

Camacho, Jose V.; Cuevas, Agham C.

**Working Paper**

## The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance in the Philippines

PIDS Discussion Paper Series, No. 2004-35

**Provided in Cooperation with:**

Philippine Institute for Development Studies (PIDS), Philippines

*Suggested Citation:* Camacho, Jose V.; Cuevas, Agham C. (2004) : The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance in the Philippines, PIDS Discussion Paper Series, No. 2004-35, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/127861>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



Philippine Institute for Development Studies  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's ODA in the Philippines

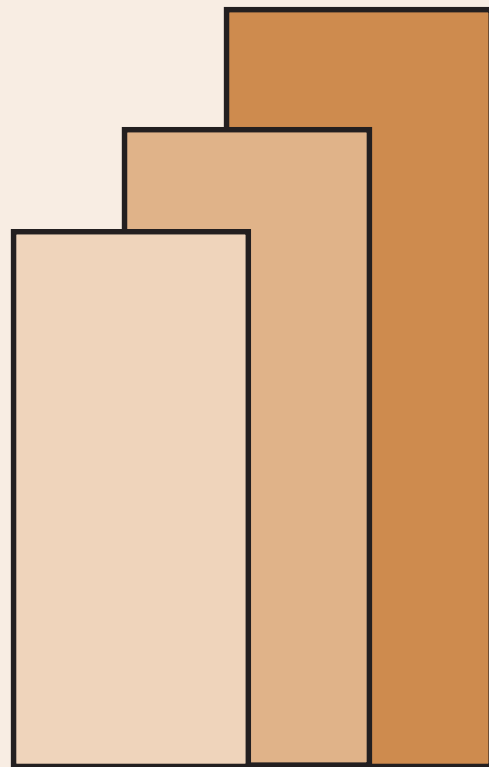
*Jose V. Camacho Jr. and Agham C. Cuevas*

**DISCUSSION PAPER SERIES NO. 2004-35**

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



August 2004

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies  
3rd Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines  
Tel Nos: 8924059 and 8935705; Fax No: 8939589; E-mail: [publications@pidsnet.pids.gov.ph](mailto:publications@pidsnet.pids.gov.ph)  
Or visit our website at <http://www.pids.gov.ph>

## List of Projects under the Japan-Philippines Economic Partnership Research Project

Title of the Project		Proponent
<b>Impact analysis on the whole economy</b>		
1.	Situationer on Japan-Philippines Economic Relations	Erlinda Medalla
2.	Philippine-Japan Bilateral Agreements: Analysis of Possible Effects on Unemployment, Distribution and Poverty in the Philippines Using CGE-Microsimulation Approach	Caesar Cororaton
<b>Impact analysis on specific sectors/ concerns</b>		
3.	An Analysis of Industry and Sector- Specific Impacts of a Japan-Philippines Economic Partnership	AIM Policy Center (Royce Escolar)
4.	Prospects and Problems of Expanding Trade with Japan: A Survey of Philippine Exporters	Rosalina Palanca-Tan
5.	Towards a Strategy for Manufactured Exports to Japan	Peter Lee U and Ferdinand Maquito
6.	Small and Medium Enterprise Development Experience and Policy in Japan and the Philippines: Lessons and Policy Implications	Cielito F. Habito
7.	Developing the Japanese Market for Philippine Tourism and Retirement Services: Prospects and Impediments	Winston Conrad Padojinog and Cherry Lyn Rodolfo
8.	Prospects of Services Trade Liberalization in Japan-RP Bilateral Agreement	Gloria Pasadilla
9.	Movement of Natural Persons Between the Philippines and Japan: Issues and Prospects	Tereso S. Tullao Jr.
10.	Toward a Philippines-Japan Economic Partnership in Agriculture	Amelia Bello and Zenaida Sumalde
11.	Philippine-Japan Economic Linkage: A Case Study of Cebu	Victorina Zosa
<b>Special Studies</b>		
12.	A Comparative Study of the Bilateral FTA Arrangements: Applications to the Philippines	John Lawrence Avila
13.	Philippines-Japan Economic Partnership: Where is the Philippines in Japan's Plan?	Lydia N. Yu-Jose
14.	Understanding Japan's Motives for Pursuing an Economic Partnership Agreement with the Philippines	Ronald Rodriguez
15.	Exploring Potentials of a Japan-Philippine Economic Partnership in Human Resource Development	Jose V. Camacho Jr., Jhoanna Alcalde, Nino Manalo, Rodger Valientes
16.	The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance (ODA) in the Philippines	Jose V. Camacho Jr. Agham C. Cuevas
17.	Preferential Rules of Origin for the Japan-Philippine Economic Partnership: Issues and Prospects	George Manzano
18.	Philippine - Japan Free Trade Agreement: Analyzing the Potential Impact using a Computable General Equilibrium Model	Taeko Yasutake

**The Dynamics of Philippines-Japan Economic Cooperation:  
The Case of Japan's Official Development Assistance (ODA)  
in the Philippines**

**Jose V. Camacho Jr. and Agham C. Cuevas**  
Assistant Professors, Department of Economics  
University of the Philippines Los Baños

**Prepared for the Philippines – Japan Economic Partnership  
Research Project**

**February 2004**

## Table of Contents

Abstract	iii
Executive Summary	iv
Introduction	1
The “Development” in ODA: The Role and Impact of ODA in Development	2
Philosophy of Japan’s ODA and Priority Areas in the Philippines	3
Trends and Patterns of Japan’s ODA in the Philippines	5
Most Likely Impact of JPEPA	10
Policy Issues and Challenges	12
Policy Recommendations	21
Bibliography	23

### List of Tables

1. Four Priority Areas of Japan’s ODA in the Philippines	4
2. Phases of Japan’s ODA in the Philippines	5
3. Ten Largest Recipient Countries of Bilateral ODA	6
4. Amount of DAC Countries’ ODA Disbursement to the Philippines (net disbursement, \$ million)	8
5. Japan’s ODA Disbursement to the Philippines, 1988-2000 (US\$ million)	9
6. Impact of Japan ODA Loan	11
7. Per-capita ODA of DAC Countries	13
8. Grant Share of ODA Provided by DAC Countries	15
9. Sectoral Allocation of Japan’s ODA to the Philippines (% of total)	17
10. Distribution of ODA Loan Commitment, Population Share, Poverty Incidence and HDI by Region	19

### List of Figures

1. Geographical Distribution of Japan’s Bilateral ODA	6
2. ODA Commitments to the Philippines by Sources, 1992-1999	7
3. Volume of ODA to the Philippines, 1999	8
4. Percentage Distribution of ODA Loans by Source	10
5. Trends of Japan’s ODA/ GNP Ratio	14
6. ODA/ GNI Ratios of DAC Member Countries, 2000	14
7. ODA Loans Availment Rate, 2002	16
8. Japan’s ODA Loan Commitments to the Philippines by Sector, 2001	18
9. Distribution of Total Loans by Implementing Agency	20

# **The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance (ODA) in the Philippines**

**Jose V. Camacho Jr. and Agham C. Cuevas**  
Assistant Professors, Department of Economics  
University of the Philippines Los Baños

## **Abstract**

The Japan-Philippines Economic Partnership Agreement is envisioned to further boost Japan's ODA to the Philippines, particularly for capital formation in the infrastructure sector. It will stimulate an increase in investment and capital accumulation causing more employment opportunities to be created. Output capacity will expand and so with cost of production. Moreover, export volume will increase at lower prices, thus enhancing competitiveness in the world market. Trade and business facilitation particularly among Japanese firms in the Philippines will be further enhanced due to an improvement in infrastructure and other support services, for instance, farm-to-market roads, energy, power and telecommunication, irrigation and information technology. Potential economic gains on technical assistance and development cooperation for capacity-building in the fields of information and communication technology, science and technology, intellectual property, human resource development and the enhancement of the country's capacity to design an appropriate competition policy are evident from the Agreement. Furthermore, the proposed pact for economic partnership will be more beneficial to the Philippine economy as its institutions and their capabilities are upgraded particularly through technical cooperation in the areas of trade and investment activities, energy infrastructure development, government procurement, e-commerce and paperless trading. Philippine small-medium enterprises (SMEs) will capture immense economic benefits since the proposed economic cooperation will enhance greater trade and business facilitation. An increase in Japanese ODA channeled to the social sector will significantly improve poverty alleviation and human development. It will translate to an enhancement of skills and IT literacy that will ultimately improve the quality of labor force needed by the various sectors, particularly the industry and services. These skilled and IT-literate labor force can fill up the demand for well-trained technical professionals in Japanese economy. This will be further explored if mutual recognition of performance standards and assessment procedures of technical professionals will be agreed upon under JPEPA.

**Keywords:** official development assistance, Japan-Philippines economic partnership

## EXECUTIVE SUMMARY

### *Introduction and Objectives of the Study*

1. Bilateral trade and economic partnership/cooperation agreements form an important part of the economic integration phenomenon the world is experiencing especially in the East Asian region. In 2002, the New-Age Economic Partnership Agreement between Singapore and Japan was concluded. Japan, arguably the most developed country in the region, is negotiating a similar agreement with Mexico, the Republic of Korea, and is discussing the possibility of an Economic Partnership Agreement with Thailand, Malaysia and Indonesia. Also at present, the Japan-Philippine Economic Partnership Agreement negotiations are underway, building on the long history of positive bilateral economic cooperation between the two countries as exhibited by Japan's Official Development Assistance (ODA) to the Philippines. Through this development assistance, the Japanese Government has been sending hundreds of experts to and accepting numerous trainees from the Philippines in a variety of fields.
2. This study highlights a broad perspective of the dynamic relationship between the Philippines, as an ODA-recipient, and Japan, as an ODA-donor country. Specifically, the study will examine the trends and patterns, issues, challenges and prospects of Japan's ODA in the Philippines and examine their implications for the establishment of the Japan-Philippine Economic Partnership Agreement (JPEPA). What are the most likely impacts of the proposed economic partnership on the Philippines' access and allocation of Japan's ODA? Should the Philippines forge a more dynamic economic partnership primarily through a bilateral trade arrangement with Japan, an important question to be dealt with relates on how will this new economic cooperation change the extent and level of Japan's official development assistance in the Philippines? Will it increase further the total ODA pie allocated for the Philippines relative to its recipient-neighbors? Should there be a further shift in sectoral and regional allocation?

### *The Role and Impact of ODA in Development*

3. As the Japanese economy has demonstrated during its early growth years, official development assistance is crucially important in facilitating the process of economic development by enlarging the pool of capital available for investment especially in those countries which have the right policy environment but lack the infrastructure and capabilities necessary to mobilize sufficient domestic resources and to attract private capital flows (World Bank, 2002; US-CBO, 1997). ODA cushions the constraints on public funds available for necessary public investments.
4. Aid draws in private investment, rather than crowding it out. Countries must therefore cultivate a good investment environment in an atmosphere in which the private sector flourishes to invest in order to generate employment and enhance efficiency and factor productivity. A World Bank (2002) study cites that "each dollar of assistance provided through the Bank's concessional lending arm, the International Development Association (IDA), leads to nearly two dollars of additional private investment, including 60 cents of additional foreign direct investment."

### *Philosophy of Japan's ODA and Priority Areas in the Philippines*

5. Japan primarily extends economic cooperation through its ODA by taking into account each country's request, its social and economic status, and its bilateral relations with the recipient country. This cooperation, as outlined in its ODA charter, is consistent with the principles of the United Nations Charter as well as in accordance with the following principles (MOFA, 2001):
  - i. Environmental conservation and development should be pursued in tandem.
  - ii. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
  - iii. Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, among others.
  - iv. Full attention should be paid to efforts for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient-country.”

### *Trends and Patterns of Japan's ODA in the Philippines*

6. In the aftermath of World War II, Japan was a recipient of international development assistance. However, due to its experience of an unprecedented economic growth during the decades of 1970s and 1980s, and the appreciation of the yen relative to US dollar since 1972, this status was dramatically changed as the world's largest ODA donor. Development scholars have described Japan's ODA in Southeast Asian countries, including the Philippines in various patterns and distinct phases.
7. In geographical terms, Asia continues to be a priority region as it receives the largest ODA from Japan, although a considerable decline can be noted from 63.2 percent in 1999 to 54.8 percent in 2000. Consistent with its ODA charter, Japan's special emphasis is in Asia as this region poses strategic linkages in its trade prospects. Priority aid areas comprise of peace building and promotion of understanding of Japan, the development of basic infrastructure to promote economic integration and growth in Asia, environment and energy, and poverty eradication. The Philippines has consistently ranked as one of Asia's top ten recipients of Japanese aid.
8. The Philippines' largest ODA source is Japan. In terms of ODA commitment, which includes top multilateral donors, from 1992-1999, Japan committed about 45 percent (US\$6.3 billion) of the total amount, followed by the Asian Development Bank and the World Bank with 19 percent (US\$2.7 billion) and 18 percent (US\$2.5 billion), respectively.

### *ODA and JPEPA*

9. JPEPA is envisioned to further boost Japan's ODA to the Philippines, particularly for capital formation in the infrastructure sector. It will stimulate an increase in investment and capital accumulation causing more employment opportunities to be created. Output capacity will expand and so with cost of production. Moreover, export volume will increase at lower prices, thus enhancing competitiveness in the world market. Trade and



business facilitation particularly among Japanese firms in the Philippines will be further enhanced due to an improvement in infrastructure and other support services, for instance, farm-to-market roads, energy, power and telecommunication, irrigation and information technology. Overall, as a result of an increase in capital inflows, national output is expected to rise.

10. The Philippine economy will derive huge potential economic gains as the proposed agreement gives importance and lays significance on technical assistance and development cooperation for capacity-building in the fields of information and communication technology, science and technology, intellectual property, human resource development and the enhancement of the country's capacity to design an appropriate competition policy.
11. An increase in Japanese ODA channeled to the social sector will significantly improve poverty alleviation and human development.
12. An increase in ODA allocated to technical and vocational education translates to an enhancement of skills and IT literacy that will ultimately improve the quality of labor force needed by the various sectors, particularly the industry and services.
13. To be able to realize the huge economic potentials that these opportunities present, several issues must be addressed. These include, among other things: the allocation and disbursement of Japan's ODA, ODA efficiency and absorptive capacity, harmonization of goals and sectoral/geographical priorities, and local government units' (LGUs) and NGOs' participation.

#### *Policy Issues and Challenges*

14. Pushing JPEPA towards its establishment is indeed consistent with the country's goals of reform programs that include poverty reduction and human development, environmental protection, sustainable development and global competitiveness.

# **The Dynamics of Philippines-Japan Economic Cooperation: The Case of Japan's Official Development Assistance (ODA) in the Philippines**

**Jose V. Camacho Jr. and Agham C. Cuevas**

Assistant Professors, Department of Economics, University of the Philippines Los Baños

## **I. Introduction**

The economic relation between the Philippines and Japan is one of the most dynamic and vibrant in the Asia-Pacific region, in particular, when one examines its development assistance in the Philippines as characterized by successes, as well as failures, on its administration. Since establishment of the Philippine-Japan Friendship Highway Project in 1968, Japan is Philippines' largest source of ODA, the second biggest trading partner, and the second biggest source of investments. From 1969 to 1998 alone, total Japanese ODA to the Philippines had reached a huge sum of US \$8.426 billion. In the first half of 2002, Japan contributed 81 percent of the country's total ODA commitment or a sum of \$634 million with the loan signing of the seven projects under the 25th and Special Yen Loan Packages (Office of the Presidential Staff, 2002). The country has seen how these amounts were able to facilitate and create conditions in which poor people are able to increase their incomes, improve their welfare, and to live longer, healthier, and more productive lives. In particular, the Japanese government over the years has been striving to expand its official development assistance (ODA), supportive of Philippine development goals and acting as catalyst for social transformation. This is based on the belief that cooperation through ODA is an important role for Japan to play in the international scene, and that ODA promotes Japan's national interests.

However, there are still some daunting task to be done and challenges to confront, such as finding ways to slow down population growth, reduce poverty, sustain growth and human development, and empower poor people in regions with weak institutions and governance. How effective is Japan in helping poor regions and vulnerable groups as a respond to these challenges will depend on continued learning and on improvements in the allocation, administration and delivery of its ODA. The efficiency and effectiveness of ODA can only be sustained when the recipient are strongly committed to development and in charge of the process.

This study highlights a broader perspective of the dynamic relationship between the Philippines, as an ODA-recipient, and Japan, as an ODA-donor country. Specifically, the study will examine the trends and patterns, issues, challenges and prospects of Japan's ODA in the Philippines and examine their implications for the establishment of Philippines-Japan bilateral trade agreement. What are the most likely impacts of the proposed economic partnership on the Philippines' access and allocation of Japan's ODA? Should the Philippines forge a more dynamic economic partnership primarily through a bilateral trade arrangement with Japan, an important question to be dealt with relates on how will this new economic cooperation change the extent and level of Japan's official development assistance in the Philippines? Will it increase further the total ODA pie allocated for the Philippines relative to its recipient-neighbors? Should there be a further shift in sectoral and regional allocation?

The study will be significant and timely as it coincides with Japan's effort to refocus and justify its development assistance, including a reevaluation of its efficiency and effectiveness on the basis of broader development concerns of both the donor and recipient countries. As Japan

encounters fiscal constraints and a continuing scrutiny of aid levels, ODA programs and projects must be implemented with greater efficiency bearing in mind the priorities of the recipient-regions and areas to which it provides aid and the types of aid it delivers. In the case of the Philippine economy, a paramount concern deals with whether forging an economic alliance with Japan is consistent with the country's goals of reform programs and medium-term policy agenda which include:

- poverty reduction and equitable distribution of income
- macroeconomic stability and accelerated, and broad-based, market-led growth
- agricultural and fisheries modernization to achieve sustainable increases in rural-incomes and to include improved access to land tenure, extension services, rural infrastructure, and credit
- human development, focused on the quality and access to education, health and housing services, protecting the vulnerable, and addressing regional disparities and the particular challenges of Mindanao
- good governance, judicial reforms and institution building
- sustainable development and global competitiveness

The concern gains more prominence as it drives the Philippines in an arena of greater market integration and globalization that calls for economic policy coordination.

The paper is structured in the following manner. In the next section, citing empirical evidences and looking more closely at the role of aid, the paper proceeds with a presentation on the impact of official development assistance in a general fashion. Section III reviews the principles, philosophy and priority areas of Japan's official development assistance based on its ODA charter that was drafted in 1992. Section IV illustrates the trends and patterns of Japan's ODA in the Philippines. Thereafter, Section V details some likely impacts of the proposed Japan-Philippine Economic Partnership Agreement (JPEPA) on Japan's ODA allocation in the Philippine citing empirical evidences. Section VI forwards some policy issues and challenges while the last section concludes and lists down a set of recommendations.

## **II. The "Development" in ODA: The Role and Impact of ODA in Development**

As the Japanese economy has demonstrated during its early growth years, official development assistance is crucially important in facilitating the process of economic development by enlarging the pool of capital available for investment and growth especially in those countries which have the right policy environment but lack the infrastructure and capabilities necessary to mobilize sufficient domestic resources and to attract private capital flows. It eases the constraints on public funds available for necessary public investments.

Aid draws in private investment, rather than crowding it out. Countries must therefore cultivate a good investment environment in an atmosphere in which the private sector flourishes to invest in order to generate employment and enhance efficiency and factor productivity. A 2003 World Bank study cites that "each dollar of assistance provided through the Bank's concessional lending arm, the International Development Association (IDA), leads to nearly two dollars of additional private investment, including 60 cents of additional foreign direct investment."

The literature also recognizes very strongly that ODA has both direct and indirect effects on poverty reduction and income distribution: the former through support projects and programs aimed specifically at the poor, and the latter through the promotion of long-term economic growth. Its poverty-reducing impact has increased in the past decade due to improved design and allocation; for instance by investing in poor people with the inputs necessary for them to contribute to and participate in the process of economic transformation, such as education and health, and by giving them access to credit and other support infrastructure and services. Poor people are empowered when their choices are enlarged and when they are given the potentials to shape their own lives.

Another channel through which aid might foster growth is technical assistance and technology transfer. That type of aid promotes growth not by accumulating greater resources but by making existing resources more efficient and effective. Technical assistance programs may also include educating and training government officials who play a large role in creating the policy environment and using foreign aid.

However, empirical evidence argues that the performance of development assistance heavily depends on the recipient's design of economic policies and the way it governs its economy. If the policy environment is not conducive to growth, aid is ineffective and less likely to contribute to sustainable development. Development scholars opine that "in terms of growth prospects and performance, no amount of foreign assistance can substitute for a developing country's internal policies and incentives for increasing output and improving the efficiency of resource allocation."

### **III. Philosophy of Japan's ODA and Priority areas in the Philippines**

Japan primarily extends economic cooperation through its ODA by taking into account each recipient country's request, its social and economic status, and its bilateral relations with the recipient country. This cooperation, as outlined in its ODA charter, is consistent with the principles of the United Nations Charter as well as in accordance with the following principles (MOFA, 2001):

1. Environmental conservation and development should be pursued in tandem.
2. Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
3. Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, among others.
4. Full attention should be paid to efforts for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient-country.

Japan recognizes the linkage between development assistance fostering economic growth and sustainable development on one hand, and poverty reduction and human development on the other. As outlined in its ODA policy in the Philippines, Japan will continue to

encourage the efforts of the Philippine government by harmonizing four priority areas seen in Table 1 that are consistent with the country's Medium-Term Development Plan (1999-2004).

**Table 1. Four Priority Areas of Japan's ODA in the Philippines**

PRIORITY AREAS	FEATURES
Strengthening the economic structure and overcoming the bottlenecks for sustainable economic growth	<ul style="list-style-type: none"> <li>○ Appropriate macroeconomic management.</li> <li>○ Improving the flow of capital funds in both the public and private sector and strengthening of management of the economy over the mid-term through technical cooperation.</li> <li>○ Strengthening of the economic infrastructure.</li> <li>○ Fostering of supporting industries and the building of capital markets for small- and medium-sized industries, as well as human resources development for the strengthening of the economic structure Improved economic infrastructure (energy and transportation).</li> <li>○ Building of an economic infrastructure, the lack of which serves as a bottleneck to economic development in the Philippines (In particular, the balance of industry in urban and rural areas must be considered.)</li> </ul>
Reducing poverty and regional disparities	<ul style="list-style-type: none"> <li>○ Agricultural and rural development</li> <li>○ Improving agricultural productivity, building of basic social and economic infrastructure in rural areas, strengthening of farmers' organizations and promotion of agrarian reform</li> <li>○ Improvement of basic living conditions focused on health and medical care, water supply systems and poverty alleviation in urban areas</li> </ul>
Environmental conservation and disaster prevention	<ul style="list-style-type: none"> <li>○ Environmental conservation: strengthening of administrative capacity, measures for general waste disposal and industrial pollution, and natural environment conservation</li> <li>○ Disaster prevention: focused on most susceptible area</li> </ul>
Human resources development and institutional building.	<ul style="list-style-type: none"> <li>○ Improved quality of access to primary and secondary education Improvement of school facilities and materials, as well as fostering of teachers and trainees, and the improvement of the capacity of local administrators in education</li> <li>○ Improved technical and technological education Improvement of techniques and technological education, and access to educational services shifted to local industrial needs</li> <li>○ Improvement of administrative capacity and institution building (especially in local governments)</li> </ul>

*Source: adapted from MOFA, 2001*

These priority areas bear consensus with Japan's ODA philosophy that is largely based on country's experience after the World War II, when World Bank extended loans to develop its

core infrastructure and industry. Based on its ODA charter framework, aid is seen as a support for the self-help efforts of developing countries pursuing economic growth. Japan's provision of economic cooperation is based on the concepts of humanitarian and moral consideration and the recognition of interdependence among nations. In this vein, Nishigaki and Shimomura (1999) outlined two crucial elements. First, they opined that "economic development can be possible only if the government and its citizens have the continuous efforts to improve their present conditions. Without the help and sacrifices of its people neither assistance nor development can be successful. Foreign aid has the supporting role to assure that those efforts can be productive and successful." Regarding aid implementation, Japan believes that the donor country should not direct its aid recipient, "rather it should be the developing countries that will discover and search for a promising project and then lend a helping hand to the more experience and skillful ones."

#### IV. Trends and Patterns of Japan's ODA in the Philippines

In the aftermath of World War II, Japan was a recipient of international development assistance. However, due to its experience of an unprecedented economic growth during the decades of 1970s and 1980s, and the appreciation of the yen relative to US dollar since 1972, this status was dramatically changed as the world's largest ODA donor. Development scholars have described Japan's ODA in Southeast Asian countries, including the Philippines in various patterns and distinct phases. As presented in Table 2 six phases can be identified with their corresponding features and characteristics (as cited in Rivera 2003). Mori (1995), in his study of Japan's ODA, merged these phases into five categories, namely: (1) as postwar reconstruction; (2) as export promotion; (3) as import promotion coinciding with the rise of multilateralism and diversification of grant aid; (4) as comprehensive security; and (5) period of economic cooperation and global contribution (as cited in Rivera, 2003).

**Table 2. Phases of Japan's ODA in the Philippines**

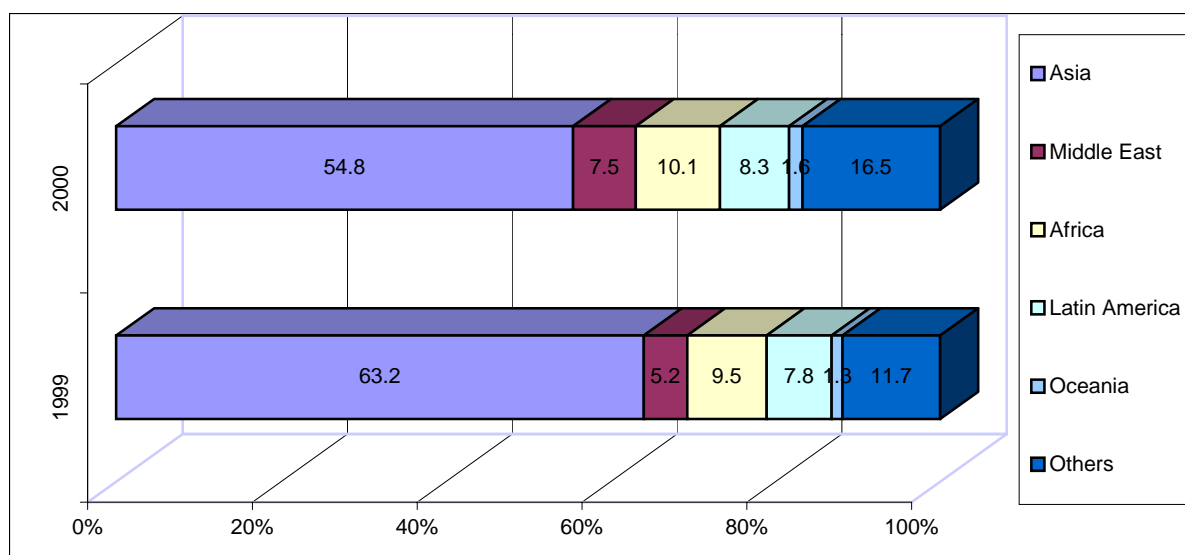
PHASE	FEATURE/CHARACTERISTICS
Phase 1 (1954-1957)	Reparation payments to Southeast Asian countries
Phase 2 (1958-mid60's)	Non-reparation financial aid and its conscious tie-up with Japan's export promotion policy
Phase 3 (mid 60's-early 70's)	Rapid growth of ODA with East and Southeast Asia as the main destinations
Phase 4 (early 70's-1977)	Geographical diversification of ODA to countries outside Asia in response to first oil shock
Phase 5 (1978-late 1980)	Coincided with the implementation of three midterm plans that expanded significantly the amount of ODA
Phase 6 (1999-onwards)	Japan as largest ODA donor

*Source: Imai, et.al.,1992 as cited in Rivera, 2003*

In geographical terms, Asia continues to be a priority region as it receives the largest ODA from Japan, although a considerable decline can be noted from 63.2 percent in 1999 to 54.8 percent in

2000 (Figure 1). Consistent with its ODA charter, Japan's special emphasis is in Asia as this region poses strategic linkages in its trade prospects. Priority aid areas comprise of peace-building and promotion of understanding of Japan, the development of basic infrastructure to promote economic integration and growth in Asia, environment and energy, poverty eradication. As presented in Table 3, the Philippines have consistently ranked as Asia's the top ten recipients of Japanese aid.

**Figure 1. Geographical Distribution of Japan's Bilateral ODA**



Source: Japan's ODA, White Paper, 2001

**Table 3. Ten Largest Recipient Countries of Bilateral ODA**

(net disbursement bases: unit \$ million, %)

RANK	1999			2000			2001		
	COUNTRY	AMOUNT	SHARE	COUNTRY	AMOUNT	SHARE	COUNTRY	AMOUNT	SHARE
1	Indonesia	1,806.83	15.30	Indonesia	970.10	10.06	Indonesia	860.07	11.54
2	China	1,225.97	11.68	Vietnam	923.68	9.58	China	686.13	9.21
3	Thailand	880.26	8.39	China	769.09	7.98	India	528.87	7.10
4	Vietnam	679.96	6.48	Thailand	636.25	7.98	Vietnam	469.53	6.17
5	India	634.02	6.04	India	368.16	3.82	Philippines	296.22	4.00
6	Philippines	412.96	3.93	Philippines	304.48	3.16	Tanzania	260.44	3.49
7	Peru	189.12	1.80	Pakistan	280.36	2.91	Pakistan	211.41	2.84
8	Pakistan	169.74	1.62	Tanzania	217.14	2.25	Thailand	209.59	2.81
9	Brazil	149.36	1.42	Bangladesh	201.52	2.09	Sri Lanka	184.72	2.48
10	Syria	136.17	1.30	Peru	191.68	1.99	Peru	156.52	2.10
	<b>Total for above 10</b>	<b>6,083.45</b>	<b>57.95</b>	<b>Total for above 10</b>	<b>4,861.64</b>	<b>50.43</b>	<b>Total for above 10</b>	<b>3,855.50</b>	<b>51.74</b>
	<b>Total/bilateral aid to developing countries</b>	<b>10,497.56</b>	<b>100.00</b>	<b>Total/bilateral aid to developing countries</b>	<b>9,640.10</b>	<b>100.00</b>	<b>Total/bilateral aid to developing countries</b>	<b>7,452.04</b>	<b>100.00</b>

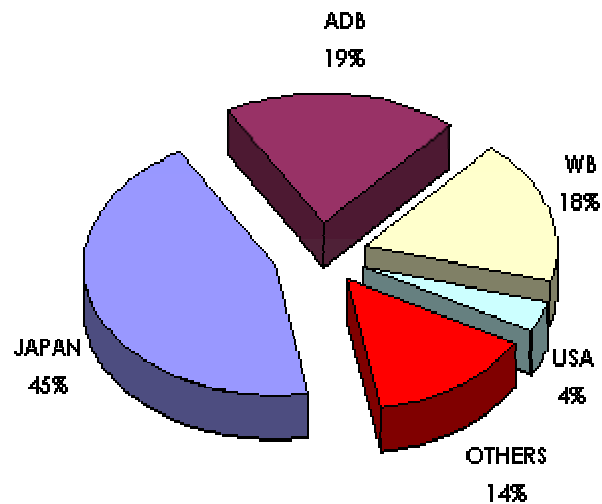
Source: Adapted from: Japan's ODA, 2001 and Ministry of Foreign Affairs

Japan is considered as a model of aid-recipient countries due to its dramatic shift as the world's largest official development assistance donor. In 1964, when it became a member of OECD, its ODA to the less developed countries was valued at US\$15.8 million, about 3 percent of the

United States' US\$3566.6 million, one eighth of France contribution, and only about one-fourth of the contribution of Germany or Great Britain.

When compared with other ODA donors, Japan contributed the largest ODA (Figure 2). In terms of ODA commitment, which includes top multilateral donors, from 1992-1999, Japan committed about 45 percent (US\$6.3 billion) of the total amount, followed by the Asian Development Bank and the World Bank with 19 percent (US\$2.7 billion) and 18 percent (US\$2.5 billion), respectively.

**Figure 2. ODA Commitment to the Philippines by Source, 1992-1999**



*Source: NEDA Public Investment Staff*

As the top ODA donor, Japan outranked the Development Assistance Committee (DAC)-member countries that comprise the world's rich economies, such as US, Germany, Australia, France, Spain and the Netherlands (Table 4). In 1995, for instance, the total net disbursement of US (US\$112 million) was nearly 25 percent of Japan's total disbursement (US\$ 416.1 million). This proportion declined to as low as 17 percent in 1999. The four top DAC's combined total disbursement is just one third of Japan's share.



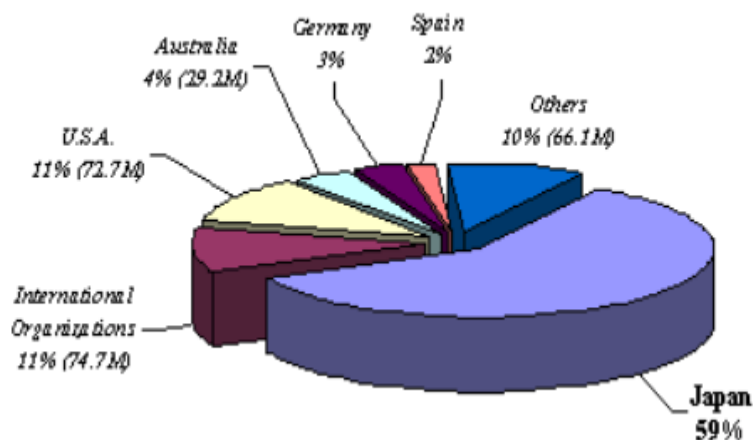
**Table 4. Amount of DAC Countries' ODA Disbursements to the Philippines (net disbursement, \$million)**

YEAR	1	2	3	4	5	TOTAL
1995	Japan 416.1	U.S.A. 112.0	Germany 67.6	Australia 56.0	France 35.8	748.8
1996	Japan 414.5	Germany 106.6	Australia 55.9	U.S.A. 46.0	France 27.4	748.2
1997	Japan 319.0	Germany 56.6	Australia 42.9	Spain 22.7	Netherlands 22.4	567.3
1998	Japan 297.6	Germany 45.4	Australia 45.0	U.S.A. 27.3	France 24.4	528.0
1999	Japan 413.0	U.S.A. 72.7	Australia 29.2	Germany 22.1	Spain 12.9	616.0

Source: Japan ODA White Paper 2001

Figure 3 depicts similar picture when one includes the contribution of international organization and other donor agencies in 1999. Japan again took the lead in channelling 59 percent of the total volume of ODA in the Philippines. US contributed only 11 percent out of the total amount of US\$ 690 million while the combined ODA of Australia, Germany and Spain only reached 9 percent.

**Figure 3. Volume of ODA to the Philippines, 1999**



Source: adapted from ODA Annual Report, 2001

Japan extends its ODA in three forms: grant, loan and contributions and subscriptions to multilateral donor agencies. Grant is comprised of grant aid and technical cooperation or technical assistance, which does not require the repayment of obligation from recipient-countries.

Grants, mostly administered by the Japan International Cooperation Agency (JICA), are allocated, for instance, to the health sector through an improvement and expansion of medical services and rural health facilities and the training of personnel. Technical cooperation or technical assistance programs are also focused on such sectors as agriculture, industrial

technology and transportation. Japan has also extended leadership and financial support of various technical studies aimed at improving productivity and rural development, with a long-term goal of improving farmers' livelihood and employment. Through its Japan Overseas Cooperation Volunteers (JOCVs), agricultural technologies and new science and mathematics teaching methodologies are rapidly diffused and implemented, particularly in the countryside. From 1988 to 2000, as gleaned in Table 5, the amount of grant averaged to US\$183.29 million with 1994 as the year when grant reached its peak. For the year 2000, Japan's total disbursement amounted to US\$157 million for both grant aid and technical cooperation (US \$57.58 million in grants, and US \$99.52 million technical assistance).

**Table 5. Japan's ODA Disbursement to the Philippines, 1988-2000 (US \$ Million)**

YEAR	GRANT			LOAN	TOTAL	TOTAL JAPANESE ODA
	Grant Aid	Technical Cooperation	Total	Aid (Net)	Loans and Grant	as % of Total Bilateral Aid to RP
1988	70.40	60.70	131.10	403.62	534.72	67.70
1989	115.32	60.74	176.06	227.69	403.75	53.30
1990	91.15	61.98	153.14	494.31	647.45	58.80
1991	110.91	63.43	173.62	285.30	458.92	53.50
1992	112.34	73.32	185.66	845.01	1030.67	66.90
1993	158.23	87.19	245.42	512.97	758.39	57.00
1994	138.41	110.41	248.82	342.78	591.60	63.00
1995	121.08	114.43	235.51	180.62	416.13	56.00
1996	91.14	94.34	185.49	228.96	414.45	55.00
1997	68.21	89.25	157.47	161.51	318.98	56.00
1998	78.34	80.68	159.01	138.54	297.55	56.00
1999	82.23	92.08	174.31	238.68	412.98	---
2000	57.58	99.52	157.10	147.39	304.48	---

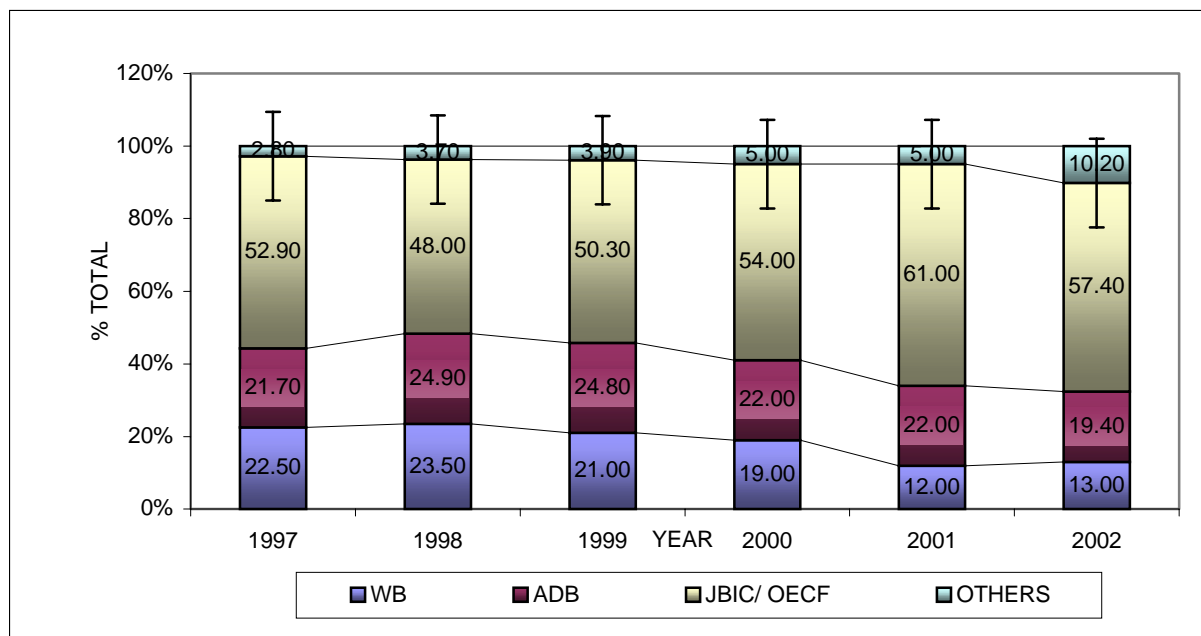
Source: Rivera (2003) ODA Annual Report 2001 and [http://www.mofa.go.jp/policy/oda/summary/1999/ap\\_ea02.html](http://www.mofa.go.jp/policy/oda/summary/1999/ap_ea02.html)

On the other hand, bilateral loans or loan aid (widely known as “Yen Loan Packages”), have terms and conditions that are extremely concessional in nature. In the year 2000, for instance, the interest rate was pegged at 1.34% to be paid in with 33 years and two (2) months, including a grace period of nine (9) years and ten (10) months. In general, loan aid allows recipient-countries to invest in massive socio-economic infrastructure as well as respond to the demand for immensely large funds that grant aid cannot meet. These loan programs, mostly administered by Japan Bank for International Cooperation (JBIC), are utilized in building various economic infrastructure projects and towards bold measures for economic recovery. Moreover, the agricultural sector receives a continuous support through rural development and agrarian reform. As one examined Table 5, the largest amount of loan was disbursed in 1992 with US\$845 million, the highest loan allocation for the period 1988-2000. This amount declined to as low the amount disbursed in 2000, which only totaled to US\$147.39 million. In view of Japan

firm belief that ODA should be administered to support the self-help efforts of developing countries, a sizable amount Japanese ODA has been in the form of loans as compared to grants.

When compared with other ODA lenders, Japan through JBIC (formerly the OECF, Overseas Economic Cooperation Fund) remained as the largest source of ODA loans, accounting for 57% (or US\$6.8 billion with 86 loans) of the total ODA, followed by Asian Development Bank (ADB) with 19% (or US\$2.3 billion with 45 loans) and the World Bank (WB) with 13% (or US\$1.5 billion with 27 loans) (Figure 4).

**Figure 4. Percentage Distribution of ODA Loans by Source**



Source: ODA Portfolio Review, various issues

#### IV. Most Likely Impact of JPEPA

JPEPA is envisioned to further boost Japan's ODA to the Philippines, particularly for capital formation in the infrastructure sector. It will stimulate an increase in investment and capital accumulation causing more employment opportunities to be created. Output capacity will expand and so with cost of production. Moreover, export volume will increase at lower prices, thus enhancing competitiveness in the world market. Trade and business facilitation particularly among Japanese firms in the Philippines will be further enhanced due to an improvement in infrastructure and other support services, for instance, farm-to-market roads, energy, power and telecommunication, irrigation and information technology. Overall, as a result of an increase in capital inflows, national output is expected to rise.

These bright prospects are depicted in a computable general equilibrium (CGE) analysis of Kawasaki (2002) on the impact of Japanese ODA and capital accumulation among selected Asian recipient-economies, including the Philippines. As seen in Table 6, Japan's inflow of ODA in the Philippines will result to some positive gains. His simulation also shows an increase in

export and import volume in view of price and income effects. Previous CGE analysis asserts that, at the macroeconomic level, foreign direct investment and trade are likely to be complements. His simulation is consistent along this view as his calibration indicates, “capital inflows by means of the Japan’s ODA loans in the Asian countries would create rather than destroy trade.” In terms of allocative efficiency of resources, he concludes that capital inflows augments the relative value of labor in the recipient countries, while a relative value of capital would drop, thus, leading to wage increase. He also notes “if capital moves from capital-rich countries to capital-poor countries, the investor country gains a larger return on the capital and enjoys surpluses.” He expects that, as a result of massive ODA-capital inflows, substantial gains will be accrued to production, energy manufacturing, and trade and transportation sectors.

**Table 6. Impact of Japan ODA Loan**

<b>COUNTRY</b>	<b>Real GDP</b>	<b>EXPORT VOLUME</b>	<b>IMPORT VOLUME</b>	<b>GDP DEFLATOR</b>	<b>TRADE BALANCE</b>	<b>UTILITY</b>
Japan	-0.10	-0.12	-0.01	0.03	-387.00	-0.07
China	0.12	0.14	0.05	-0.06	139.00	0.08
Indonesia	0.50	0.59	0.35	-0.22	67.00	0.41
Malaysia	0.20	0.19	0.16	-0.13	13.00	0.14
Philippines	0.71	0.90	0.54	-0.60	6.00	0.49
Thailand	0.49	0.34	0.20	-0.29	29.00	0.42
Vietnam	1.65	2.53	1.24	-0.69	28.00	0.99
World	0.00	0.02	0.02	-0.01	0.00	0.00

Note: deviations in Million US dollars (in %)

Source: *Kawasaki (2002)*

The Philippine economy will derive huge potential economic gains as the proposed agreement gives importance and lays significance on technical assistance and development cooperation for capacity-building in the fields of information and communication technology, science and technology, intellectual property, human resource development and the enhancement of the country’s capacity to design an appropriate competition policy. Furthermore, the proposed pact for economic partnership will be more beneficial to the Philippine economy as its institutions and their capabilities are upgraded particularly through technical cooperation in the areas of trade and investment activities, energy infrastructure development, government procurement, e-commerce and paperless trading. Philippine small-medium enterprises (SMEs) will capture immense economic benefits since the proposed economic cooperation will enhance greater trade and business facilitation, thus, enabling them to form strategic alliances and business partnership with Japanese firms. Indeed, technical cooperation and assistance as an integral part of Japan's ODA will strengthen institutions and human resources, further catalyze capability building and capacity development which in the process, will enhance linkage and networks, systems and collaboration to achieve consensus and common objectives. It will stimulate a critical mass of human and institutional resources that can overcome constraints and barriers of development. This capacity will heighten the facilitation of processes and the mobilization of indigenous resources that contribute to this critical mass. Moreover, capacity building will be very crucial in public and sectoral reforms that will ultimately lead to responsible governance and sensitive to national development goals. It will lead to an upgrade of competencies and systems in government and enhanced capabilities of NGOs to advocate for and monitor public sector reforms. Improved competencies will lead to satisfactory

performance and vigilance to curb graft and corruption, ensure safety, peace and order, and cultivate transparency as national and local government units provide information online. It will facilitate LGUs and national government agencies to help build community organizations in order to strengthen their institutional capacity and in mobilizing resources, cultivate social capital and assist them to forge linkage and collaboration.

An increase in Japanese ODA channeled to the social sector will significantly improve poverty alleviation and human development. Poor households will have greater access to basic education, primary health care, and safe drinking water, family planning and nutrition programs. More funds will be allocated to build additional classrooms and to provide more textbooks and learning materials, including other support programs and activities that will enhance teaching strategies geared towards an improvement in learning output and educational performance, for example, nutrition and feeding programs for malnourished school children, teacher training, etc. These will therefore translate to a lower dropout incidence, higher cohort-survival and sustained improvement in standard school test performance.

An increase in ODA allocated to technical and vocational education translates to an enhancement of skills and IT literacy that will ultimately improve the quality of labor force needed by the various sectors, particularly the industry and services. These skilled and IT-literate labor force can fill up the demand for well-trained technical professionals in Japanese economy. This will be further explored if mutual recognition of performance standards and assessment procedures of technical professionals will be agreed upon under JPEP.

## **V. Policy Issues and Challenges**

There is no arguing Japan's significant role in providing the Philippines with important official development assistance for the enhancement of the country's economic as well as social infrastructure. It is a well-known fact that Japan has contributed the largest ODA in the Philippines in recent years. With the advent of the Japan-Philippines Economic Partnership Agreement, Japan's ODA is expected to further increase creating more windows of opportunities for the Philippines to improve its social and economic well-being through these loans, grants and technical assistance. The prospects are bright. Increased financial assistance for capital formation in the infrastructure sector will stimulate an increase in foreign direct investment that will encourage more employment opportunities and a host of other forward and backward linkages as well as multiplier effects. Increased ODA channeled to the social services sector will significantly improve poverty alleviation and human development and ODA allocated to technical and vocational education translates to an enhancement of skills and information technology literacy that has the potential of improving the quality of labor force needed by the various sectors and industries. Technical cooperation will boost institutional building and capacity development that can improve governance and lead to public sector reforms.

However, to be able to realize the huge economic potentials that these opportunities present, several issues must be addressed. These include, among other things;

1. the allocation and disbursement of Japan's ODA
2. ODA efficiency and absorptive capacity
3. harmonization of goals and sectoral/geographical priorities

#### 4. local government units' (LGUs) and NGOs' participation

##### ***Japan's ODA Allocation and Disbursement***

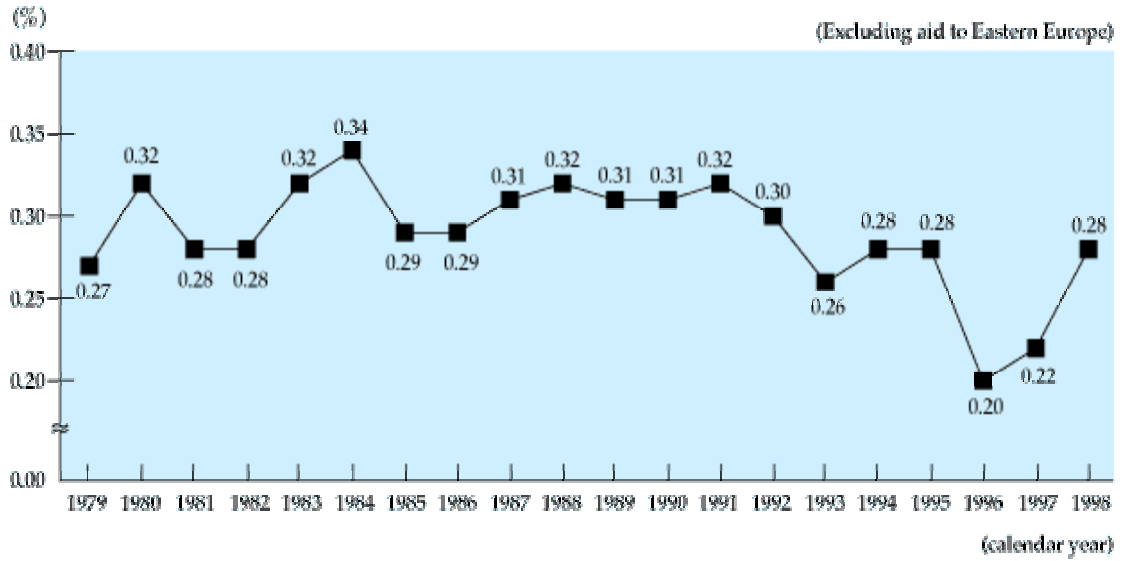
While the total amount of Japan's ODA has increased dramatically through the years, there is still much to be desired in Japan's ODA allocation and disbursement as indicated by its inability to fulfill the Development Assistance Committee (DAC) donor countries and United Nation's acceptable measure of burden sharing. For instance, Japan ranked seventh in 2000 in terms of per capita ODA burden among DAC-member economies (Table 7). As seen in Figures 5 and 6, its ratio of ODA to GNI (or GNP) was at its peak at .34 percent in 1984 but continuously declined to as low as .22 percent in 1997. It went up to only .28 percent in 2000 and ranked 12<sup>th</sup>, way below the 0.7 percent acceptable ratio set by UN and DAC.

**Table 7. Per-Capita ODA of DAC Countries (US\$)**

<b>COUNTRY</b>	<b>RANK</b>	<b>1999</b>	<b>RANK</b>	<b>1998</b>
Denmark	1	325.8	1	321.5
Norway	2	307.2	2	298.2
Luxembourg	3	276.7	3	260.5
Netherlands	4	198.2	4	193.8
Sweden	5	184.0	5	177.7
Switzerland	6	135.7	6	126.3
Japan	7	120.9	9	84.1
France	8	95.4	7	97.6
Finland	9	80.5	10	76.9
Belgium	10	74.2	8	86.6
Germany	11	67.2	11	68.0
Ireland	12	65.3	15	53.6
Austria	13	65.1	13	56.4
U.K.	14	57.2	12	65.2
Canada	15	55.7	13	56.4
Australia	16	51.8	16	51.3
New Zealand	17	35.2	19	34.3
Spain	18	34.6	18	35.0
U.S.A.	19	33.5	20	32.5
Italy	20	31.6	17	39.9
Portugal	21	27.6	21	26.0
Greece	22	18.4	22	17.0
DAC average		67.1		62.3

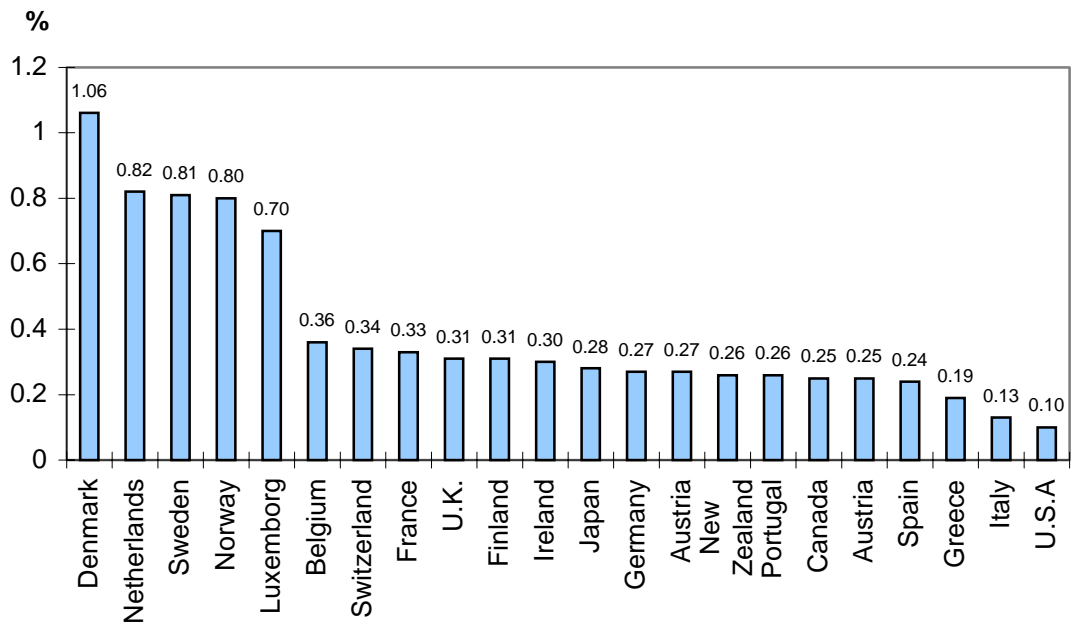
*Source: Japan's ODA White Paper 2001*

**Figure 5. Trends of Japan's ODA/GNP Ratio**



Source: Japan ODA Annual Report, MOFA, 1999

**Figure 6. ODA/GNI Ratios of DAC Member Countries, 2000**



Source: Japan's ODA White Paper 2001

**Table 8. Grant Share of ODA Provided by DAC Countries**

(COMMITMENT BASIS:TWO-YEAR AVERAGE:%)				
COUNTRY	RANK	1998/99	RANK	1997/98
Australia	1	100.0	1	100.0
Ireland	1	100.0	1	100.0
Luxembourg	1	100.0	1	100.0
New Zealand	1	100.0	1	100.0
Netherlands	1	100.0	1	100.0
Denmark	1	100.0	1	100.0
Switzerland	1	100.0	9	99.6
Canada	8	99.9	7	99.9
Sweden	8	99.9	7	99.9
Norway	10	99.5	10	99.1
Greece	11	99.1		
Finland	12	98.8	11	98.9
U.S.A.	13	98.5	12	98.2
Belgium	14	98.3	13	97.9
Italy	15	98.1	15	93.4
Portugal	16	95.2	17	87.2
U.K.	17	95.1	14	95.8
Germany	18	86.3	18	86.1
France	19	78.0	19	80.3
Spain	20	77.7	20	75.9
Austria	21	74.2	16	87.4
Japan	22	45.4	21	43.5
DAC Average		80.6		79.0

Source: Japan's ODA White Paper 2001

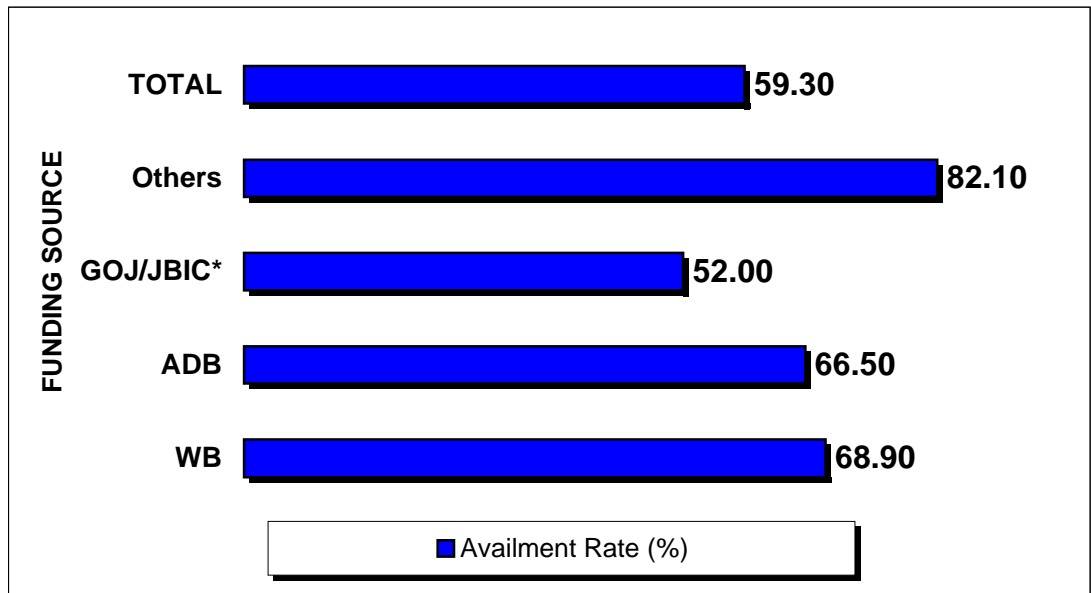
It is generally considered that a higher ratio of grant share, grant element and untied loans is better, since it minimizes the burden of repayment upon the recipient. Japan is widely criticized as it still prefers loan aid with concessional interest rates over grant aid and technical cooperation. As seen in table 8, the grant share of Japan's ODA, about 45 percent in 1998-1999, is ranked 22nd, the lowest in DAC, and way below the average pegged at 80.6 percent.

### ***ODA Efficiency and Absorptive Capacity***

Although there is an increase in the total amount due for availment, there is a lower rate of usage of Japan's ODA indicating a low absorptive capacity. Availment rate shows the cumulative actual disbursements as a proportion of cumulative scheduled disbursements per loan agreement, based from the start of implementation of all projects up to the end of the year (Figure 7). Availment rate for Japan's ODA is at a low 52 percent, lower than the country's overall availment rate of 59 percent. This problem is mainly due to backlogs in project start-up, an indication of inefficiency in project management of Japanese funded projects. This can be attributed to the fact that JBIC does not charge commitment fees unlike multilateral institutions such as IBRD and ADB. However, this should have been a boon rather than a bane.



**Figure 7. ODA Loans Availment Rate, 2002**



Source: 11<sup>th</sup> ODA Portfolio Review

Other factors prohibiting smooth project implementation include the problems attributed to peace and order, relocation and securing right of way, limited borrowing capacity and the inability of the Philippine government in securing counterpart funding and in complying with the implementing procedures, such as bidding and procurement regulation. Other major obstacles relate to insufficient budget cover, poor project design and poor contractor performance and graft and corruption among government officials involved in the project implementation. To create a conducive and enabling environment, public sector reforms must be pursued coupled with a sense of accountability and transparency among government agencies tasked to implement ODA-funded project environment, including an institutionalization of an efficient monitoring and evaluation system.

At present, these problems are being addressed at different levels. Various initiatives and internal reforms on procurement and documentation processing are being done by different agencies. Executive and Administrative Orders (i.e. EO 40 and 109, AO 42) have been issued aimed at streamlining various bureaucratic procedures on bidding and procurement. However, the results of these efforts have yet to be evaluated. It is imperative that government should be able to increase its effectiveness in utilizing ODA for it to be able to concentrate on achieving efficiency in delivering services by reducing administrative, project management and consultancy cost.

### ***Harmonization of Goals and Sectoral/Geographical Priorities***

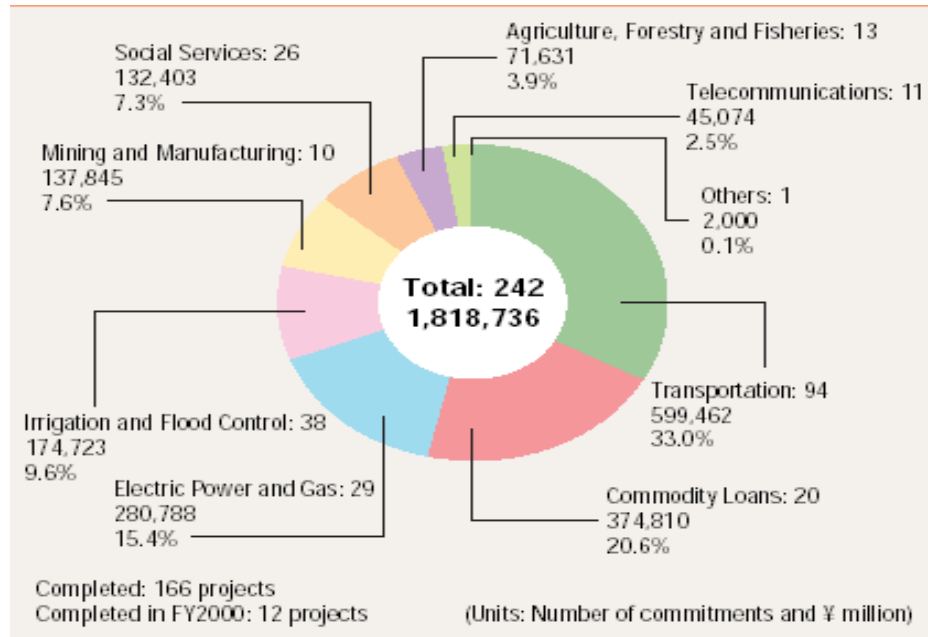
Development scholars (e.g., Rivera, 2003; Yanahigara and Emig, 1991) have widely criticized the substantial amount of loan aid that is allocated to the development of economic infrastructure, in particular, on transport and power sector, as depicted in Table 9 and Figure 10. While poverty alleviation falls under the second priority of Japan's ODA sectoral priorities, ODA funds for poverty alleviation, human development and social infrastructure and other social services, which includes health and education, is given relatively smaller share mostly in the form of grants. In the same vein, development assistance is very minimal on programs and projects that will alleviate the plight of women and the environment. The share of technical assistance has also continuously declined through the years.

**Table 9. Sectoral Allocation of Japan's ODA to the Philippines (% of Total)**

<b>SECTOR</b>	<b>1975-75</b>	<b>1971-82</b>	<b>1983-86</b>	<b>1987-95</b>	<b>1996-98</b>
Economic Infrastructure	56.80	81.80	37.70	51.40	71.60
Power	13.10	31.50	15.20	10.40	12.70
Transportation	25.90	24.00	13.40	24.60	45.30
Irrigation, Flood Control	8.00	9.90	3.30	6.80	13.60
Social Infrastructure	15.00	12.10	14.70	18.40	24.90
Education	2.10	0.30	1.20	3.30	4.90
Health	0.50	0.00	2.00	0.50	1.20
Water Supply	3.60	6.10	3.30	3.40	2.70
Environment	3.20	0.00	0.70	5.20	15.20
Women in Devt.	0.05	0.00	0.00	0.07	0.80
Grass Roots/NGO's	0.01	0.00	0.00	0.02	0.11
Commodity Loans	7.00	28.80	28.80	5.00	0.00
Rescheduling	15.00	9.80	9.80	20.30	0.00
Technical Assistance	6.20	9.00	9.00	4.90	3.70

*Source: Rivera, 2003*

**Figure 8. Japan's ODA Loan Commitments to the Philippines by Sector, 2001**



*Source: adapted from JBIC Annual Report, 2001*

This trend lends support to the analysis of Manasan and Llanto in 1994 that “health, education and other social development projects accounted for only 11.4 percent of total ODA disbursements in 1991. This relatively low allocation was due to the donors’ preference for other areas of assistance, a manifestation of the government’s failure to push for the social sector in its negotiations, and official reluctance to use official loans to fund human development projects.”

This strong bias towards economic infrastructure activities reinforces the link between investment and economic growth consistent with Japan’s own experience of the post-war economic recovery and social transformation. As one author notes “Japanese government claims that the improved economic infrastructure financed by ODA attracts direct investment from various countries, which then helps ODA recipients to achieve healthy and steady economic growth and reach the so-called ‘take-off’ stage. In time, healthy economic growth will have multiplier effects: fostering more competitive local industries, improving the living standard of local communities and narrowing the regional disparity between city and rural areas. “

Furthermore, loan aid allocation is strongly biased in favor of relatively well-off regions and provinces as indicated by their record of having high HDI (human development index) and low poverty incidence (Table 10). Bicol and other Visayas and Mindanao regions with high poverty incidence and rapid population growth rate were allocated small amount of development assistance. Japan’s ODA does not appear to have flowed to the regions most in need of it.

**Table 10. Distribution of ODA Loan Commitment, Population Share, Poverty Incidence and HDI by Region**

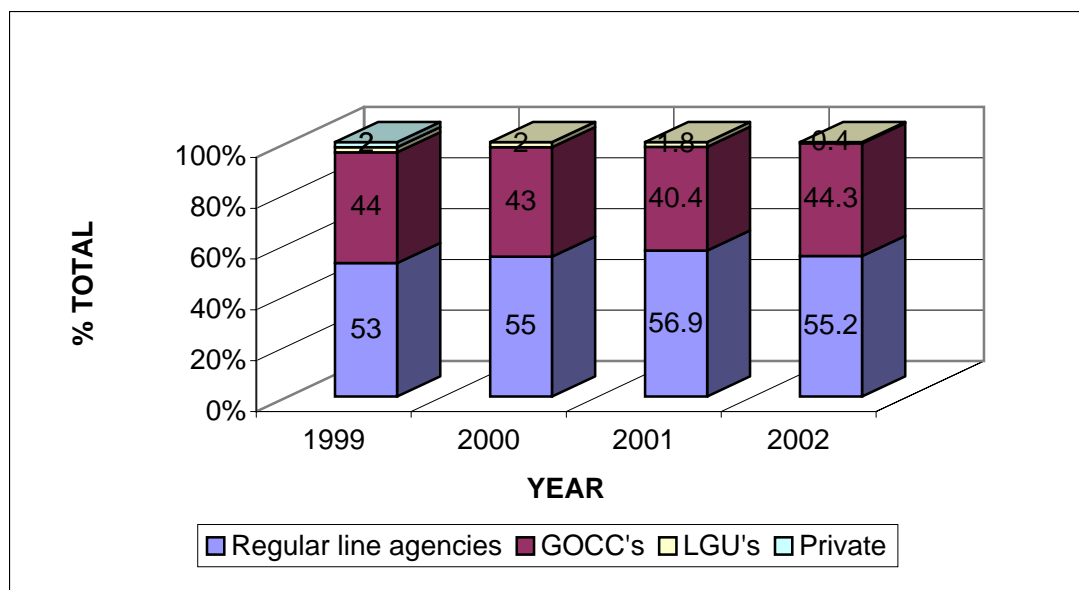
<b>REGION</b>	<b>ODA COMMITMENT SHARE (%) 2002</b>	<b>POPULATION SHARE (% TOTAL) 2000</b>	<b>POVERTY INCIDENCE (% FAMILIES) 2000</b>	<b>HDI 2000</b>
National Capital Region	14.10	13.00	5.70	0.830
Ilocos Region	2.30	5.00	29.60	0.646
Cagayan Valley		4.00	24.80	0.584
Central Luzon	7.30	10.00	17.00	0.635
Southern Tagalog	1.80	15.00	20.80	0.594
Bicol Region	0.70	6.00	49.00	0.525
Western Visayas	3.00	8.00	37.80	0.573
Central Visayas	3.60	7.00	32.30	0.547
Eastern Visayas	0.90	5.00	37.80	0.506
Western Mindanao	0.20	4.00	38.30	0.493
Northern Mindanao	1.00	4.00	32.90	0.451
Southern Mindanao	0.90	7.00	31.50	0.567
Central Mindanao		3.00	48.40	0.564
ARMM	1.10	3.00	57.00	0.386
Caraga <sup>1/</sup>	1.20	3.00	42.90	0.520
CAR	0.30	1.70	31.10	0.586

*Source: 11<sup>th</sup> ODA Portfolio Review, Philippine Human Development Report, 2002 and NSCB website*

### ***Local Government Units' (LGUs) and Non-governmental Organizations' (NGOs) Participation***

Ideally, LGUs and NGOs' participation should be high for the development of grassroots and local government to take place. However, ODA projects with direct LGU participation accounted only about eight percent (NEDA-11<sup>th</sup> ODA Portfolio Review) of the total ODA portfolio and about less than two percent of the total loans distributed to implementing agencies (Figure 9). On the other hand, there is also a very limited access of NGOs for grassroots development programs and projects (see table 7 above). LGUs and NGOs performance is affected by several factors such as availability of counterpart funds, LGU counterpart staff and their capacity for project preparation and implementation, non-compliance with LGU commitments and changes in LGU priorities. The fiscal deficit has further put strain on the LGU's capability to raise counterpart funds because relending to LGU's, supported by ODA funds, require budget cover. This limits the availment and participation of LGUs and NGOs in ODA funded projects.

**Figure 9. Distribution of Total Loans by Implementing Agency**



*Source: NEDA-PIS ODA Portfolio Review, various issues*

To address these issues, national government should transfer control and responsibility over substantial part of DA's ODA resources to LGUs in view of low absorptive capacity, thus empowering them to take primary responsibility for the development of their respective areas. In addition, a policy of cost-sharing scheme must be crafted between the national government and LGUs and NGOs for the implementation of ODA projects. However, efforts should be made to improve the performance of projects with LGUs and NGOs participation. Trainings of LGU personnel in handling financial transactions and documentation should be conducted as well as capacity building measures on procurement and project implementation, including the integration of a system of project impact assessment and monitoring and evaluation system.

### ***Other Issues***

There is a strong and growing demand for more comprehensive and well-targeted assistance in the area of capability building and capacity development. There has been severe problems of coordination and fragmentation and discontinuity not only among projects and the permanent line agencies but also between donors. There is a growing sense that technical cooperation does not work well, that as presently practiced it is ineffective. It lacks positive impact on capacity building and institutional development. Thus, there are instances when ODA loans and technical assistance programs and projects ignore pressing needs and therefore yield counter-productive results. Here lies the issue on "ownership" of development projects when loans and grants are tied to conditions, for instance the purchase of goods and services from Japan as ODA donor and the hiring of foreign consultants who "call the shots," proposing solutions that are not adaptable to local situations. Technical co-operation, often based on

outside expertise, has frequently involved costly overheads, limited local ownership and paid insufficient regard to the macroeconomic environment. There is a tendency to introduce new technology that raises the costs of public services. At the same time there is disregard for existing structures and local practices that should have been adapted rather than supplanted.

## **VI. Policy Recommendation**

In light of the above, pushing JPEPA towards its establishment is indeed consistent with the country's goals of reform programs which include poverty reduction and human development, environmental protection, sustainable development and global competitiveness. In specific terms, as a result of a broader economic cooperation with Japan through JPEPA, the Philippines can further maximize the economic potential benefits of Japan's official development assistance by

1. Negotiating its allocation towards regions and provinces where most poor households are found as indicated by the human development index, poverty incidence, population growth rate and income levels.
2. Negotiating its allocation towards sectors and basic services where most poor households can have greater access which translate to improved school attendance and survival, better health conditions and nutritional status, better access to employment opportunities, and eliminating gender disparities across functional literacy and access to income and livelihood.
3. Negotiating its allocation for an appropriate loan-grant-equity mix (for instance, a revision in the policies for counterparting fund). ODA loans particularly for capital formation and infrastructure projects should be well rationalized in terms of efficiency and effectiveness.
4. Increasing ODA allocation towards grants and technical cooperation on the areas identified above all geared towards human resource development.
5. Enhancing coordination among various national and local government agencies and community and non-governmental organizations in terms of ODA projects and program implementation.
6. Strengthening of government's monitoring and evaluation system and develop capacities to actively carry out results monitoring and evaluation (RME) as well as focus on the sustainability of completed projects.
7. Strengthening the participation of various stakeholders, implementers and recipients of ODA projects and programs and ensuring accountability and transparency among them.
8. Appointing project implementation officers (PIOs) in each implementing agency to ensure timely implementation of projects in the field. The Investment Coordination Committee (ICC) shall take a more proactive role by convening a Project Action Group that will interface with the PIOs to move forward desired actions.

9. Expediting the enactment of Implementing Rules and Regulations (IRRs) for RAs 8974 and 8975 to facilitate right-of-way (ROW) and site acquisition for infrastructure projects and prohibition of issuance of temporary restraining orders (TROs) on government projects.
10. Adopting the Department of the Budget and Management's "friendly policy actions" to facilitate timely funds flow to implementing agencies such as the existing flexibility in reallocating budget among projects within the agencies. Implementing agencies (IAs) should process all pending disbursement claims with efficiency and transparency while all pending contracts with their procurement bidding and awards committees (PBACs) should be immediately reviewed, approved and awarded. In addition, procurement regulations and standard bidding documents should be reviewed and simplified.

## **BIBLIOGRAPHY**

- AUSTRALIAN AGENCY FOR INTERNATIONAL DEVELOPMENT. 1996. Japan's Aid Program: Trends, Issues and Prospects. Australia.
- CAUCUS OF DEVELOPEMNT NGO NETWORKS. 2000. Trends in ODA for Philippine NGOs: A Follow-up Study. Manila, Philippines.
- CUI, Ferdinand B., Jr. 1997. Image and Reality: Philippine-Japan Relations Towards the 21<sup>st</sup> Century: Japan's Bilateral Assistance to the Philippine Sustainable Development: "Focus on the Environmental Dimension". Philippines.
- GREGORIO-MEDEL, Angelita. 2001. Optimizing Japanese ODA, The GARP Partnership with Philippine CSRO.
- ISLA, Paul Anthony. 2003. "Usage Rate of Low-cost OD Funds Post Drop": The Manila Times
- ILLO, Jeanne Frances I., Sylvia Bagadion-Engracia, Maria Concepcion L. Chan and Mary Racelis. 2002. Reforming Technical Cooperation, The Philippine Country Study.
- JAPAN INTERNATIONAL COOPERATION AGENCY (JBIC) ANNUAL REPORT. 2001. Tokyo, Japan.
- KAWASAKI, Kenichi. 2003. The Impact of Japanese Economic Cooperation on Asian Economic Development.
- MANASAN, Rosario B. and Gilberto M. Llanto. 2000. Cited in "Trends in ODA for Philippine NGOs: A Follow-up Study". Manila, Philippines.
- MAPALAD, Maria Claret M. 2000. The Philippine Review of Economics: "Japan's ODA and Philippine Savings and Growth". Vol.37,No.2.
- MINISTRY OF FOREIGN AFFAIRS. 2003. Japan's ODA White Paper 2001. Tokyo.
- \_\_\_\_\_. 2002. Official Development Assistance (ODA) Annual Report. Tokyo.
- \_\_\_\_\_. 1999. Official Development Assistance (ODA) Annual Report. Tokyo.
- Office of the Presidential Staff. <http://www.ops.gov.ph/japanvisit2002>.
- ODA Portfolio Review. ( various issues) <http://www.neda.gov.ph/ODAWEB/odamain.htm>.
- NEDA                                  Public                                  Investment                                  Staff.  
<http://www.neda.gov.ph/Subweb/oda/ODA/factsandfigures.htm>



NISHIGAKI and Shimomura. 1999. Cited in “The Impact of Japanese Economic Cooperation on Asian Economic Development, 2003”

RIVERA, Temario. 2003. “The Politics of Japanese ODA to the Philippines, 1971-1999”:Philippine Japan Relations. Ed. Ikehata Setsuho and Yu Jose. The Ateneo de Manila University Press: Philippines

Summary of the 2002 White Paper on the Official Development Assistant (ODA), 2003.  
Ministry of Foreign Affairs.  
<http://www.mofa.go.jp/policy/oda/white/2002/summary.2002>

UNITED NATIONS DEVELOPMENT PROGRAMME.2002. Philippine Human Development Report.

WORLDBANK OFFICE MANILA and NEDA.2000. Joint Media Release:” RP, ODA Funding Agencies Meet to Speed up Projects”. Philippines  
[http://www.worldbank.org.ph/news/12\\_20\\_2000.htm](http://www.worldbank.org.ph/news/12_20_2000.htm)

YANAHIGARA, Toru and Anne Emig.1991. “An Overview of Japan’s Foreign aid”. In Yen for Development: Japanese Foreign aid and the politics of Burden Sharing. Ed. Shafiqul Islam. New York : Council on Foreign Relations press, pp.37-69.

<http://www.neda.gov.ph/Subweb/oda/ODA/factsandfigures.htm>

<http://www.nscb.gov.ph>