPA requested the JBIC to support the assistant package informally. In this case, the PPA might do so probably because they believed that additional budget would be needed to keep negotiating with the local residents. As seen before, the JBIC requested the PPA to find “a peaceful solution”. This might sound for the PPA that the JBIC will be willing to shoulder part of the expenses related to achieving “a peaceful solution” in the form of additional (possibly financial) support to the PPA. Then, why did the PPA request it informally? This is probably because the PPA may have wanted to avoid giving the opposing residents any reason to demand greater compensation, as might happen if they knew that the JBIC would pay an additional amount in compensation.

The JBIC/Japanese Government’s strategy

The JBIC knew that the PPA had encountered difficulties in the process of trying to build a consensus-building with the local residents. The JBIC expected the PPA to find a peaceful solution. During negotiations between PPA and the local residents, what options did the JBIC/Japanese Government have, hypothetically? These hypothetical options of the JBIC and the Japanese Government are listed as follows:

Hypothetical options of the JBIC/Japanese Government:

(J-i) To keep requesting the PPA to find a peaceful solution and to ignore the results even if the PPA conducted the demolition;
(J-ii) To propose a supporting scheme for the local residents without suspending the loan; and
(J-iii) To suspend the loan to the project and to propose a supporting scheme after the demolition.

The hypothetical objectives of the JBIC/Japanese Government has are summarized as follows:

(J-1) To contribute to or protect Japan interests. This may include the good reputation from the other countries; and
(J-2) To support the development of the Philippines while not harming the local people.
Which objective does the JBIC/Japanese Government give most importance to? In general, the JBIC/Japanese Government appeared to give most weight to objective (J-1) “to contribute to the Japan’s benefit”. This is because the (J-2) “to support the development of the Philippines while not harming the local people” is considered as the necessary condition to satisfy the objective (J-1). This means that the successful support of the Philippines can contribute to the better reputation of the Japanese Government. In some cases, an option may satisfy the objective (J-1) while it may not satisfy the objective (J-2). In such the case, the JBIC/Japanese Government may give more importance to objective (J-2) rather than the objective (J-1). This is because (J-2) is regarded as the among the prerequisites or minimum conditions for international cooperation.

Why then did the JBIC/Japanese Government choose the specific option in the project? First, it was difficult for the JBIC to choose the option (J-i) from both the objectives (J-1) and (J-2). On the one hand, demolition forces the local people to move and this means that the projects harms the local people more or less. This violates the objective (J-2). On the other hand, the demolition may give the bad impression of JBIC/Japanese Government to the other countries including developing countries as wells to other developed countries, especially if the local people associate JBIC with the decision to proceed with the demolition. This would then violate objective (J-1).

Then, the JBIC/Japanese Government probably faced the choice of whether to pursue option (J-ii) or (J-iii). The JBIC/Japanese Government requested the PPA to find “a peaceful solution”. To reach this peaceful solution, it is apparent that the PPA would need a larger budget to compensate the local residents and/or to provide other, additional support. The following two cases are thus proposed:

- If the JBIC/Japanese Government would have chosen the option (J-ii), they would need to be involved in the negotiation process with the local residents. This is because they cannot get a peaceful solution unless the local residents would agree to a proposal shown by the JBIC/Japanese Government. However, if the local residents would not agree even to the JBIC/Japanese Government’s proposal, there be no one left to mediate the conflict between the PPA and the local residents. This should be the worst case for the JBIC/Japanese Government, since the remaining options would be those that are inimical to JBIC’s objectives, as stated above.
- If the JBIC/Japanese Government would have chosen the option (J-iii), the JBIC/Japanese Government may have various problems on the one hand. First, the JBIC/Japanese Government cannot complete the project within the given schedule. The taxpayers in Japan may accuse the JBIC/Japanese Government of the bad schedule management. Second, the international relationship between Japan and the Philippines becomes worse. The local people and business who expected the
timely start of the Batangas Port service may blame the Japanese Government for causing delays to the schedule. Third, the JBIC/Japanese Government may lose its international reputation with respect to project management. Fourth, the JBIC/Japanese Government may lose the power or leverage to control or influence the PPA. On the other hand, the JBIC/Japanese Government gets benefits from choosing option (J-iii). First, they could show the strong dissatisfaction with the demolition. Suspending the loans in the case that the lenders do not follow the requests from the JBIC/Japanese Government would possibly send a strong message to the other borrowers. This may make the JBIC/Japanese Government’s threat-as-option effective, especially for future project cases. Second, they could show their consistent policy with respect to the stakeholders during the project. This can increase the perception of the trustworthiness of the JBIC/Japanese Government. Third, temporarily halting the loan can give a shock to the domestic stakeholders in Japan. Although the JBIC/Japanese Government wanted to give the additional support to the PPA, they probably assessed that it would be difficult to get the consensus among the domestic stakeholders (of JBIC) in Japan. The act of suspending the loan would help the domestic stakeholders to understand the gridlocked situation in the BPDP.

Institutional Spillover in the Demolition Process

This section presents the discussion on the institutional influence observed in the process where the conflict between the opposing local residents and the PPA occurred and the demolition affected the stakeholders. We focus on the interactions between the PPA and the JBIC/Japanese Government.

We will discuss two types of games. The first one describes the game between the PPA and the JBIC/Japanese Government with respect to giving support or compensation to the opposing residents. We call the first game as the “support game”. The second one describes the game between the PPA and the JBIC/Japanese Government with respect to the suspension or halting of the loans. We refer to the second game as the “halt-loan game”.

First, let us consider the support game. Suppose that the PPA has the following two options: (P-i) and (P-iii). Note that the option (P-i) means “to keep negotiating with the local opposing group mainly on the compensation under the condition that PPA prepares the relocation sites” and the option (P-iii) means “postponing the demolition while requesting the JBIC to support the assistance package for the affected residents”. Next, assume that the JBIC/Japanese Government has the following two options: (J-i) and (J-ii). Note that the option (J-i) means “to keep requesting the PPA to find a peaceful solution and to ignore the results even if the PPA conducted the
“demolition” and the option (J-ii) means “to propose a supporting scheme for the local residents without suspending the loan”.

Let us consider the combination of these options between the two actors as the following matrix. This can be regarded as a simple non-cooperative game between the two players. Table 3.3 shows the hypothetical payoff matrix of this game.

Table 3.3 Support game between the PPA and the JBIC/Japanese Government

<table>
<thead>
<tr>
<th>Option (J-i)</th>
<th>Option (J-ii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status quo</td>
<td></td>
</tr>
<tr>
<td>PPA</td>
<td>[0, 0]</td>
</tr>
<tr>
<td></td>
<td>[+a, -b]</td>
</tr>
<tr>
<td>JBIC/Japanese Gov</td>
<td></td>
</tr>
<tr>
<td>PPA</td>
<td>[-c, 0]</td>
</tr>
<tr>
<td></td>
<td>[+e, ±f]</td>
</tr>
</tbody>
</table>
|                     | Source: Prepared by the author

We set hypothetically the payoffs for each stakeholder in each pair of options. The left value in the payoff box in the table means the payoff of the PPA whereas the right value means the payoff of the JBIC/Japanese Government. First, assume that the payoffs are both zero when they choose the options of status quo. Second, the PPA receives the negative payoffs while the JBIC/Japanese Government gets the same payoff as the status quo when the PPA chooses the option (P-iii) while the JBIC/Japanese Government chooses the option (J-i). This is because the PPA incurs some costs when making the request to the JBIC/Japanese Government. Third, the PPA has the positive payoff while the JBIC/Japanese Government has the negative payoff when the PPA chooses the option (P-iii) and the JBIC/Japanese Government chooses the Option (J-ii). This is because the PPA can benefit from the support proposed by the JBIC/Japanese Government while the JBIC/Japanese Government simply loses the resources by providing the support. Finally, the PPA has the positive payoff while the JBIC/Japanese Government has the positive/negative payoff when the PPA chooses the option (P-iii) while the JBIC/Japanese Government chooses the option (J-ii). The PPA can get the benefit by the support proposed by the JBIC/Japanese Government. The JBIC/Japanese Government may lose or earn the benefit by providing the support. However, we can expect the JBIC/Japanese Government’s payoff in the (P-iii)-(J-ii) case is higher than their payoff in the (P-i)-(J-ii) case. This is because the JBIC/ Japanese Government will be more satisfied with their support proposal when the PPA requests it. In other words, if JBIC/Japanese Government first receives the PPA’s request and then makes its counterproposal, the outcome would be more positive for JBIC/Japanese Government, especially with respect to their Japanese stakeholders.
There are two possible equilibriums in this game. The first equilibrium is the pair of (P-i) and (J-i). We call this equilibrium as the “status quo equilibrium”. This is the stable equilibrium. The second equilibrium depends on relative values in the payoff matrix, particularly the values of a, e and f. If e is greater than a and if the JBIC/Japanese Government’s payoff in the (P-iii)-(J-ii) case is positive, the case with the (P-iii)-(J-ii) can be the second equilibrium. However, in reality, only the “status quo equilibrium” was observed. This means the conditions that “e is greater than a” and/or “the JBIC/Japanese Government’s payoff in the (P-iii)-(J-ii) case is positive” did not hold true. The authors guess that the JBIC/Japanese Government’s payoff in the (P-iii)-(J-ii) case was negative. As discussed earlier, this is probably because the JBIC/Japanese Government would need to be involved in the negotiation process with the local opposing groups if they were to propose the support scheme. If the local opposing groups would not agree to the JBIC/Japanese Government’s proposal, there would be no one else left to mediate the conflict between the PPA and the local residents. Thus the JBIC/Japanese Government was probably apprehensive of falling into this worst case situation and acted to avoid it.

Now, let us consider the halt-loan game. Suppose that the PPA has the following two options: (P-i) and (P-v) while the JBIC/Japanese Government has the following two options: (J-i) and (J-iii). Note that the option (P-i) means “to keep negotiating with the local opposing group mainly on the compensation under the condition that they prepare the relocation sites” while the option (P-v) means “to conduct the demolition without the approval from the JBIC”. The option (J-i) means “to keep requesting the PPA to find a peaceful solution and to ignore the results even if the PPA conducted the demolition” while the option (J-iii) means “to suspend the loan to the project and to propose a supporting scheme after the demolition”.

It is then assumed that we have a two-step dynamic game. The first step is the PPA’s choice as a leading player and the second step is the JBIC/Japanese Government’s choice as a following player. The game tree can be described as the Figure 3.7. The left side of the payoff vector represents PPA’s payoff while the right side of the vector is the JBIC/Japanese Government’s payoff.

It is assumed that the payoffs are both zero when they choose the options of (P-i) and (J-i). On the other hand, both players have the negative payoffs when the PPA chooses the option (P-i) while the JBIC/Japanese Government chooses the (J-iii). Also, the PPA has the positive payoff whereas the JBIC/Japanese Government has the negative payoff when the PPA chooses the option (P-v) and the JBIC/Japanese Government chooses the option (J-i). This is because the PPA can force the opposing residents to move by conducting the demolition while the JBIC/Japanese Government probably
loses the trust of the stakeholders and the power to persuade the PPA. Finally, the PPA has either a positive or negative payoff whereas the JBIC/Japanese Government has a negative payoff when the PPA chooses the option (P-v) and the JBIC/Japanese Government chooses the (J-iii). We can expect that the JBIC/Japanese Government’s payoff in the (P-v)-(J-iii) case is greater than their payoff in the (P-v)-(J-i) case. This is because the JBIC/Japanese Government can have benefits in addition to the negative impact by halting the loans as we discussed before.

By applying the backward induction method to the above dynamic game, we can obtain the sub-game perfect equilibrium. The solution depends on the sign of the PPA’s payoff in the (P-v)-(J-iii) case. If the PPA’s payoff in the (P-v)-(J-iii) case is positive, that means “+p”, then the game produces the solution as (P-v)-(J-iii). Else, if the PPA’s payoff in the (P-v)-(J-iii) case is negative, that means “-p”, then the game outputs the solution as (P-i)-(J-i). The reality shows that the PPA’s payoff in the (P-v)-(J-iii) case is positive. This means that the PPA has the positive payoff by conducting the demolition even if the JBIC/Japanese Government halts the loans. In other words, the PPA thought that conducting the demolition is better than the status quo even if there was the possibility of the JBIC/Japanese Government halting the loans.

Figure 3.7: Halt-loan Game between the PPA and JBIC/Japanese Government

Source: Prepared by the author

3.5 Assessment of the Influence of Donor Policy and Practice on Institutional Impacts

We now discuss the Inter-agency committee established by the PPA and the beneficiary list prepared by the PPA as the examples of the influence of donor policy and practice on the institutional impacts.

The JBIC strongly and repeatedly requested the PPA to find a peaceful solution for
the consensus-building with respect to the relocation of local residents. This JBIC’s expression of policy impacted on the PPA’s strategy of negotiation with the local residents.

**Inter-agency Committee**

PPA established the Inter-agency committee with the aim of discussing the various issues relating to the BPDP and to attempt to explain the necessity of developing the port to the local residents. The Inter-agency committee members consist of the agencies and stakeholders relating to the BPDP including the representatives of DND, DOTC, with the PPA, the NHA, the PCUP, the Presidential Advisory Committee, PNP, the Batangas City, the Batangas Province, and DSWD.

One of the most important effects of establishing the Inter-agency committee is that it enabled the PPA to declare publicly that the decision made in this committee was the “official agreement” among all those stakeholders. Thus, it may have made it difficult for the affected residents to unilaterally oppose the decisions made by the committee. Probably, the PPA found the most benefit by establishing the Inter-agency committee. This is because the PPA was the only agency which can manage the budget actually and had the power to make the final decisions. The interview with the PPA shows that the Inter-agency committee took the important role in allowing the project to progress. Additionally, the Inter-Agency committee helped establish the smooth communications among the stakeholders even after this project, creating an atmosphere of close coordination among the agencies. A similar committee was created for Phase 2 of the Batangas Port Developing Project. The officers interviewed told us that the establishment of the Inter-agency committee was the big lesson learned in the Phase 1. It enabled them to gain the cooperation among the agencies and facilitated coordination of the actions to complete the project smoothly.

On the other hand, there was the negative effect in the Inter-agency committee system. Although it applied a multi-party consultation approach, the decision-making process in the committee may not have been completely transparent and open to the public. As the committee was mainly composed of governmental department officers who having administrative power, the decisions made in the committee had critical influence on the project. This would give the impression to the local residents that every decision is made behind closed doors. This might be one of the reasons why the opposing people protested harder.

The local residents were excluded from the committee. From this viewpoint, it could be said that the composition of the Inter-agency committee was not well managed. In general, selection of the committee members is one of the most important processes
in setting up a committee. The members should be carefully selected by taking into account the balance of representation of stakeholders. In the case of the Inter-agency committee of BPDP, it is ideal to include a representative of the opposing local residents. However, the captain of the Barangay who attended the meeting of the Inter-Agency committee was not one of the actual affected residents. This complicated the negotiation between the PPA and the opposing local residents.

**Beneficiary List**

JBIC’s request to the PPA for the peaceful negotiation influenced the process of the negotiation. The PPA recognized the importance of beneficiary list during the project. Although they did not make the beneficiary list at the earlier stages, they came to make it very carefully. The list was established as a credible basis for the affected residents to be relocated and provided with compensation. The list was revised repeatedly. It clarified who and what kind of people are actually affected. Establishing such a list in the early stage can avoid infiltration by professional squatters to the project sites. The PPA learned the importance of having the final list of the affected residents in the earlier stage of the discussion on the relocation. The PPA also made such the list for Phase 2 of the BPDP. It is further observed that this practice of making a list of affected households is already a standard practice for government projects involving relocation. The list is prepared with a “time-stamp” meaning that any subsequent entrants into the site will no longer be considered as legitimate claimants to any compensation offered as a result of the relocation.
SECTION 4: FINDINGS AND RECOMMENDATIONS

4.1 Findings

The survey explored the following two case projects in the Philippines: the C-3 Project and the BPDP, by reviewing the literatures and by interviewing some of the main local stakeholders. Then, we analyzed the institutional spillover observed in the projects.

The main findings in the two case studies are summarized as follows:

C-3 Project Case

• There had been the locked-in traditional system in the bidding price negotiation process in the Philippine’s construction market. There was little incentive for the local stakeholders to change the previously established practices by themselves.
• The OECF and the executing agency aimed to construct the C-3 road to ease the urban congestion in the Metro Manila. Although they took efforts to complete the project, it took longer than the original schedule. One of the reasons for the delay was the established bidding price negotiation system at that time in the Philippines.
• Although the OECF wanted to change the system, OECF could not do so directly because the OECF had the principle that they do not intervene into the local political issues. Then, instead of the direct intervention, they gave the incentive to the executing agency to change the system.
• The technical consultant took an important role in the OECF’s indirect intervention. In addition to serving as an adviser to the executing agency, the technical consultant worked as an informal liaison between the OECF and the executing agency. On the one hand, the technical consultant discussed the problem with the OECF. On the other hand, the technical consultant recommended that the executing agency amend the rule.
• The technical consultant worked very closely with the executing agency. This deepened the executing agency’s trust in the technical consultant.
• The executing agency was not formally required to change their system. The system change was recommended by the technical consultant. Thus, the implementing agency could keep the ownership of the project even if they change the system.
• Finally, the executing agency amended the domestic rule on the bidding system. This resolved not only the rule violation in the C-3 Project but also the future expected problems which may occur in other foreign aid projects.
BPDP Case

• The executing agency aimed to construct and improve the Batangas Port as one of the main international ports in the Philippines. To develop the port area, they needed to relocate local residents in the project site to other location. Although they searched for alternative relocation sites, they experienced difficulty in finding sites acceptable to the affected residents.

• Together with some NGOs, the local residents started to oppose the project. They demanded that the executing agency provide better alternative relocation sites and greater amounts of compensation.

• JBIC requested the executing agency to find a peaceful solution in the negotiation with the opposing groups. The executing agency responded by taking various measures to cope with the opposing group. First, the executing agency established the Inter-agency committee. This enabled the executing agency to clearly discuss the various issues relating to the BPDP and to explain the necessity of the project to the local residents. Second, the executing agency made the beneficiary list in a well-coordinated way. This clarified who and what kind of people are actually affected and prevented professional squatters from entering the project sites.

• Although the executing agency made much effort to build the consensus with the local opposing residents, they finally gave up. The executing agency conducted the demolition without notifying it to the JBIC side. Probably because they had made the assessment that there was no other way for the project to progress.

• JBIC suspended the loan immediately after the demolition. JBIC agreed to resume the loan under the condition that the lender (through the executing agency) carried out the following: to continue the efforts to persuade the dissenting residents and to accomplish the peaceful and legitimate relocation; to introduce measures to improve the lives of the relocated residents; and to establish a monitoring committee with the participation of both governments.

• After the restart of the loans, JBIC provided additional support to improve the lives of the relocated residents by providing a grassroots grants.

4.2 Recommendations

Based on the preceding discussions we encapsulate the main lessons learned from the case studies as follows:

1. Outsider’s intervention into the local politics is often effective for the local stakeholders to overcome the locked-in system.

2. Indirect intervention may be more effective than the direct intervention.

3. Consultants can play an important role to enable the stakeholders to communicate smoothly.

4. Consistency in policy reflected in the requests from the donor/lender can deeply
influence the actions local executing agency.

5. Although the donor/lender’s strong intervention is regarded as the threat option, it should be chosen in the very emergent situation in which the local executing agency does not follow the requests from the donor/lender.

With these main lessons in mind, the authors make the following recommendations:

1. Strategic indirect intervention - The donor/lender should consider the use of indirect ways to influence executing agencies of the recipient/borrower country. Indirect intervention allows the recipient to maintain ownership of the project and related actions. This means that recipient countries would be more willing to accept the intervention. Avoiding direct intervention, as much as possible, will reduce the possibility of the donor/lender being perceived as “threatening”.

2. Use of technical consultant as agents of indirect intervention – The close working relationships that consultants must develop with the executing agencies is an important vehicle for the transmission of important policy communications between the recipient/borrower country and the donor/lender institution. “On the job training” is a key method of technology transfer from the consultants to the local staff. It is also an avenue for the expression or reminder on the policies of the donor/lender.

3. Transparent inter-agency/inter-sector coordination – The transparent use of instruments such as the list of affected households by an inter-agency committee of stakeholders appears to have the best potential for shortening the process of right-of-way acquisition. Making the process more credible, and hence less susceptible to political or legal pressures, the relocation of affected parties can be done in more timely fashion. This can also be expected to reduce the cost of getting the project done.
REFERENCES


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