

## **The Impact of Foreign Aid on Local Institutional Systems: Case Study of Institutional Spillover Effect on the Batangas Port Development Project in the Philippines**

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**Abstract.** This paper examines the institutional spillover effect, as observed in a port development project funded by foreign aid, using the Batangas Port Development Project in the Philippines as a case study. First, we examined the project purposes, processes, and results by reviewing literature and interviewing local actors. Next, we focused on the key single event—i.e., a demolition—to identify institutional impact. In the project planning process, the local executing agency experienced difficulty in finding suitable relocation sites for affected residents. Together with some non-governmental organizations (NGOs), local residents started to oppose the project. The donor requested that the executing agency find a peaceful solution in negotiations with opposition groups. Although the executing agency made great efforts to build consensus with the local opposition groups, including the introduction of an Inter-agency Committee, it finally conducted the demolition without notifying the donor. We examine in detail the behavior of the donor and recipient, to understand the reasons as to why the demolition happened as it did. Finally, the role of the Inter-agency Committee and its limitations are discussed.

**Keywords.** Port development project, institutional spillover effect, official development assistance, conflict management

## INTRODUCTION

A number of empirical studies have recently shown that infrastructure development contributes to economic growth and poverty reduction in developing countries (1, 2, 3); however, most studies into aid effectiveness have focused on the beginning and end of this causality chain (4). Intermediate processes therein have often been referred to as a kind of “black box” (5), and it has been argued that further progress in aid effectiveness requires that that box be opened. To date, the mechanisms and processes by which aid-funded infrastructure projects produce successful development outcomes have not been examined. Jerve and Nissanke (4) hypothesize that the success or sustainability of such investments depends, to a large extent, on institutional spillover effects. This depends upon the intermediary and institutional outcomes of the project—e.g., impacts in terms of human resource development, capacity-building, and institutional and policy reform. These, in turn, depend upon what takes place within the “black box.” In response to such concerns, this paper aims to analyze, empirically, the indirect effects of infrastructure projects by focusing on the institutional spillover effects. The research involved observing institutional spillover effects and the processes therein, during the implementation of infrastructure projects funded by foreign aid. For this paper, conflict management in the execution of the Batangas Port Development Project in the Philippines was examined as a case study.

The paper is organized as follows. The next chapter provides a project overview. Chapter 3 reviews the project implementation process and the project results, by reviewing pertinent literature and interviewing local stakeholders; the focus therein is on the single key event of the case study. Chapter 4 examines spillover effects by identifying the major actors, mapping the institutional mechanisms/organizations involved, and relating these to the key event. Finally, Chapter 5 summarizes the analytical findings and presents further research issues.

## BATANGAS PORT DEVELOPMENT PROJECT

The principal aim of the Batangas Port Development Project (BPDP) was to improve freight transportation conditions between Luzon Island and Mindoro Island. The BPDP aimed also to develop the regional economy in the hinterlands, and also to complement the Manila Port as one of the major international ports serving Luzon Island in the Philippines. The Batangas Port is located 110 km south of Metro Manila, on the northeast coast of Batangas Bay, which is in the southwestern portion of Luzon Island (see FIGURE 1). Before BPDP, Batangas Port was used mainly for the Ro-Ro vessel service, as a gateway to Mindoro Island.

The Philippine government and the Japan International Cooperation Agency (JICA) formulated the Batangas Port Expansion Program in 1984. In December 1985, JICA conducted a feasibility study (F/S) for the development of Batangas Port, upon the request of the Philippine government. The F/S envisioned the Batangas Port as the main gateway to and from the islands of MIMAROPA (Mindoro, Marinduque, Romblon, and Palawan), the Visayas, and Mindanao. The F/S report also included both short- and long-term plans; the former aimed to improve and expand the existing dilapidated facilities, to increase the port’s distribution efficiencies,

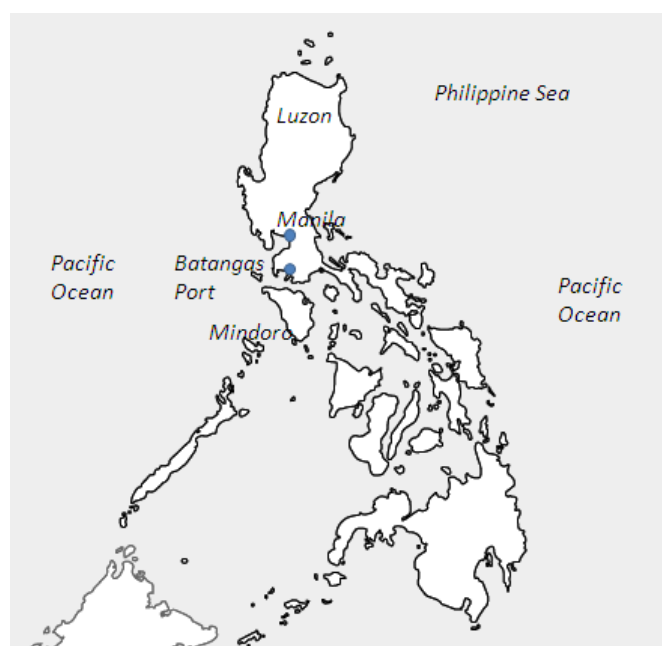


FIGURE 1 Location of Batangas Port in the Philippines

whereas the latter aimed to expand Batangas into a large-scale port. The intention was that, in the future, the Batangas Port would be fully capable of handling foreign cargo and supplementing the service capacity of the Port of Manila. The first phase of BPD— which corresponded to the short-term plan— covered a 22-ha area at a cost of 1.6 billion pesos (about 76.9 million US dollars). The first phase aimed to solve the problems of the time and meet further growth in shipping demand. The BPD Engineering Service was appraised by the Japan Bank of International Cooperation (JBIC) between May and June 1987, and its loan agreement was signed in 1988.

In 1989, the Philippine government formally requested that the Japanese government create the CALABARZON Development Master Plan. (“CALABARZON” comes from the first letters of the names of five provinces—CAvite, LAguna, BAatangas, Rizal, and QueZON—which are just east and south of Metro Manila and comprise the best places, logistically, for industry to site their factories.) The JICA started its study, to create the Master Plan; during that study, President Corazon Aquino announced the CALABARZON Development Plan. The BPD was appraised by the JBIC in 1990, and its loan agreement for the project was signed in July 1991. The JICA submitted “The Master Plan Study of Project CALABARZON, Final Report” to the Philippine government in February 1992; it touched upon the Expansion Plan of the Batangas Port and the Development Plan, covering the five provinces in the eastern and southern parts of Metro Manila.

The BPD was also included in the “Philippines 2000 Plan,” proposed by President Fidel Ramos. The President spoke in 1993 that the “Philippines 2000 Plan” aimed to make the country a new member of the Newly Industrializing Economies (NIES) group, before the end of the century. Under the “Philippines 2000 Plan,” the National Economic and Development Authority (NEDA) formally set up the “Medium-Term Philippine Development Plan, 1993–1998” (MTPDP), which emphasized “Sustainable Agri-Industrial Development, Infrastructure Development” as part of the basic framework of the Philippines’ developmental strategy. All the departments of both the central and local levels of government were required to take account of the balance of development between the agricultural and industrial sectors, when making developmental plans. It was the Department of Trade and Industry (DTI) that was responsible for the CALABARZON Plan, which was regarded as one of the most important development plans in the country at that time. Main port construction started in 1995.

## CASE DESCRIPTION

Conflict was encountered during the process of resettling affected local residents, during the development and expansion of Batangas Port (6). This conflict was the main contributor to delays in project completion—i.e., three years and seven months behind schedule—and to a compensation package four times larger than that originally offered (7, 8, 9). For a more detailed description of the BPD implementation, readers are referred to Kato et al. (10).

The area occupied by settlers was part of the foreshore land, and it was first settled prior to 1900. Members of the community found a variety of livelihoods as vendors, stevedores, and the like when the port was constructed in the mid-1930s. Since 1969, many of these settlers had tried to secure formal ownership of the land; most of them had failed, however, partly because foreshore land cannot be titled. In the time leading to the development and expansion of the port, land ownership was very loosely regulated. Following the completion of feasibility studies, but prior to the signing of loan agreements between JBIC and the Philippine government *vis-à-vis* construction and engineering services, initiatives were put in place by the Batangas City government to identify resettlement areas. Several committees were also formed, including an Ad-Hoc Coordinating Committee for Sta. Clara, a civil society group of the Barangay Sta. Clara. (A “Barangay” is the smallest political administration unit in local government in the Philippines.) Also, a Special Committee for Sta. Clara was also established, comprising representatives from the Batangas City, the Philippine Port Authority (PPA), the Department of Social Welfare and Development (DSWD), the Catholic Church, and the aforementioned Ad-Hoc Coordinating Committee for Sta. Clara. These committees also worked with other government agencies like the National Housing Authority (NHA) and the Presidential Commission for the Urban Poor (PCUP) during the entire process. It should be noted that prior to the project, processes to deal with resettlement had not been very well established, and this partly contributed to the problems that were encountered. When the project was still in the process of being implemented, a law, Republic Act No. 7279—also known as the *Urban Development Housing Act*—was enacted. This law secures compensation for squatters and specifies processes for conducting demolitions and relocations. The passage of this law affected the negotiation processes, and the BPD was the first national project to which this law was applicable. Also, during the project implementation period, the territorial jurisdiction of Batangas Port was re-delineated by law, and the area occupied by residents of Sta. Clara was included in this territorial jurisdiction. This re-delineation effectively induced a restart of the process of selecting a resettlement site, because it effectively redefined the “ownership” of the land in question.

TABLE 1 summarizes the key activities related to resettlement, their respective durations, and short remarks on the process. From these events, several observations can be made regarding the overall process. First, the method used to identify affected households led to likely changes in the recorded number of households,

**TABLE 1 Key Activities Related to Resettlement in the Batangas Port Development Project**

Activities	Duration From– To (Number of months)	Remarks on the process
Identifying affected residents	1986 June – 1993 October (89 months)	In June 1986, the tally by Batangas City government was 718 families living 606 structures. A survey by PCUP in 1992 revealed identified 971 families, 80% of which were “illegal settlers”. PCUP and NHA revalidation survey in 1993 showed 1467 families. Final tally was 1,465 families.
Deciding the location of resettlement site	1986 June – 1991 May (59 months)	The proposals went back and forth many times, involving committees composed of government and non-government organizations. Reasons for rejection of the proposals included: For PPA – too expensive For residents – site is flood prone, site is too far from employment Even when the (Balete) site was finally purchased, a number still were unsatisfied with the choice.
Development of resettlement site	1991 May – 1992 November (18 months)	Includes a clinic for Balete and Sico resettlement sites. The road to Sico was also repaired using funds from JBIC loan and completed by November 1997.
Clearing the project site	1993 January – 1994 June (17 months)	Starts with first notice to vacate. Several subsequent issuance of to notice were ignored by residents. JBIC requests a “peaceful” resolution. Further dialogues between GOP and residents are unfruitful. GOP finally decided to forcibly eject the residents and demolish the structures. Actual demolition only takes 6 days.
Deciding the compensation package	1986 June – 2000 December (168 months)	PPA and the residents could not agree on the package thru direct negotiation. The PPA lost court cases at the Regional Trial Court and the Court of Appeals.

following the initial count; the number should have been determined, with finality, prior to project implementation. The second observation is that the method for determining compensation did not initially have legal support and therefore was subject to “unreasonable” demands by either the affected households or the PPA. The new law that emerged during the project implementation period was not well understood or accepted by the parties involved, and so its stipulations were not initially addressed; however, towards the end, the execution of the eviction and demolition procedures did align with Republic Act No. 7279. The third observation is that the PPA prioritized the immediate implementation of the project over the “humane” treatment of the affected households; as a result, it may have been convenient to consider the affected households as generally having no legal rights to the land. While it is accepted that a number of the households of the area were “illegal settlers,” it is also accepted that others had occupied the land long before the port development and expansion project was conceived. In any case, the project had a weak framework for mitigating the social and environmental impacts of the project. This framework has since been addressed by the new guidelines of foreign funding agencies like JBIC and the Asian Development Bank.

### ACTOR STRATEGY ANALYSIS IN THE PROCESS

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

#### The PPA’s Strategy

We start our analysis by examining the PPA’s behavior. When the residents started to oppose the relocation project, the PPA tried to create agreements with them by reviewing the relocation site selection process several times. However, the PPA found it difficult to find a relocation site that satisfied the increasing demands of the opposing residents. Finally, the PPA gave up negotiating with the opposing residents and decided to conduct demolition without announcing it to the Japanese contingent.

Why did the PPA make such a decision? What other options were available? To answer these questions, we list here all the hypothetical options available to the PPA:

- (P-i) Keep negotiating with the local opposition group, mainly with regards to compensation, under the condition that the PPA fixes the relocation sites;

- (P-ii) Continue searching for other relocation sites, until it found sites that satisfied the affected residents;
- (P-iii) Request that the JBIC support the assistance package for the affected residents, without conducting the demolition;
- (P-iv) Conduct demolition after receiving approval from the JBIC; and
- (P-v) Conduct demolition without approval from the JBIC.

To choose an option from among those listed above, we should examine the objectives of the PPA in the context of the BDP. These are as follows:

- (P-1) Implement the project at the lowest possible cost;
- (P-2) Complete the project on schedule;
- (P-3) Build consensus among stakeholders; and
- (P-4) Maintain a good relationship with the JBIC/Japan.

Given the lists above of possible options and objectives, how can one explain the PPA's behavior with respect to the BDP's implementation process? First, did the PPA respect objective (P-3), to "build consensus among the stakeholders"? The answer is partly yes, but mostly no. Unfortunately, it is difficult to say whether PPA put the highest priority on objective (P-3) during project implementation. It is true that the PPA searched a variety of relocation sites with the other stakeholders, including the NHA and the City Mayor. It is also true that the PPA tried to build consensus with the local residents in an early stage of the project. However, after they found it difficult to obtain acceptance of the relocation site from the local residents, they immediately created the Inter-agency Committee. According to the discussions of the Inter-agency Committee, the PPA apparently did not respect the local residents, and only had respect for the public or official organizations in the Inter-agency Committee. The PPA may not have invited true representatives of the affected residents as members of the Inter-agency Committee, when the time came to examine detailed studies of the candidate relocation areas. Instead of dealing directly with local residents, the committee considered Barangay Council members representatives of the affected residents; this was likely a matter of expediency, as the committee probably expected longer discussions and higher costs in negotiating with local residents. This is problematic, since no direct validation (such as through a survey) with the affected residents was conducted. It appears that the PPA's decision to exclude residents from the decision-making process may have given rise to a series of serious conflicts during the project. Thus, it seems that the PPA accorded more importance to the objective (P-1), "implement the project at the lowest possible cost" and/or the objective (P-2), "complete the project on schedule." As far as objective (P-4) ("maintain a good relationship with the JBIC/Japan") is concerned, the PPA only accorded it importance in relation to receiving project funds.

Next, we examine why the PPA gave up negotiations with the local opposition group. The PPA thought that they had already tried to search for relocation sites many times and that they did not need to make any additional effort in negotiating with local residents and/or searching for new candidate sites. Actually, in the public hearing, the PPA said that it was impossible to reselect the site, since a huge amount of money had already been spent on site development and other options were unavailable. This reflects their objectives (P-1) "implement the project at the lowest possible cost" and (P-2) "complete the project on schedule."

We then look at why the PPA conducted the demolition without notifying the Japanese contingent. There are two hypothetical reasons. The first reason is because it did not respect the objective (P-4) "Maintain a good relationship with the JBIC/Japan," although the JBIC/Japanese government requested a peaceful solution to the conflict problem. Instead of notifying the Japanese contingent of the demolition, the PPA acquired approval from the Philippine government. This suggests that the PPA thought it was the Philippine government's responsibility to maintain a good relationship with the donor, the Japanese government, rather than theirs. Although we could not obtain any direct documented evidence pertaining to the behavior of the Philippine government, it might have contacted the JBIC and/or the Japanese government about the demolition. It might also have been that the PPA dared not notify the Japanese government of the demolition, knowing that the Japanese government would have no option but to reject the demolition plan, due to the nature of the conflict. The PPA also felt that demolition was unavoidable, given that negotiations had reached an insurmountable impasse.

Finally, did the PPA ask the JBIC to support the assistance package for affected people? There is no evidence of this, and there are two possible reasons for this lack. One possible reason is that the PPA did not request it; if this is the case, it is possible that the PPA was not willing to improve the assistance package. As had been mentioned, the opposition group had escalated demands for assistance, including a proposal requesting that the PPA pay an extraordinary amount of compensation. The PPA might have felt that the opposition groups had proposed high levels of compensation, not with the intention of coming to a consensus with the PPA, but to impede the project and/or receive a higher amount of compensation than had been previously offered. It is entirely possible, then, that the PPA thought that additional support in the form of a larger assistance package would not break the impasse. The other possible reason is that the PPA may have asked the JBIC, informally, to

support the assistance package funding. If this were the case, the PPA likely did so because they needed additional funding to keep maintain negotiations with the local residents. As mentioned previously, the JBIC had requested that the PPA find a “a peaceful solution;” this might have been interpreted by the PPA as an offer by the JBIC, however subtle, to shoulder part of the expenses related to achieving that “peaceful solution”—i.e., additional (possibly financial) support to the PPA. Why, then, would the PPA have requested it informally? It is likely that the PPA was concerned that opposition groups would request even more compensation, if they knew that the JBIC was bank-rolling a portion of it.

### **The JBIC/Japanese Government’s Strategy**

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

- (J-i) Keep requesting the PPA find a peaceful solution and ignore the results, even if the PPA conducts the demolition’
- (J-ii) Propose a supporting scheme for the local residents, without suspending the loan; and
- (J-iii) Suspend the loan to the project and propose a supporting scheme after the demolition.

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

- (J-1) Contribute to Japan’s benefits, which may include its good reputation among other countries; and
- (J-2) Support the development of the Philippines while not harming the local people.

To which objective does the JBIC/Japanese government give the most importance? In general, the JBIC/Japanese government appeared to give the most weight to objective (J-1), “contribute to Japan’s benefits”; this is because (J-2), “support the development of the Philippines while not harming local people” is considered a necessary condition in satisfying objective (J-1). This means that the successful support of the Philippines can contribute to a more positive reputation for the Japanese government. In some cases, an option may satisfy objective (J-1) while not satisfying objective (J-2); in such cases, the JBIC/Japanese government may accord greater respect to objective (J-2) than to objective (J-1). This is because (J-2) is considered a minimum condition for international cooperation.

Why, then, did the JBIC/Japanese government choose the specific option that they did? First, it was difficult for the JBIC to choose option (J-i), given objectives (J-1) and (J-2). On one hand, the demolition forced the local people to move, which meant harming local people in some way; this violates objective (J-2). On the other hand, the demolition may have marred the reputation of the JBIC/Japanese government among other countries, including developed and developing countries; this would violate objective (J-1).

The JBIC/Japanese government was likely faced with a choice of pursuing either option (J-ii) or (J-iii). The JBIC/Japanese government requested that the PPA find a “peaceful solution”; to attain this, it is certain that the PPA would need a larger budget, to compensate the local residents and/or provide other, additional support. The following two cases are proposed:

1. Had the JBIC/Japanese government chosen option (J-ii), they would have needed to be involved in the negotiation process with the local residents. This is because a peaceful solution would not have been achieved, with the local residents agreeing to the proposal offered by the JBIC/Japanese government. However, if the local residents would not agree even to the JBIC/Japanese government’s proposal, there be no one left to mediate the conflict between the PPA and the local residents. This would be a “worst-case scenario” for the JBIC/Japanese government.
2. Had the JBIC/Japanese government chosen option (J-iii), the JBIC/Japanese government may have experienced a variety of problems. First, the JBIC/Japanese government would not have been able to complete the project within the proposed schedule, and the Japanese taxpayers would likely have accused the JBIC/Japanese government of poor schedule management. Second, the international relationship between Japan and the Philippines would have worsened. The local people and businesses who expected an early start to Batangas Port service may have blamed the Japanese government for delaying the schedule. Third, the JBIC/Japanese government may have lost its international reputation with respect to project management. Fourth, the JBIC/Japanese government may have lost the power or leverage to control or influence the PPA. On the other hand, the JBIC/Japanese government would derive benefits as a result of choosing option (J-iii). First, they could show strong displeasure with the demolition, and the fact that the Japanese government could suspend loans whenever the borrowers did not follow the requests of the JBIC/Japanese government may send a strong message to others, thus making the JBIC/Japanese government’s threat-as-option effective in the future. Second, they could show a consistent attitude toward the stakeholders during the project; this could increase the trust in the JBIC/Japanese government in the

future. Third, a temporary halting of the loan could shock domestic stakeholders in Japan; although the JBIC/Japanese government wanted to give additional support to the PPA, they probably assessed difficulties in building consensus among domestic stakeholders in Japan. The act of suspending the loan would help domestic stakeholders understand BDPD’s gridlock situation.

### INSTITUTIONAL SPILLOVER IN THE DEMOLITION PROCESS

This section discusses the institutional influences observed in a process where a conflict occurred between the opposing local residents and the PPA, and how the demolition affected stakeholders. We focus on the interactions between the PPA and the JBIC/Japanese government. Within this context, we will discuss two types of games. The first is the game between the PPA and the JBIC/Japanese government, with respect to giving support or compensation to the opposing residents; this is called the “support game.” The second is the game between the PPA and the JBIC/Japanese government, with respect to the suspension or halting of loans; this is called the “halt-loan game”.

#### Support Game between the PPA and the JBIC/Japanese Government

First, let us consider the support game. Suppose that the PPA has two options, (P-i) and (P-iii), as described earlier. Remember that option (P-i) is “Keep negotiating with the local opposition group, mainly with regards to compensation, under the condition that the PPA fixes the relocation sites” and option (P-iii) is “Request that the JBIC support the assistance package for the affected residents, without conducting the demolition.” Next, assume that the JBIC/Japanese government has the following two options: (J-i) and (J-ii). Remember that option (J-i) is “Keep requesting the PPA find a peaceful solution and ignore the results, even if the PPA conducts the demolition” and option (J-ii) is “Propose a supporting scheme for the local residents, without suspending the loan.”

Let us consider combinations of these options between the two actors, as shown in the matrix in TABLE 2. This can be considered a simple non-cooperative game between two players, and Table 2 shows the hypothetical payoffs for each stakeholder, for each pair of options. The left values in the payoff box in the table refer to the payoffs of the PPA, whereas the right values refer to the payoffs of the JBIC/Japanese government. First, assume that the payoffs are both zero when both actors choose the “status quo” option. Second, the PPA receives negative payoffs while the JBIC/Japanese government gets the same payoff as status quo, when the PPA chooses option (P-iii) while the JBIC/Japanese government chooses option (J-i). This is because the PPA incurs some costs when making a request of the JBIC/Japanese government. Third, the PPA has a positive payoff and the JBIC/Japanese government has a negative payoff when the PPA chooses option (P-iii) and the JBIC/Japanese government chooses option (J-ii); this is because the PPA can benefit from the support proposed by the JBIC/Japanese government while the JBIC/Japanese government simply loses resources by providing support. Finally, the PPA has a positive payoff while the JBIC/Japanese government has a positive/negative payoff when the PPA chooses option (P-i) and the JBIC/Japanese government chooses option (J-ii): The PPA can derive the benefit of the support proposed by the JBIC/Japanese government, while the JBIC/Japanese government may lose or earn benefits by providing that support. However, we can expect the JBIC/Japanese government’s payoff in the (P-iii)-(J-ii) case to be higher than that in the (P-i)-(J-ii) case; this is because the JBIC/Japanese government will be more satisfied with their support proposal when the PPA requests it. In other words, if the JBIC/Japanese government first receives the PPA’s request and then makes a counterproposal, the outcome will be more positive for the JBIC/Japanese government, especially with respect to their Japanese stakeholders.

There are two possible equilibria in this game. The first equilibrium involves the pairing of (P-i) and (J-i); we call this equilibrium the “status quo equilibrium,” and it is a stable equilibrium. The second equilibrium depends on the relative values in the payoff matrix, particularly the values of a, e, and f. If  $e > a$  and if the JBIC/Japanese government’s payoff in the (P-iii)-(J-ii) case is positive, the case with (P-iii)-(J-ii) can be the

**TABLE 2 Support Game between the PPA and the JBIC/Japanese Government**

		JBIC/Japan Government	
		Option (J-i) Status quo	Option (J-ii) Propose support
PPA	Option (P-i)	[0, 0]	[+a, -b]
	Status quo		
	Option (P-iii) Request support	[-c, 0]	[+e, ±f]



second equilibrium. However, in reality, only the “status quo equilibrium” was observed. This means the conditions of “ $e > a$ ” and/or “the JBIC/Japanese government’s payoff in the (P-iii)-(J-ii) case is positive” did not hold true. The authors suggest that the JBIC/Japanese government’s payoff in the (P-iii)-(J-ii) case was negative. As discussed earlier, this is probably because the JBIC/Japanese government would need to be involved in the negotiation process with the local opposition groups, if they were to propose a support scheme. If the local opposition groups did not agree to the JBIC/Japanese government’s proposal, there would be no one left to mediate the conflict between the PPA and the local residents. Thus, the JBIC/Japanese government was likely careful not to fall into this “worst-case scenario” and acted to avoid it.

### Halt-Loan Game between the PPA and JBIC/Japanese Government

Now let us consider the halt-loan game. Suppose that the PPA has two options, (P-i) and (P-v), while the JBIC/Japanese government has two options, (J-i) and (J-iii). Remember that option (P-i) is “Keep negotiating with the local opposition group, mainly with regards to compensation, under the condition that the PPA fixes the relocation sites,” while option (P-v) is “Conduct demolition without approval from the JBIC.” Also, option (J-i) is “Keep requesting the PPA find a peaceful solution and ignore the results, even if the PPA conducts the demolition,” while option (J-iii) is “Suspend the loan to the project and propose a supporting scheme after the demolition.”

It is then assumed that we have a two-step dynamic game. The first step is that the PPA makes a choice as a leading player, and the second step is that the JBIC/Japanese government makes a choice as a following player. The game tree is depicted in Figure 2. The left side of the payoff vector represents the PPA’s payoff, while the right side is the JBIC/Japanese government’s payoff. It is assumed that the payoffs are both zero when they choose options (P-i) and (J-i). On the other hand, both players have negative payoffs when the PPA chooses option (P-i) while the JBIC/Japanese government chooses (J-iii). Also, the PPA has a positive payoff whereas the JBIC/Japanese government has a negative payoff, when the PPA chooses option (P-v) and the JBIC/Japanese government chooses (J-i). This is because the PPA can force the opposing residents to move by conducting the demolition, while the JBIC/Japanese government probably loses the trust of stakeholders and the power to persuade the PPA. Finally, the PPA has either a positive or negative payoff, whereas the JBIC/Japanese government has a negative payoff, when the PPA chooses option (P-v) and the JBIC/Japanese government chooses (J-iii). We can expect that the JBIC/Japanese government’s payoff in the (P-v)-(J-iii) case to be greater than that in the (P-v)-(J-i) case; this is because the JBIC/Japanese government can derive benefits in addition to the negative impact by halting the loans, as discussed previously.

By applying the backward induction method to this dynamic game, we can obtain a sub-game perfect equilibrium. The solution depends on the state of the PPA’s payoff in the (P-v)-(J-iii) case. If the PPA’s payoff in the (P-v)-(J-iii) case is positive, “+p” is derived; then, the game produces (P-v)-(J-iii) as the solution. If the PPA’s payoff in the (P-v)-(J-iii) case is negative, however, “-p” is derived; then, the game outputs (P-i)-(J-i) as the solution. Reality shows that the PPA’s payoff in the (P-v)-(J-iii) case was positive; this means that the PPA had a positive payoff by conducting the demolition, even if the JBIC/Japanese government were to halt the loans. In other words, the PPA thought that conducting the demolition was better than the status quo, even if there was the possibility of the JBIC/Japanese government halting the loans.

### ROLE OF THE INTER-AGENCY COMMITTEE AND ITS LIMITATIONS

In this section, we discuss the Inter-agency Committee established by the PPA as an example of an “influence of

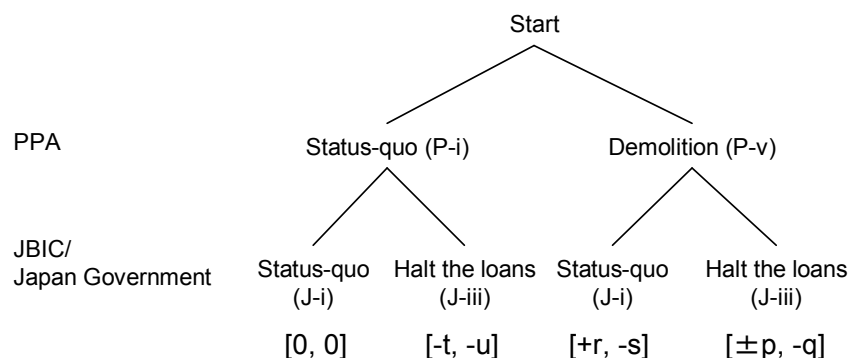


Figure 2 Halt-Loan Game between the PPA and the JBIC/Japanese Government

donor” policy and practice on institutional impacts. The JBIC strongly and repeatedly requested that the PPA find a peaceful solution to consensus-building with respect to the relocation of local residents. JBIC’s explicit expression of policy impacted the PPA’s strategy of negotiation with the local residents.

First, the PPA established the Inter-agency Committee. It aimed to discuss the various issues relating to the BPDP and attempted to explain to the local residents the necessity of developing the port. The Inter-agency Committee members consisted of agencies and stakeholders related to the BPDP, including representatives of the Department of National Defense (DND), the Department of Transportation and Communications (DOTC), the PPA, the NHA, the PCUP, the Presidential Advisory Committee, the Philippine National Police (PNP), the Batangas City, the Batangas Province, and the DSWD.

One of the most important effects of establishing the Inter-agency Committee was that it enabled the PPA to declare publicly that the decision made in this committee was an “official agreement” among all those stakeholders, and it was difficult for affected residents to oppose the decisions made by such a committee. The PPA likely enjoyed the greatest benefit by establishing the Inter-agency Committee; this is because the PPA was the only agency that, in reality, could manage the budget and had the power to make final decisions. The interview with the PPA shows that the Inter-agency Committee took an important role in allowing the project to progress. Additionally, the Inter-Agency Committee helped established smooth communications among the stakeholders, even after this project, creating an atmosphere of close coordination among the agencies involved. A similar committee was created for Phase 2 of the BPDP. The officers interviewed told us that the establishment of the Inter-agency Committee was an important lesson learned during Phase 1, in that it enabled the agencies to cooperate and to coordinate their actions in smoothly completing the project.

On the other hand, establishing the Inter-agency Committee also had a negative effect. The committee’s decision-making process was not completely transparent and open to the public. As the committee included governmental department officers who held administrative power, the decisions made by the committee had a critical influence on the project and gave the impressions to local residents that decisions were being made behind closed doors and that local residents were excluded from the committee. This might be one of the reasons why the opposition groups protested even more loudly. From this viewpoint, it could be said that the Inter-agency Committee was not well managed. In general, the selection of members is one of the most important processes in setting up a committee. The members should be carefully selected by taking into account the balance of stakeholders. In the case of the Inter-agency Committee of the BPDP, it would have been ideal to include a representative of the opposing local residents; after all, the captain of the Barangay, who attended the meeting of the Inter-Agency Committee, was not really an affected resident. This complicated the negotiation process between the PPA and the opposing local residents.

## CONCLUSIONS

This paper examined the institutional spillover effect observed in the BPDP in the Philippines, which had been funded by foreign aid. First, the project purposes, processes, and results were examined by reviewing literature and interviewing local actors. Next, a key single event, the demolition, was focused on, to identify the institutional impact arising in relation to it. The local executing agency experienced difficulty in finding relocation sites acceptable to the affected residents. With support from some NGOs, the local residents started to oppose the project, making it more difficult for consensus to be reached. The donor requested that the executing agency find a peaceful solution in negotiating with opposition groups; although the executing agency exerted a great amount of effort to build consensus with the local opposing residents, including the introduction of an Inter-agency Committee, the demolition was finally conducted without notifying the donor. We examined the detailed behavior of the donor and recipient, to understand the reasons why the demolition occurred as it did. Two simple games, the support game and the halt-loan game, were introduced within this study, as they were useful in examining the interaction between the PPA and the JBIC/Japanese government. Finally, we examined the Inter-agency Committee, which was an important bridge between stakeholders; nonetheless, its main limitation was that representation therein of the residents may have been lacking.

There are several possible topics for future research. First, although institutional impact was examined during the project, further impacts may occur even after the project. It is necessary to keep observing institutional changes that fall out from a project, to understand both mid- and long-term effects. Next, the game analysis could be performed in a more sophisticated manner, to analyze the behaviors of stakeholders in greater detail. Particularly, an iterative game may be introduced, to analyze mid- and long-term institutional changes. Finally, a comparative analysis of projects funded by foreign aid and projects not funded by foreign aid would be useful, in properly understanding the impact of foreign aid on developing countries.

## ACKNOWLEDGMENTS

This study was originally undertaken as part of the “Aid Effectiveness to Infrastructure: A Comparative Study of East Asia and Sub-Saharan Africa” project, initiated by the Institute of Japan Bank of International Cooperation (JBICI). We greatly appreciate the many interviewees for their kind support of our study.

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