

**The Second Country Study for
Japan's Official Development Assistance
to
The Republic of the Philippines**

March 1994

**The Committee on the Country Study for
Japan's Official Development Assistance to
The Republic of the Philippines**

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This paper is based on the discussions and findings of the Committee on the Country Study for Japan's Official Development Assistance to the Republic of the Philippines organized by the Japan International Cooperation Agency (JICA). The views expressed in the report are those of the members of the Committee and do not necessarily reflect those of JICA.

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Preface

On succeeding the government of Corazon Aquino, the Ramos administration had little choice in inheriting the burdens of political and economic disarray and a deficient social and economic infrastructure, the legacy of the closing days of the Marcos regime. What is more, having been battered in recent years by a series of unprecedentedly destructive natural calamities, the Philippines itself continued to flounder listlessly in stark contrast to the astonishingly fast growth tracks set by several of its Southeast Asian neighbors. Lately, though, the country has shown a steady measure of success in reviving conditions of domestic peace and order and improving its economic health. As an outgrowth of these efforts, it last year witnessed early signs of an emerging economic upswing. Nonetheless, the foundation for that recovery remains soft, and the Philippines is still struggling to accumulate the momentum it needs for its future economic development.

The Committee on the Country Study for Japan's Official Development Assistance was established in 1993, about one year after the inauguration of the Ramos administration. Its assigned duties included broad examination of Philippine economic and development policy, the various domestic and overseas political and societal factors affecting the country, and the future directions of development. In addition, it selected several development challenges believed to be of critical importance and, using that as a basis, explored areas deserving priority treatment as targets of Japanese aid. The Committee's conclusions are compiled in this report.

Placing its economy on a track of sustainable growth is the primary development challenge confronting the Philippines at this time. To succeed, it is essential that it harness the vitality of its private sector and ensure that its own government reliably live up to its expected role. Another challenge is manifest in the host of economic and social ills now burdening the country's very poor, who have also been affected by the economic adjustments the country has undertaken. Further, from medium- and longer-term perspectives, the Philippines will find itself under growing pressure to redress its regional disparities and develop its human resources. In taking these challenges into account, our Committee decided to focus on three areas of priority for Japanese aid: productivity gains, poverty alleviation, and environmental issues. It then conducted its investigations within this context, and devoted attention to the

substantive challenges and considerations concerning the provision of aid.

Following the Aquino administration's accession in 1986, Japan sharply expanded its official development assistance in the interest of actively supporting the establishment of a democratic Philippines. Ties between Japan and the Philippines have been extremely important in historical, political, and economic terms. It is thus my earnest hope that this report will be of value in the formulation and implementation of aid policy for the Philippines, and that it will contribute to future gains in the nation's economic development.

Finally, I would like to take this opportunity to gratefully acknowledge the earnest effort demonstrated by the members of the task force. In addition, I wish to extend a note of special thanks for the immeasurable level of cooperation provided us in our local investigative activities by the Embassy of Japan in the Philippines, the Manila Office of the Overseas Economic Cooperation Fund, the Philippine Office of the Japan International Cooperation Agency, and the many specialists who have devoted their efforts to Philippine aid projects.

March 1994

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Acronyms and Abbreviations

AFTA	: ASEAN Free Trade Area
APEC	: Asia-Pacific Economic Cooperation Conference
APT	: Asset Privatization Trust
ARC	: Agrarian Reform Communities
ASEAN	: Association of Southeast Asian Nations
BOI	: Board of Investment
BOT	: Build, Operate and Transfer Scheme
CARP	: Comprehensive Agrarian Reform Program
CCPAP	: Coordinating Council of the Philippine Assistance Program
CODE-NGO	: Caucus of Development NGO
DAR	: Department of Agrarian Reform
DBP	: Development Bank of the Philippines
DENR	: Department of Environment and Natural Resources
DOA	: Department of Agriculture
DOE	: Department of Energy
DOH	: Department of Health
DPWH	: Department of Public Works and Highways
DTI	: Department of Trade and Industry
EFA	: Education For All
EMB	: Environmental Management Bureau
ESF	: Economic Support Fund
GDP	: Gross Domestic Product
GNP	: Gross National Product
IMF	: International Monetary Fund
IPP	: Investment Priorities Plan
IRA	: Internal Revenue Allotment
JICA	: Japan International Cooperation Agency

LBP : Land Bank of the Philippines
LRT : Light Rail Transit
MAI : Multilateral Assistance Initiative
NEDA : National Economic and Development Authority
NGOs : Non-Governmental Organizations
NIA : National Irrigation Administration
NIEs : Newly Industrializing Economies
NPC : National Power Corporation
ODA : Official Development Assistance
OECF : Overseas Economic Cooperation Fund
PNB : Philippine National Bank
POs : Peoples' Organizations
RDC : Regional Development Council
UNDP : United Nations Development Programme

I. The Course of Development

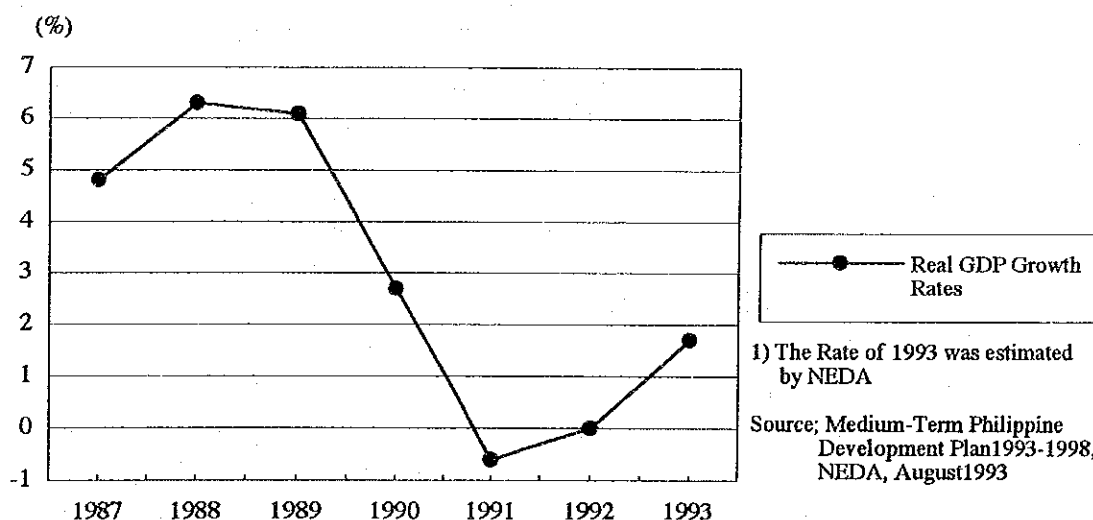
1. Philippines Economic Policy: an Overview

As its economic policy from 1980 up to the present, the Philippines has basically pursued a path emphasizing efforts to open and stimulate its market-driven economy. These efforts are generally in conformity with recommendations made by the World Bank in its structural adjustment programs for the country. Suffice it to say that these goals are in line with the basic ideas underlying the Medium-Term Philippine Development Plan (1993-98). Nonetheless, the Philippines has shown mixed success in certain areas of economic reform: for instance, in opening its doors to trade and deregulating its financial industry. It faces other problems as well, including a fiscal revenue shortfall that has placed budgetary constraints on funding for infrastructure development and poverty-relief programs. Signs of a revival in the macroeconomic environment emerged in 1993, although they were accompanied by some factors of concern, e.g., inflation and a deterioration in the country's international balance of payments. Government finances are still in a difficult situation, owing largely to the problem of collecting sufficient revenue. Aiming at boosting revenues, the administration continues its efforts to win Congressional approval of tax reforms.

1-1. Economic Conditions

Following the birth of the new Aquino administration in 1986, the Philippine economy appeared set to move into a new era of strong growth. However, largely as a consequence of poorly balanced expansionary macro-

Figure 1 Real GDP Growth Rates



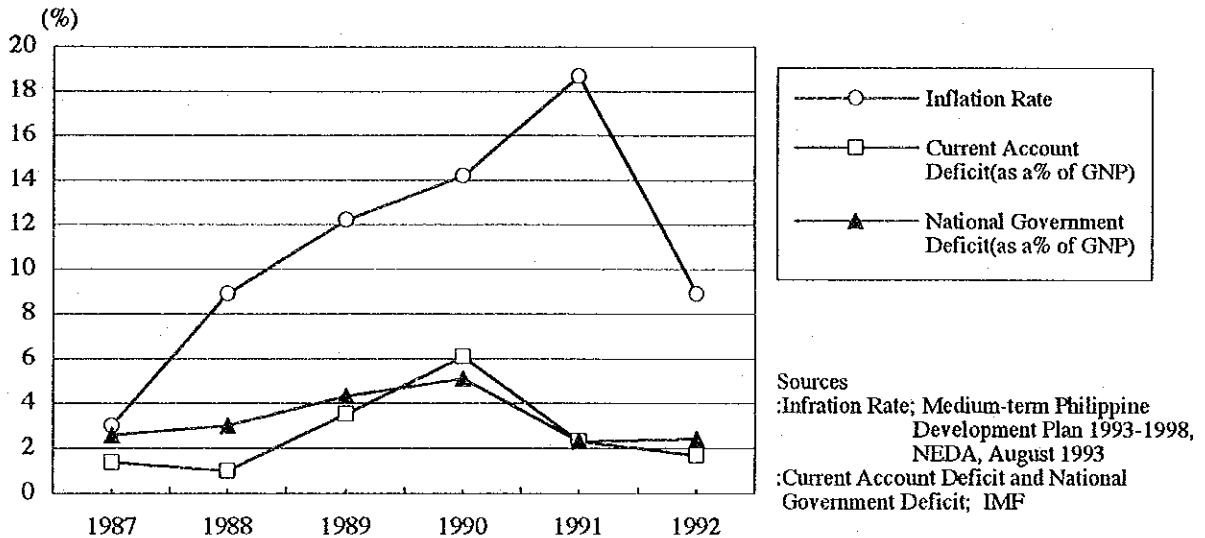
economic management, the fiscal deficit widened, inflation shot up, and the country's international balance of payments deteriorated, in turn driving the economy's strong growth pace back into a stall. At the time, the Philippines was encumbered by a climate of political instability. This, together with a series of natural disasters in 1990-1991, including several typhoons and the eruption of Mt. Pinatubo, effectively deprived the country of opportunities to put its economy back on a firm growth footing. Also, as one economically harmful external factor in itself attributable to the war in the Persian Gulf, remittances by overseas contract workers dwindled. In 1991, the Aquino administration turned to stabilization measures in economic management. Though this successfully reined in inflation, the economy was thrown into a precipitous downswing, and GDP for the year registered negative growth. That was followed in 1992 by zero GDP growth, contrary to expectations and stemming largely from a chronic electrical power shortage. Though conditions appear to have improved somewhat in 1993, the economy grew at a sluggish 1.7 percent pace.

The Ramos administration is pursuing essentially the same policy course as the Aquino administration it replaced in June 1992, continuing with work to further liberalize the economy and achieve structural adjustments. On the other hand, it has also expressed a distaste for the recessionary impact of the fiscal austerity applied by its immediate predecessor, and appears to favor a more growth-oriented path even if that means some inevitable widening in the budgetary deficit (the Medium-Term Philippine Development Plan allows for a consolidated public-sector deficit ceiling equivalent to 3.3 percent of GNP in 1995). Some international lending institutions are concerned that the Ramos government could wind up repeating some of the mistakes of its predecessor, whose expansionary policies ultimately caused the economy to stall. For this reason, they are paying close attention to the direction of the Ramos government's policies in economic management, including its efforts to lift public revenues.

1-2. Fiscal and Monetary Policy

Economic management for development purposes demands not only the pursuit of fiscal and monetary adjustment policies aimed at remedying existing imbalances within the economy, but also of active public-sector investment. However, the Philippine government is currently saddled with budgetary

Figure 2 Major Macroeconomic Indicators



problems in terms of both revenue and expenditure, and thus finds it difficult to increase growth-oriented programs of public-sector investment. The revenue shortfall is chiefly attributable to a couple of factors. For example, the tax base is relatively small and, the government's ability to collect taxes is still weak. The country, in a bid to generate much-needed revenue has developed a relatively high dependence on temporary income from the liquidation of publicly operated enterprises. Hence, to boost tax-based revenue and put a fairer tax system into effect at the same time, it will be essential now that the government work to increase income-tax revenue, reduce the excessive availability of tax exemptions, increase value-added tax (VAT) revenue, striving to extend both direct and indirect tax.

The key problem with expenditure is that the government has to spend so much to cover personnel costs (salaries, etc.) and interest payments on outstanding debt. (In 1992, each of these components alone consumed some 30 percent of total budgetary expenditure.) This has severely constrained the amount of budget resources that can be allocated to development programs. Domestic debt accounts for a larger share of the country's interest payments (equivalent to 27.5 percent of GDP in 1991) than does external debt. Combined interest payments on outstanding domestic and external debt continue to squeeze the country's finances. To offset much of its revenue shortfall, the government has relied on issues of short-term Treasury notes in the domestic money market. Naturally, this has expanded its interest payments in turn, and economists have predicted that such actions would aggravate the country's

expenditure problems in 1993.

The severity of the fiscal deficit can be grasped more precisely by examining not just government finances, but also the conditions characterizing the country's publicly operated enterprises, the central bank, and other elements of the public sector at large. The consolidated public-sector deficit widened sharply, by a GNP-equivalent of up to 5 percent over the span from 1987 and 1990, when fiscal spending climbed, irrespective of the shortfall in revenue. This had a negative impact on economic growth. Subsequent adjustment efforts by the government helped to reduce this deficit, which, by the National Economic Development Authority (NEDA) estimates, dropped to a GNP-equivalent of 1.9 percent in 1992. However, the effects of fiscal adjustment measures and other economic stabilization policies spread across the overall economy, pushing it into a recessive state since 1991.

The expansion in fiscal expenditure was accompanied by a relaxation in monetary policy (as manifested by steep growth in the benchmark money supply between 1987 and 1989). This had the effect of spurring a strong inflationary spiral as well as a deterioration in the country's balance of payments. Though the growth rate in the consumer price index measured 3 percent in 1987, in 1991 it surged as high as 18.7 percent. Ballooning inflation, along with the deterioration in the country's external balance, eroded public confidence in the government's management of the economy at that time. And that, in tandem with the unsettled domestic political situation and the chronic electrical power shortage, helped to weaken domestic and foreign investor interest in investing in the Philippines. This ultimately brought economic growth to a halt.

However, the economic stabilization policy the Philippines adopted to deal with this situation proved inefficient in propping up fiscal revenue and was distinguished by a dependence on monetary policy. The money supply, which had widened sharply in the period up to 1989, once again began contracting precipitously in 1991 and 1992. Such volatile macroeconomic management had the effect of aggravating the international balance of payments picture, and forced the country into a situation requiring IMF assistance, as has often been the case in the past. Another problem with the Philippines' monetary policy is that the Central Bank itself has been saddled with an enormous deficit of its own (equivalent to 1.3 percent of GNP in 1992). With aid in the form of financial-sector adjustment loans from the World Bank, in June 1993, the

country established its New Central Bank Act, thus embarking on a systematic course of financial reform aimed at dealing with the Central Bank's cumulative deficit. Attention will be focused on the progress the Philippines demonstrates in that particular undertaking.

1-3. The Philippines' External Debt and International Balance of Payments

The Philippines' external balance deteriorated between 1988 and 1990, during the first half of the Aquino government's term in power. As a consequence, by 1990, the country's current account deficit had risen to roughly \$2.7 billion, its largest in recent times, that is, since the debt-crisis years of 1982-83. However, in 1990 the government's stance on economic management turned away from an unsustainable growth track to a policy of stabilization. As a result of this shift, the following year witnessed improvements in the trade and service balances, with the current account deficit slashed by half.

In line with the Philippine government's Executive Order 470, tariff rates are slated to come down gradually. Nonetheless, progress has been negligible in certain areas, as demonstrated by the revival of quantitative restrictions on imports of corn and other agricultural products. Though import tariffs have generally been falling in nominal terms, it would be desirable that the country make additional effort toward opening its doors to trade. Work to deregulate foreign investment has shown rapid headway in the last few years. Nonetheless, disbursed amounts as of 1992 suggest the actual inflow of foreign investment funds has not widened that dramatically.

Since January 1986, the Philippine government has on four occasions successfully concluded public debt-rescheduling negotiations with members of the Paris Club. Further, in 1990 and 1992, it sealed accords on debt-reduction schemes with its foreign creditors in the private banking sector. These achievements have to some extent alleviated the overall repayment burden stemming from the country's external debt. Nonetheless, as of the end of 1992, the external debt balance stood at some \$32.6 billion. To be sure, the payments of principal and interest on this massive sum, as well as on the domestic debt burden, still constitute serious obstacles to economic growth. The Philippines thus faces the pressing challenge of increasing its foreign income through exports in order to pay off its debts and to pay for imports of capital goods

that will be essential to new investments in production capacity.

2. Philippine Government Development Policies

The Ramos administration has set ambitious growth targets aimed at placing the Philippine economy on the development track of Asia's newly industrializing economies (NIEs) by the year 2000. Toward that goal, the government has accorded infrastructure development high investment priority. Yet, in view of its budgetary constraints, the government must move with caution in putting its development policies into effect. Since the Aquino years, the country has shown steady progress in opening its doors to foreign investment. The Ramos government essentially adopted a NIE-style development strategy designed to lure in more foreign investment and promote exports. Further, reflecting a strong inclination toward drawing on the vitality of the private sector economy, it has sought to enlist private investment funds toward its infrastructure development goals, and is carrying on with the drive begun by the Aquino administration to privatize public enterprises. The Ramos government is also pushing ahead with decentralization. Though this undertaking is still in a transitional stage, some central-government powers have already been transferred to local government units.

2-1. Development Plans

The development plan pursued by the Aquino administration sought to power economic growth by harnessing the heightened demand that agrarian reforms were expected to generate through increases in farm-sector income. However, as indicated earlier, this experiment ran aground midway through the Aquino government's term. As a result, the country had little choice but to resort to economic stabilization policies that inevitably imposed conditions of slow (and even negative) growth.

Under the banner of its "Philippines 2000" initiative, the Ramos administration, for its part, aims to achieve a development course on a par with the NIEs, with economic targets for the year 2000. The Medium-Term Development Plan (1993-98), which has been formulated to help attain that goal, was approved by a Cabinet resolution in December 1992. Through its duration, the plan sets several targets, all annual averages: GNP growth of 7.5 percent, an inflation rate of 6.2 percent, and a National Government deficit equivalent

to 2.4 percent of GNP. Nonetheless, the languishing economy has already forced the government to lower its ambitious goals under the plan. For instance, GNP growth actually measured 2.3 percent in 1993, despite an initial target of 4.5 percent.

The government has highlighted human resource development, improved international competitiveness, and sustainable development as the chief forces through which it shall pursue "People Empowerment", the slogan to promote its medium-term plan. Reflecting the severe fiscal limitations it faces, though, the government is currently placing budget priority on investments in infrastructure. Under the medium-term plan, the energy, power, and electrification sector will account for about 45 percent of those investments between 1993 and 1998, while projects in the transportation sector will consume another 31 percent or so over the same period. It should be noted, however, that gaps between objectives and actual accomplishments have sometimes characterized past Philippine development plans. In view of that record, it will be essential to pay close attention to both the macroeconomic and microeconomic dimensions of the policy implementation process: that is, to the full scope of the government's development efforts in economic management on the one hand, and progress in project implementation at the sectoral level, on the other.

Export promotion is one of the pivotal strategies behind the medium-term plan. To increase exports, the Philippine government now appears to be striving to learn from the experiences in rapid economic growth set by the NIEs. The plan places development priority on sectors considered to have strong competitive potential in the international market: animal feed ingredients, cut flowers, livestock and poultry, fresh and processed fruits, fresh and processed vegetables, garments, electronics, gifts, toys, furniture, fishery and marine products, and metal engineering products. In primary commodities and industry, priority has been focused in such areas as rice, corn, sugar, coconut, basic metals, chemicals and refined chemical products, electricity, gas, and petrochemicals.

In the agricultural arena, the Ramos administration has set its sights on continuing the drive in agrarian reform, as evidenced by the incorporation of its predecessor's Comprehensive Agrarian Reform Program (CARP) into the above-cited medium-term plan. As a measure to further promote agrarian reform, the Department of Agrarian Reform has organized Agrarian Reform

Communities (ARCs), through which it is striving to furnish assistance. In general, though, the government's development strategy can not be termed as very specific. While it aims to "emphasize the links" between agriculture and industry in working to promote the development of both, the policies that will serve this purpose have yet to be set forth in clear terms.

Under the Local Government Code of 1991, certain central-government powers, functions, and responsibilities—namely, among those until now administered by the Departments of Agriculture, of Health, of Environment and Natural Resources, of Public Works and Highways, of Tourism, and of Education, Culture, and Sports—are in the process of being handed over to local government units. Further, regarding grant aid, provisions of the Local Government Code allow local governments to negotiate directly with overseas aid institutions and put together their own development projects. This has generated interest at the local level toward assuming the lead in independently drawing up and seeking assistance for such projects.

2-2. Industrial Policy

Industrial policy in the Philippines is chiefly fashioned by the Department of Trade and Industry (DTI). Under the 1993 Investment Priority Plan, the Board of Investments established the key fields, such as processed farm products and textiles, that would be afforded investment priority. At present, the government views foreign investment as the factor of utmost importance in boosting industrial productivity; on the other hand, its industrial policies to date have not been very aggressive, like those of some other Asian countries.

Since the 1960s, the Philippines has pushed ahead with work to set up industrial parks and export processing zones as part of its overall industrial development strategy. The import and export duties in effect in the government mandated export processing zones, along with corporate taxes and other tax incentives, have been improved, closely in line with those employed by other members of the ASEAN community. In addition, the government has taken steps to deregulate foreign investment. For instance, the Omnibus Investment Code of 1987 effectively streamlined complicated legal procedures for foreign investment projects in the Philippines. Further, in 1991, the government decided to allow wholly foreign-capitalized ventures into all but a few domestic business sectors. The country enjoys transportation benefits that exploit its

port and harbor resources, and has a strong labor force that is considered to give it a comparative advantage. Therefore, it has sought to invest in industrial fields that effectively capitalize on these strengths. The slow investment growth in recent years appears chiefly attributable to infrastructural bottlenecks and an inadequate climate of law and order.

As previously mentioned, to secure capital vital to its industrial development, the Philippines must encourage foreign investment and promote exports. During the 1980s, coconut oil, copper, lumber, sugar, and other primary products accounted for a dwindling share of the country's exports, whereas manufactures, such as garments and electronic devices including semiconductors, assumed a steadily growing share. Nonetheless, compared with Singapore, Malaysia and Thailand, other ASEAN member-states, the Philippines' shift to an export-oriented economy was a relatively recent event. One obstacle to industrial development is the still-developing state of the country's financial sector. Conditions now demand that the Philippines move to modernize its rather inefficient and protected private financial sector by granting market access to foreign banks and in other ways working to strengthen principles of competition.

2-3. Industrial Infrastructure and Privatization

As austerity measures were introduced in order to restructure government finances, Philippine investments in infrastructure have contracted in real terms. In addition, the impracticably planned and inadequately maintained investment projects of the past allowed infrastructural deficiencies to ultimately become a major bottleneck to its economic development. Until last year, the failure of its power station construction programs, together with a high frequency of breakdowns at existing thermal power facilities, had confronted the Philippines with a substantial deterioration in power-generation capacity. Adequate infrastructure is a necessary condition for industries like electrical power generation to operate effectively. In the Philippines' case, infrastructural decay has had serious repercussions for the economy at large.

Given the severe fiscal strains crimping its development investments, the government is currently fostering heightened project participation by private-sector firms in order to achieve fast-track infrastructure development. Build-Operate-and-Transfer (BOT) schemes that draw on private-sector fund-

ing had until recently been used only in the electrical power-generation sector. Since 1993, though, the scope of the BOT-based approach has widened to include such infrastructure projects as the construction of roadways, airports, light rail transit (LRT) systems, and station terminals. In addition, local governments have been granted permission to pursue their own projects under the BOT formula. To be sure, this steadily expanding application of the BOT formula is one manifestation of a trend toward strengthened reliance on the private sector that has been under way since the days of the Aquino administration.

Supported by the structural adjustment programs of the World Bank, the Aquino administration pushed ahead to privatize the country's public enterprises. The original goals of this privatization drive lay chiefly in promoting the efficient management of the firms, and in shoring up the government's finances through the liquidation of equity holdings. At the end of 1990, the Aquino government unveiled plans to privatize 124 government-operated firms. Implementation, however, did not go very smoothly. Another progress in privatization was the liquidation of non-performing assets held by state-run banks. The government has set up the Asset Privatization Trust and is striving to sell off non-performing assets transferred from the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP). Progress in certain areas of this undertaking also has been held back by various legal snags. Though privatization is generally understood to be of value in improving public finances as well as corporate efficiency, several questions have also been brought to light. For example, state-run enterprises tend to have monopoly control over the markets they serve. Privatizing such enterprises poses the danger of placing their management under the control of a few entrepreneurial interests. Hence, privatization does not always guarantee that the forces of competition will work satisfactorily. Another noted issue of privatization is that it could reduce the influence of government policies in business areas that have strong bearing on the welfare of the general public.

3. Domestic and International Political Affairs, the Social Environment, and Aid

The Ramos administration has succeeded in improving the political climate in the Philippines, carrying on with the democratization drive initiated by the Aquino administration and has worked to restore domestic peace and order. Nonetheless, the gap between rich and poor remains vast; economic restructuring and steps to erase income disparities thus remain major challenges facing Philippine society.

On the international front, U.S. influence on the Philippines has waned slightly now that U.S. forces have withdrawn from their military facilities in the country and the Philippines has been moving to strengthen its ties with other members of the ASEAN community. Since 1986, Japan, other governments, and various international institutions have expanded the scale of their aid in a bid to foster democratic systems and processes in the Philippines. In particular, the World Bank-led Multilateral Assistance Initiative (MAI) was set up in 1989 with the task of internationally coordinating aid to the Philippines from donor countries and institutions.

3-1. Domestic Political Affairs and Social Conditions

During the Aquino administration, the Philippines took steps to hammer away at the locked structure of so called "crony capitalism" that had been erected by close business associates of deposed President Ferdinand Marcos throughout his presidency. In the process, democratic elections became a reality. However, the domestic political climate remained in a state of flux, for not only did the Aquino government have to put down a series of attempted coups by rebellious factions within the Armed Forces, but government forces continued to clash with communist guerrillas and Muslim separatists in the countryside. Such political instability cooled domestic and foreign investor interest in the country, thereby dealing the economy a major blow.

Economic restructuring is the most pressing challenge facing the Ramos administration. To achieve the level of political stability considered a necessary precondition to that goal, it has consolidated its base of support within the Armed Forces and zealously pursued peace negotiations with armed rebel elements. These efforts have achieved a certain degree of success. Though a full reconciliation remains elusive, there has been significant progress in the peace talks with rebel forces and some communist guerrilla factions have

weapons.

The Aquino administration established the Autonomous Region in Muslim Mindanao in 1989 and also effectively clarified, in the Local Government Code in 1991, a role in development for non-governmental organizations (NGOs) and people's organizations (POs). In addition, the Comprehensive Agrarian Reform Law of 1988 counted as an acknowledgment of the significance of agrarian reform issues by the government, the National Assembly, and the general public. For its part, the Ramos administration has continued with this work to democratize the political process and economic management. Nonetheless, despite these government-led drives to build a more democratic society, the structure of oligarchic economic domination by private interests, as well as much of the plantation system comprising the agricultural export sector, remain in place and function as obstacles to the effective modernization of the country's social systems and structure. These economic and social frameworks not only weaken the international competitiveness of Philippine industry, but also contributes domestically to an enormous inequity in income distribution, and thus is a factor behind the existence of a large number of impoverished citizens.

3-2. International Affairs and Regional Trends

In the Cold War era, the Philippines served as an important strategic base for U.S. forces deployed in the West-Pacific theater of operations. The end of the Cold War undermined the relative significance of keeping U.S. forces deployed in the Philippines. Within this changed atmosphere, the September 1991 decision by the Philippine Senate not to ratify the Mutual Defense Treaty effectively set the stage for the U.S. to withdraw all its forces in the country by 1992 and place Clark Air Base and Subic Bay Naval Base back under Philippine government control. In itself, this pull-out by U.S. forces symbolized the termination of a historically unique relationship between the two countries. Still, though, as can be seen in the recent and enthusiastic drive to deepen its involvement in the affairs of the Asia-Pacific Economic Cooperation (APEC), the United States appears to be pursuing a new, more business-oriented Asia-Pacific policy. It is thus conceivable now that stronger Philippine-U.S. ties could be shaped within that framework.

Reflecting the delicate undercurrents in the Philippine-U.S. relationship, the Ramos administration has engineered a slight shift from the country's former pro-American diplomacy and reaffirmed the Philippines' position as a member of ASEAN, while still maintaining friendly ties with the U.S.. It has also begun pursuing policies aimed at strengthening relations with other countries of the East Asian region, which is now a recognized global center of growth. Also recent years have witnessed a widening inflow of investment funds from South Korea, Hong Kong, Taiwan, and Singapore. However, in terms of economic growth, the Philippines has been left behind by some other ASEAN member-states, and stands to be overtaken by certain Asian countries that have recently begun shifting over to a market economy. With regard to its industrial development, the country seemed to be facting a dilemma from a broader international perspective.

As mentioned above, the Philippine government is promoting regional economic integration with its ASEAN counterparts. In 1992, it participated in the formation of the ASEAN Free Trade Area (AFTA). Also, it has proposed a plan called the "East Asia Growth Triangle" that would establish a framework for regional cooperation between its Mindanao regions and the economies of Malaysia, Indonesia, and Brunei. The Philippines has begun working with the countries concerned in a bid to see this plan come to fruition. To be sure, the country is going to pursue even stronger ties with other ASEAN economies in the years ahead.

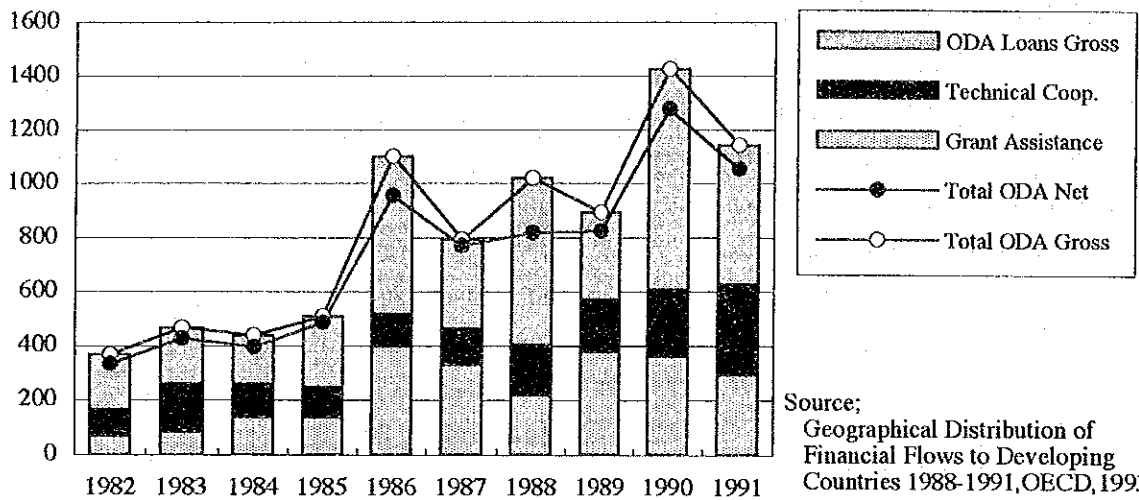
3-3. Trends in Development Assistance

In 1986, when the Aquino administration assumed power, the combined ODA total (net disbursements) to the Philippines from foreign governments and multilateral institutions literally doubled, to \$955.80 million. Though the annual total then declined for several years thereafter, in 1990 it surged again, this time to \$1,055.20 million. Of that amount, bilateral aid accounted for 82 percent, while multilateral institutions supplied the remaining 18 percent share. (By type of aid, 59 percent was furnished in the form of grants, and 41 percent in loans.)

Japanese ODA climbed sharply during the Aquino years, effectively highlighting an increased level of Japanese support for a Philippines with a democratic political system. Today, Japan is the Philippines' single largest

Figure 3 ODA to the Philippines

(in million dollars)



donor country. In recent years, it has accounted for over half the total the Philippines has received in bilateral aid; in fact, in 1991 Japan and the U.S. together accounted for around 80 percent of the bilateral aid total. In value terms, though, growth in U.S. aid has flattened out. Partly for this reason, Japan has assumed a larger role in supplying overseas aid, and expectations toward that role have risen in turn. The cumulative total in Japanese aid to the Philippines between 1988 and 1992 can be broken down into several forms of aid, as follows: \$1,054.24 million in grant aid; \$623.96 million in technical cooperation; and \$3,951.10 million in loan aid (net disbursements).

U.S. aid to the Philippines has continued to taper off since 1990. The focus of U.S. aid itself has been shifting increasingly to the provision of policy advice and other forms of assistance that have chiefly to do with the transfer of technology and knowhow. Signs now are that the U.S. is not planning to establish a new Economic Support Fund (ESF) for the Philippines. That prospect has been taken as yet one more negative factor confronting the fiscally strapped Philippine government. Germany, Australia, Canada, and other donor countries account for a relatively smaller share of the total bilateral aid in value terms.

Since 1980, the World Bank has offered the Philippines structural adjustment loans and encouraged its government to take steps toward liberalizing the country's economy. After the Aquino administration assumed power, the World Bank strengthened these policies and assisted the country in efforts

to open its doors to trade, deregulate its financial sector, privatize state-run firms, overhaul its tax system, and pursue other policy reforms. Though the revenue shortfall and progress in trade liberalization are among some of the remaining challenges, overall the structural adjustments have reinforced the effectiveness of the government's management of the economy; furthermore, by promoting the market mechanism, they have helped pave the way for the economy to move onto a sustainable growth track. In the years ahead, it appears likely that the World Bank will shift its aid focus from program financing for structural adjustments to project financing such as improvements in electrification, telecommunication, water-supply, and undertakings in agricultural, environmental and other arenas.

In 1989, Japan, the U.S., the World Bank, and the IMF were instrumental in setting up the Multilateral Assistance Initiative (MAI), an international framework aimed at coordinating aid to the Philippines from donor countries and institutions. MAI participants include the Asian Development Bank, the United Nations Development Program and other development institutions. Together, they are also monitoring macroeconomic management efforts in the Philippines. Under the MAI framework, meetings of donors were held on three occasions (in 1989, 1991, and 1992) during the term of the Aquino administration. As of March 1994, they still have not held any meetings since the Ramos administration took power. One reason would be that the Philippine government and the IMF have yet to reach an accord on a new economic program since the agreement for IMF standby credit expired in 1993.

4. Key Development Challenges for the Philippines

In view of the precipitous economic slowdown that hit its economy in 1990, the primary challenge for the Philippines now is to place itself back on a sustainable growth footing. Currently, a leadership role by government is the top precondition for that achievement. In particular, that role calls for appropriate measures in macroeconomic management, infrastructure development, and attention to environmental protection and disaster prevention. Once these conditions are met, the government will be fully able to promote exports, strengthen the country's industrial base, and reestablish an effective incentive structure that fosters private investment, setting the stage for sustainable growth powered by the vitality of the private sector.

Poverty-relief measures can ease the burden that fiscal adjustment im-

poses on the impoverished, and support economic growth by strengthening domestic demand. Poverty alleviation programs that strive to satisfy basic human needs are essential in the Philippines. Assisting the impoverished through action in the arena of agrarian reform would be another effective approach.

Correcting regional disparities and developing human resources are two tasks that demand action, especially from a medium- and longer-term perspective. The heavy concentration of the population in the National Capital Region has created an array of difficulties, ranging from strains on infrastructure to a deterioration in the living environment. Work to develop agricultural, forestry, and fishery industries, as well as to decentralize the urban industrial buildup, are among the challenges the country could address in its efforts to erase regional disparities. Regional development itself should be pursued as a strategy to break through the country's development impasse, on the basis of a long-term, comprehensive development program. Human resource development, in turn, will have a bearing on the task of cultivating supplies of labor for industry, refining the educational system, and improving the administrative abilities of government. In the administrative arena, for instance, there is demand for programs to train personnel in policy formulation and infrastructure maintenance.

4-1. Achieving Sustainable Economic Growth

The development issues posed by the quest for sustainable economic growth in the Philippines can be divided roughly into public-sector (appropriate macroeconomic management, infrastructure development, environmental protection) and private-sector (export promotion, the encouragement of private investment, work to strengthen the domestic industrial base) issues.

(1) Appropriate Macroeconomic Management

As noted earlier in the overview of economic policy, improving the health of government finances by lifting revenue and trimming domestic debt is now the key task facing Philippine efforts in macroeconomic management. If the government can surmount these particular hurdles, it will be possible to expand investments in infrastructure development and in education, health care, and other facets of human capital. It is also imperative that the government pursues prudent monetary policies that do not fan inflation, and strives to avoid

deterioration in the country's international balance of payments. Though the Philippines has shown some improvement in its management of the economy in recent years, continuing efforts in this area are desired. Moreover, it should push ahead with its work in structural adjustment, for instance, by further deregulating its financial sector and opening its doors wider to trade.

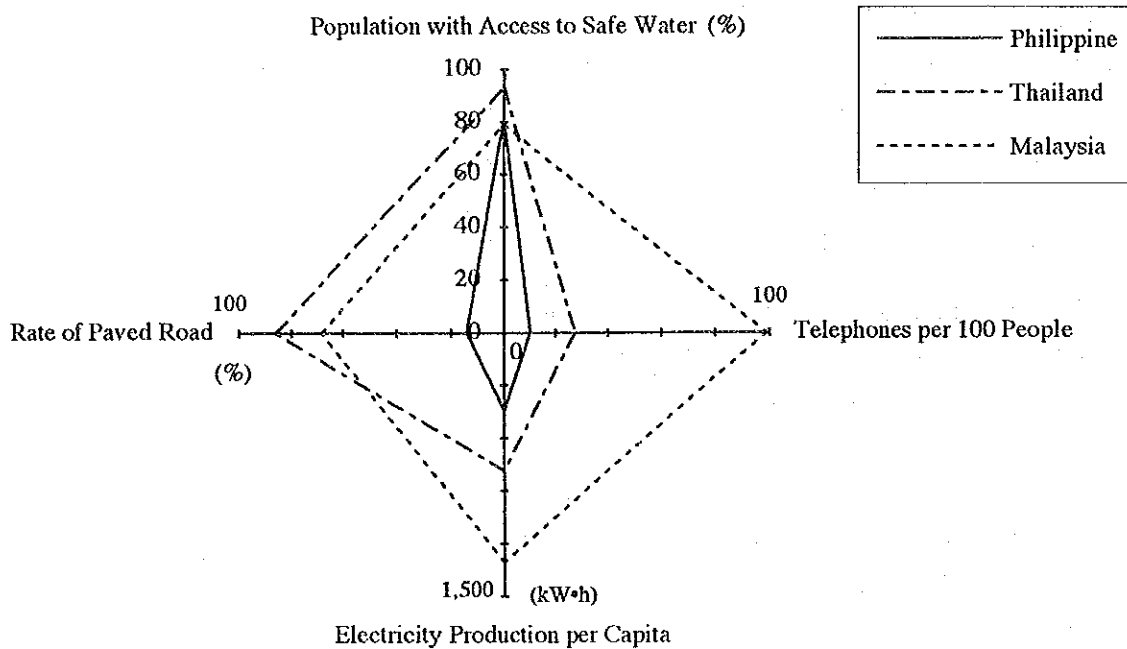
(2) Infrastructure Development

Deficiencies in infrastructure have become a major bottleneck to economic growth in the Philippines. Dealing with this problem demands not only that the government reinforce its abilities in formulating, coordinating, implementing, and maintaining infrastructure projects, but that it also obtain the financial resources necessary for these tasks. Especially, improving the balance between the supply and demand for power and securing stable supplies of electric power over the medium and longer term are essential to industrial activity.

Work to build new gas-turbine-powered generating plants has made headway; brownouts in the Luzon Grid had become considerably less frequent by the end of 1993. Nonetheless, breakdowns are still chronic at existing power stations. Facility deficiencies and poor operating rates are among the many factors behind the country's power shortfall. Alleviating these drawbacks will require more than just building new power stations. Efforts must be made on expertise related problems, such as more effectively utilizing existing facilities and tackling root problems that exist at the organizational and personnel levels.

At present, the government has plans to build a series of large-scale generating facilities. Should construction work fail to materialize, however, the country will once again face the prospect of a widening rift between planning expectations and reality. For this reason, it will be essential to scrutinize the progress of project implementation. On the other hand, increased number of gas-turbine power plants under the BOT formula has actually inflated generating costs. Over the medium and longer term, the Philippines will probably find it imperative to modify its power generation mix. Fuel imports exert a significant impact on the Philippine's international balance of payments. From the standpoint of securing a stable supply of energy, it is thus important that the country continue working to trim those imports and diversify its energy sources.

Figure 4 Infrastructure Development Indicators



Source; Paved Road (1988): Statistical Yearbook for Asia and The Pacific 1992, UN, 1993
 ; Telephone (1992年): Yearbook of Common Carrier Telecommunication, ITU, 1993
 ; Electricity Production (1990): Energy Statistics and Balances of non-OECD Countries 1990-91, 1993
 ; Access to Safe Water (1990): The State of The World's Children, UNICEF, 1991

The country has been pursuing projects to augment its highways network since the 1970s. Though the network is now fairly well-established, it is necessary to keep it in good repair and make continuing enhancements. Under the medium-term plan, the transportation sector comes second only to the power sector in terms of the share of budgeting allocated to infrastructure development. At present, a small percentage of the country's roads are paved and existing roads have been deteriorating at an alarming rate. Though road density is high in the National Capital Region, Ilocos, and the Central Visayas, it is relatively low elsewhere, thus highlighting conspicuous disparities at the regional level. Traffic snarls also have become a perpetual headache in Manila. It is, therefore, urgent that the country take steps to ease traffic congestion, for instance, by expanding its light rail transit (LRT) systems. Many cars plying the Philippines' roadways are used vehicles. What is worse, there are no efficient emission controls, and cars tend to be poorly serviced and maintained. Consequently, air pollution levels have risen with the increasing traffic congestion.

Being an archipelago, the Philippines is marked by a substantial degree of port activity and marine transport. Owing to its enormous economic scale, Metro Manila accounts for some 45 percent of the nation's port activity. This deep-rooted concentration in the Manila area has been cited as a problem in and of itself. In view of the significant contribution of port facilities to regional development, the Philippines faces the combined tasks of expanding the capacity and upgrading the efficiency of its ports, and of improving the overall safety of marine transport (e.g., through improved ferry maintenance and inspections and the development of facilities for safer navigation). Also, in terms of transportation in general, it appears that modifications and work to renovate dilapidated structures are needed at many of the country's airports.

In the communications sector, the shortage of telephone facilities has become an obstacle to development in other sectors. Consequently, expanding and enhancing the telephone facilities across the nation will continue to be a pressing challenge.

The tight financial circumstances binding the central government, make it difficult to negate the effectiveness of harnessing private-sector capital for infrastructure development. Nonetheless, it is imperative that the government assume a stronger leadership role in the project planning and implementation stages, and work to ensure that the country's undertakings in infrastructure development are well-balanced and coherent. To give an example in the communications sector—where private enterprise plays a central role—the government has issued Executive Order 109, which is aimed at striking a balance between the development of the country's domestic and international communications services. The regulation obligates international telecommunications carriers to lay domestic phone lines and improve the provision of local-exchange carrier services in other ways. In reality, though, there are no penalty clauses for noncompliance, nor seems to be there effective means of enforcement. This state of affairs would seem to suggest that the government needs to reassert its leadership role with respect to the operation of public utilities.

(3) Environmental Protection and Disaster Prevention

A number of influences have adversely affected economic activity in the Philippines. Some natural resources have been degraded through the devel-

opment process; development projects have been slowed by local inhabitants fighting against pollution; and various elements of infrastructure have been damaged by natural disasters. As these factors illustrate, protecting the environment and preventing natural disasters are now essential to the achievement of sustainable economic growth.

The task of protecting the environment can be generally broken into two key categories: conservation of natural resources, and curbing pollution from urban industrial operations.

In the first category, the protection of forest resources will be absolutely vital in achieving the common goals of maintaining water resources, protecting wildlife habitats, preventing flooding attributable to erosion and improving quality of river water. The protection of virgin forests and the cultivation of forestry industries will be particularly important.

In the second category, industrial pollution policy, the government has put a number of laws and regulations into effect, but has not overly been successful in implementing its own standards. One reason for this is the Department of Environment and Natural Resources' (DENR) monitoring framework; in effect, the number of monitoring teams responsible for assessing conditions in most of the country's provinces, cities, and villages are limited. As a result, it is currently difficult to more scientifically analyze environmental conditions. Pollution-related environmental administration, however, demands that policies be enforced and actual conditions be fully understood at the regional level. Therefore, it would seem desirable that local government units assume a central administrative role in the years ahead.

As to the issue of land use, the existing environmental assessment framework should be effectively and efficiently applied in the interest of more systematically utilizing the country's land resources. Environmental consideration will also be vital to the task of developing a more attractive investment climate. Further, questions concerning the siting of export processing zones and industrial parks should be addressed as challenges in industrial infrastructure development.

Disaster policy should be explored in terms of two distinct focuses: disaster relief on the one hand, and disaster prevention or activities to minimize the damage from future disasters, on the other.

First, one of the most difficult tasks now facing the Philippines in the arena of disaster relief is the flooding caused by volcanic ash accumulating in the river basin and tributaries of areas heavily hit by the recent eruption of Mt. Pinatubo. In effect, even if some success is shown in dredging the waterways affected, subsequent rainfall causes secondary "lahars" (volcanic mudflows). Considering both the impact on local inhabitants and current budget limitations, this is one problem the government is finding difficult to deal with.

Second, in the arena of disaster prevention, the question is how fast disaster-related information in central-government hands can be disseminated to residents in the affected areas and translated into effective policies and programs. At the local government level, speeding up this process will demand work to set up frameworks for early-warning broadcasts, rapid evacuation and emergency rescue operations. Over the longer term, however, effective disaster-prevention efforts will demand poverty-relief programs and other measures aimed at improving the living standards of the people in these areas.

(4) Export Promotion

To achieve sustainable economic growth, the Philippines must strive to change to an export-oriented economy and increase its participation in trade with the ASEAN bloc, in addition to its traditional trading partners. That goal, however, demands first of all that it pursue suitable macroeconomic policies aimed, for instance, at forestalling an overvaluation of the peso against other currencies. In addition, it will be essential to promote new projects in infrastructure that give priority to materials, machinery, and other export industries where the Philippines can be competitive with its more industrially advanced ASEAN counterparts. For this purpose, it is advisable that the Philippine government be able to select target industries and hammer out export-promotion policies, which may include the combination of government loans, infrastructure development in export-processing zones, and other measures.

Promoting agro-industry, moreover, will help to heighten the value-added farm products, while fostering the parallel development of agriculture and industry at the local level. In itself, this undertaking will demand that the Philippines strive to create markets for its export-oriented farm products, while also developing new products. These actions will prove valuable to the goal

of cultivating highly value-added food products for export. With the likelihood of competition from other developing countries, it will be important that the Philippines take steps to diversify its agro-industry through efforts to promote food-processing industries, including marine products.

(5) Improving the Health of Domestic Industry

Poorly planned long-term and wide-ranging government policies of the past resulted in interference and protection in the business sector, which accounted for a number of deficiencies in the country's industrial structure.

First, the government is expected to establish systematic policy instruments for the purpose of supporting industrial development. The Department of Trade and Industry does not have internal divisions devoted to the comprehensive planning and monitoring of basic policy for specific industrial sectors. It is desirable to more explicitly set forth long-term aims in terms of industrial development strategy for the textile industry and other subsectors. Another issue is the several large publicly controlled enterprises in industrial sectors that produce intermediate and capital goods, which often contribute to budget deficits. This should be stopped by quickly privatizing such enterprises.

In the private sector, past government policies designed to protect import substitution industries have largely tended to furnish big firms with monopoly or oligopoly market control. Also, due to high cost structures, many domestic firms are not internationally competitive, and by and large rely on outdated facilities and technologies. Furthermore, there has been a lack of linkage between domestic industrial sectors. And some dual structure in the operations of small and medium-scale enterprises and in modern industrial sectors are being observed. This state of affairs would suggest the government should come up with policies that encourage smaller businesses to penetrate the higher levels of the domestic and overseas market.

Several problems have been noted in the mining sector. For one, many developers have seen their business performance hurt by increased development risk. Policies and programs designed to attract foreign investment seem to have been inadequate, and the government used to be slow in introducing measures aimed at preventing or stemming deterioration of the environment

and pollution resulting from mining, both legal and illegal. Further, small and medium-scale businesses active in the industry are in need of modernization.

Efforts to improve the health of the country's agriculture and its related industries are also essential to achieve sustainable economic growth. Diversifying farm output, overhauling the retail market, and developing new markets for farm produce all count as primary challenges in this respect. To improve its distribution infrastructure, the Philippines is faced with the task of developing information networks related to distribution, warehousing facilities, and road systems. In addition, it will be necessary to furnish financial and technical support to small, independent farmers and in other ways strive to stimulate small-scale farm enterprises. Increased government technical and credit-based financial assistance, aimed at boosting the living standards of farm households have been desired. Strengthening the power of farm cooperatives, moreover, is yet another challenge that should be addressed if the spontaneous development capabilities of farmers are to be enhanced. Establishing stronger bonds between agriculture and industry will contribute to the creation of value-added products. To do this, the government will have to come up with practical policies that promote new agricultural business ventures.

(6) Encouraging Private Investment

Though promoting labor-intensive manufacturing industries would be very beneficial in the Philippines, part of investments for that purpose could conceivably wind up flowing into other Asian economies. Given that prospect, it stands to reason that the Philippines should adopt appropriate technologies and work to raise the level of its industrial base. Specific national challenges would be pursuing structural adjustments, which include continuing to hold real interest rates down and developing capital markets, in order to heighten the level of domestic investment in manufacturing trades. To date, the lack of clear division of responsibilities between the Development Bank of the Philippines (DBP), and the Land Bank of the Philippines (LBP), and other government-run lending institutions, has resulted in some of their banking services overlapping. Correcting these problems would appear to call for a systematic overhaul.

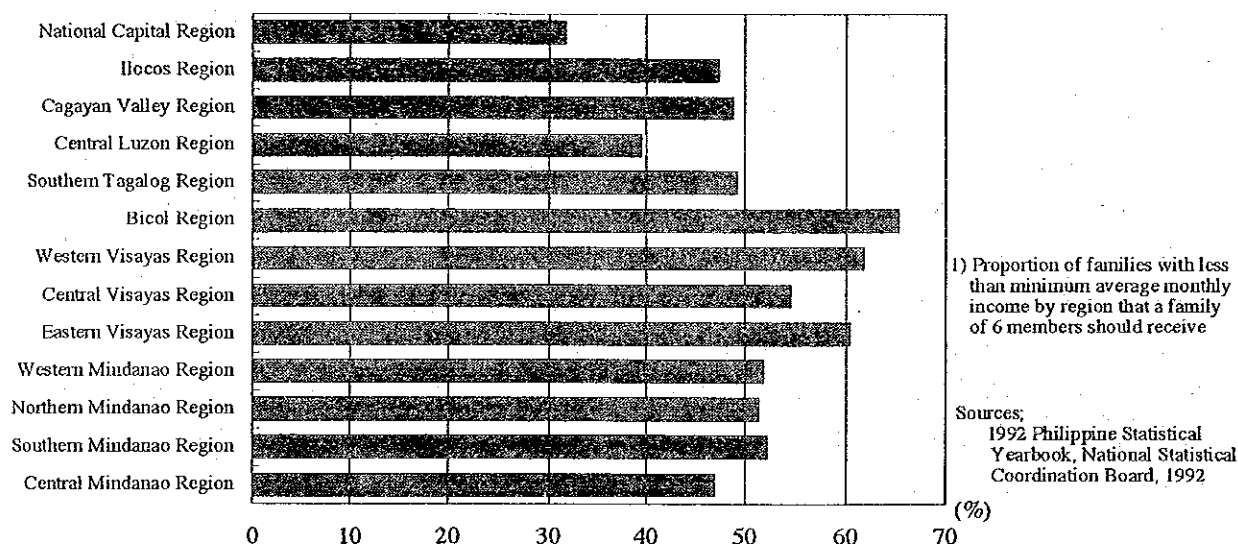
Less restrictions and additional incentives for foreign capital, such as establishing industrial parks for small and medium-scale enterprises, will

encourage investments from abroad. In recent years, the Philippines has witnessed a growing influx of investment funds from other ASEAN member-states. In the years ahead, industrial alliances with its ASEAN partners will likely serve as an increasingly important pillar of Philippine economic development. Nonetheless, actions to improve domestic peace and order and quell armed rebellion underline the immense importance of the political dimension influencing efforts to stimulate investment. Though domestic peace and order is already showing much improvement, it seems imperative that the country maintain efforts in this area.

4-2. Poverty Alleviation

By World Bank estimates, in the twenty years from 1970, the ranks of the impoverished in the Philippines shrank at a slower pace than in Thailand, Indonesia, or Malaysia. In effect, poverty in the Philippines is today more serious than it is in some other ASEAN economies. The Country Study Group explored the challenges facing policies aimed at alleviating poverty from the two aspects of agrarian reform and the satisfaction of basic human needs. Incidentally, many squatters now reside in urban areas, and their relocation has itself posed problems to the very implementation of development projects themselves.

Figure 5 Incidence of Poverty by Region



(1) Agrarian Reform

Though it lost momentum during the Aquino administration, agrarian reform in the Philippines is an effective complement to policies of poverty alleviation. Landowner opposition and other political factors are behind the slow implementation, but there are other reasons as well. First, owing largely to the shortfall in fiscal revenue, government compensation for land purchases seemed inadequate. Second, government efforts to purchase land were slowed due to the difficulty in appraising land value. And third, the government departments and agencies with jurisdiction or responsibility seemed to be coordinating their views and actions insufficiently. The first phase of agrarian reform made headway in farmlands devoted to the production of rice and corn. As of 1993, however, there appears to have been not much progress in phase two, which targets private and public lands and promotes social forestry. In some instances, the redistribution of land to farmers is not that welcome; one example being low productivity farmland, on which taxation becomes burden. It thus seems necessary to organize farm cooperatives that would serve as vehicles for improving productivity, and to furnish them with training and better farming technologies.

(2) Satisfying Basic Human Needs

The Philippines faces a number of pressing tasks in the health-care field, including providing effective measures against contagious diseases and promoting family-planning programs. Promoting primary health care will be vital to these undertakings.

The country already has a semi-developed infrastructure of health-care institutions and facilities in place at the municipal and barangay levels. However, these primary health-care facilities require further enhancements, as they are instrumental in the fight against contagious diseases, in promoting family-planning programs, and in addressing other national health-related issues. It is also desirable that the country strive to build more-advanced medical facilities, while working to maintain the functional effectiveness of the type of institutions described above, which have become closely integrated with the local communities. Another task, however, will be to strengthen

working relationships and information sharing between public institutions, and between public and private institutions at all levels.

In the area of personnel, it is essential that the Philippines raise pay scales and in other ways improve the treatment of its health-care professionals if it is to stem their exodus overseas. In addition, steps should be taken to refine training programs and consider incentive structures for the barangay health volunteers, who are working to offset the country's current shortage of health-care professionals.

Family planning was considered a priority development issue during the Aquino years. The Ramos administration, for its part, has demonstrated an even more enthusiastic stance, as shown through programs led by the Department of Health (DOH). Philippine population growth averaged 2.3 percent in annual terms between 1981 and 1990, a pace still substantially higher than the country's neighbors.

The goal of satisfying basic human needs, however, will demand that family-planning efforts be combined with programs designed to boost nutrition for poverty-stricken citizens, and infants, particularly in agrarian districts. It will also be important to improve the water supply, which to date has not shown remarkable progress, especially in rural municipalities.

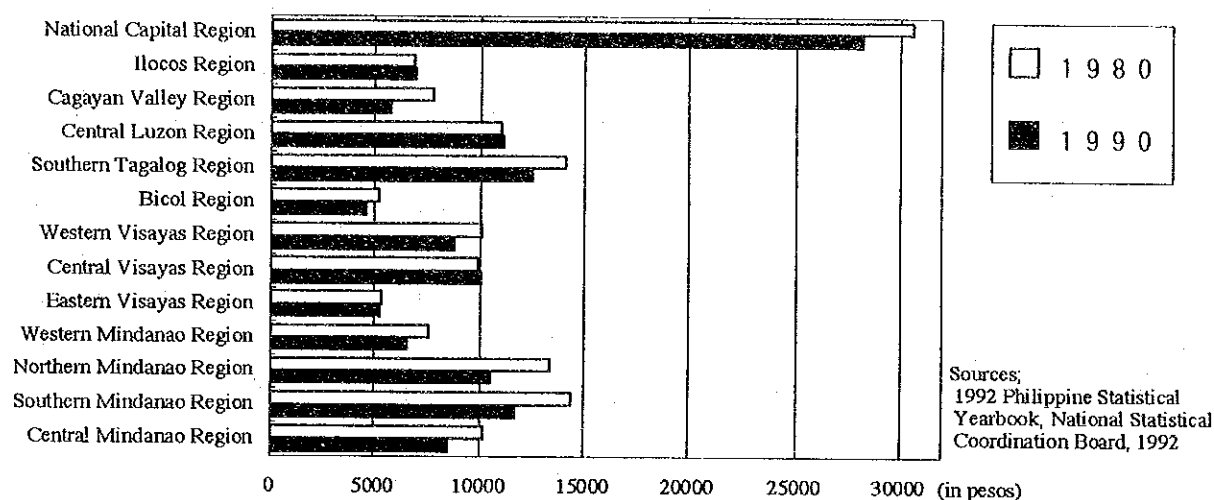
4-3. Correcting Regional Disparities

Striving to remedy the over-concentration of population and industry in Manila is a task that, in turn, could help correct regional disparities and stimulate economic activity in rural districts. Correcting regional disparities could be carried out on two fronts. One is the development of agriculture, forestry and fisheries and the other is industrial decentralization.

(1) Development of Agriculture, Forestry, and Fisheries

In the early 1990s, growth in the Philippines' agricultural sector has outpaced that of the industrial sector. Nonetheless, food production per capita has actually declined over the past 10 years. Though cereal grain output has

**Figure 6 Per Capita of Gross Domestic Product by Region
(at 1985 prices)**



begun to pick up, output of other key foodstuffs has fallen. Several factors explain the slow increase in agricultural production: failure of policy-based incentives, and inadequate infrastructure and farming techniques.

One reason policy-based incentives have not been working is that political instability has effectively impeded active levels of private investment in the farming sector. Agricultural infrastructure problems may lie more in the area of marketing of produce than in production itself. Increased attention is expected to improving access to markets for farm produce in the current medium-term agricultural development plan of the Department of Agriculture (DOA).

In the arena of forestry, the Philippine government has banned imports and exports of timber logged from natural stands, and is now pursuing other policies aimed at protecting forest resources. Hence, rather than expanding output, the task at present clearly lies in environmental conservation. Conserving natural timber stands, however, will require steps to set up a production system to better utilize alternative sources of lumber and chips.

In the fisheries field, the key challenges include efforts to build small fishing ports and strengthen fisheries cooperatives.

(2) Industrial Decentralization

The Philippine government initiated programs of industrial decentralization in the 1960s. Specifically, it set up industrial parks and export processing zones, and offered tax breaks and other types of investment incentives to industry. However, these actions won little success, as the concentration of industry in the National Capital Region has still not changed very much. To correct regional disparities and alleviate conditions of poverty at the rural level, it is imperative that the Philippines make significant new inroads in industrial decentralization. Furthermore, it would be useful to explore the possibility of integrated projects in regional development that capitalize on the strengths of each district. Closing in the regional gaps will require upgrading infrastructure: for instance, through the electrification of farm municipalities, expanded telephone services, and construction of new roads and bridges.

4-4. Human Resource Development

Three challenges face Philippine efforts in human resource development. They are the cultivation of a skilled labor force able to meet the needs of industry, improvement in formal education, and further enhancement of government administrative capabilities.

(1) Supplying Industrial Demand for Skilled Personnel

A substantial part of the Philippine labor force have gone abroad as contract workers. Their ranks include highly skilled workers and well-educated professionals. These overseas contract workers provide their country with a valuable source of foreign income. On the other hand, they also constitute a drain of talented human resources that is reflective of the high unemployment rate at home. In the long run, as the Philippine economy grows, it is hoped that these workers will be called back to fill domestic jobs. Expanding job opportunities in the Philippines, however, will demand occupational training programs tailored to the needs of industry, as well as efforts to provide all citizens full access to higher education.

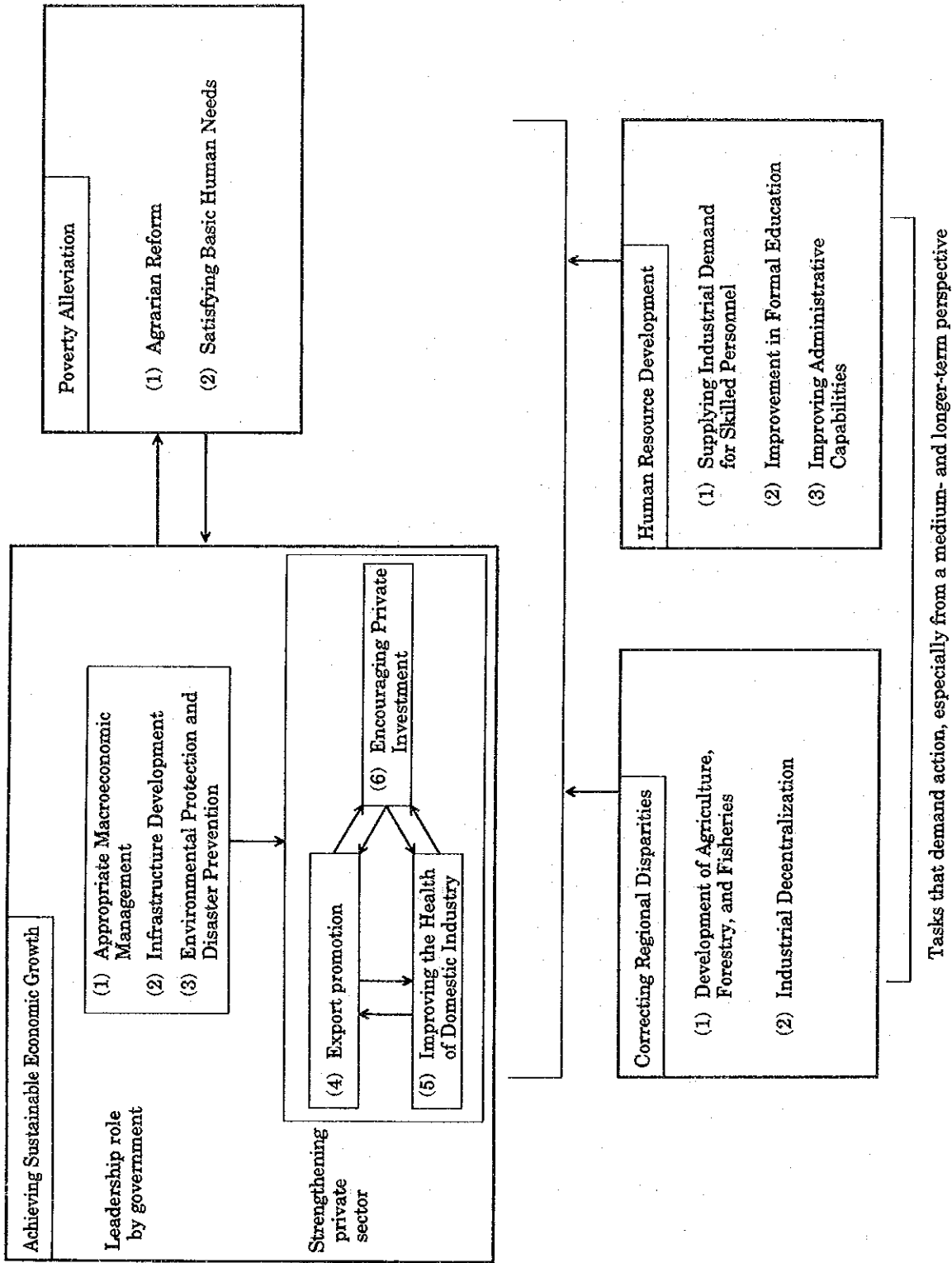
(2) Improvement in Formal Education

An wide range of problems confronts the Philippines in the field of education. They include relatively the short period to the completion of a higher education; complicated bilingual mix (of English and Tagalog) in classroom instruction; and the need to improve the quality of basic education (e.g., in terms of curriculum, pedagogy, and teacher education and training programs). Reinforcing basic education itself demands a focus on the basic skills that will help to eradicate poverty and inequality and expand productive employment. Though the Philippines already has a fairly well-established educational system, the percentages of students who complete the last year of elementary and junior-high school are 71 percent and 79 percent, respectively (1993), both relatively low levels. The dropout rate in poverty-stricken areas is especially high. Furthermore, a critical challenge in the arena of higher education lies in closing in the gap between what students learn and the skills industry demands. Another pressing issue is the need for non-formal education aimed at the illiterate citizens who account for almost 10 percent of the population aged 10 years and over. The Ramos administration has made "education for all" (EFA) a high priority goal in its medium-term development plan. Toward that end, it will be a challenge for the Philippines to establish and strengthen school programs including preschool and other elements of basic education and make them available throughout the nation.

(3) Improving Administrative Capabilities

In the administrative field, the government may find it necessary to strengthen further its capabilities in formulating development projects, formulating and implementing industrial policy, and maintaining infrastructural facilities. Increased coordination among the related institutions of the government would be also expected. At the local level, there is a need to improve administrative abilities and reinforce administrative frameworks for disaster prevention, as well as the maintenance of peace and order. To be sure, the Philippines today is demonstrating demand for programs aimed at fostering its future civil servants. In the meantime, another problem would be the drain of quality personnel from the public to the private sector or to jobs overseas.

Figure 7 Key Development Challenges for the Philippines



II. Frameworks for Japan's Assistance to the Philippines

1. The Basic Focus of Japan's Assistance

Developing human capital and erasing regional disparities are considered two of the Philippines' chief medium- to long-term development challenges. It thus seems appropriate to view these two challenges as a basic focus of Japanese assistance. Needless to say, infrastructure development and environmental conservation are among the other challenges demanding attention over the medium and long term. Efforts to cultivate human capital and eradicate regional disparities, however, remain two of the country's most important tasks over longer term and share much with all the priorities of Japanese aid, as will be discussed in the following pages. Yet for this reason, they should be distinguished from those priorities and given status as core objectives for Japanese aid. Encouraging Philippine self-help efforts has always been viewed as essential to the effectiveness of Japanese aid, and thus it has been given priority as another of Japan's basic aid objectives.

(1) Erasing Regional Disparities

Under past centralized-government administrations, extreme concentration in the National Capital Region contributed to widening inequities in regional income distribution and increased external diseconomies such as heightening levels of pollution and other ills. To redress these problems, it would be advantageous to place priority on regional development and make the task of correcting regional disparities the central policy objective of Japanese aid. Regional development in particular would be one effective means of easing conditions of rural poverty and crowding within the National Capital Region itself. Indeed, it contributes to the alleviation of various socioeconomic problems stemming from heavy urban congestion, overpopulation, and the over-concentration of industry in and around Manila. In that undertaking, though, it will be of critical importance to strengthen the administrative powers of the Philippine government, which will be responsible for coordinating all development-related activity among the various institutions and agencies involved.

Japanese assistance furnished for these goals should probably be based on a perspective that links the implementation of specific aid projects with

the goals of an integrated regional development plan aimed at having each project exploit local strengths. At the same time, it will be necessary to support improvements in social and industrial infrastructure at the local level. In taking such steps, it will also prove worthwhile to stress the links between new aid and the various infrastructure projects that Japan has provided assistance for to date (for instance, by giving the Japan-Philippines Friendship Highway status as a major arterial roadway in the country's physical distribution network).

(2) The Development of Human Resources

In terms of the core goals of Japanese aid policy, it would be preferable to place extra emphasis on cooperation aimed at assisting the Philippines in human resource development. Indeed, special efforts are expected in the arena of education and to improve the country's administrative abilities. Government work to find and train personnel who can craft viable industrial policies, formulate decentralization-oriented development programs, adequately coordinate the activities of government institutions, and supervise aid projects in progress and after they are completed will all be key to the Philippines' economic rehabilitation. Improving the government's administrative power is a goal deserving attention in practically every dimension related to Japanese aid. Fostering and enriching basic education will also be instrumental in closing the gap between rich and poor. In addition, support for programs of higher education and occupational training will help the Philippines improve its international competitiveness. In view of the country's current fiscal strain, cooperation for its efforts in human resource development would be even more vital today. Therefore, from a medium- and longer-term perspective, it seems desirable that Japan continue to extend the Philippines support in this area.

(3) Encouraging Philippine Self-help Efforts

Aid can be most effective when furnished under conditions of balanced macroeconomic management of the recipient country. Attention is needed to ensure that the effectiveness of Japanese assistance in economic development is not compromised by unsound or protectionist-inspired economic policies. For that purpose, Japanese assistance should be designed to sustain the Philippine

drive to help itself through efforts in macroeconomic stabilization, as supported by the IMF, as well as through structural adjustments backed by World Bank program financing. Essentially, then, Japanese development assistance requires that the Philippines pursue policies of stable macroeconomic management. Offering constant encouragement through a policy dialogue with the Philippine government would be worthwhile toward that end.

The Philippine government's current revenue shortfall is blocking its efforts to develop economic and social infrastructure. To maintain a course of sound economic management, it is imperative that the government avoid covering this shortfall through substantial increases in short-term internal debt or the money supply. Also, in the interests of increasing revenue and contributing to social equality, the government may need to bolster its tax-based income, particularly by collecting effectively from the affluent group. For some years now the Philippines has continued working to boost government revenue and improve conditions of domestic law and order. Japan should collaborate in promoting this effort of the Philippines and the creation of adequate domestic reserves to cover the local costs of high-priority aid projects, which will strengthen its ability to effectively assimilate and utilize development aid.

2. Priority Areas for Japan's Assistance

In view of the earlier-noted development hurdles now facing the Philippines, it would be appropriate that the prime goal of Japanese development assistance be to help set the stage for sustainable growth driven by productivity gains, yet with due attention to questions concerning poverty and the environment. Such Japanese aid will fall into three priority areas: 1. Improved productivity; 2. Poverty alleviation; and 3. Environmental conservation and disaster relief and prevention. Achievements in these three areas can be expected to have a mutually reinforcing influence as the Philippines moves onto a track of sustainable economic growth.

To help achieve the objectives outlined in these three areas above, aid shaped by the following priorities will likely have a highly beneficial impact on the Philippine development process. Those priorities are (1) Development of economic infrastructure; (2) Support for gains in international competitiveness; (3) Industrial development at the regional level; (4) Support for agrarian

reform; (5) Social infrastructure development at the regional level; (6) Sustainable exploitation of natural resources; (7) Environmental policies to foster sustainable industrial development; and (8) Disaster relief and prevention. As earlier-noted elements of basic Japanese aid policy, human resource development and the alleviation of regional disparities are challenges that have much in common with the priority areas outlined above.


Priority Areas for Japan's Assistance

1. Improved Productivity

- (1) Development of Economic Infrastructure
- (2) Support for Gains in International Competitiveness
- (3) Industrial Development at the Regional Level

2. Poverty Alleviation

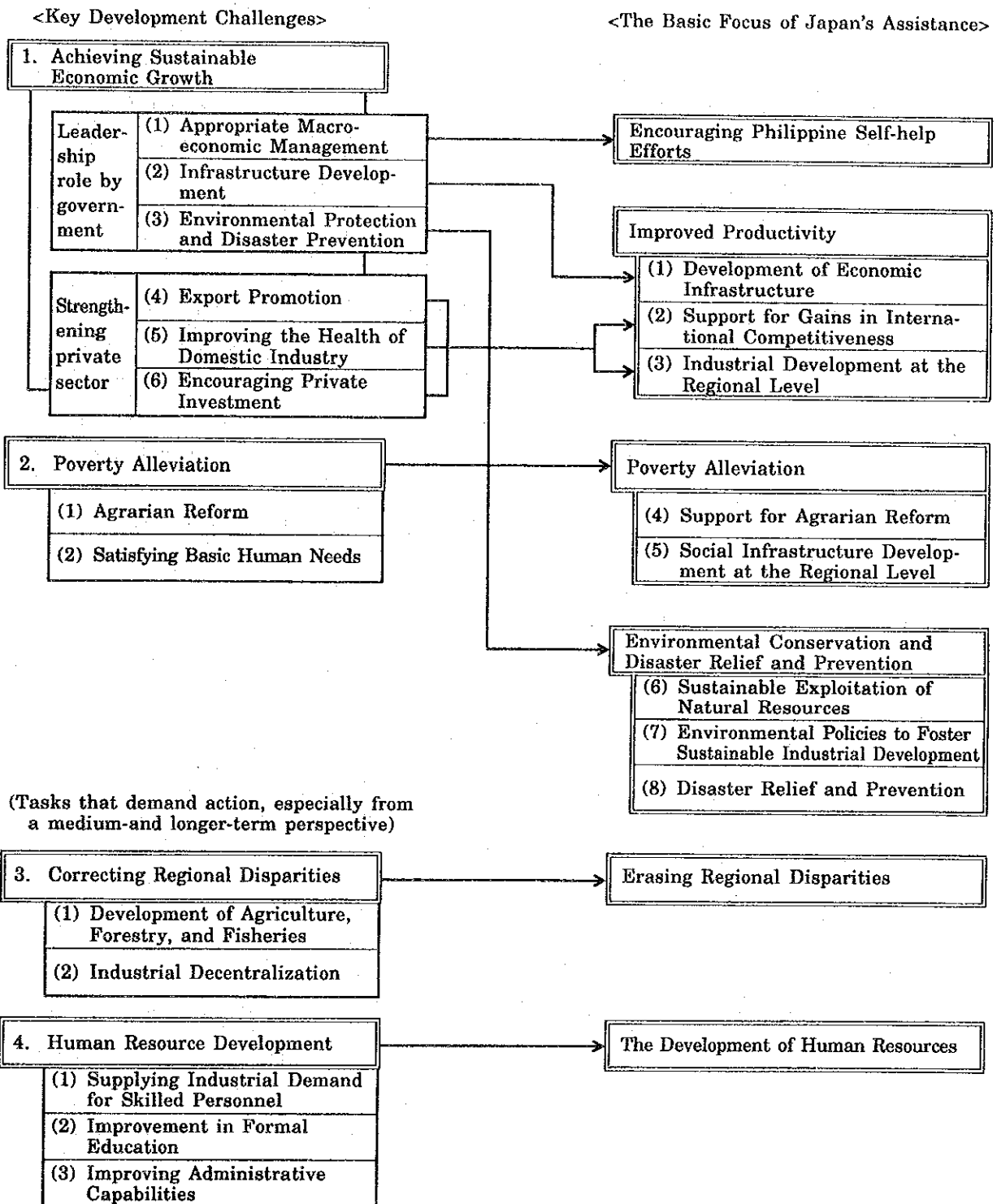
- (4) Support for Agrarian Reform
- (5) Social Infrastructure Development at the Regional Level



3. Environmental Conservation and Disaster Relief and Prevention

- (6) Sustainable Exploitation of Natural Resources
- (7) Environmental Policies to Foster Sustainable Industrial Development
- (8) Disaster Relief and Prevention

Figure 8



2-1. Improved Productivity (Support for the government role in efforts to boost productivity)

Gains in productivity serve as a force for economic growth. That fact notwithstanding, it turns out that the foundation for achieving such gains is not sufficiently strong in the Philippines. As the Philippine government has emphasized, capitalizing on the vitality of the private sector will be one effective way of placing the country's economy on a sustainable growth track. At the same time, the government itself will be pressed to assume a more active, responsible role in helping to foster the process. In other words, it is important that the government clarify its burden-sharing responsibilities with the private sector, i.e., as to which industries and business sectors it will allow the private sector to participate in, and which it will assume a leading, developmental role in. For that purpose, it is essential that the government nurture its own abilities in policy formulation and coordination with related institutions, and project implementation.

In principle, then, Japanese aid should be shaped by a policy of support for the Philippine government's role in boosting productivity. One area where government contributes to productivity gains is in economic infrastructure development, which fosters national and foreign investment. In particular, power and transportation are two of the sectors where assistance is urgently needed and would have a direct and positive economic impact. In addition, there is a need for stronger support for government industrial policies and technology-promotion measures aimed at bolstering international competitiveness. Further, it would be highly beneficial if Japanese assistance were utilized to promote regional industrial decentralization as part of an integrated regional development plan, and also support efforts to raise productivity in the agricultural, forestry, and fishery sectors that comprise the core of industrial activity at the regional level.

(1) Development of Economic Infrastructure

Under the Medium-Term Philippine Development Plan (1993-98), the largest share of total government spending on infrastructure has been allocated to projects in energy, power, and electrification. Given the future surge in demand for electric power, along with the capital shortfalls hampering the National Power Corporation (NPC), there is a need for continued and, indeed, increased support to the electric-power sector. Japan could conceivably collaborate in a number of specific areas: for instance by furnishing advice on the administration of national energy policy and providing support for enhance-

ments in infrastructure, the rehabilitation and improved maintenance of existing power plants, and the promotion of energy conservation.

One apparently effective means of furnishing policy recommendations on energy administration would be to dispatch Japanese specialists to the NPC—as has been done in the past—as well as to the country's recently established Department of Energy (DOE). So far, the DOE has been soliciting advice from western consultants and there is concern that it could face some initial difficulty in assimilating the views and recommendations of Japanese experts. Nonetheless, the deployment of Japanese specialists would likely prove effective in helping the Philippines strengthen its policymaking abilities in the energy sector. Japan could also reinforce administration in the energy sector by assisting the Philippine government in formulating programs for an improved generation mix (generating sources) and in drawing up future energy-import plans.

Japanese assistance for projects to build new generating plants or to lay transmission lines, should also take into account the inhabitant-relocation issue, environmental restrictions, and other factors, and proceed with due attention to progress in plan implementation. Since excessive dependence on build-operate-transfer (BOT) schemes will have increased the cost of energy production and retarded the electrification of rural areas, aid-driven, systematic, and cost-effective approaches to the development of the national power grid are expected to translate into real productivity gains for the Philippines. During 1993, the Luzon Grid often operated at about 50% of its rated capacity, a low rate that underscores the critical need for continued and even widened levels of technical assistance for improved facility maintenance and management. Further benefits could accrue in the arena of energy conservation if Japan shared its expertise on conservation strategies for specific business sectors. In addition, an active drive by the Philippine government to inform the electronic media-consuming public about ways of effectively conserving electricity would also be valuable.

Infrastructure development in the transportation sector is capable of fueling investment and lifting industrial productivity too. However, the Philippines transport sectors currently faces difficulties, not only in launching new road construction projects, but in maintaining existing infrastructure facilities. In view of this situation, transportation infrastructure should probably continue as a top-priority area for aid.

Inadequate maintenance is one of the chief road infrastructure-related problems plaguing the Philippines. Almost half the country's road construction budget is allocated to funding for repairs to the existing road network. Hence, in addition to supplying assistance for road repair, Japan could explore the idea of furnishing technical assistance aimed at improving the Philippines' capabilities in road maintenance. Given the demands of regional development, efforts to lay rural road networks and develop arterial roads, like the Japan-Philippines Friendship Highway, bear significance as major tasks facing the Philippines. For the National Capital Region, one desirable approach would be for the country to put together a comprehensive urban development program that takes railway systems and other modes of transport into full account, and to support new transportation infrastructure projects under that program.

Maritime shipping and transport are just as vital as land road networks to an archipelago like the Philippines. The country needs assistance in the formulation of measures to prevent the aging of its shipping fleets, infrastructure development projects for improved maritime safety, and work to enhance regional port and harbor facilities in a manner consistent with its overall regional development goals. One effective path to improved maritime safety would be for Japan to furnish aid aimed at implementing details of the master plan drawn up in 1992 with Japan International Cooperation Agency (JICA) assistance.

Over the longer term, the Philippines will likely demonstrate strong demand for development assistance not only in the power, transportation, and shipping sectors, but also for improving its water-supply infrastructure. With regard to the communications sector, the Philippine government is pursuing policies that encourage private-led development. However, given the importance of this sector as a vital element of the industrial base, it seems appropriate that Japan closely monitor its development, and, as necessary, provide support designed to ensure that it evolves harmoniously with the demands and interests of Philippine regional development programs at large.

(2) Support for Gains in International Competitiveness

The Philippines needs to strive for heightened international competitiveness by applying its comparative advantage of low labor costs to labor-intensive industrial operations. Nonetheless, it is also essential that it seek industrial

sophistication by expanding its output of higher value-added products. It thus seems imperative that Japan lend its support to efforts aimed at attracting new industries and promoting technology transfers. One effective approach would be to support efforts toward enhancing information and technical-assistance services offered through Philippine government institutions, with additional cooperation, as necessary, from universities, corporate unions, and industry associations. Examples would include promotion of joint ventures between domestic and foreign firms, technical and management-related services aimed at Philippine firms, joint-procurement and joint-production arrangements, and, indirect support for trade fairs and business shows.

Japanese assistance in government policymaking on industrial promotion programs as well as in the industrial sub-sector selection process, would also help raise the Philippines' international competitiveness. It could possibly be packaged with support for development financing. Japan could recommend the establishment of an office responsible for industrial policy (e.g., for the materials, textiles, and metal-processing trades) within the Philippines' Department of Trade and Industry, and provide support for its work in planning policies and monitoring and evaluating their effectiveness. It could furnish further assistance in improving the government's actual administrative powers through trainee programs and the deployment of Japanese specialists, and contribute to frameworks designed to bolster the government's ability to set projects in motion. Attention will be necessary to ensure that the effectiveness of support for those industries targeted by promotional policies is increased to encourage the utilization of local consultants as well as the acceptance of trainees from the private sector, although they come through the Philippine government.

The Philippines' long-term money market is still relatively underdeveloped. Therefore, support for development financing could be a meaningful way of compensating for that shortcoming. It would likely be beneficial if Japanese aid were used to back institutional lending for development projects, while urging the Philippines to remedy such lending-related problems as functional overlap, improving coordination between government institutions. Raising industrial productivity is one of the principal challenges of development financing. For that purpose, it will be necessary to identify end-recipients of such financing in greater detail. Enhancement of credit investigations of candidates for financing, along with improvements in the ability of private banks to manage their loans, can help to ensure that development financing

is used more effectively. The assignment of specialists to development banks, along with development study-based efforts to fashion programs aimed at overhauling development-financing frameworks, are among the actions that could conceivably be taken toward these ends.

Stepping up agricultural exports through the promotion of agro-industry would be another viable means of boosting the Philippines' international competitiveness. There is a need for assistance in work to increase value-added farm products and help develop new export markets. It thus seems fitting to furnish aid for the selection of internationally competitive items and launch prioritized programs of product development. This approach would merge well with one of the goals of the Philippine government's development strategy, namely that of strengthening integration between the agricultural and industrial sectors.

Above all, support for the establishment of effective industrial policies will obviously demand neutral, yet sophisticated capabilities in administration. Consequently, it will be desirable to gauge and provide backing for the Philippine government's powers in policy enforcement. For instance, to help ensure that recommendations by Japanese specialists serving policy-adviser roles in this field are put to good effect, it will be necessary to assess conditions characterizing the institutions in which such specialists are posted, and give ample consideration to the timing of their dispatch and assignment as well.

Support for elementary, secondary school (particularly engineering-related), and vocational programs can also be expected to translate into strengthened competitiveness. Financial aid for higher education and research facilities, together with technical cooperation in the training of researchers and other personnel, should be maintained and expanded.

(3) Industrial Development at the Regional Level: Support for Industrial Dispersal and Ventures in the Agricultural, Forestry, and Fishery Fields

The over-concentration of population and industry in the National Capital Region has given rise to an array of strains in socioeconomic infrastructure, as manifest in air and water pollution, burgeoning volumes of garbage, and an increase in the squatter population. As urban problems, these ills demand a comprehensive response. However, solving their root causes will call for

efforts to alleviate congested conditions in the Manila area through programs of industrial development at the regional level. These goals in turn demand increased support for industrial dispersal and productivity gains in the country's farm, fishery, and forestry sectors. Such aid can be expected to contribute to the alleviation of regional disparities in general.

To attract investment and foster higher levels of employment at the regional level, the Philippines must develop and modernize its regional infrastructure in transportation, electric power, water, and communications, and, in addition, furnish industry with favorable conditions for the effective utilization of industrial sites and structures. The country's past efforts in pursuing industrial dispersal cannot be described as satisfactory. And to be sure, its present fiscal weakness highlights a need for new progress backed by Japanese assistance. Indeed, work to build and enhance regional industrial centers and industrial parks will demand heavier injections of such aid. Formulating integrated regional development plans, and tying aid to their implementation, would be one effective approach to decentralization or attraction of industry to regional communities. Pushing ahead with support for small pilot ventures and other methodological expedients, while exploring the feasibility of large-scale projects, would probably be an effective approach when striving to put together integrated development plans for geographically large regions. However, the hopes of success will be dim unless regional development undertakings have the full, active support of the central government and the local municipalities that will be involved. For this reason, when considering the feasibility of extending aid, Japan will find it necessary to keep an eye on relevant developments in the central government, at the local government level, and among the businesses expected ultimately to invest in the development projects.

In pushing ahead with regional development, it is essential that productivity improvements in the core regional sectors of farming, fisheries, and forestry translate into advances accented by an improved balance in agricultural and industrial activities. Continuing with forms of assistance aimed at boosting productivity through research, agricultural infrastructure development, and work to popularize new technologies will be necessary. Efforts aimed at generating and expanding rural income through the cultivation of new agricultural-processing industries or enhancements in the marketing of farm products will also be valuable. As to irrigation projects, owing to major budgetary constraints already burdening the Philippines' National Irrigation

Administration (NIA), work may have to be pursued cautiously, with adequate attention to the Philippines' ability to share local costs. In the meantime, continued technical assistance for efforts toward more-efficiently utilizing the nation's water facilities and repairing aging irrigation facilities will be worthwhile. Recent years have also witnessed considerable growth in the volume of pesticides and other agricultural chemicals used in the Philippines. As a result, fears have mounted regarding the consequences of improper use, such as has been seen in accidental poisonings or contamination, high residues in farm produce, and negative influences on the natural environment. Therefore, in furnishing aid to the Philippines' agricultural sector, it seems imperative that Japan give consideration to the establishment of frameworks for the safe handling and utilization of agricultural chemicals, among other factors of environmental or safety-related concern.

In the marine fishery sector, cooperation in infrastructure development, as well as technical assistance for R&D work on untapped marine resources, will also help to drive development at the regional level.

It is hoped that Japan will cooperate in projects on Mindanao, where the slow pace of economic development has effectively fueled political and sectarian unrest. The Philippine government has unveiled a plan for regional cooperation involving the Mindanao regions, Malaysia, Indonesia, and Brunei. In addition, its efforts to negotiate a peace with armed rebel forces there have ushered in signs of a gradual return to conditions of peace and order. Considering these developments, it seems fitting that Japan, too, explore the possibility of stepping up its support for development efforts in the Mindanao regions. Cooperation with projects on Mindanao and elsewhere in the southern Philippines to build such infrastructure facilities as power generation plants would be valuable.

With the introduction of its Local Government Code in 1991, the Philippines effectively accorded more authority to local communities. Concerns persist, however, that local governments are still ill-equipped to fashion and implement development projects on their own. For this reason, there is demand for heightened levels of support aimed at reinforcing regional administrative capabilities in the development arena. Programs to train personnel for local administrative posts and jobs in indigenous industries will eventually be needed.

2-2. Poverty Alleviation (Support for agrarian reform and social infrastructure development at the regional level)

Rural districts hold the vast majority of the Philippine population living in conditions of poverty. As was stressed in the report presented in the last country report for development assistance, the importance of aid for efforts in poverty alleviation has not diminished in any sense. Indeed, antipoverty measures also count as one of the priority tasks on the agenda of the current Ramos administration. Efforts to fight poverty and reduce regional disparities have value, not only with respect to their immediate goals, but also as measures that can help to improve political and economic stability and, assisting the Philippine government in its drive to strengthen the foundations for democracy. Actions in poverty alleviation, particularly when integrated into programs aimed at developing the nation's human capital, can help to assure that aid is more effective in steering the country toward a course of sustainable economic growth.

Support for agrarian reform and other programs in the agricultural sector in general will also be effective in affording benefits to poverty-stricken citizens. The Philippines will continue to demonstrate a need for Japanese aid aimed at bolstering the potential for sustained agricultural activity in areas affected by agrarian reform. In addition, aid for refinements in basic education and improvements in maternal and child health care, together with support for small-scale income-generation projects led by low-income groups, will count as indispensable investments in human capital that will help to alleviate poverty and correct regional disparities.

(4) Support for Agrarian Reform

As pointed out in the previous report, support for agrarian reform can effectively ease the burden of poverty. Though agrarian reform in the Philippines has been complicated by a volatile mixture of political strains, it is nevertheless possible to support the reform process indirectly. Continuing and enlarging agricultural infrastructure development, institutional lending, and other forms of development aid will likely magnify the effectiveness of the agrarian reform process in areas where it has been put to work.

Particularly in those areas where the plantation system was long entrenched, former tenant farmers will need direct support if they are to continue tilling the land and marketing their produce on their own after agrarian reforms have taken effect. Working together with NGOs or farm cooperatives based

in the immediate community would help to make such aid more beneficial. Therefore, posting success in the arena of agrarian reform will require steps to reinforce farm management infrastructure and raise productivity through programs of community development led by farmers who have benefited from the redistribution of farmland resources or former plantation workers. That drive can be expected to help revitalize rural society at large. Japanese support for the Agrarian Reform Communities (ARCs) plan, being promoted by the Philippines' Department of Agrarian Reform (DAR), would likely prove valuable in this respect. Agrarian reform will also have an important bearing from the viewpoint of environmental conservation, given that the settlement of impoverished groups in woodland or coastal areas tends to aggravate the devastation of forests and the reduction of fishery resources.

Japanese assistance in the agricultural sector will also function in general as aid to the poor, as most of the Philippines' rural, poor are engaged in farming activities. More attention should be paid to the benefits available to citizens suffering from poverty, when planning to furnish assistance that can be expected to translate into productivity gains: e.g., in research and development, agricultural infrastructure development, the dissemination of new technologies, improvements in the marketing of farm products, or the promotion of new agro-industry.

(5) Social Infrastructure Development at the Regional Level

Support for programs to strengthen basic education is one effective measure toward poverty alleviation in rural districts. Cultivating human capital through education will be essential to the goal of sustainable growth, and should be aggressively pursued in the years ahead as a means of closing the gap between rich and poor. Instructor education and training will be vital to the task of reinforcing formal education in the Philippines. It will be desirable to furnish assistance for the provision of classroom facilities, textbooks, teaching aids, and other essentials for elementary and secondary education. There is also a need for cooperation in programs of non-formal education that foster improved literacy levels and the acquisition of vocational or general skills.

Japan should probably sustain and enlarge its support for the Philippines' rural health-care system. To back advances in primary health care, it would

be beneficial to collaborate with the Philippine authorities in providing pharmaceutical supplies and basic medical equipment for the Barangay Health Stations, rural health units, and the district hospitals that support them, as well as furnish aid for the training of rural health volunteers. Assistance in efforts to improve infant nutrition would also be welcome. Aid likely to be effective in improving maternal and child health care is expected to include not only direct support for programs of population and family planning, but also a comprehensive approach to establish far-reaching programs that incorporate aid for improving primary health care, elementary education and, educational and occupational training aimed to enhance the status of women. Should Japan find itself lacking in personnel who can administer aid programs in the health-care and family-planning fields, it would be expected to step up its training efforts.

Support for small income-generating projects run by citizens in poverty-stricken rural districts is one of various forms of aid effective in the fight against poverty, and therefore, such support should be sustained and even enlarged. Placing emphasis on technical assistance to rural citizens, encouraging self-help forms of growth, and in other ways supplying assistance that is in the interest of community development would all help to boost the effectiveness of aid. Another conceivably viable approach would be to provide small-scale financing based on the concessional interest rates to support operators of small businesses.

There is no systematic sexual discrimination in the Philippines and little, if any, significant gap in the cultural or traditional status of men and women. Nonetheless, many impoverished women still face obstacles to their active participation in the labor force. That reality demands a constant focus on the issue of women in development whenever aid is being considered for small income-generating projects and other measures in poverty alleviation.

Education, health care, financing, and other areas cited above as candidates for the provision of aid can, of course, be addressed individually. However, it will also prove useful to identify the full scope of needs at the regional level and, on that basis, considering the supply of well-balanced aid packages that combine support for education, health care and other fields, which also may integrate both financial and technical assistance. Efforts toward an approach that integrates different aid formulas are especially necessary. Activities aimed at fostering and disseminating new technologies,

particularly at the regional level, will be an important element of aid in the fields of agriculture and health care. It is thus hoped that Japan will furnish support for Philippine-based training programs and other undertakings aimed at cultivating a broader range of human resources.

2-3. Environmental Conservation and Disaster Relief and Prevention (Support for the sustainable exploitation of natural resources, environmental policies designed to foster sustainable industrial development, and measures in disaster relief and prevention)

With environmental issues, the development programs are forced to face a far more difficult reality than with other issues. Achieving sustainable growth essentially demands that priority be placed on support for efforts by the Philippines to address its environmental problems. It is preferable that action on the environment be shaped by a dual focus of support for sustainable resource exploitation and environmental policies conducive to sustainable industrial development. Recent years have seen the Philippines' environment and economy alike dealt heavy blows also by a series of natural calamities. It is thus crucial that aid for disaster relief and prevention be continued.

(6) Sustainable Exploitation of Natural Resources

The steady concentration of the population in urban areas, together with the growth in the number of citizens living in poverty, has placed an increasingly heavy burden on the Philippines' forest resources around urban areas. As a result, forestation which serves as a water sources in the National Capital Region has been adversely affected, erosion has hurt the water retaining capacity of the soil, increasing the destructive power of floods. Needless to say, these mechanisms have also had a negative impact on the economy.

Four factors in particular are behind the steady destruction of the Philippines' forest resources: illegal logging, forest fires, the conversion of forest tracts to farmland, and logging erosion and silt runoff both caused by mining. The first three factors can be traced chiefly to impoverished groups who settle in forested areas and rely on inappropriate farming techniques. In view of the social forces in play, it seems necessary to beef up policies for the protection of forest resources and rely more on social forestry programs that

directly involve rural citizens in reforestation activities. Cooperation in the promotion of community-led social forestry activities will be an important component of the reforestation drive in the Philippines. Japan was one of the first aid donors to furnish the Philippines aid in this area, and it would seem desirable to build on that aid in the years ahead.

Fishery depletion and the destruction of mangrove forests are, to a large extent, attributable to the population pressures posed by impoverished groups in coastal regions, who must log forest tracts for fuel and rely on ill-suited fishing techniques. To utilize these resources on a sustainable basis over the long term, the Philippines must strive to establish protective measures that take the social backdrop into full account. Support for research and development work on resource-friendly farming and forestry techniques, together with programs to promote their widespread use, will be doubly effective as measures in poverty alleviation and environmental conservation.

The Philippines possesses a rich variety of natural wildlife habitats, ranging from tropical forests and coastal wetlands to coral reefs and marshes. Protecting and conserving those resources may require the establishment and management of special nature reserves, with financial assistance as well as training programs for staff.

(7) Environmental Policies to Foster Sustainable Industrial Development

Environmental administration at the national level will require environmental policies that link government programs of infrastructure development with private investment. For the time being, one effective measure would be to support enhancements in the practical capabilities of the Environmental Management Bureau (EMB), which is responsible for conducting development-project environmental impact assessments. In addition, it will be necessary to develop and disseminate technologies which promise both environmental considerations and benefits by reviewing the manufacturing process, as a significant part of the private sector is in a difficult financial situation. Japan could help by providing assistance in the areas of manpower and funding, and back the establishment of frameworks for joint research with pertinent Philippine government institutions. In the future, demand for stronger, far-reaching environmental measures can be expected to emerge as industrial activity in

the Philippines heats up.

In the arena of urban development, one pressing challenge is the need for new disposal sites and facilities to handle the burgeoning volume of garbage in the National Capital Region. Loans and other forms of support would be one possible means of encouraging swift Philippine government action on this issue. Pursuing effective pollution control measures in the district will require stronger environmental administration. For that purpose, one initial priority of aid towards strengthening monitoring capacity will be frameworks necessary for an accurate grasp of environmental conditions. In the future, it may prove necessary for the Philippine government to adopt policies that give priority to the intensive control in regions especially hard-hit by pollution. In that instance, the deployment of specialists to assist in such work, along with training programs for administrative personnel, donations of equipment, and other forms of Japanese aid will all be of value.

The recently enacted Local Government Code is expected to afford local government units stronger powers in the realm of environmental administration in the years ahead. At present, the regional offices of the DENR are responsible for environment monitoring and the enforcement of antipollution measures at the local level. As the regional development process makes headway, those offices and their various departments will assume increasing importance. As in the National Capital Region, support for work to bolster the enforcement powers of agencies engaged in environmental administration at the regional level will be worthwhile, especially in monitoring and research.

(8) Disaster Relief and Prevention

The Philippines has long been prone to massive natural calamities that typically leave many victims in their wake. The damage to agricultural output and to roads, bridges, and other elements of infrastructure has been extremely detrimental to the economy at large and a key obstacle to economic growth. Given these realities, it seems essential that aid in the disaster relief and prevention field be furnished on a continuing basis. While most aid in this area to date has been concentrated in disaster-recovery efforts, it would seem necessary also to explore the idea of furnishing additional aid on the basis of a long-term perspective of improving the state of rural living standards, as well as goals of the country's poverty-alleviation programs.

For now, relief for the victims of recent calamities, along with work to rebuild damaged infrastructure, will be essential. However, in view of the heightened frequency of natural disasters in recent years, continuing Japanese support for projects on disaster prevention will be needed. Support of that kind can be focused in the following area, better utilization of the existing disaster-prevention frameworks, gathering data on disaster-prone regions, establishing disaster-preventing design criteria for roads and protective shoreline barriers, improving the maintenance of facilities for river flood-control and water runoff, and fostering land-use planning that restricts human habitation in high-risk areas.

3. Issues on Implementation of Development Assistance

In view of the aid focus and priorities outlined in the previous section, an effort should be made to fine-tune frameworks and methods for the extension of Japanese aid, if it is to be more suitably and effectively applied to help bring about better economic and societal conditions in the Philippines. Several specific considerations and suggestions for improvements in this area are discussed below.

(1) Improving the Ability to Absorb Aid

Some aid projects in the Philippines have been delayed by the lag in disbursements for covering local costs, or by disbursed amounts that were smaller than initially estimated. These deficiencies are attributable, chiefly, to the shortfall in government revenue. It would be necessary to continue urging that the Philippines take action to redress that shortfall. At the same time, while loan-aid disbursement ratios have improved substantially in recent years, consideration should be given to the progress of projects already under way and to the task of implementing new projects. In furnishing Japanese aid, it is appropriate, not only to urge recipient institutions to make serious efforts to function within their budget limitations, but also closely monitor their ability to absorb aid, per se.

(2) Strengthening the Philippines' Ability to Monitor Aid Projects

Reinforcing the Philippines' ability to coordinate, monitor and evaluate aid projects seems of critical value if, large-scale, broad-based aid for the country is to be implemented in a more efficient and effective manner. The Philippine government has already set up a project monitoring section inside NEDA, as well as the Coordinating Council of the Philippine Assistance Program (CCPAP), a body charged with the task of monitoring foreign aid projects. Project monitoring is, in itself, primarily a function that project institutions themselves should perform; in this respect, the Philippines may need additional support for such capabilities. Therefore, Japan could conduct project evaluations in tandem with the Philippines, and provide NEDA with instructional assistance in monitoring and evaluation techniques (e.g., project cycle management), to enable NEDA to gather data and help to train NEDA staff in project evaluation.

NEDA and CCPAP currently participate in quarterly deliberations concerning loan assistance projects already under way, together with the Manila office of the OECF and various Philippine institutions engaged in project implementation. The continuation of regular meetings, such as these, will contribute much to the sharing of monitoring-related techniques and information. Since 1993, moreover, the NEDA and the Department of Public Works and Highways (DPWH) have hired consultants in an effort to strengthen their project-monitoring activities. Encouraging the Philippine government to step up efforts of this kind will help strengthen its monitoring capabilities.

(3) Fostering the Spread of Transferred Technologies

To encourage more-effective utilization of the technologies transferred through its aid programs, it seems preferable that Japan consider steps to promote broader familiarization with and use of those technologies when providing aid to the Philippines.

Especially, for example, after technology has been transferred through R&D or development projects in the arena of industrial promotion (e.g., the already-implemented Metal Casting Technology Center project), it will be essential for the Philippine government to pursue follow-up steps aimed at encouraging wider acceptance and utilization of that technology. To back such

efforts by the Philippines, it would be useful for Japan to explore conditions in the markets and industries directly affected, and then furnish technical assistance for the development of competitive products. In order to encourage investment in the new technology, financial support would also be a useful measure. Working in this way to heighten the ability of technical centers (set up through aid programs) to identify and better accommodate the needs of their markets will be indispensable to the diffusion of transferred technologies.

(4) Support for Efforts in the Policymaking Arena

In accordance with its sheer growth in volume terms, Japanese aid to the Philippines has become closely intertwined with trends in economic management there. For this reason, it seems important that Japan strengthen its ties with the Philippines through a sustained policy dialogue and by dispatching specialists who can serve as advisers on macroeconomic management, development policy, and policies for individual industrial sectors. In the event such specialists are enlisted as advisers to Philippine officials in ministerial or vice-ministerial posts, it will be incumbent upon the Philippines to apply effectively their advice and recommendations to the policymaking process. Japanese policy specialists are also expected to offer their opinions by serving as active and vocal participants, not only at the Philippine government level, but also in conferences sponsored by the Philippine Economic Society, the Philippine Chamber of Commerce, and other business organizations.

Also, in order to maintain and strengthen Japanese cooperation in policy analysis and development surveys, it would be preferable to lend support to the trend toward joint Japanese-Philippine formulation of aid projects. This could help the Philippines help itself, as well as strengthen its commitment to aid projects in general. Though such support would demand increasing the deployment of specialists capable of furnishing high-level policy advice, personnel with such skills are in short supply. Therefore, greater efforts to recruit such individuals are required. Another ostensibly effective means of bolstering support for efforts in the policymaking arena would be to enlist the talent of Philippine scholars and consultants who are well-informed about local conditions.

(5) Decentralization and Aid

The Local Government Code of 1991 authorized local government units to conduct direct negotiations with foreign institutions on requests for grant aid, and to formulate their own development projects. At present, though, many local governments still lack the ability to put together and manage projects on their own. With the transfer of certain central-government powers and responsibilities to the local level, the government is scheduled to expand its internal revenue allotment (IRA) to local governments. Nevertheless, the languishing pace of growth in central-government revenue has placed practical limits on IRA increases and the local governments, themselves, typically do not command sufficiently large development budgets. Though many are strongly interested in obtaining ODA directly from overseas sources, given their ability to manage aid projects and budget constraints, it seems more rational to supply such aid through central-government channels. As decentralization in the Philippines remains in a transitional stage; thus, it is still too early to tell whether it will work fully effectively. Regarding assistance to local governments in the Philippines, it is worthwhile to capitalize on the experience of Japanese local governments and explore the possibility of enlisting their cooperation.

(6) Cooperation with NGOs and POs

Ensuring that the benefits of aid reach the impoverished group of a recipient country is a task demanding aid frameworks that are finely tailored to local conditions. Fortunately, since the 1980s, the Philippines has witnessed the rise of a number of highly competent NGOs and POs active in various fields, not only within the National Capital Region, but at the rural level as well. The Local Government Code affords NGOs an active role in development. One increasingly important challenge for Japan, then, will lie in strengthening its cooperative ties with these groups and providing them a place in its future aid plans for the Philippines. In fact, the Philippine government itself has acknowledged the value of the roles NGOs and POs play: for instance, in the pursuit of primary health care at the rural level, in the arena of environmental conservation, and in the provision of educational services such as instruction and training.

Cooperative alliances with NGOs and POs have already shown results, as exemplified by dispatches of the Japan Overseas Cooperation Volunteers (JOCV) and the provision of small-scale grant assistance. It thus seems appropriate that Japan expand its cooperation with NGOs and POs in areas where citizens stand to enjoy direct benefits: for instance, in basic human needs, agriculture and agricultural community development, and in environmental conservation. It would also be desirable to explore prospects for NGO and PO participation in the implementation stages of Japanese aid projects. To be sure, there is no guarantee that all NGOs will carry out their activities responsibly. Consequently, it will be very useful to have local offices gather more information on the activities of local NGOs and POs, explore project needs, and work to strengthen cooperation in the dissemination of new technologies. This, however, will demand heightened levels of direct information-sharing with local NGOs. Conversely, it will also be important to actively supply NGOs with information on Japanese aid frameworks and policies. One conceivable means to that end would be for the JICA office to sponsor NGO-oriented seminars on aid activities. Another effective approach would be to enlist the cooperation of a coordinating organization such as the Caucus of Development NGOs (CODE-NGO), universities, and other institutions.

(7) Expanding and Refining Activities in the Collection and Sharing of Information

Furnishing effective aid demands the formulation of aid policies that reflect a deep understanding of the local situation. In this respect, there is a need to use more of the findings of regional studies on the Philippines. One effective means of doing that would be to share information and conduct joint studies with those conducting in regional studies. Additionally, heightened collaboration between Japanese and Philippine economic research groups on aid-related themes could also be helpful in expanding the two countries' ties in the realm of economic cooperation. Currently, many researchers in the Philippines seem to be in need of funding necessary for cooperative research or the publication of their work. The promotion of joint studies with Japan could be expected to enhance personnel exchanges between the two countries, assist the dissemination of Philippine researchers' findings, and promote a deeper understanding of the Philippine economy.

Further, augmenting Philippine economic policy analyses as well as sectoral studies and other forms of basic research will require closer cooperation between the OECF and JICA. In the years ahead, it will prove worthwhile to expand the role of regular JICA-OECF conferences and widen information-sharing on research findings, in the interest of providing more effective aid to specific sectors. For example, the findings of OECF sectoral studies could also be of value to JICA development studies and dispatching specialists to the Philippines. In the interest of developing a better understanding of conditions in the Philippines and thereby providing for more-effective aid, it would also be meaningful to encourage information-sharing and coordination with other aid organizations and donor countries. Indeed, it is hoped that further efforts will be made toward that end.

(8) Expanding the Capability of Overseas Offices

Japanese aid organizations must strengthen and expand their offices in the Philippines if they are to effectively improve their information-gathering capabilities there. It would be desirable that the functions and capabilities of such offices be upgraded so that they can analyze Philippine policies more efficiently and maintain close contact with Philippine government institutions.

To furnish aid at the regional level, it will be crucial to bolster regional ties, identify regional development needs in precise terms, and find suitable aid recipients. These tasks, in turn, will require efforts through JICA and OECF offices to share information on a daily basis with local government units, NEDA's regional offices, and Regional Development Councils (RDCs), gathering information actively on such factors as development needs and the readiness of localities to accept aid. In the process, it is worthwhile to post project formulation specialists in the above-noted regional institutions and enlist the services of local consultants, having them all share information valuable to their assigned roles.

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