

## Country Assistance Program (Philippines)

### <1> POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

#### (1) Political Conditions

The Marcos government collapsed in 1986 under the pressures of "people power," \*1 followed by a period of political and economic turmoil which continued through the early 1990s. The Philippines has since enjoyed relative stability under a democratic government. In particular, the Ramos government energetically promoted the process of national reconciliation and was able to successfully conclude the peace negotiations with anti-government forces (right wing military, Communist forces, and southern Muslim forces). This marked the realization of the most important desire of the Philippines -- internal stability.

The current Estrada government has succeeded in creating a stable political base through the ruling party's control of the Congress. However, public support has been declining since the middle of 1999. Various political developments may now emerge ahead of the mid-term elections (lower and upper house elections, and local elections) scheduled for May 2001. This calls for careful monitoring of the political situation.

#### (2) Economic Conditions

The previous government of President Ramos actively pursued various economic reforms, including deregulation, privatization, restriction of monopolies, liberalization of trade and investment, and tax reform with the intent to achieve export-oriented growth through the introduction of foreign capital. Thanks to these measures, in 1995, the Philippines was able to attain the goal of the Medium-Term Development Plan (1993-1998) which was to achieve a per capita GNP of US\$1,000.

The Asian economic crisis of July 1997 spread to the Philippines, causing a sharp drop in the value of the peso, a deterioration in fiscal balances, and a slowdown in foreign direct investment. Fiscal balances took a turn for the worse when the Philippines adopted expansionary fiscal policies. During the same period, the El Nino effect triggered a draught with serious repercussions on agricultural output (the agricultural sector registered a negative growth of 6.6% in 1998). These unfavorable developments added to the rate of inflation. Economic conditions deteriorated very rapidly in 1998, with the economy registering a real GDP growth rate of minus 0.5%

for the year (as compared to 5.2% positive growth in 1997), the first negative growth since 1991.

Nevertheless, for the following reasons, the impact of the economic crisis was not as serious as in Indonesia and other neighboring countries: (a) The Philippines lagged behind other ASEAN countries in economic development. Consequently, the country had a relatively small exposure to short-term foreign liabilities, with the majority of its foreign debt consisting of long-term official loans. (b) Under the supervision of the International Monetary Fund (IMF) and the World Bank, the Aquino and Ramos governments had pursued the reform of the financial sector and adopted cautious monetary policies. (c) Compared to other ASEAN countries, the Philippines had a higher ratio of exports to Europe and North America. (d) Remittances from overseas workers continued to be an important source of foreign exchange for the Philippines.

President Estrada has repeatedly affirmed his commitment to the policies of economic liberalization, poverty alleviation, agricultural development, and the rectification of disparities.

In 1999, the Philippines achieved a GDP growth rate of 3.2%. This performance was supported by such factors as the recovery in agricultural output, and the steady growth in exports. On the other hand, various problems persist and are the source of continued concern. These include the vulnerability of the financial sector as represented by the problem of non-performing assets, and the deterioration in corporate funding resulting from a serious credit crunch.

### (3) Social Conditions

The following two major development constraining factors can be cited which are peculiar to the Philippines.

#### (A) Existence of anti-government movements

While the negotiations between Communist forces and the government of the Philippines are currently in suspension, government policy is to negotiate separately with each of the regional armed groups. Communist forces have been weakened by internal conflict and the global decline of communism.

Nevertheless, these groups continue to hamper the process of national reconciliation and stabilization.

Among the Muslim anti-government movements, the government concluded a final peace agreement with the Moro National Liberation Front (MNLF) in September 1996. Following this agreement, Japan and other donor institutions have

been providing development assistance to the southwestern regions of Mindanao. However, the activity of the former MNLF fighters is a source of potential instability.

Formal peace negotiations have now started with the Moro Islamic Liberation Front (MILF), the second largest group following MNLF. However, armed clashes with this group have not necessarily been terminated. Moreover, the Abu Sayyaf Muslim (ASG), a radical group of Islamic fundamentalists, remains active, primarily in southwestern Mindanao.

#### (B) Geographic situation and frequent natural disasters

The Philippines is an island nation comprised of approximately 7,000 islands, of which eleven are major islands. The country is situated upon one of the most active volcanic regions of the world and is prone to frequent earthquakes. Furthermore, the Visayan Islands and Luzon Island are situated along the typhoon corridor and frequently suffer major typhoon-related damages from heavy rains, strong winds, flooding and landslides.

### <2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

#### (1) Economic Plans of the Philippines

The new Medium-Term Development Plan (1999-2004) was announced in September 1999. Primarily formulated by the National Economic Development Agency (NEDA), the plan calls for the achievement of "sustainable development and growth with social equity." [?]

The ratio of impoverished households has decreased from 40.2% in 1988 to 32.1% in 1997. By region, the ratio of impoverished households in the Manila area dropped sharply from 21.6% to 7.1%. On the other hand, the ratio improved only marginally in the outlying areas of the country, going from 46.3% in 1988 to 44.4% in 1997. Moreover, there has been some deterioration in income allocation, with the ratio of income earned by the poorest segment of society actually declining during this period. Against this background, the new plan combines a continued commitment to the market economy and liberalization measures with goals targeting the alleviation of poverty (particularly in the outlying areas) and improvement in income allocation for the achievement "sustainable development and growth with social equity." [?] The plan identifies the following principal measures for the pursuit of these objectives: acceleration of regional development centered on agricultural modernization; provision of basic social services; including education, health services and housing, to the socially vulnerable; sustained infrastructure development; promotion of international competitive policies; achievement of

macroeconomic stability; and, improved governance.

Taking into consideration the possibility of abnormal climatic conditions, the plan projects an average annual GDP growth rate of 5.2 - 5.8% for the five-year period of 1999 to 2004. Based on this level of growth, the plan states that the poverty ratio can be reduced to 25 - 28% by 2004. In the area of primary school full enrolment, the plan calls for an improvement from 95% in 1997 to 97%. Furthermore, the plan conforms with the directions of the DAC New Development Strategy \*2 in the following areas: realization of social equity through anti-poverty programs; achievement of environmentally and ecologically sustainable growth; local initiative and empowerment; consideration of gender equality; and, improved accountability and transparency in government.

## (2) Primary challenges in development

Discussions in Consultative Group (CG) meetings have led to a general consensus between donor countries and the Philippines concerning the primary challenges in development facing the Philippines. While these challenges are closely interrelated, the importance of combining sustained economic growth with anti-poverty programs and other measures targeting the socially vulnerable was re-affirmed. Moreover, it is understood that improved governance is of crucial importance in promoting the effectiveness of measures targeting other primary challenges.

### (A) Achieving sustained economic growth (macroeconomic management, structural reform and infrastructure development)

(a) Inappropriate economic policies resulted in economic stagnation and confusion in the Philippines between the 1970s and 1980s. Because of this background, proper macroeconomic management is of vital importance in the Philippines. In order to overcome the current economic problems, as well as to promote medium- to long-term investment in infrastructure development and human resources development, it is necessary for the Philippines to improve the efficiency of tax collection. Through this and related measures, the government must bolster its revenues and improve its fiscal balances, while also instituting appropriate liabilities management from the perspective of debt-servicing capability. (As of the end of 1997, outstanding public sector liabilities amounted to 91.5% of GNP).

(b) While the policies of liberalization and trade promotion undertaken during the 1990s achieved a certain degree of success, some problems persist. For instance,

most of the export growth originated in a single sector (electronic equipment, particularly semiconductors). It has been pointed out that as a result of past protectionist policies, other sectors suffer from high cost structures and are not internationally competitive. Therefore, parallel to liberalization and deregulation programs for strengthening competitiveness and improving efficiency, it will be necessary for the Philippines to nurture export industries and to promote the development of supporting industries centered on small- and medium-sized enterprises.

With regard to the economic crisis, the Philippines must achieve private-investment driven economic recovery by eliminating the credit crunch and overcoming corporate funding difficulties. This will require successful reform of the financial sector and the development of appropriate frameworks for corporate reform (such as bankruptcy systems).

(c) The poorly developed economic infrastructure is a constraining factor in the economic development of the Philippines. Demand for transportation and communications networks remains strong for achieving balanced urban and rural development and supporting the development of industrial centers.

(B) Alleviation of poverty (including rectification of regional disparities)

After the political upheaval of 1986, both the Aquino and Ramos governments undertook programs for the alleviation and elimination of poverty, and for rectifying regional disparities. As mentioned above, the poverty ratio declined from roughly 40% in 1988 to about 32% in 1997 as a result of these efforts. However, a solution of the poverty problem will require further efforts towards the elimination of extremes of wealth and poverty through continued overall economic development and tax and other measures. Regional disparities are actually growing as the gaps between urban and rural regions and between the wealthy and the poor continue to expand. Taking the population growth rate into consideration, it is clear that poverty will continue to be a serious problem for the Philippines. President Estrada, who gained the support of the electorate as the "friend of the poor" has identified the poverty problem as an extremely important policy issue.

Agricultural and rural development are of vital importance to the achievement of sustained economic growth and must play a central role in boosting the nation's economic resilience and overcoming development constraints, as well as in the rectification of disparities. In this regard, there is an urgent need to strengthen the agricultural base to render it more resilient to unfavorable weather conditions.

It is important to make further progress in land reform in coping with rural poverty. Because of resistance from landowners, shortage of subsidization funds for the purchase of land and the absence of properly developed land assessment systems, the re-distribution of land remains at approximately 50% of the goal. Furthermore, sufficient support is not available to farmers receiving land allotments.

With regard to regional disparities, development has thus far focused on Manila and the central areas of Luzon. With the exception of certain areas, northern and southern Luzon, the Visayan Islands, and portions of Mindanao have been left behind in the process of development. This situation can be attributed in part to the fact that many members of the political leadership are from central Luzon, and that the development of other regions is hampered by instability and lack of security.

#### (C) Environmental protection

The country faces two broad categories of environmental problems: destruction of the natural environment in rural areas and mountain villages, and environmental pollution and degradation in the urban areas. In the rural areas, destruction of forest ecologies is advancing as a consequence of past commercial logging and widespread illegal logging which continued thereafter, and the movement of farming populations from the plains to the mountains as a result of population growth and poverty. Forest cover in the Philippines has already declined to about 20%. There has also been a marked destruction of rare fauna and flora and coastal mangrove forests. In the urban areas, population growth has accelerated the processes of urbanization and industrial, resulting in increasingly serious problems of air and water pollution, and household and industrial waste. While the government of the Philippines has instituted various measures for environmental protection since the start of the 1990s, including a ban on the export of logs followed by a ban on logging, it cannot be denied that these environmental countermeasures have not been enough. The problem lies in the fact that administrative capacities lag behind the pace of environmental destruction, and infrastructure facilities for environmental and sanitation needs remain underdeveloped.

As in other countries, poverty is one of the important causes of environmental problems in the Philippines. Moreover, a vicious cycle exists in which environmental degradation contributes to worsening poverty. Therefore, anti-poverty measures are of vital importance also from the perspective of coping with environmental problems.

#### (D) Human resources development

From the perspective of the elimination of poverty and inequality and the

expansion of productive employment, it is necessary to promote the spread of basic education and improve its quality (curriculum improvement, teacher training, etc.), undertake occupational training which more closely matches the needs of industry, and to upgrade higher education. Likewise, there is a strong need for human resources development in the public sector, such as administrative capacity-building for development planning and coordination with related organizations.

(E) Improvement of governance

Regarding the public sector of the Philippines, it has been frequently pointed out that enforcement of laws, ordinances and various systems has been inadequate or lacking in transparency, and that corruption and bribery have not been eradicated. These problems constitute serious obstacles to the progress of socio-economic development. The government is fully aware of these problems, and as mentioned above, improved governance has been identified as one of the principal objectives of the Medium-Term Development Plan.

(3) Relationships with International Development Aid Institutions, Other Donors, and NGOs

(A) Relations with international development aid institutions

The IMF has been playing an important role in the implementation of economic reform in the Philippines. Upon conclusion of the Extended Fund Facility (EFF) \*3 in March 1998, the IMF immediately instituted a stand-by agreement \*4 (valued at \$1.4 billion over a two-year period) with emphasis on the improvement of fiscal balances, and social-sector and financial-sector reforms.

The World Bank is providing loans and technical assistance with emphasis on the following areas and objectives: (a) responding to the impact of the economic crisis and promoting economic recovery; (b) social services targeting the poor and the expansion of human resources development; (c) achievement of sustainable regional development; (d) initiatives targeting the urban poor; (e) infrastructure development (particularly in the outlying regions); (f) private sector support; (g) improvement of governance.

The Asian Development Bank (ADB) has focused its support on regional infrastructure development, education, urban social services, and environmental management while actively utilizing private-sector investments. However, problems of poverty persist notwithstanding these efforts. Therefore, it is likely that the ADB will formulate a country strategy for the Philippines and provide assistance in line

with its poverty elimination strategies announced in November 1999.

(B) Other Donors

Bilateral ODA to the Philippines (net disbursement basis) increased sharply during the Aquino government and peaked in 1992 (\$1,539 million). Thereafter, bilateral aid has gradually declined (\$567 million in 1997). The reason for this can be found in the precipitous drop in U.S. aid after the close down of the U.S. military bases in the Philippines. Prior to this, the United States ranked alongside Japan as a principal donor country. Currently, the top three donor countries (net disbursements, 1997) are Japan (\$319 million), Germany (\$57 million), and Australia (\$43 million).

(C) NGOs

It is reported that there is a total of 128,000 non-profit organizations in the Philippines, of which roughly 5,000 are involved in social development. As such, the Philippines ranks as an "NGO giant." Large numbers of NGOs based in the Catholic church, farmers' organizations and other organizations are active in various aspects of community life. Many foreign NGOs, including Japanese NGOs, are also active throughout the Philippines.

Articles 2 and 13 of the Filipino Constitution contain provisions emphasizing the importance of the role of NGOs. Likewise, the Local Government Act [?] contains explicit provisions concerning the role of NGOs and their relation to local governments, as well as provisions identifying NGOs as constituent members of local development committees.

NGO activities cover a broad range of fields, such as social development, education, human rights, the environment, crime prevention, and cultural preservation. Given the weak legislative and executive capabilities of the government Administration in the Philippines, NGOs play an important role in presenting development models and acting as partners in their implementation.

Since the birth of the Aquino government in 1986, members of NGOs have been regularly appointed to Cabinet and deputy-minister posts, indicating the growing importance of their political presence.

### <3> JAPANESE AID POLICIES FOR THE PHILIPPINES

(1) Objectives of aid to the Philippines

(A) For Japan, the Philippines is a friendly nation sharing such values as freedom,



democracy and the market economic system. As one of its closest neighbors, Japan has enjoyed a long history of close interaction with the Philippines.

Supporting the third largest population (approximately 72 million) of all members of the Association of Southeast Asian Nations (ASEAN), the Philippines is a major power in the region, and in recent years has been increasing its political and economic presence in the Southeast Asian region. As a result of democratization beginning in the 1980s and the economic growth achieved under the Ramos government, the Philippines continued to enjoy relative stability during the Asian currency crisis when neighboring countries were experiencing political and economic turmoil. Consequently, the relative position of the Philippines has improved and it has come to play a pivotal role in the region. As such, the Philippines is one of the key countries in Japan's Southeast Asian diplomacy.

The Philippines is also important in geopolitical terms and maintains a strategic position in the western Pacific region from which it controls Japanese shipping routes in the South China Sea.

(B) In the economic sphere, the Philippines has been increasingly turning its focus to the Asia-Pacific region in recent years and is pursuing a more active program of economic diplomacy in this area. Accordingly, Japan is a vital economic partner for the Philippines.

Japan ranks as the second largest export market for the Philippines, absorbing roughly 15.0% of its exports. On the other hand, Japan is the leading source of imports for the Philippines, accounting for roughly 24.4% of total imports (1998). Principal exports to Japan consist of semiconductors, and electrical equipment and parts, while principal imports from Japan consist of parts and components for electrical equipment, automobiles and for computers. Japan also plays a leading role as a source of foreign direct investment, accounting for roughly 30 - 40% of all foreign direct investments in the Philippines. (Japan is largest source, followed by the United States with a 20% share; 1998.) In particular, Japan accounts for approximately 50% of all foreign investments in the special economic zones.

As shown by these figures, the economies of Japan and the Philippines are bound by strong ties of mutual interdependence, and the economic development of the Philippines has a significant positive impact on Japan. Given the expected future developments in information industries and economic globalization, and in view of the cost advantages of the Philippines (labor costs and relative proximity to Japan) and the fact that English is its official language, it is important for Japan to maintain

friendly ties with the Philippines, both as a trading partner and a platform for Japanese companies. Likewise, it is highly desirable for the Philippines to enjoy stability and prosperity.

(C) Today, Japan has an extremely close and favorable relationship with the Philippines. The two countries enjoy frequent exchanges of government leaders and top officials. Bilateral interaction in the economic sphere is also highly developed with extensive exchanges featuring a broad range of business groups and private companies. Currently, Filipino nations constitute the fourth largest group of foreign residents in Japan.

(D) On the other hand, a significant portion of the Philippines population continues to live below the poverty line with infant mortality rates (32.0 per 1,000; 1998) remaining relatively high. The country is also plagued by frequent and major natural disasters.

## (2) Relationship with ODA Charter principles \*5

The Philippines is undoubtedly one of the strongest ASEAN adherents to democracy, and has generally oriented itself in a desirable direction in recent years vis a vis the principles of Japan's ODA Charter. After long years of battle with anti-government forces, the government is now advancing peace negotiations toward conclusion of a formal peace agreement

With the conclusion of a formal peace treaty with the largest Islamic group, the process of reconciliation is moving in a desirable direction.

## (3) Orientation for Japanese aid

### (A) Japanese aid to date

Japan has been the Philippines' largest donor since the 1980s, and expanded its aid substantially as of the 1986 inauguration of the Aquino government, when Japan played a leading role together with the United States in the Multilateral Assistance Initiative \*3 for the Philippines as a means of actively supporting democratization and economic reconstruction efforts. Japanese aid has accounted for approximately 50 percent of total aid to the Philippines in recent years.

Japanese aid to date has addressed a wide range of areas, including the development of economic infrastructure, basic human needs, human resources development, and agricultural and rural development, reaching a cumulative total of around two trillion yen in 1998 (1.7726 trillion yen in ODA loans, 211.6 billion yen for grant aid, and 129.6 billion for technical cooperation).

(B) Share of Japanese aid in total aid to the Philippines

Bilateral aid from DAC members accounts for 86.8 percent of the ODA received by the Philippines (net disbursements, 1993-97), of which Japan provides 57.6 percent. Japan's enormous aid presence in terms of total aid to the Philippines (the second largest donor is the U.S., which disburses 12.7 percent) is the result of our close bilateral ties and the high ratio of yen loans in Japanese ODA. Japan accounts for 85.0 percent of funds provided to the Philippines (gross government lending). Given the tight Japanese fiscal situation and the Philippines' diminishing debt repayment capacity, Japan must focus on more effective and efficient aid implementation.

(C) Orientation for aid over the next five years

Recognizing the above significance of aid to the Philippines, Japan has contributed actively to the stability and development of the Philippines through initiatives such as the MAI. Maintaining this basic philosophy, Japan will continue to cooperate with the Philippines to support the country's self-help efforts.

In view of Japan's share of total aid to the Philippines, Japan's severe fiscal situation, the Philippines' project implementation and debt repayment capacity, including fiscal elements, and the progress made in current projects, one of the prerequisites in extending such cooperation should be the improvement of the quality of aid. Responding to the sluggish recent progress in current projects, in early 2000, the government of the Philippines formulated a program for promoting and accelerating project implementation. Because of the basic characteristics of the problem, general implementation capacity and the rate of progress in implementation cannot be suddenly improved. It is Japan's understanding that short-term, medium-term and long-term follow-up efforts will be made in this area. From the perspective of improving the quality of its future assistance to the Philippines, Japan shall be monitoring these reforms efforts.

In these circumstances, it is more critical than ever to ensure effective use of the ODA funds which Japan channels into the Philippines. To this end, Japan must urge the Philippines to improve its project implementation capacity and provide sufficient support for such efforts. The Philippines' main development tasks were identified by the ??Comprehensive Economic Survey Mission?? [??High-Level Mission on Economic and Technical Cooperation??], sent to the Philippines in March 1999, and cooperation should be advanced in line with these, prioritizing the following: (a) strengthening the Philippine economy toward achieving sustained growth and overcoming growth constraints; (b) redressing disparities (alleviating

poverty and redressing disparities between regions); (c) environmental protection and disaster prevention; and (d) human resources development and institution building. In providing cooperation, Japan should consider further promoting linkage among grant aid, technical cooperation and yen loans to ensure the effective utilization of funds.

Given that private flows (PF) and other official flows aside from ODA (OOF) heavily outweigh the amount of ODA extended to the Philippines (PF and OOF together totaled around 20.4 billion 1993-97, where ODA stood at around five billion), further consideration needs to be given to the division of roles among ODA, PF and OOF, and to linkages between these.

#### (4) Aid guidelines for priority areas and challenges

##### (A) Strengthening the economy and overcoming growth constraints toward sustained economic growth

In the past, Japanese aid has been channeled into assisting the Philippines in achieving sustained growth, playing a significant role in the Philippines' development. Drawing on the experience of the Asian economic crisis, Japan will continue to support the Philippines in strengthening its industrial structure from a medium- to long-term perspective, and in developing economic infrastructure contributing to overcoming growth constraints.

##### (a) Appropriate macroeconomic management

Appropriate macroeconomic management is indispensable to the achievement and maintenance of sustained growth. Japan shall engage in policy dialogue and extend support for this purpose. Japan will consider providing ODA funds to facilitate government and private sector fund procurement, while emphasizing the division of roles and linkage with OOF. Technical cooperation will also be implemented to strengthen the Philippines' medium to long-term economic management capacity.

##### (b) Strengthening the industrial structure (particularly assistance in fostering supporting industries)

The Philippines must foster its supporting industries to reduce dependence on imported capital and intermediate goods and increase the correlation between foreign direct investment and domestic industries. Japan will consider aid supporting the development of financial markets for providing steady and reliable funding to small

and medium enterprises to assist those supporting industries facing medium- to long-term capital shortfalls. Japan will also consider extending assistance for human resources development assistance, primarily through technical cooperation, to disseminate technology and improve quality control and management and production efficiency.

(c) Economic infrastructure development

In the field of energy and power development, Japan will consider extending assistance to areas less attractive to private-sector or OOF, such as the construction of distribution networks, rural electrification and the development of energy sources. \*9

Because the deterioration of existing power generation and distribution facilities, as well as their inadequate management and maintenance, are reducing the efficiency of power generation and threatening to destabilize the power supply, Japan will assist in training key maintenance and management personnel and rehabilitating existing power facilities.

The development of transportation infrastructure remains a critical issue in the Philippines as a nation of islands, and is also a vital means of rectifying disparities.

Thus far, Japan has concentrated on assisting the construction of arterial roads, ports, airports, and railroad facilities. \*10 Japan will now consider moving on to improvement and rehabilitation work, particularly for those roads which underpin economic activities, while also developing the traffic and transportation infrastructure, including marine and air transportation networks. As part of this process, attention will also be paid to anti-disaster measures, including the qualitative improvement of facilities and human resources, and building appropriate management and maintenance capacity. In view of the dramatic advances in information and communication technologies, Japan will consider extending aid to this sector, while carefully considering the possibility of sharing investment burdens with the private sector.

(B) Rectification of disparities (Alleviating poverty and redressing regional disparities)

(a) Agricultural and rural development

Recognizing that agricultural and rural development are essential in strengthening the Philippine economy, and also contribute to the alleviation of poverty, Japan will continue to provide assistance in this area.

\*In the past, Japan has helped the Philippines primarily in developing basic rural

social and economic infrastructure and agricultural infrastructure. Because low productivity and rural poverty are closely related to the slow development of infrastructure, assistance will continue to be provided for development of the related infrastructure. Attention will also be paid to renovating and renewing existing facilities which have deteriorated and promoting local participation in planning and facility maintenance and management.

\*Japan will extend assistance for experimental research on and dissemination of agricultural technology as a means of boosting agricultural productivity. Recognizing the importance to agricultural and rural development of organized cooperation among local farmers, Japan will consider providing assistance toward strengthening agricultural cooperatives, irrigation and water use cooperatives and other such groups, and will also cooperate actively with agricultural groups and NGOs working in rural villages, giving consideration to the use of micro-credit. The extension of financial and technical cooperation for the agricultural reforms emphasized by the Philippines government to strengthen agriculture and alleviate rural poverty will be considered.

(b) Improvement of basic living conditions

While Japan has prioritized the improvement of basic living conditions, in light of the massive number of people still living in poverty, we will continue to focus on the poor, working to develop links with NGOs and supporting the improvement of health and medical care and other basic services.

\*Emphasis will be placed on cooperation for poor areas (particularly Muslim areas), including primary health care.

\*Because the Philippines still has high mortality rates for infants and prenatal women, Japan will continue to cooperate in terms of population measures, HIV/AIDS measures and measures to protect maternal and child health. In doing so, we will endeavor to expand and disseminate to poor areas the results of model projects conducted to date (e.g., family planning and maternal and child health care projects). Japan will cooperate in the field of HIV/AIDS, including the improvement of testing capacity and public awareness activities. Consideration will be given to cooperation in measures against tuberculosis, which remains a serious problem.

\*Construction of water supply and sewerage systems raises the standard of living of the poor and contributes to public hygiene and environmental protection, while in

rural areas, the development of drinking water supply facilities is of particular significance. To meet these needs, Japan will consider providing assistance through a combination of financial and technical cooperation.

In cities, too, the living conditions of the poor are substandard, while in many cases, the poor are unable to receive the social services providing the minimum knowledge and skills necessary for labor market participation. To help rectify this situation, Japan will assist in the construction of accommodation and the supply of electricity and water for the poor, and also consider cooperating in promoting opportunities for the provision of basic education, vocational training, and health and medical care services.

\*Japan will consider providing child welfare assistance to ensure the healthy growth and human rights of street children and other young children.

(C) Environmental protection and anti-disaster measures

(a) Environment

In light of the growing severity of the Philippines' environmental problems, Japan will continue providing cooperation in this area. The appropriate type of cooperation or combination of types will be considered, and will be selected for each area and each project, giving full consideration to the Philippines' own progress with environment-related measures, as well as its implementation mechanisms and implementation capacity.

\*To strengthen environment-related administration capacity, Japan will use technical cooperation in particular to assist in human resources development and the creation of implementation systems for environmental monitoring, environmental impact assessments and environment improvement guidance.

\*In light of the increasingly serious general waste disposal problem in Metro Manila and other cities and their suburbs, Japan will consider assisting the related authorities in drawing up plans and developing disposal infrastructure (waste disposal facilities, transportation systems, etc.).

\*Air and water pollution and the environmental pollution caused by mine development and other industrial activity will not be resolved unless measures are

taken by the private sector businesses causing the pollution. Japan will therefore consider employing both technical and financial cooperation to promote measures addressing pollution sources.

\*Japan will consider extending continued technical and financial cooperation for environmental protection and regeneration, including forest conservation, afforestation projects, and marine conservation projects.

(b) Anti-disaster measures (primarily for disaster-prone areas)

Japan has extended substantial assistance to the Philippines for flood control and recovery from volcanic damage. Because frequent large-scale natural disasters constrain development, and also tend to impact more heavily on the poor, we will continue to provide aid for flood and sand control and earthquake-related measures, while also assisting in developing the necessary systems and capacity in related government institutions from a medium- to long-term perspective.

(D) Human resources development and institution building

Education and personnel development, areas which Japan has stressed to date, will continue to receive assistance, while we will also seek to contribute to the Philippines' institution building.

\*As the chronic shortage of classrooms is hampering the dissemination of primary and secondary school education and improvement of the quality of education, Japan has been providing assistance for the development of "hard" infrastructure such as school buildings, classrooms, educational materials and equipment (2,600 classrooms have been built to date through Japanese grant aid, around 64,000 through Japanese ODA loans). Priority will also be placed on improving the basic quality of education through teacher education, re-education and training, with consideration given to better training for teachers at local universities and the penetration out into local areas of cooperation already provided to more central districts (e.g., science and mathematics education package cooperation [the Engineering and Science Education Project]\*8).

\*Japan will consider assistance, primarily in the form of vocational training, to provide the poor with the means of earning a livelihood. In doing so, efforts will be made to develop links with local universities and NGOs to allow a response to



demand at grass-roots level.

Building the capacity of administrative institutions and institution building are important elements in ensuring the effective absorption of aid from Japan and elsewhere, and Japan will continue to provide aid based on the Japan-ASEAN Comprehensive Human Resources Development Program,\*13 an initiative designed to foster central and local government officials and private sector business executives and engineers involved in areas contributing to sustained economic development. Further, given the progress of decentralization, Japan will also look to improving the administration capacity of local authorities.

(5) Matters to note in aid implementation

(A) Ensuring the implementation of laws, ordinances and systems

In the Philippines, even where laws, ordinances and systems are developed, they are sometimes inadequately implemented. As Japan needs to work toward good governance, transparency and greater aid effectiveness in its aid implementation, we should not be satisfied with the simple presence of related laws, ordinances and systems, but rather seek to effect truly effective cooperation by using policy dialogue and other channels to ensure their implementation and actual functioning.

(B) Appropriate use of ODA funds

As people's taxes provide the basis for the implementation of ODA programs, it is only natural to take steps for the efficient and appropriate use of ODA funds. With the cooperation of the Philippines' side, measures will be taken to ensure this.

(C) Ties with NGOs

To ensure effective cooperation in areas such as the alleviation of poverty, drawing on the abundant local experience of NGOs in project design, implementation and monitoring is both useful and necessary.

In developing ties with NGOs, the Japanese government needs to identify those with a high level of expertise and implementation capacity which are also engaged in high-quality activities.

(D) Matters to note in rectifying regional disparities

\*Development of Mindanao

Progress toward establishment of lasting peace with Muslim forces on the island of

Mindanao has brought to the forefront the question of the island's development. Given the island's poverty (60 percent of the population were living below the poverty line in 1997, while the income level was 72 percent of the national average), Mindanao should be included within the scope of Japanese aid considerations to the greatest extent possible, while paying due attention to local conditions and developments.

**\*Decentralization**

Decentralization is viewed as the key to regional development and the rectification of regional disparities, and the Philippines has been transferring powers, staff, budget and responsibilities to local authorities since the ??Local Government Act?? was enacted in 1991. The lack of experience and ability on the part of local authorities has, however, hampered the smooth progress of decentralization. In implementing cooperation over the coming few years, Japan needs to be fully cognizant that decentralization may in fact act as a bottleneck in some cases, and should give consideration to cooperation for local authorities which contributes to capacity-building for officials and institution building.

**(D) Implementation of systematic and consistent projects**

While individual projects tend to be planned and implemented in isolation in the Philippines, these need to be linked to development plans for entire regions and sectors, with projects planned and implemented in a more systematic fashion.

Such development plans should be taken fully into account from the perspective of achieving transparency and efficiency in ODA implementation. Moreover, Japan must draw up medium-term project plans, such as the long-listing of yen loans, in order to ensure consistency and harmony with government development plans. The process of long-listing will promote prior investigation and study, which can be expected to contribute to the maturation of projects on the part of both Japan and the Philippines.

**(E) Shouldering of local costs and tax burdens**

As Japan's aid is based on the principle of supporting the recipient government's self-help efforts, the Philippines government must shoulder local costs, including management and maintenance costs, not least to ensure the sustained impact of assistance. As the Philippines' difficult fiscal situation in recent years has led to many cases where actions which should have been taken by implementing institutions-personnel deployment, land acquisition, tax exemptions, etc.-have not been

smoothly implemented because of delays in actual fund disbursements, Japan needs to urge the Philippines to do its utmost to secure the necessary budget. Careful consideration must also be given to whether or not the necessary budget can be secured for absorbing aid.

(F) Resident relocation and environmental concerns

Project implementation continues to require a careful response to the impact on local residents and the environment, with all related measures taken on the basis of fair and transparent procedures. The Philippines government must deal with the relocation of residents arising from development (securing and developing the relocation site, providing compensation, conducting hearings with local residents from the planning stage), and must also establish the necessary cooperation systems with the relevant local authorities.

Notes

<1> RECENT POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(1) Political Conditions

\*1 People Power

Refers to the political upheavals culminating in the replacement of the Marcos regime by the Aquino government in February 1986. Also referred to as the "Edosa Revolution" [?] or the "February Coup." [?]

The presidential election was held on February 7, 1986, ahead of the originally scheduled date. While the vote count was delayed, both the Marcos and Aquino camps proclaimed victory. Under conditions of growing confusion, on February 22, Secretary of Defense Enrile [?] and Deputy Chief of Staff [?] Ramos declared their opposition to Marcos and took up positions in a military base. At this juncture, Cardinal Sin strongly urged the Aquino camp to support the Enrile group. The people responded by gathering in large numbers at the military base on Edosa Street. [?] As people power swelled, the unarmed crowds later blocked the advance of the tanks sent by President Marcos. On February 25, the Marcos family fled the Malacagna Palace [?] on U.S. military helicopters and escaped to Hawaii, ending the more than 20 years of Marcos rule.

<2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Economic Plans of the Philippine's

\*2 OECD/DAC Development Partnership Strategy

In May 1996, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) adopted a document titled Development Partnership Strategy (Towards the Twenty-first Century: Contributions through Development Cooperation). This development strategy sets specific goals and achievement dates desired to improve the living standards of all people around the globe. Goals include: 1) reduction by half of the number of people in poverty by 2015, 2) spread of elementary education by 2015, 3) alleviation of the disparities between males and females in elementary and middle education by 2005, 4) reduction to 1/3 in the infant mortality rate by 2015, 5) reduction to 1/4 of the perinatal mortality rate, 6) spread of health and medical services related to

reproductive health, 7) formulation of a state strategy for environmental conservation by 2005, 8) turn around from depletion to increase in environmental resources by 2015. The strategy emphasizes the importance of a global partnership because it will be essential that developed and developing countries work together if goals are to be achieved.

### (3) Relationships with International Development Aid Institutions, Other Donors, and NGOs

#### \*3 EFF (Extended Fund Facility)

A form of lending by the International Monetary Fund (IMF) to its members. As an alternative to the normal credit tranche (conditional lending for a standard term of one year), EFF provides loans of up to 140% of quota and was first established in 1974. Loans under EFF are extended over a three-year period, or in installments over a longer period of time, and have a maturity of ten years.

#### \*4 Stand-by agreements

An IMF lending facility for supporting countries experiencing short-term balance of payments difficulties.

## <3> JAPANESE AID POLICIES FOR THE PHILIPPINES

### (2) Relationship with ODA Charter Principles

#### \*5 ODA Charter Principles

This is the most basic and important document in Japanese ODA policies, defining aid guidelines in light of past achievements, experiences, and lessons from ODA. It was adopted by cabinet resolution on June 30, 1992 as a means of providing a clear statement of Japanese ODA principles and rules. The document covers six areas: basic philosophy, principles, priorities, measures for effective implementation of ODA, measures to promote understanding and support at home and abroad, and ODA implementation systems. The "basic philosophy" for ODA are defined as: 1) humanitarian considerations, 2) recognition of interdependency, 3) self-help efforts, and 4) environmental conservation. The "principles" instruct aid administrators to "take into account comprehensively each recipient country's request, its socioeconomic conditions, and Japan's bilateral relations with the recipient country." They are also instructed to consider four areas: 1) balancing environment and development, 2) avoiding use for military purposes or for aggregation of international conflicts, 3) safeguards against diversion for military expenditure, development and production of

weapons of mass destruction and missiles, and exports and imports of arms, 4) promotion of democratization, efforts to introduce the market-oriented economy, and guarantees of basic human rights and freedoms.

(3) Orientation for Japanese Aid

\*6 MAI (Multilateral Assistance Initiative ) for the Philippines

A framework for international assistance aimed at the achievement of sustained growth in the Philippines and the promotion of systemic reforms and structural reform for enhancing aid implementation and aid absorption capacities. In response to this initiative, a meeting of aid-giving countries to the Philippines was convened in Tokyo in 1989.

\*7 Private flows (PF)

Refers to the flow of private funds. In the context of economic cooperation, PF refers to the flow of funds other than ODA (official development assistance) and OOF (other official flows). Specifically, PF consists of export credits provided by private financial institutions and companies, foreign direct investment, overseas lending, and others.

\*8 Other official flows (OOF)

Refers to the flow of official funds other than ODA funds. OOF consists of the flow of government development funds to developing countries other than ODA funds. In particular, OOF covers the following: bilateral government transactions on non-concessionary terms; transactions containing some concessionary element, but which are principally aimed at trade promotion; and, government or central bank purchases of bonds issued by multilateral organizations on commercial terms.

(4) Aid Guidelines for Priority Areas and Challenges

(A) Strengthening the economy and overcoming growth constraints toward sustained economic growth

\*9, 10 Example of Japanese aid contributing to the Philippines

Japan's ODA loans have financed 8% of the Philippine's total power generating capacity, 4% of total power transmission, and 13% of the rehabilitation and improvement of national highways.

(B) Rectification of disparities (Alleviating poverty and redressing regional disparities)

**\*11 Primary health care**

Under primary health care, essential and indispensable basic medical services are provided through the participation of residents and at a level which matches local conditions in order to render them more acceptable to local residents.

**(D) Human resources development and institution building**

**\*12 Science and mathematics education package cooperation [?]**

In 1987, Japanese grant-in-aid was used for the construction of a training center for science and mathematics teachers. Under the science and mathematics education package cooperation, in addition to using this training center, various types of aid schemes, including project-type technical cooperation, dispatch of experts, acceptance of trainees, and the dispatch of Japan Overseas Cooperation Volunteers are utilized to undertake a comprehensive transfer of technology to administrators of central and regional primary and secondary school science and mathematics programs, as well as to teacher trainers, and teachers in these fields.

**\*13 Japan-ASEAN Comprehensive Human Resources Development Program**

A human resources development program for political leaders and administrators, and private-sector employees required for the achievement of sustained economic development. The program was first advocated by the then-Prime Minister Hashimoto at the Japan-ASEAN Summit Meeting held in February 1997.