

**Country Study for Development Assistance
to the Republic of the Philippines**

“Basic Strategy for Development Assistance”

April 1987

**Country Study Group
for Development Assistance
to the Republic of the Philippines
organized by the Japan International Cooperation Agency**

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1. Foreword

Japan's development assistance to the Republic of the Philippines has shown remarkable growth over the past 20 years, both in quantity and quality. As a result, Japan now ranks first among major donor countries providing development assistance to the Philippines. The continuing economic difficulties in the Philippines and the shift in primary goals of development policies since the establishment of the new government in February 1986, in particular, have caused the country to seek further expansion and improvement of development assistance from Japan.

It was under such circumstances that this study group was organized by the commission of the president of the Japan International Cooperation Agency to review the results of Japan's past development assistance to the Philippines, to analyze the current state of economic development and the recent tendency of the development policies of the country, and to make recommendations regarding Japan's development assistance for the future. This study group conducted an extensive work for 3 months beginning in January of 1987, including a field survey in the country. This report titled "Basic Strategy for Development Assistance" was prepared on the basis of the results of the above-mentioned work, with the cooperation of a task force organized by the staff-members of the Japan International Cooperation Agency.

April 1987

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2. Country Operational Strategy for the Future

2-1 Basic Concept and Goals of Japan's Development Assistance to the Republic of the Philippines

The following should be the basic concept of Japan's future development assistance to the Philippines.

- (1) The primary goals of the Philippine Government's economic development policies as indicated in the Government's Medium-Term Development Program (1987-92) include generation of more productive employment, alleviation of poverty, promotion of equity and social justice and attainment of sustainable economic growth. These development goals are basically supportable. Accordingly, Japan's development assistance to the country should be implemented in a manner that will help attain these development goals.
- (2) It should be noted that the Republic of the Philippines will in principle be responsible for the implementation aspects of the development assistance programs in that country. It will be necessary, therefore, to draw a clear distinction between the respective roles to be played by the Philippines and Japan in implementing these programs. Japan should provide assistance that contributes to the enhancement of the Philippines' capacity to absorb assistance and its growth potential, taking into account the structure and capabilities of the Philippine organizations that implement development programs.
- (3) Along with the assistance hitherto to improve the country's socio-economic infrastructure, the assistance in the future should target at the country's poor family members, who make up the majority of its population.
- (4) In the light of the fact that thus far Japanese development assistance to the Philippines has been focused largely on hardware — i.e., buildings and other structures, it is recommended that in the future there should be a significant increase in software-oriented assistance

— e.g., assistance in the formulation, administration and management of policies and management of institutions. It is also recommended that in formulating and implementing assistance programs, due consideration should be given to the possible effects on the environment of the development projects concerned.

- (5) The private sector's resources and capabilities both in the Philippines and Japan should be positively utilized in implementing assistance projects.

As a short-term goal of Japan's assistance to the Philippines, emphasis should be placed on rehabilitation of the country's economic base and solution of the country's balance of payments and finance problems, in view of the fact that the country is now in the midst of recovering from a serious economic crisis. Also, it is desirable to implement without delay such assistance programs as will have immediate positive effects on the vitalization of production and employment in the country.

On a medium/long-term basis, utmost emphasis should be placed on employment generation and improvement of the social infrastructure in rural areas for the purpose of realizing equality in income distribution, as well as increasing productivity in various sectors, in view of the fact that Japan's past development assistance to the Philippines has given top priority to building the country's economic infrastructure attaining this purpose to some extent.

2-2 Policy, Sectoral and Regional Priorities in Development Assistance

2-2-1 Policy Priorities

(1) Target Group

The target group in future development assistance programs should be the country's poor family members who account for more than 60% of its total population. Due consideration should be given to the

distribution of assistance funds as to significantly contribute to an increase in these people's incomes and improvement of their living environment.

(2) Land Reform

Land reform is the most important task yet to be accomplished in the country in order to bring about social justice and political stability which are basic conditions indispensable to the growth of its economy. The Japan's economic cooperation in this field should be carried out on condition that Philippine Government presents concrete and feasible measures to implement land reform program and this cooperation is implemented within the international framework. On this condition, assistance should be provided for improving the land reform-related infrastructure, developing increased self-reliance among those farmers who will be fixed farm-rent tenant farmers or owner farmers, surveying the status of tenant farmers, owner farmers and landowners, as well as establishing an agricultural information system for the purpose of helping implement land reform program in an indirect manner. Furthermore, it is important to provide assistance in Japan's knowledge and experience which will be conducive to the formulation and implementation of truly effective land reform policies. Data and information on land reform policy measures implemented in Japan should help the government and the general public of the Philippines deepen their understanding of the goals and effects of land reform programs. In particular, emphasis may well be placed on the role land reform played in Japan's economic growth and the positive long-term effects it had on those Japanese people including ex-landowners.

(3) Improvement in Productivity

While Japan's past development assistance to the Republic of the Philippines, which has centered on expansion and improvement of the country's economic base (infrastructure), has attained its objective to a certain degree, thereby exerting positive influences on the growth of

the country's economy, improving the productivity of the agricultural sector is indispensable in further raising the income level of the country's large number of poor. To promote improvement in the income level of farmers and in their self-reliance, it is important to place emphasis on the production and distribution of high-yield seeds, the supply of fertilizers, the expansion and improvement of water supply and drainage facilities, the development and extension of cultivating and breeding technologies, and to provide development assistance in a form in which these factors will be systematically incorporated. It is also necessary to expand and improve post-harvest facilities and access roads from farms to the market places.

In the area of industry, support should be provided for improving productivity and product quality. Furthermore, assistance should be extended for the development and promotion of export-oriented manufacturing industries which will be conducive to generating foreign exchange.

(4) Generation of Employment

The most crucial problem facing the Republic of the Philippines is the recent rapid increase in the number of jobless persons both in urban and rural areas. To cope with this situation, it is necessary, on a short-term basis, to work out and implement emergency employment promotion measures, including infrastructure construction work. On a medium/long-term basis, it is necessary to promote the development of small- and medium-sized labor-intensive industries, mainly in rural areas, in order to ensure a steady increase in employment opportunities in these areas. Furthermore, employment generation-oriented investments by Japanese private enterprises in the Philippines should be encouraged.

To complement the above, there should be technical cooperation projects for the promotion of small- and medium-sized businesses such as the preparation of industrial development master plans by type of industry and consulting services on quality control, quality

improvement, market development and business management for executives of small- and medium-sized businesses, community leaders and technical instructors. Assistance along these lines should include the construction of facilities for training community leaders and technical instructors, the extension of technologies and testing/research and development, as well as financing for small- and medium-sized financial institutions through, for example, two-step loans.

(5) Human Resources Development

Development of human resources committed to community-centered economic development is indispensable to the reconstruction of the Philippine economy and its sustainable growth. It is essential to reduce the number of dropouts at the primary education level and at the same time improve secondary education as well as vocational training in provincial areas. For this purpose, assistance should be provided for retraining science and mathematics teachers, supplying teaching materials and training instructors for vocational training. In addition, assistance to support the activities of educational and research institutions and to improve the facilities and equipment at these institutions should be provided.

(6) Self-sufficiency in BHN

Cooperation in the area of health care should be provided on a continual basis to realize self-sufficiency in BHN. Also assistance should be provided to improve the medical services offered at those local hospitals which are responsible for the second level of PHC as well as to improve the production and quality control of medicinal drugs.

2-2-2 Sectoral Priorities

For the time being, emphasis should be placed on increasing the efficiency of the infrastructure. Top priority should be given to assistance directed at economic rehabilitation centered around

revitalization of the superannuated economic base. In light of supporting to solve the country's balance of payments and finance problems, commodity loans should be continued to make full use of. Furthermore, in the area of agriculture, activities for stepping up research and dissemination of technology in order to improve agricultural productivity should be undertaken.

On a medium-term basis, emphasis should be placed on the agricultural and forestry sectors, local industries and human resources/health care. In the agricultural sector in particular, top priority should be given to assistance which is directly related to increasing productivity and improving the infrastructure in subareas connecting urban and rural areas. Assistance for energy development should be continued.

In the manufacturing sector, top priority should be given to the promotion of small- and medium-sized labor-intensive industries in provincial areas in order to contribute to increased job and income opportunities.

In the area of human resources development, emphasis should be placed on development of the human resources required for the promotion of small- and medium-sized industries. Health care assistance for the improvement of BHN-oriented health care services should be continued.

In remote corners of the country, such as islands, where there is not sufficient basic infrastructure, the development and improvement of communications networks, roads, harbors and coastal shipping should be promoted.

2-2-3 Regional Priorities

The regional approach in the medium-term development program is aimed at rectifying regional differences in economic development by increasing the rate of economic growth in such rural regions as Visayas, Ilocos and North Mindanao higher than that in the Manila metropolitan area.

In implementing future development assistance programs in the Philippines, due consideration should be given to revitalization of the production activities in medium-sized cities in provincial areas through systematic interaction between the production activities in various peripheral areas and revitalization of the economic interaction (including physical distribution) between urban and rural areas.

An example of priority areas could be a sphere covering Cebu City and its neighboring cities such as Iloilo, Bacolod, Cagayan de Oro on the one hand or an island (for example, Bohol) as an administrative and ecological unit on the other. Actually, candidate areas should be selected based on the local government's administrative ability, the area's development potential, public security, the possibility of the effective use of ongoing assistance and so on.

2-3 Recommendations

2-3-1 Emergency Assistance Programs

The Philippines' efforts to reconstruct its economy is going to enter a crucial stage in a year or two. At this point in time, it is necessary to implement timely emergency assistance programs, separate from ordinary assistance programs, on a selective basis. For this purpose, it is recommended that the Japanese side cooperates in selecting projects which are conducive to increase employment and export (for example, the rehabilitation of superannuated infrastructure and production facilities, full use of commodity loans to solve the balance of payment and financial problems, consulting on the revitalization of production and market development, etc.) and working out emergency assistance programs through close collaboration with related government agencies of Japan, organizations and industrial and/or trade associations in the private sector. Financial and technical cooperation related to these assistance programs should be provided intensively over a short period of time.

2-3-2 Closer and More Systematic Interaction between Assistance Loans, Grant Aid and Technical Cooperation

In order that all forms of assistance may be systematically interrelated in one program, it is necessary that a master plan be drawn up according to the results of a development survey, which will serve as the basis for working out detailed plans on the optional allocation of all forms of assistance, setting the date of implementation of the assistance program, administration and management of the project, calculations of local costs, allocation of human resources and training. On the basis of such a master plan, the Japanese side should receive the request for program which integrates various form of projects from the Philippine side and determine the details of the program, including the timing of implementation.

2-3-3 Diversification of Assistance Loans

In light of the fact that the disjointed Philippine economy requires more diversified development assistance, it is necessary for the Japanese side to diversify the methods and means of providing such assistance by the introduction of sector loans, the expansion of the local cost financing, the introduction of structural adjustment loans, the expansion and flexible management of E/S loans, and the introduction of method of financing to certain percentage of total cost of the project and the expansion of associated loans with international agencies.

2-3-4 Increase in Ratio of Grant Aid and Technical Cooperation

In view of the burdening external debt and budgetary deficits of the Philippines, the ratio of grant aid and technical cooperation to the total assistance amount should be increased. For this purpose, such steps as improving the management efficiency of each assistance project, constructing small-scale unit-type facilities and increasing the number of experts and trainees involved in each projects will be necessary.

2-3-5 From a One-dimensional to a Two-dimensional Spread of the Effects of Assistance

More emphasis should be placed on assistance programs which bring two-dimensional ripple effects than on those with one-dimensional effects. For this purpose, the introduction of regional programs in which one type of assistance will be provided over several years, the expansion of ongoing projects to surrounding areas and closer collaboration with other donor nations and international organizations will be necessary.

2-3-6 Dispatch of "Advisory" and "Executive" Experts

Experts to give advice to representatives of Philippine government agencies concerned on the formulation of policies, administrative procedures, the finding of candidate development projects, the possibility of Japanese development assistance, etc. will be dispatched to the Philippines from Japan on a highly selective basis.

Also, executives of, for example Japanese small- and medium-sized businesses who have ample experience doing business in the Philippines will be recruited and dispatched there to give guidance on the profitable management of small- and medium-sized businesses, export promotion, market development, quality control and so on.

2-3-7 Exchange Program of Junior Corporate Executives

This program is aimed at promoting mutual understanding between Philippine and Japanese junior corporate executives through an exchange of views and information on management know-how and new business opportunities.

2-3-8 Supply of Facilities of a Manageable Scale

Facilities to be supplied through grant aid should be of a manageable scale. Due consideration should be given to the Philippine counterpart's receptiveness to them as well as their efficiency. For this purpose, it is

necessary to standardize the facilities to be built and the equipment to be installed. These facilities can be supplied in coordination with the regional programs mentioned in 2-3-5 above for widening the effects of assistance.

2-3-9 Formulation, Administration and Management of Assistance Programs through Effective Use of Human Resources in the Private Sector

Competent and well-experienced human resources abound in the Philippine private sector. These human resources are contributing, directly and indirectly, to the economic activities of the Philippine Government. It is advisable, therefore, to have these human resources in the private sector involved in assistance programs. In working out and implementing programs for promoting small- and medium-sized businesses and administering and managing facilities supplied through grant aid, in particular, a tripartite working group consisting of representatives of government agencies, private enterprises and labor unions should play a pivotal role.

2-3-10 Expansion and Improvement of the Joint Japanese-Philippine Evaluation System of Assistance Programs

The joint Japanese-Philippine evaluating system of assistance programs (which includes the private sector of both countries) should be expanded and improved. In particular, in coordination with the evaluation of individual assistance programs, a comprehensive evaluation of Japan's assistance to the Philippines as a whole on medium/long-term perspectives should be carried out to evaluate direct and indirect impact on the target group for the increase of productivity, employment and income. Also, information regarding the effects of assistance programs on the Philippine economy, problems related to these assistance programs and so on should be collected to contribute to the above-mentioned evaluation work and the formulation of future assistance programs.

2-3-11 Strengthening Management Capability of Overseas Offices of Japan's Aid Agencies for Effective Implementation of the Assistance Programs in the Philippines

In order to increase assistance aimed at regional development, it is necessary to expand and improve overseas offices of Japan's aid agencies in the Philippines and thereby strengthen their capability to identify candidate projects, to survey the background of the assistance requested, to manage the implementation of the program and to collect information on economic development, through daily contacts with Philippine representatives. Also, closer collaboration between the Japanese Embassy in the Philippines and the Japan's aid agencies such as JICA and OECF with increased personnel should be promoted.

2-3-12 Assistance in Research Work for the Identification of Candidate Projects

Support for the activities of Philippine research institutions and assistance in their research work aimed at the identification of candidate projects should be provided.

Themes of research work eligible for assistance include, for example:

- (1) Research work on rural development and the promotion of provincial small- and medium-sized businesses.
- (2) Research work on the island economy which is likely to revitalize the economy of the island region.
- (3) Basic research work on the interdependence between urban and rural areas, physical distribution and so on.

2-3-13 Introduction of "Rolling Plan Method"

To improve the continuity of assistance and the interrelation between various forms of assistance, the "rolling plan method" in which request and

implementation of assistance programs will be planned on a medium-term basis and be reviewed yearly should be employed. This method will be instrumental in joint formulation by the Japanese and Philippine sides of assistance programs taking into account the timing of development surveys and extension of loans.

2-3-14 Increase of Assistance for the Provision of Local Cost

To expedite the implementation of assistance programs, local costs provided through Japanese assistance should be increased. Assistance programs such as those related to agricultural development, education and health care, in which the ratio of local cost is high, should be promoted through financing by ODA loans to certain percentage of the total cost of each project. At the same time, a system which will make it possible to bear the costs of maintaining and managing facilities, including personnel expenses, supplied through grant aid should be established.

2-3-15 More Incentives to the Private Sector

The Philippine private sector is a major contributor to the revitalization of the Philippine economy. For this reason, more incentives should be provided to it through expansion of the two-step loan and the effective use of loans for construction by Philippine private enterprises of public interest-oriented facilities, through more flexible use of Investment and Financing for Development Scheme. In the Philippine private sector, it is expected that funds from the Export-Import Bank of Japan and private businesses, including direct investments by Japanese private businesses, will be utilized more actively. Incentives to the private sector should be provided in conjunction with these private funds.

2-3-16 Effective Use of NGOs of Both Countries

The Philippines' NGOs have a long history, being involved in assistance activities at grassroot level. Also, Japan's NGOs have been supplying human resources, funds and goods to the Philippines. In this context, it is imperative to help both NGOs to become involved in rural

development programs and so on through, for example, introducing a co-financing system for providing assistance funds to the NGOs of both countries at a certain ratio through the Philippine Government to support their activities.

2-3-17 Improvement in Cultural Cooperation

There is also a need to step up the cooperations in wider range in the areas of education (including education in the humanities and social sciences), the various cultural activities such as publishing, broadcasting, literature and theater, and the cultural exchange between the Philippines and Japan. In these areas close collaboration between organizations promoting cultural exchange and private organizations is very important. To deepen mutual understanding between both countries, in particular, it is necessary to promptly expand and the improve libraries of research and information center on Japan Studies (for example, the Japanese Embassy's Information Center) and the research institutions of Philippines Studies and at the same time increase the number of Japanese students sent to the Philippines for study of the country.

3. Current State of Economic Development

The above recommendations are based on this study group's understanding of the current state of economic development in the Republic of the Philippines as stated below.

3-1 General Economic Conditions

3-1-1 Recovering Philippine Economy

Under the Aquino administration, various policy measures aimed at reconstructing the Philippine economy have been implemented. These policy measures, combined with the improving international economic environment, have contributed to the gradual improvement of the country's economy. The Philippines' GNP, which had been characterized by negative growth until the 1984-85 period, in 1986 registered an increase of +0.13% over the previous year. While the agricultural sector continued to grow most steadily in 1986, the service sector and the manufacturing sector, which had been damaged most by the stagnant Philippine economy, recovered remarkably from its slump. Under such circumstances, the Philippine Government is now in the process of promoting structural reform. Efforts are being made to strengthen the market mechanism, revitalize the private sector and increase production efficiency through drastic review of the tax system, privatization of public corporations, trade liberalization and the elimination of monopolies. Through this process, the framework is being shaped for short-term economic recovery and sustainable medium/long-term economic growth, both of which are included in the goals of the Medium-Term Development Program (1987-92).

3-1-2 Shift to Demand-centered Economy

The Philippine Government's economic policies and policy measures, which clearly reflect the views of the IMF and the World Bank, are aimed at switching the country's economy from the tight money and stabilization-oriented economy (1983-85) to a demand-centered, growth-oriented economy. Due to a slowdown in the private sector, however,

an increase in public works expenditures with the emphasis on increasing employment opportunities and consumer purchasing power in rural areas, in the provinces particularly in rural areas, are currently being promoted under the leadership of the government.

3-1-3 Stimulating Domestic Demand

The first step along this line is the Community Employment Development Program (CEDP) which is centered around small-scale infrastructure construction programs, one of the emergency employment development measures being implemented in 1986-87. A close look at the projects being implemented by the Department of Public Works and Highways, which represents the greater part of the CEDP for 1987, reveals that government funds are being spent most heavily in South Tagalog, then in South Mindanao, West Visayas and the Manila metropolitan area, in that order. By type of project, construction of village roads tops the list, followed by construction of school buildings, water mains and regional irrigation facilities, in that order. More emphasis on rural regional development than on urban development in the medium-term development program is reflected in this program.

Due to the general lack of purchasing power, private investors still maintain a "wait and see" stance. Accordingly, public works investment is the second important means of stimulating domestic demand. Of the total amount of money available for the medium-term development program (1987-92), about 30% will be spent for repairs and maintenance of the existing facilities and about 70% for new projects. Foreign money, including ODA, will account for about 40% of the total amount and about 40% of the amount to be spent for new projects. Public works expenditures are expected to increase at an average annual rate of 16.1% from 1987 on, and it is anticipated that government-led investment activities will trigger private investments. On the other hand, the country's fiscal deficit is still on the increase, reaching the 28 billion peso mark at the end of 1986.

3-1-4 Foreign Investments

The United States accounted for 55% of the total amount of foreign capital which flowed into the Philippines during the 1970-84 period (\$2.35 billion), which was almost 4 times as much as the \$330 million that came into the country from Japan during the same period. The cumulative total Japanese direct investments as of the end of 1984 stood at \$832 million, which accounted for only 4.6% of Japan's total direct investments in Asia. By type of industry, 40% of the total foreign investments went to the manufacturing sector and 60% to the non-manufacturing sector.

3-1-5 Trade

While in 1984-85 the decrease in exports was such that it exceeded the decrease in imports, the year 1986 was characterized by an increase in exports and a slowdown in imports, which meant a further decrease in the trade deficit. The decline in prices of imported crude oil, lowered international interest rates, the appreciation of the peso against the dollar since the February Revolution and the resultant stability of the Philippine currency have contributed to an improvement in the country's balance of payments.

There had been a marked increase in exports of non-traditional export goods, notably manufactured goods, until 1986, when exports of these goods slowed down. Representative of these goods are electronic/electrical appliances, the export of which also slowed down in 1986. The decrease in exports of these products was offset by an increase in exports of chemical products.

On the other hand, there has been a remarkable decrease in exports of traditional export goods. Of these, sugar, timber and coconut products have suffered the largest decrease in exports, which has contributed to a further decline in farm workers' standard of living.

As domestic energy development (coal-powered thermal power generation, hydroelectric power generation and geothermal power generation) has

advanced, there has been a gradual decrease in imports of crude oil. However, many difficulties are anticipated in implementing a full-scale energy development program, for which 60% of the total investment funds must be obtained from overseas.

The major importers of Philippine products are the United States, Japan, EC and ASEAN nations, in that order. Most noteworthy of the recent trends in the country's export trade is a marked decrease in exports to Japan. In the case of imports to the Philippines, the United States tops the list of major exporting countries, followed by Japan, ASEAN nations and the EC, in that order. The recent import trend has been a marked decrease in imports from Japan and the EC.

3-1-6 External Debt

The country's cumulative total external debt as of the end of 1986 stood at \$28.2 billion, which was more than twice as much as at the end of 1979. The pressure to repay the external debt has always been a major impediment to the growth of the country's economy. There is also the basic dilemma of having to borrow more to realize and maintain high economic growth rates in order to repay debt. Recently, however, a favorable agreement on the repayment of external debt has been reached, which alleviates the country's fiscal difficulties for the present.

3-1-7 Regional Differences in Economic Development

The Philippine Government's past policies which placed far more emphasis on development of the large-scale industries than on development of the agricultural sector have resulted in imbalances of growth among various industries and regional differences among populations. There has been a remarkable increase in regional GDP for the Manila metropolitan area, South Tagalog and Central Luzon, particularly the Manila metropolitan area. In the case of four other areas, namely North Mindanao, East Visayas, Ilocos and South Mindanao, all of which are designated as target areas (for increased productivity) in the Medium-Term Development Plan, the ratio of the combined GDP for the four areas to the country's GNP decreased to about

17% in 1985. Furthermore, most farm villages are being plagued by increases in the number of underemployed persons. As of the end of 1986, 50% of the total number of farm workers in the Philippines were underemployed. In the provinces particularly in rural areas, 43.7% of the total number of employed persons were underemployed, which compared to 23.2% in urban areas.

3-1-8 Poverty

About 60% of the total number of households in the Philippines are below the poverty line, two-thirds of which are in farm villages. The standard of living of those people who live in Bicol and West Visayas is the lowest, while that of residents in the Manila metropolitan area is the highest. The areas where the monthly minimum cost of living exceeds 3,000 pesos include Ilocos, Central Luzon and South Tagalog, as well as the Manila metropolitan area. This suggests wide differences in the cost of living among regions and between urban and rural areas. This also implies that an increase in incomes in rural areas, particularly in farm villages, and expansion of domestic demand are indispensable to improve general economic conditions and attain sustainable economic growth.

3-1-9 Employment

Although employment is the top priority item in the country's economic development programs, there was no significant improvement in employment except for the CEDP in 1986. Of the total working age population (19.63 million), 11.1% are unemployed. The unemployment rate was the same as the previous year. The unemployment rate in 1986, which contained wide regional differences, improved remarkably in the latter half of the year with the increases in job opportunities in the manufacturing sector. However, the current employment situation in the country is very likely to be affected by such factors as the projected discharge of surplus personnel from government agencies and the country's move toward trade liberalization. It is very difficult to accurately forecast the future employment trend of the country. Generally, the unemployment rate is high in those areas which are industrialized-urbanized and therefore have a large population and a high GDP, reflecting the recent slump of the manufacturing and service sectors.

Typical of such areas are the Manila metropolitan area, Central Luzon and South Tagalog.

3-2 Sectors

3-2-1 Agricultural, Forestry and Fisheries Sector

The general problems confronting this sector are 1) low land productivity, 2) fragile agricultural extension systems, 3) poor post-harvest facilities and 4) inadequate organization of farmers. The ratio of the sector's annual output to the country's GNP and the sector's employment absorption rate are on the decrease in the long term. On the other hand, in the economic crisis/depression during the 1984/85 period, agriculture alone achieved a positive growth, thereby fulfilling its function to support the national economy. Coconuts and sugar have been the major farm products exported. But exports of both products decreased remarkably since 1983-84, then contributing less to the country's balance of trade.

Land reform: The number of farmers to whom the land reform program applies is limited by types of crops and other criteria the land program itself has not advanced substantially. The reasons for this include 1) beneficiary farmers' inability to pay for the land to be sold to them by the government, 2) landowners' resistance to the program, 3) lack of government financial resources and 4) inadequate functioning of the country's farmland system.

Agricultural facilities: Problems involved in promoting irrigation include low irrigation rates, low rates of collection of water charges, poor maintenance and management of irrigation facilities, and the excessive inflow of sand into waterways and reservoirs due to the wide difference in timing between the spread of irrigation and the development of drainage facilities and technologies concerned. Furthermore, it is necessary to improve the roads connecting farms and market places, post-harvest facilities.

Forestry: About 60% of the country's green areas are timber producing forests. The rest are non-timber producing forests, grass-covered plains and pastures. The production and export of timber for industrial use is decreasing because of the production quota. Few forestation programs are underway due to the lack of plantable species, poor maintenance and management of forests and lack of funds. Problems related to the protection of forests include destruction of forests by farmers engaged in slash-and-burn farming and the loss of forests through forest fires.

Fisheries: Village fishing accounts for about 50% of the country's total catch, commercial fishing (mainly prawns and tuna) about 30% and aquaculture about 20%. Recently there has been a rapid growth in commercial fishing, which has resulted mainly from a marked increase in exports of tuna. The problems facing the Philippines' fisheries include 1) unreliable statistics on the types of aquaculture with large growth potential, 2) underdevelopment in the treatment, distribution and processing branches of the fisheries industry, extreme regional imbalances in supply and demand, and insufficient infrastructure in the fishing ports and 3) disappearance of mangrove forest which served shelter for fry and decrease of fisheries resources due to the growth of village fishing and the resultant increase in the consumption of fish.

3-2-2 Mining, Manufacturing and Energy

Slump of the manufacturing sector: It was the manufacturing sector that was damaged most by the economic crisis during 1983-85. Even in 1986 this sector was a major hindrance to the recovery of the country's economy. The major reasons for this include 1) substantial curtailment of public works investment as a result of the tight money and economic stabilization policies implemented during 1983-85, 2) decrease in foreign investment after the death of Senator Aquino in 1983, 3) shortages of raw materials and intermediate products due to small foreign currency reserves and 4) decrease in demand due to the declining in consumers' purchasing power. Furthermore, during this period the lay-off rate increased at the average annual rate of 18.2%, which has led to a sharp increase in the number of labor disputes. General problems affecting this sector include obsolescence of many

production facilities in the uncompetitive import-substitute industry and low domestic reinvestment.

The country's industrial output represents slightly less than one-third of the country's GNP. And the manufacturing sector accounts for 75% of the total industrial output. The manufacturing sector's value added content is still characterized by the predominance of the manufacture of consumer products, which account for 60% of the total value added content. It will be very difficult for this sector to grow into a highly export-oriented one.

Mining: The major reasons for the relatively good performance of this sector during 1984-86 were the depreciation of the peso and product diversification (gold, energy and non-metallic minerals). Of the non-metallic minerals, there was a marked increase in the production of coal and cement. The government's policies for mining place emphasis on increased production at small- and medium-sized mines and mines containing various kinds of metallic minerals. However, this sector is confronted with severe business conditions such as the recent increase in crude oil prices and the decline in market prices of mineral resources.

Energy: Positive efforts are being made to convert to domestically produced energy (thermal power generation, hydroelectric power generation and geothermal power generation) under the national energy development program. In 1985 the Philippines was dependent on imported crude oil for only about 50% of the total domestic demand for energy. Now the Government's policy priority is being placed on maintenance and management of the country's current power generation capacity. Regarding the increase in power supply to rural areas, electrification cooperatives organized nation-widely under the direction of the National Electrification Administration taking the lead in increasing power supply to households.

Currently, electric power is supplied to 45.8% of the total number of households. One of the major problems yet to be solved is how to control demands for energy. In the Philippines, the introduction of foreign capital has occurred mainly in the manufacturing sector which consumes much energy. Since the growth rate for this sector is set at a considerably high level,

greater demand for energy in related sectors is very likely to be triggered. Consequently, it is also necessary to expand the country's capacity to supply electric power expand power transmission and distribution system.

3-2-3 Infrastructure

Power generation, transportation and water resources account for 95% of the Government's total spending for improvement of the country's economic infrastructure. Government spending for communications and social infrastructure is quite small. In terms of regional priorities, top priority is given to the Manila metropolitan area, Central Luzon, Cagayan and South Tagalog. While government spending for individual regional projects accounts for 44.6% of the total, that for interregional and national projects accounts for 55.4% of the total. During 1983-85, when the tight budget policies were implemented, government spending for infrastructure declined by about 20%. As a result, maintenance and management of existing facilities are still inadequate and they are not being fully utilized yet.

(1) Transportation

Roads: While the combined total length of the country's roads is being increased, there still are wide regional differences in the road length per unit of population. Road conditions are generally bad. It is necessary, therefore, to step up efforts to maintain and manage roads. In addition, farm village roads are yet to be improved.

Harbors: Many of the major harbor facilities are now obsolete. It is said that the facilities of the Port of Manila are in urgent need of restoration. Also, it is necessary to increase the number of the navigation aid.

Airports: It is now imperative to extend runways and improve terminal buildings.

Railways: Administration, management and maintenance of the South Line between Manila and Legaspi and the North Line between Manila and San Fernando are inadequate. As a result, the country's railways have lost most of their competitive edge over motor vehicles and are in need of rehabilitation.

Communications: Telecommunications are operated mainly by the private sector. This means that telecommunication services are concentrated in metropolitan areas and major cities, and are rarely available in rural areas where those services are unprofitable.

(2) Water Resources

Already 50% of the total irrigable land area has been irrigated. But about 50,000 ha of the total state-run irrigated land and about 6,000 ha of the total municipality-run irrigated land are in need of improvement and/or restoration. Although about 60% of the country's total population benefit from public water services, there still are wide regional differences in the diffusion of public water services, ranging from 92% in the Manila metropolitan area to 57% in rural areas.

(3) Social Infrastructure

It is necessary to improve, among others, the public water supply and sanitary facilities.

3-2-4 Education, Human Resources, Health and Medical Care

The Government's social services-related budget has decreased as a result of the Government's past macroeconomic policies. The level of the country's social services has declined.

(1) Education and Human Resources

National programs aimed at improving education through the introduction of a new curriculum, improvement in the quality of

teaching materials and the retraining of educators are being implemented but thus far few significant results have been obtained. In view of the fact that costs for equipment used at technical schools have now become excessive, it is imperative to give self-reliance-oriented training to young people through the expansion and improvement

of non-formal training programs. At the senior high-school level, private mission schools are predominant. On the other hand, many public senior high-schools are run by villages and are plagued with chronic budgetary deficits.

(2) Health and Medical Care

Contagious diseases account for about 50% (mainly infant deaths) of the total number of deaths. Their rate of incidence is rather high. Poor sanitary conditions in many households and a poor living environment are the major causes of this. It should also be noted that many of the country's health care facilities are inadequate.

4. Characteristics and Problems of Japan's Development Assistance to the Republic of the Philippines

4-1 Characteristics of Japan's Development Assistance to the Republic of the Philippines

4-1-1 General Characteristics

Since the 1970s there has been a steady increase in Japan's development assistance to the Philippines. Since the beginning of the 1980s the Philippines has always ranked 5th or above in a country-to-country comparison of the annual amount of development assistance provided by Japan. In fact, Japan is the largest provider of development aid to the Philippines, followed by the United States and West Germany.

One of the general characteristics of Japan's development assistance to the Philippines is the high ratio of loans to the total amount of assistance. Loans accounted for 68.1% of Japan's cumulative total amount of assistance to the Philippines for the 1981-85 period. On the other hand, the ratio of grant aid and technical cooperation to the total amount of assistance is low. Technical cooperation accounts for only 16.7% of the cumulative total assistance amount for the same period.

4-1-2 Characteristics by Form of Assistance

(1) Loans

Since 1969 Japan has provided the Philippines with a total of ¥490 billion in loans, including 13 annual ODA loans, of which ¥340 million was provided as project loans, ¥125.4 million as commodity loans and ¥23.2 billion as rescheduling funds. The ratio of project loans is the highest, immediately followed by commodity loans (non-project assistance). In the Philippines, most of the Japan's ODA loans have been utilized in the areas of electric power, roads and harbors. More than 60% of the total Japan's ODA loans to the Philippines have been for these areas. The share of mining, industry and communications

sectors of the total Japan's ODA loans has been relatively low. In recent years, the provision of commodity loans aimed at improving the country's balance of payments have been resumed and the amount of these loans has been increasing, reflecting the country's economic crisis. These loans also serve to support the country's finances.

(2) Grant aid

Japan has been providing the Philippines with food assistance since 1971 and grant aid for increased food production since 1977. Japan's general grant aid to the Philippines are utilized mainly in the areas of agriculture, forestry, fisheries, health care and human resources. In recent years, Japan's general grant aid to the Philippines have tended to be provided in conjunction with technical cooperation mainly for construction of the facilities of research institutions and training centers.

(3) Technical Cooperation

Japan is currently providing technical cooperation (project-type technical cooperation) in the Philippines, mainly for research, training and extension in the areas of agriculture, forestry, fisheries, infrastructure, mining, manufacturing, health care and human resources. Japan's technical cooperation for development surveys in the Philippines is provided mainly in the areas of infrastructure, mining, manufacturing, and to a lesser extent agriculture, forestry and fisheries.

4-1-3 Regional Characteristics

Although Japan's development assistance programs in the Philippines are mostly intended to cover all regions of the country, many of them have thus far been concentrated in the Manila metropolitan area, followed by Region IV (South Tagalog), Region III (Central Luzon), Region II (Cagayan Valley) and Region I (Ilocos). Some assistance programs have been implemented in island regions such as Region VII (Cebu and Bohol), Region VIII (Samar and Leyte),

Region X (Mindanao), but almost not in Region V (Bicol), Region VI (West Visayas), Region IX (West Mindanao), Region XI (East Mindanao) or Region XII (Central Mindanao).

4-1-4 Characteristics by Sector

(1) Agriculture, Forestry and Fisheries

This sector represented only 8.7% of the total amount of Japan's development assistance in 1971-81. In recent years, however, more and more emphasis has been placed on this area. Grant aid is increasingly being provided for agricultural development, farm village development and extension for the purpose of enhancing the well-being of residents in rural areas. With regard to technical cooperation more than 20% of development surveys and project-type technical cooperation are being appropriated in the areas of agriculture, forestry and fisheries.

(2) Mining and Manufacturing

Japan is offering technical cooperation aimed at promoting smaller businesses. Japan's efforts along this line have resulted in the establishment of such institutions as the Domestic Small-Scale Technology Development Center, Ceramics Research and Development Center and Metal Casting Technology Center. In addition, there has been a steady increase in Japanese technical cooperation for promoting the Philippines' export trade, including the construction of export and processing zones and projects for in-service training in foreign trade business. Furthermore, Japan's assistance to export-oriented smaller businesses of the Philippines through two-step loans have proved successful.

(3) Infrastructure

Emphasis is placed on the construction of roads and the expansion and improvement of power supply facilities. As part of Japan's development assistance in these areas, the Philippine-Japan Friendship Highway was

constructed and the transportation network in the Manila metropolitan area was improved. Also, power plant facilities and power cables have been remarkably improved to cope with the chronic power shortages in the country. Recently more and more emphasis has been placed on expansion and improvement of the infrastructure in rural areas such as water supply facilities and communications facilities.

(4) Health Care and Human Resources

Japan is providing technical cooperation and grant aid for research and development (snail fever control, Institute for Research on Tropical Medicine, etc.) the expansion and improvement of health care equipment, the introduction of medicinal drug testing technologies and family planning.

In the area of human resources, Japan has implemented a number of training center projects through combined use of project type technical cooperation and grant aid cooperation. In recent years, Japan has been cooperating in Philippine human resources development projects aimed at training leaders in the areas of aquaculture, construction and domestic small-scale industry.

4-2 Problems of Japan's Development Assistance to the Republic of the Philippines

4-2-1 Problems on the Part of the Philippines

Problems on the part of the Philippines include 1) a deficient government budget allocated for the local cost of the projects due to fiscal deficits, 2) centralization of administrative power and the slow progress of projects and 3) high turnover of the well educated and trained elite in the public sector (some of them have gone abroad never to return).

(1) Deficient Government Budget allocated for the Local Cost of the Project

Since the Philippine Government is now putting a curb on government spending on the public sector for the purpose of fiscal reconstruction,

it will continue to be very difficult for the Philippine Government to cover the costs of managing development projects, even these for the administration and maintenance of existing facilities. In fact, there have been cases of the slowdown of projects and shortages of competent human resources. This has been a serious hindrance to effective implementation of assistance programs.

(2) Centralization of Administrative Powers and Slowed Progress of Projects

Authority to draw up and implement development projects is concentrated in the central government. This, combined with difficulties in project coordination due to delays in decision making and overlapping of government agencies' administrative powers, has caused delays in the implementation of assistance programs in rural areas. Although the Aquino administration has adopted a policy of decentralization, it will take a long time before most administrative powers are transferred to local governments.

(3) High Turnover of the Well Educated and Trained Elite

The high turnover of the well educated and trained elite in the public sector has been a major impediment to effective implementation of technical cooperation projects. Turnover is particularly high in the areas of health care and human resources development. Many of those medical doctors, researchers and consultants who were trained in health care service and human resources development have moved to the private sector or have gone abroad. In the Philippines, competent human resources are concentrated in the private sector. It is essential to have these human resources active in the private sector involved in development projects.

4-2-2 Problems on the Part of Japan

Problems on the part of Japan include 1) difficulties in overall project coordination, 2) difficulties in identifying suitable candidate projects due to Japan's policy to provide assistance on a request basis, 3)

constraints on the provision of local costs and 4) shortage of personnel in Japanese organizations' offices in the Philippines.

(1) Difficulties in Overall Project Coordination

It is often pointed out that linkage among loans, grant aid and technical cooperation is insufficient, which resulted in difficulties in implementing a project to cover a number of different areas. Development assistance can have synergetic effects only when assistance instruments such as loans, grant aid and technical cooperation are systematically linked to one another. In recent years, the importance of implementing assistance programs to cover different areas, including rural development, has been pointed out. Therefore, close coordination among the organizations concerned at the stage of selecting the project to be implemented is becoming increasingly necessary.

(2) Difficulties in Identifying Suitable Candidate Projects due to Japan's Request-based Assistance

Thus far the Philippine side's requests for development assistance have been characterized by lack of a two-dimensional perspective and inconsistency in terms of project themes and the project's possible effects on the Philippine people's welfare. On the Japanese side too, a well organized system for working out medium/long-term assistance programs for the Philippines on the basis of accurate data and information on the current state of politics, the economy and development in the Philippines has not been established. Furthermore, the Japanese side has not been fully equipped to provide carefully thought out consulting services to the Philippine side, such as placing Japanese experts on the staff of the Philippine government agencies responsible for economic planning and development and providing routine consulting services on the selection and implementation of development programs.

(3) Constraints on the Provision of Local Costs

The ceiling of the local cost portion of the ODA loans to the Philippines is set at 30% of each individual loan exceptionally. But this arrangement has not been effective enough to cope with the Philippine economic crisis. It has become increasingly difficult for Japan to actively cooperate in the areas of agriculture, regional development and social development, in each of which the ratio of the local cost portion is high. With respect to grant aid and technical cooperation, too, shortage of the government local cost budget has become increasingly serious. To cope with such a situation, the Japanese side has been defraying part of local costs. But this arrangement has not completely overcome the difficulties.

(4) Shortage of Personnel in Japanese Organizations' Offices in the Philippines

The Philippine offices of both JICA and OECF are extremely understaffed (7 for the JICA office and 2 for the OECF office, which compare to 31 for the USAID office). With so few personnel, the Philippine offices of JICA and OECF find it very difficult to have routine consultations on development assistance with the Philippine side, have a clear grasp of the progress of each assistance program underway, and carry out the necessary follow-up procedures after completion of each program. Furthermore, it is even more difficult for these offices to collect the data and information necessary in analyzing the current state of the Philippines' economic development, identifying candidate projects and investigating the background of the projects requested. This situation has also been a major hindrance to effective implementation of development assistance programs in the Philippines.

ANNEX 1

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ANNEX 2

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