Official Development Assistance to the Philippines: Can it be Reformed?[1]

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The Philippines, like most developing countries, has long relied on Official Development Assistance (ODA) or "foreign aid" to finance economic growth. In the fifties' and early sixties', ODA was used primarily for post-war rehabilitation and institutional development, consisted mainly of grant assistance and was provided principally by the United States.[2] ODA contributed 10 percent of foreign exchange and one percent of Gross National Product (GNP) during these two decades.

The organization of the Consultative Group on the Philippines in 1971 dramatically increased the role of foreign aid and commitments during the period 1971-74 were "larger than the total committed during the preceding 20 years." By that time, it accounted for 14 percent of the country's foreign exchange requirements. The composition and source of aid also changed from grants to loans and from bilateral to multilateral. When Japan took over from the US as the country's primary source of bilateral ODA.

ODA is an attractive source of development funds in that interest rates for loans are lower than commercial rates, have longer terms and extended grace periods, and are usually intended for projects that would otherwise not attract private capital. The availability of grant assistance (which need not be repaid) also adds to ODA's attraction.

The Zedillo Commission notes that despite the large sums of private capital available in the international market to fuel a country's investment needs, ODA will continue to play an important role in four areas:[3]

1. Helping in countries and sectors unattractive to private investment,
2. Humanitarian interventions,
3. Providing and maintaining supply of global public goods such as peace, health and environmental concerns, and
4. Responding to financial crises.

In this regard, the Commission urged industrial countries to implement "the target of providing ODA equal to 0.7 percent of their GNP." Two criteria are proposed to guide ODA allotments: (1) a country's depth of poverty and (2) sound government policies that address poverty.

This exploratory paper attempts to examine immediate issues in official development assistance to the Philippines in the light of state policy pronouncements and announced shifts in donor policies. While the observed donor shifts refer specifically to Japanese ODA, given the dominant role played by Japan in both bilateral and multilateral assistance and the positive impact that such shifts could generally bring, they will be used as a yardstick to evaluate other donor countries as well. As a time frame, the study will look into ODA from 1986 onwards, or after the end of the Marcos regime.

This study will not deal with the more substantial and long-range issues on ODA in general and on ODA in the Philippines in particular. These refer to, among others,

1. the development paradigm espoused by ODA donors and their favored recipients,
2. the role of ODA with respect to investments, trade and strategic issues,
3. the role of ODA and foreign donors in the direction and thrust of national policies, and,

4. whether a country should even utilize external assistance in funding development projects.

Definitions and Policies

ODA refers to the flows to the country bestowed in the form of loans (bilateral or multilateral), grants and technical assistance or cooperation with the aim of facilitating economic development in the recipient-country. By definition, ODA refers only to government to government transfers of funds. This could be bilateral or multilateral. ODA used to be known as "foreign aid." Sometimes it's called "development aid." Lately, some funds are being transferred to non-government organizations but the amounts involved are insignificant. Provisions found in the Official Development Assistance Act of 1996 define the Philippine government's official position on crucial ODA issues and concerns. Some of the more pertinent ones are:

> Section 2a. ... [ODA is a loan or loan and grant which] ... must be administered with the objective of promoting sustainable social and economic development and welfare of the Philippines....
>
> Section 4. The proceeds of ODA shall be used to achieve equitable growth and development in all provinces through priority projects for the improvement of economic and social service facilities taking into account such factors as land area, population, scarcity of resources, low literacy rate, infant mortality and poverty incidence in the area: Provided that rural infrastructure, countryside development and economic zones established under the PEZA law shall be given preference in the utilization of ODA funds.
>
> Section 4a and 4b. ODA shall not be availed of or utilized directly or indirectly for projects mandated primarily by law to be served by the private sector and financing for private corporations with access to commercial credit. ... The NEDA shall ensure that the ODA obtained shall be for previously identified national projects which are urgent and necessary...

> Section 11c. In the hiring of consultants, contractors, architects, engineers and other professionals necessary for a project's implementation, Filipinos shall be given preference.
>
> Section 11d. In the purchase of supplies and materials, preference shall be given to Filipino suppliers and manufacturers, so long as the same shall not adversely alter or affect the project, and such supplies and materials are to the standards specified by the consultants, contractors ... connected with the projects.

With regard to Japanese ODA, the following trends have been reported as early as 1994:[4]

1) Volume increases in US dollar terms may not continue into the 21st century, with ups and downs in Japan's ODA as percentage of GNP,
2) Continuing efforts for increasing the volume of grant assistance as percentage of total ODA,
3) Continued predominance of bilateral ODA, with a steady decline in bilateral ODA going to developing Asian and Pacific countries,
4) Gradual decline of bilateral ODA going to economic infrastructures, with a reverse trend for that going to social sectors and program assistance.
5) Growing importance of technical cooperation, and
6) Steady increase in assistance through Non-Government Organizations (NGOs).

In 1994, the Japanese government adopted an ODA policy based on the "three types of balance:" (1) balance between physical infrastructure and economic infrastructure; (2) balance "between material aid and human or institutional aid or the development of human resources;" and (3) balance between "large-scale projects and small-scale (grassroots) projects" involving NGOs and other voluntary groups.[5] Side by side with these considerations is a strong bias for recipient countries that promote market-oriented economic reforms and human rights.

Japanese ODA is regarded as a foreign policy tool by Tokyo and is used in place of a buildup of military capability. The understanding is that "Japan's national interests will be served in the long-term and in a comprehensive sense to cover a variety of perspectives including political, economic, social and cultural considerations."[6]

Given the length of time it has been around and the billions of dollars that it has committed and disbursed, foreign aid is expected to have exerted an extensive impact on a developing country's economic and social development. Such an impact would not be confined to specific projects per se but on a broader range including the economic policies of the recipient-country.

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Distribution of ODA In The Philippines, 1986-2000

Total ODA committed from 1986 to 2000 amounted to US$28.6 billion. Of this, 41 percent was contributed by multilateral institutions while bilateral contributions shared 59 percent as shown in Table 1 below. Loans made up 94.6 percent of multilateral ODA and only 5.4 percent was in the form of grants. On the other hand, 78.4 percent of bilateral assistance was in the form of loans, with only 21.6 percent in grants. Of total ODA from 1987-2000, 85.42 percent was in the form of loans and only 14.6 percent was in grant form.

Among the multilaterals, the World Bank is the largest provider with 52 percent. Asian Development Bank (ADB) is next with 43 percent. Total World Bank (WB) and ADB exposure is 95 percent.

Among bilateral donors, Japan leads with 75.6 percent of total ODA. The US is a far second with only 7.5 percent. An even more distant third is Germany with a mere 3.6 percent. Japan's share of total bilateral loans of 85.4 percent is greater than its share of total bilateral ODA. Its share of grant assistance on the other hand is only 41 percent.

Of total Japanese assistance, 89 percent is in the form of loans and only 11 percent is in the form of grants and technical assistance. The reverse is true with the

US on the other hand, with American assistance consisting of 86 percent grants and only 14 percent in loans.

Japan has been the world's top ODA donor for ten consecutive years since 1991.[7] The Philippines has been the third largest recipient country of Japanese ODA (after Indonesia and China) for the past ten years.

TABLE 1. TOTAL ODA COMMITTED TO THE PHILIPPINES, 1986-2000
(in US$Million, By Source)

SOURCE	TOTAL	LOANS	GRANTS
Multilateral			
1. ADB	5,167.13	5,092.65	74.48
2. IBRD/WB	6,162.70	6,131.60	31.10
3. EU	310.20	———	310.20
4. UN System	230.04	———	230.04
5. Others	24.60	24.60	———
Subtotal	**11,894.47**	**11,248.85**	**645.82**
Bilateral			
1. Japan	12,649.36	11,206.24	1,443.32
2. US	1,255.94	173.30	1,082.64
3. Germany	605.74	392.24	168.71
4. France	499.35	489.73	9.62
5. Australia	457.34	171.43	285.91
6. Canada	297.20	15.40	281.86
7. Spain	237.96	219.43	18.53
8. UK/GB	168.81	194.21	29.40
9. Italy	117.10	75.00	42.15
10. Brunei	100.00	100.00	———
11. Others	348.30	89.23	167.90
Subtotal	**16,737.10**	**13,126.21**	**3,530.04**
TOTAL	**28,631.57**	**24,375.06**	**4,175.86**

Source for basic data: NEDA Public Investment Staff

Interestingly, there are discrepancies when comparing ODA data from the Philippines' National Economic Development Authority (NEDA) and Japan's Ministry of Foreign Affairs (MFA). From 1987 to 1998, the MFA of Japan reported that 38 percent of Japanese ODA to the Philippines was in the form of grants and 62 percent was in the form of loans.[8] The NEDA however reports a share of only 12.4 percent in grants and 87.6 percent in loans for the same period for Japanese ODA to the Philippines (see Table 2 below).

TABLE 2: JAPANESE ODA COMMITMENTS TO THE PHILIPPINES,
1987-1998 (in US$ million)

Year	Total ODA	Loans	Share (%)	Grants	Share (%)
1987	42.7	—	—	42.7	100.0
1988	1,052.3	842.2	80.03	210.2	19.97
1989	666.2	548.7	82.36	117.5	17.64
1990	904.5	818.8	90.53	85.7	9.47
1991	1,198.7	1,116.9	93.18	81.9	6.82
1992	297.2	200.0	67.30	97.2	32.79
1993	661.3	468.7	70.87	192.7	29.13
1994	1,271.9	1,128.1	88.69	143.8	11.31
1995	1,072.0	1,029.6	96.04	42.3	3.94
1996	540.4	437.0	80.87	103.4	19.13
1997	1,273.12	1,187.64	93.29	85.48	6.71
1998	1,106.01	1,054.27	95.32	51.74	4.68
Total	**10,086.53**	**8,831.91**	**87.56**	**1,254.62**	**12.44**

Source for basic data: NEDA Public Investment Staff

Time Trends in ODA to the Philippines

By reorganizing data from NEDA into two seven-year periods (1987-1993 and 1994-2000 as shown in Table 3 below), distinct patterns in ODA commitments to the Philippines can be seen. In absolute terms, ODA commitments to the Philippines dropped from US$14.4 billion in the period 1987-1993 to only US$13.3 billion in the 1994-2000 period or a decline of 8.3 percent.

From 1987 to 1993, of total ODA, the share of loans was 82.5 percent while that of grants was 17.53 percent. In the next seven-year period from 1994 to 2000 however, the share of loans rose to 88.6 percent while grants fell to 11.42 percent.

Among the multilaterals, loans accounted for 96 percent of ODA to the country from 1987 to 1993 but decreased somewhat to 91.5 percent in the period 1994 to 2000. Assistance from the ADB consisted of 98.5 percent loans in both the two periods (1987-1993 and 1994-2000). As for the World Bank, it registered loan shares of 99.3 percent for 1987-1993 and 100 percent for 1994-2000.

What accounts for the slightly decreased share of multilateral loans vis a vis grants was the 48 percent increase in grant contributions from the United Nation (UN) System and the European Union (EU) from US$214 million to US$317 million. Official Development Assistance (ODA) from the two are exclusively in the form of grants. Unfortunately, they account for only 3 percent of multilateral assistance.

Total assistance from both the ADB and WB,decreased by 80 percent between the two periods from US$6.75 billion (1987-1993) to US$3.75 billion (1994-2000). The WB decreased its assistance by 175 percent while ADB cut its aid by 26 percent.

For bilateral ODA, loans accounted for 68.4 percent in 1987-1993 but ballooned to 87.3 percent in the 1994-2000 period. Grant assistance fell from 31.6 percent to 12.7 percent between the two periods.

While the biggest donor, Japan, increased its total ODA by 55.5 percent, this took place entirely in the arena of loans where the increase was 73 percent. Grants on the other hand decreased by 48 percent. The share of Japanese loans to total ODA thus increased from 82 percent in the 1987-1993 period to 93 percent in the 1994-2000 period.

For the US, which ranks a poor second to Japan, total ODA fell by a substantial 381 percent between the two periods - from US$994 million to only US$206.45 million. In the latter period, Australia and Germany gave more ODA to the Philippines than the US while France almost matched the American contribution. The US also increased the loan component of its ODA from 10.6 percent in 1987-1993 to 17 percent in 1994-2000.[9]

TABLE 3. TIME TRENDS IN ODA COMMITMENTS TO THE PHILIPPINES, *1987-2000 (In US$ million)*

	1987-1993			1994-2000		
Source	**Total**	**Loans**	**Grants**	**Total**	**Loans**	**Grants**
Multilateral						
1. ADB	2,704.28	2,664.50	39.8	2,143.53	2,111.35	32.80
2. WB	4,407.70	4,376.20	31.3	1,604.40	1,604.40	———
3. UN	81.50	———	81.5	140.82	———	140.82
4. EU	133.30	———	133.30	176.93	———	176.93
5. Others	———	———	———	24.60	24.60	———
Subtotal	**7,325.90**	**7,040.70**	**285.70**	**4,089.56**	**3,740.35**	**349.21**
Bilateral						
1. Japan	4,822.90	3,995.30	827.90	7,500.64	6,941.69	558.95
2. US	993.80	106.00	887.80	206.45	35.00	171.45
3.Germany	211.60	125.00	86.80	390.11	312.27	77.85
4. France	295.80	287.20	8.80	203.29	202.53	00.76
5.Australia	106.10	———	106.10	347.24	171.43	175.81
6. Canada	132.90	———	141.70	125.02	15.40	109.62
7. Spain	67.10	59.00	8.10	170.80	160.40	10.43
8. UK/GB	72.90	43.50	29.40	95.91	16.25	———
9. Italy	105.60	75.00	37.00	5.20	———	5.20
10.Brunei	100.00	100.00	———	———	———	———
11.Others	146.90	27.70	96.70	125.94	150.24	55.14
Subtotal	**7,055.60**	**4,819.30**	**2,230.30**	**9,170.60**	**8,005.39**	**1,165.21**
TOTAL	**14,381.50**	**11,860.00**	**2,521.80**	**13,260.16**	**11,745.74**	**1,514.42**

Source for basic data: NEDA Public Investment Staff

Sectoral Allocations

Between the two seven-year periods (1987-1993 and 1994-2000), even as total ODA commitments fell, funds for infrastructure support increased by 35.6 percent and for agri-industrial development by 3.9 percent. However, funding support for human development was reduced by 31.4 percent. These three sectors accounted for 92 percent of ODA in the 1994-2000 period as shown in Table 4 below.[10]

The share of infrastructure support funds increased from 41.9 percent to 60.1 percent between the two periods. Agricultural and industrial development also increased their share from 20.5 percent to 22.6 percent. Human development however saw its share fall from 12.3 percent to 9.9 percent.

TABLE 4. TRENDS IN SECTORAL ALLOCATION OF ODA, *1987-1993 and 1994-2000 (In US$million)*

	1987-1993		**1994-2000**	
Sector	**Amount**	**Percentage**	**Amount**	**Percentage**
Infrastructure Support	5,914.12	41.91	8,017.34	60.10
Agri-Industrial Dev.	2,897.53	20.53	3,009.11	22.56
Human Development	1,730.73	12.26	1,316.32	9.86
Development Admin.	590.40	4.18	467.81	3.50
Commodity Aid	702.80	4.98	———	———
Integrated Area Dev.	327.00	2.31	272.10	2.03
Disaster Mitigation	———	———	256.79	1.92
Others	1,949.60	13.81	0.80	0.00
TOTAL	**14,111.86**	**100.00**	**13,341.04**	**100.00**

Source for basic data: NEDA Public Investment Staff
Note: For 1994-2000, commodity aid has probably been reclassified under agri-industrial development.

In terms of subsectors, transportation has the largest allocation with 26.5 percent, followed by agriculture with 20.2 percent as shown in Table 5 below. Energy, power and electrification is third with 14.4 percent, fourth is water resources with 12.2 percent. Environment and natural resources is fifth with a 5.8 percent share.

Notable laggards are agrarian reform (1.8 percent), science and technology (0.16 percent), cooperatives (0.0004 percent), housing, social welfare and community development (0.15 percent) and social infrastructure (0.0004 percent).[11] The absence of allocations for housing in the official NEDA reports is surprising as the World Bank is known for providing support for the government's housing programs.

The figure for agrarian reform appears understated as the Department of Agrarian Reform (DAR) reports total ODA of US$365.46 million as of December 31, 2000. In any case, ODA for agrarian reform is entirely in support services (for physical infrastructure and human development). During the tenure of then DAR Secretary Horacio R. Morales (1998-2001), government policy advisers lobbied informally with foreign donors such as the World Bank to support the land acquisition component of the program in order to speed up the land redistribution but the response was not encouraging.[12]

TABLE 5. DISAGGREGATED SECTORAL ODA ALLOCATIONS, *1994-2000 (In US$ million)*

Sector	Amount	% Share
1. Infrastructure Support	**8,017.34**	
a. Transportation	3,530.70	26.46%
b. Water Resources	1,634.49	12.25%
c. Energy, Power, Electrification	1,919.81	14.39%
d. Communications	135.48	1.01%
e. Social Infrastructure	0.60	0.00%
2. Agri-Industry	**3,009.11**	
a. Agrarian Reform	240.80	1.80%
b. Agriculture	2,694.25	20.20%
c. Cooperatives	0.56	0.00%
d. Environment & Natural Resources	776.66	5.82%
e. Industry, Trade and Tourism	591.75	4.43%
f. Science and Technology	20.90	0.16%
3. Human Development	**1,316.32**	
a. Education and Manpower Development	551.27	4.13%
b. Housing	———	———
c. Health, Nutrition and Family Planning	283.75	2.12%
d. Social Welfare and Com. Development	20.53	0.15%
e. Others (not disaggregated for 1994-96)	460.77	3.45%
4. Others	**996.70**	
a. Development Administration	467.81	3.50%
b. Disaster Mitigation	256.79	1.92%
c. Integrated Area Development	272.10	2.03%
TOTAL	**13,341.04**	**100.00%**

Source for basic data: NEDA Public Investment Staff

Note: disaggregated subsectoral figures for 1987-1991 were not available.

PROBLEM ISSUES

ODA as External Debt

The share of the country's ODA's to its external debt stood at 47.7 percent as of 2000 as seen in Table 6. Though this represents a decline from the 1999 share of 51.1 percent, the average share of ODA over the thirteen-year period from 1988 to 2000 is a high 51 percent. The highest level was in 1994 at 60 percent and the lowest was in 1988 with 41.5 percent.

The continued weakening of the Philippine peso is cause for worry as far as debt payments are concerned. It has been revealed that a depreciation by one peso of the Philippine currency against the US dollar results in an increase in interest payments on the foreign debt by PhP1.15 billion annually .[13] Last year's government projections on interest payments of PhP48.92 billion were based on an exchange rate of PhP42 to the dollar. For 2001, assuming a 52:1 rate, the actual interest rate payments would reach PhP59.7 billion. Even at 50:1, interest payments would still cost PhP57.4 billion.

TABLE 6. ODA AS SHARE OF EXTERNAL DEBT, *1988-2000 (in US$billion)*

Year	Amount	% Share
1988	11.6	41.5
1989	12.3	44.5
1990	16.0	55.9
1991	16.1	53.6
1992	18.4	57.4
1993	16.6	46.6
1994	23.2	60.0
1995	20.4	51.8
1996	22.1	52.7
1997	21.9	48.3
1998	25.0	52.2
1999	26.7	51.1
2000	25.0	47.7

Source: Department of Finance

World Bank loans command an interest rate that hovers around 6.9 percent, a "pool-based variable rate" that is determined every six months. The maturity period is 20 years with a grace period of five years. Additional charges include a 0.75 percent commitment fee that is charged on the undrawn balance. The larger the undrawn balance, the larger the commitment fee. There is also a one-percent "front-end fee." For the US$217 million in total World Bank loans to the country in 1999 alone, the Philippine government incurred annual interest payments of US$15.1 million and a front-end fee of $2.17 million. For the year 2000, commitment charges for undisbursed WB loans of US$1.2 billion totaled US$9 million alone.

Loans by the ADB accessed from the bank's Ordinary Capital Resources (OCR) are pegged at 6.7 percent for dollar loans and 5.5 percent for multi-currency loans (pool-based as in WB loans). Maturity and grace periods are the same as WB's. The 0.75 percent commitment fee is paid annually on the undisbursed portion of the loan based on a disbursement schedule (15 percent of Total Project Commitment for the 1^{st} year, 45 percent for the 2^{nd} year, 85 percent for the 3^{rd} year, 100 percent for the 4^{th} year). For the year 2000, commitment fees for undisbursed ADB loans of US$544 million amounted to US$4 million.

Japanese bilateral loans coursed through the Japan Bank for International Cooperation (JBIC), formerly the Overseas Economic Cooperation Fund (OECF), have interest rates of 2.3 percent, a maturity period of 30 years and a grace period of 10 years. The Obuchi/Special Yen Loan has a one percent interest rate and the same maturity and grace periods.

German loans are pegged at only 0.75 percent interest, Italy charges one percent, France, one percent for soft loans and Austria 4-5 percent. There is a so-called OECD consensus rate that is followed in the case of loans from the UK, Spain, Canada and Korea. On the other hand, Belgium, Finland and Norway do not charge interest.

Tied and Untied Aid

The issue of conditionalities attached to ODA has been raised often by its critics. Many of the benefits accruing to the lenders are derived from the conditions attached to or arising from the use of ODA funds. Tied loans require the receiving country to acquire most, if not all, the technical assistance, equipment or supplies from the donor country. Many years ago, a NEDA Deputy Director General revealed that Japan earned from 75 cents to 95 cents for every dollar of aid it gives in the form of goods and services purchased from the donor country by the recipient country in relation to aid projects. This is particularly true for grant assistance that sees Japanese firms actively lobbying for and being favored for the conduct of feasibility studies, consultancies and engineering projects. A 1986 study showed that 90 percent of Japanese commodity loans was used to purchase Japanese goods.[14]

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Tying loans and grants has dire consequences for the sustainability of projects. Equipment maintenance is especially difficult and human resource training is sometimes lacking. It is reported that "prices of tied goods were over 20 percent higher than the lowest available international prices and reduced aid value by an average of 10-15 percent."[15] Tied aid therefore remains "a major obstacle to the redirection of ODA resources to meet the real needs of developing countries."

In the case of untied ODA, biases for donor-countries remain in areas such as the hiring of consultants from the donor-country or the use of donor-country standards in the acquisition of equipment and other project requirements. This takes place for instance when Japanese consultants are hired by Japanese donor agencies, e.g., JICA, and they in turn "specify the use of Japanese goods and equipment or recommend Japanese industrial standards."

Large private business interests in donor countries, especially transnational corporations (TNCs), accrue much profit in their involvement in ODA-financed projects in underdeveloped countries. Big business is closely linked to ODA projects. From 1966 to 1999, ADB awarded US$20.1 billion in contracts to companies from donor countries for projects in various ADB-member countries. United States (US) and Japanese private companies "have between them won ADB contracts worth more than all ADB lending to the thirteen least developed countries in the region."[16] This takes place despite an established system of internationally competitive bidding. For those corporations involved in large-scale infrastructure projects, the technologies they use are either "politically unacceptable or no longer commercially viable in developed countries."[17]

Untying aid is supposedly a global trend. This is not the case with Japan whose decade-long economic downturn forces government to exert extra efforts in assisting its crisis-stricken business community. There is also an admission that "ODA cannot be implemented without the active participation of the Japanese business sector" as a 1999 government medium-term policy on ODA declared "the intention to consider increased opportunities for Japanese business to participate in ODA."[18] Despite a claim by the Japanese Ministry of Foreign Affairs that 98 percent of Japanese ODA has been untied,[19] observers expect Japan "to continue providing significant ODA assistance on a 'tied' basis ... as a time-tested approach in building domestic business and helping win support from Japanese multinationals."[20]

In any case, whether tied or untied, contracts for construction activities and equipment purchase as well as for consultancy services somehow end up in the hands of donor country corporations and nationals. Loans by the ADB were officially untied, yet from 1995 to 1999 throughout the Asian region, ten Japanese firms won construction contracts amounting to US$416.3 million as part of the bank's loan proceeds.[21] The list of corporations reads like a "who's who" in Japanese big business - Mitsui, Mitsubishi, Marubeni, Sumitomo, Nissho-Iwai, Asahi Glass and Kumagai Gumi, among others. The contracted amounts range from a low of US$12 million to a high of US$168 million per firm.

Geographic Distribution

Temario Rivera observes that

> *"in the Philippines... the regional distribution of OECF yen loans shows a highly disproportionate allocation on the basis of major island groupings and regions on the basis of poverty incidence. Data up to 1995 show that the poorest island groupings and regions also received the least loan assistance from the OECF."*[22]

Half of all loans went to the Luzon island-group with the Visayas getting 20 percent and Mindanao "where three of the poorest regions are situated and a population almost equal to the Visayas, a measly 5 percent" In terms of administrative regions, the area with the lowest poverty incidence, Metro Manila, got the highest share with 15 percent of all Japanese loans. In second place was Central Visayas (11 percent) which hosts the nation's second largest metropolitan area, Cebu. Rivera (2000) further notes that "the region with the highest poverty incidence, Bicol, received only 5 percent of total yen allocations" while "another 5 percent of total yen loans went to the next three poorest regions, Central Mindanao, the Cordillera Autonomous Region and Northern Mindanao."

The above situation violates the provisions of the ODA Act of 1996 which, as cited earlier, mandates the use of ODA for the equal development and growth of all provinces and with attention to areas that are resource poor and are characterized by low levels of human development and high poverty incidence.

Low Loan Availment Rates

Availment rates characterize the absorptive capacity of the government with regard to contracted ODA funds. Technically, it is defined as the cumulative actual disbursements as a percentage of scheduled disbursements. For CY 2000, NEDA reported an undrawn amount of US$8.4 billion, or 63 percent of the total ODA commitments of US$13.3 billion.[23] (See Table 7) This was an increase over the 1999 total undrawn amount of US$7.7 billion and was accounted for by the signing of 15 new loans in 2000.

By sector, the integrated area development component had the lowest availment rate of 15 percent followed by the human development component with 54 percent. Next was infrastructure support with 57 percent availment rate followed by industry and services with 67 percent. The highest availment rate was credited to development administration with 100 percent followed by the agriculture, natural resources and agrarian reform component with 85 percent.

TABLE 7. PHILIPPINE ODA LOAN DISBURSEMENTS AND AVAILMENTS
(1988-2000)

Year	Disbursements (In US$Million)	Availment Rates (Percentage)
1988	852	79 %
1989	978	82 %
1990	1,386	84 %
1991	1,033	77 %
1992	1,660	79 %
1993	1,747	81 %
1994	1,195	78 %
1995	1,299	76 %
1996	1,368	79 %
1997	1,300	74 %
1998	1,136	66 %
1999	840	62 %
2000	995	63 %

Source: NEDA

Of the US$8.4 billion in undrawn funds, US$7.9 billion (or 95 percent) of these were accounted for by the World Bank, ADB and JBIC alone. Undrawn JBIC funds totaled US$4.92 billion (58.6 percent), World Bank - US$1.19 billion (14.2 percent) and ADB - US$1.1 billion (13.3 percent).

The Department of Education, Culture and Sports (DECS) nearly lost a PhP12 billion loan for public high schools from the World Bank and the JBIC for barely using the funds available to it. Under former Secretaries Ricardo Gloria and Andrew Gonzalez, the DECS used only US$318,908 of the total over three years while the government had to pay PhP70 million in commitment fees.[24]

Among the ODA sectors, education had an availment rate of only 43 percent. The World Bank-funded Urban Health and Nutrition Project of the Department of Health (DOH) had disbursed US$28.8 million of the US$47.2 million ODA funds for a utilization rate of only 61 percent. Its original completion schedule of December 1999 was revised to December 2000 but was reported to be still uncompleted as of the new deadline.

The Philippine National Oil Company (PNOC)-JBIC Northern Negros Geothermal Project's zero availment rate as shown in Table 8 below was attributed by NEDA to (among others) "failure to enter the portion of the geothermal service contract area that is inside the Kanlaon Natural Park."[25] A local citizens movement calling itself "Save Mt. Kanlaon Now! Coalition" protested the law creating a 169-hectare buffer zone within the Park area where the PNOC planned to build roads and dig wells because of the destruction to the forest area that would result.[26] The coalition criticized then—Environment and Natural Resources Secretary Heherson Alvarez for supporting the buffer zone. The project's critics pointed out that the PNOC could very well dig its wells outside of the protected area. The Mount Kanlaon Park is "one of the few surviving national parks in the country and is home to near extinct flora and fauna."[27]

TABLE 8: ODA PROJECTS WITH LOWEST AVAILMENT RATES

As of Dec. 31, 2000

Source/Project	Net Commitment, US$m	Disbursement US$m	Undrawn balance US$m	Utilization Rate %
World Bank				
1. DPWH National Roads Proj	150.0	6.50	143.5	4.3
2. MWSS 2nd Manila Sewerage Proj	48.0	2.10	45.9	4.4
3. DECS 3rd Elem Sch Proj	93.3	10.20	83.1	10.9
4. SBMA Freeport Proj	60.0	5.10	54.9	8.5
5. DA Mindanao Rural Dev Proj	27.0	1.90	25.6	7.0
6. DOF Com-based Resource Man.	50.0	3.20	46.8	6.4
Japan Bank for Int'l Coop (JBIC)				
1. NPC Luzon Grid	132.5	5.46	127.04	4.0
2. DPWH / MM Flood Control	83.3	5.86	77.42	7.0
3. DECS 3rd Elem Sch Proj	98.4	10.61	87.81	11.0
4. PNOC Negros Geothermal	128.0	0.00	128.00	0.0
ADB				
1. DILG/ Clark Area Mun. Project	24.3	0.10	24.10	0.4
2. NPC Power Trans Reinforcement	191.4	1.90	189.50	1.0
3. SBMA/ Municipal Dev. Proj	19.4	0.20	19.20	1.0

Source of basic data: NEDA

Cost and Time Overruns

In the year 2000, the Philippine government spent about PhP8 billion more than the estimated cost of projects implemented with funding from concessional loans or ODA money from multilateral institutions. In that year, ODA disbursements reached US$995 million (about PhP49.75 billion). Fourteen projects accounted for the overrun.[28]

Fifty-four ODA loans for 51 projects (27 percent of the portfolio) were on an extended implementation period as of December 2000 with an average delay of two years based on the original dates of closure. Most projects were designed for a ten-year implementation tenure although some projects extend beyond 10 years.

These twin problems seem to be recurring over the years. During the first ODA Portfolio Review in 1993, implementation delays were reported for eight major infrastructure projects with a net commitment of P8.1 billion. Some of these projects were delayed for as long as four years due to unresolved right-of-way problems. Start-up problems ranging from 3 months to 3 years were also noted for 30 projects due to delays in the awarding of bids and contracts. Cost overruns were reported for 14 projects with increased costs ranging from 12 percent to 202 percent of the original estimates.

According to the 1994 Review, the inability of government to fully support ODA projects in its regular budget caused a shortfall of P57 billion or 44 percent of the required amount. These shortfalls caused delays in project implementation. In the 1995 Review, 49 projects were projected to suffer cost increases totaling P37 billion. These increases are usually funded by additional external funding from the same donors. In 1996, the cost overruns for 37 projects amounted to P36.2 billion. In 1997, cost overruns fell drastically to only P2.3 billion but affected 27 projects. However, 42 projects exceeded their implementation deadlines. In 1998, cost overruns for 22 projects totaled P16.82 billion while 20 loans suffered delays of from 3 months to 3 years.

Lack of Counterpart Funding

Some ODA projects have difficulty getting off the ground due to the delays in the release of counterpart funds from the Philippine government. Some donors require counterpart funding that is greater than the ODA component.

The DECS Third Elementary School Project was delayed due to the difficulty experienced by local government units (LGUs) in raising the 10 percent counterpart fund for the school building component despite the reduction in the counterpart requirement from the previous 25 percent. With half of the project time already passed, 90 percent of the funds remain unutilized.

LGUs however are not alone in their inability to raise counterpart funds. In the 1999 General Appropriations Act, only P34 billion was allotted for ongoing foreign assisted projects, short of the P38 billion required.

The Philippine government expects to limit its approval of foreign-assisted projects (FAPs) from the ADB following the regional bank's plan to require larger counterpart funding from the Philippines. The ADB wanted to make the government shoulder 60 percent of its-funded projects effective in 2002 with the bank financing only 40 percent of projects through loans. The present sharing arrangement is 50-50.

The ADB Philippine Country Director Gunter Henker said that increasing the government's counterpart aims to (1) improve FAP implementation, and (2) provide more ODA to "poorer" countries like Vietnam, Laos and Cambodia. Economists however criticized the move, decrying its "poor timing" that "will hurt government projects which are already suffering implementation delays due to existing budgetary constraints." Less and less projects will be created in the pipeline. It was surmised that Mr. Hecker might have been unhappy with the poor loan disbursements which tied up large funds.[29] The ADB had US$1.1 billion in unutilized ODA funds for the Philippines as of December 31, 2000 (see Table 8 above).

Debt Passing by Private Sector Partners

NEDA envisioned a partnership between the government and the private sector as a viable alternative for financing infrastructure projects financed by ODA.[30]

This partnership is to be based on a market-based "user-pays" principle. The Build-Operate-Transfer (BOT) scheme is one of the forms that this public sector-private sector partnership is to take. The partnership is really three-way if one counts the ODA donors themselves. The aim is to redistribute the risks, costs and revenues in relation to development projects. Financially viable components of a project can be funded by private or commercial funds while the non-financially viable components will make use of ODA funds. The Philippine Economic body cites the following examples of ODA-assisted projects supporting BOT-financed projects:

1. Casecnan Multipurpose Project, US$128million, OECF
2. San Roque Multipurpose Project, US$400 million, Japan ExIm Bank
3. San Pascual Multipurpose Project, US$45 million, ADB
4. Power Transmission Lines, Ilijan Natural Gas Proj., US$129 million, OECF

The biggest project under the scheme however is the Metro Rail Transit (MRT) which began implementation during the Ramos administration by a consortium led by Fil-Estate Corporation headed by Robert Sobrepena.[31]

The partnership behind these projects however requires what is known as "sovereign guarantees," that is, the government promises to assume liabilities incurred by the private sector partners that the latter (for whatever reason) is unable to pay. These debts (whether settled or passed on to the state) thus become "contingent liabilities" of government and become part of the consolidated public sector deficit.[32]

Total contingent liabilities of government stand at PhP62.58 billion in 60 power projects, 24 transport projects, 3 water projects and 11 other minor projects. Of the PhP217 billion in contingent liabilities for 2001, PhP12.03 billion (5.5 percent) have become actual debts which the government has to pay.

The biggest of these debt burdens passed on by the private sector to the government are the MRT project (P3.4 billion, P1.08 billion in interest payments alone), the San Roque Multipurpose Project (P2.95 billion in assumed debts) and the Casecnan Multipurpose Project (P1.69 billion in loans). As far as the MRT project was concerned, "government was forced to pay these debts because the returns the Metro Rail Transit was counting on to pay them did not materialize because of risks that the Ramos administration said would not happen."

The sovereign guarantees extended to the above ODA projects need to be examined within the context of the Foreign Borrowings Act of 1966 (Republic Act 4860) which was signed into law by then President Ferdinand Marcos on September 8, 1966. This law lays the legal basis for and the conditions under which sovereign guaranty for private sector obligations may be extended. Section 3 of the Act states that

> The President of the Philippines is ... authorized in behalf of the Republic of the Philippines, to guarantee ... foreign loans extended directly to ... corporations owned or controlled by the Government of the Philippines for industrial, agricultural and other development purposes or projects authorized by law (including) those incurred ... **for the purpose of relending to the private sector** (emphasis supplied).

The Act however stipulates that only Filipino-owned or controlled corporations and partnerships may avail of such foreign loans and the sovereign guarantee privilege attached to them. Section 5 requires the President to report to Congress "the amount of loans, credits and indebtedness contracted, as well as the guarantees extended and the purposes and projects for which the loans, credits and indebtedness were incurred and the guarantees extended as well as such loans which may be reloaned to Filipino-owned or controlled corporations ..."

Program vs Project Loans

Another important issue is the ratio of project loans to program loans. As of December 2000, of the US$7.16 billion total in net commitments of JBIC, US$6.84 billion (95.5 percent) was in project loans. The World Bank project component was at 82.8 percent or US$2.14 billion out of a loan commitment of US$2.59 billion. The ADB's project loan component was 76.0 percent of total loans or US$2.2 billion out of US$ 2.9 billion. At the end of CY 2000, of the US$13.3 billion in active loans, US$11.8 billion (89.0 percent) was in project loans and only US$1.5 billion (11.1 percent) in program loans.

A program loan refers to "a coordinated set of aid-financed activities or projects."[33] They are also defined as "quick disbursing injections of untied credit that can be used for almost any type of import (or for the repayment of foreign debts falling due".[34] A project loan on the other hand, "is a single activity to generate specific results. A project may be sector or area-specific such as a road project or a regional development scheme." Thus, program loans are thought "to increase the flexibility of recipient countries to use this for their priority activities in their development plans instead of piece-meal projects."[35]

TABLE 9. PROPORTION OF PROGRAM LOANS TO PROJECT LOANS UNDER CURRENT ODA LOAN PORTFOLIO *(In US$ million, as of Dec 31, 2000)*

Source	Total	Project Loan	% Share	Program Loan	% Share
JBIC	7,159.7	6,838.4	94.44	321.2	5.56
ADB	2,908.8	2,208.8	75.86	700.0	24.14
WB	2,588.2	2,142.6	82.62	445.6	17.38
Others	656.4	656.4	100.00	0.0	0.00
Total	**13,313.1**	**11,846.3**	**88.98**	**1,466.8**	**11.12**

Source of data: NEDA Public Investment Staff

Program loans however, as presently structured, are mainly associated with IMF-type structural adjustment programs (SAPs) or economic restructuring plans that commit a recipient government to enact projects that entail major policy shifts such as trade and investment liberalization, deregulation and privatization. The US$300 million World Bank program loan for banking system reform was conditioned on the privatization of the Philippine National Bank, amendments to the charters of the Central Bank and the Philippine Deposit and Insurance Corporation, and improved macro-economic performance. As of December 2000, the Bank withheld release of the second and third tranches pending compliance by the government of the above conditions.

A similar case is the Power Sector restructuring plan that was funded by a US$300 million ADB program loan and a US$400 million credit from the Miyazawa

Fund. The loans were conditioned on the passage by Congress of a controversial and unpopular Omnibus Power Bill that privatized the National Power Corporation and eventually transfer ownership of power generation to the private sector.[36] An ADB loan that requires close monitoring by civil society groups is the US$175 million Grains Sector Development Program (approved in April 2000) that is meant to restructure the grains sector to make it more "market-based, productive and internationally competitive."

Not all program loans are of the above types however. The World Bank program loan for "Environment and Natural Resources Sectoral Adjustment" resulted in the passage of the National Integrated Protected Areas (NIPAS) Act of 1992 which mandated the decentralization of the monitoring and enforcement of biodiversity conservation in designated protected areas throughout the country. This is done through an area-based and multi-stakeholder-constituted Protected Area Management Board (PAMB). Implementing mechanisms however leave much to be desired as the DENR continues to dominate the process. The NIPAS law also needs to be harmonized with other existing laws such as the Indigenous People's Rights Act (IPRA).

Foreign Consultants

Back in 1989, the Senate Blue Ribbon Committee complained of "superfluous and unnecessary fees" to foreign consultants by foreign-funded projects.[37] The Committee decried the charging of foreign consultancy fees for services well within the expertise of Filipinos that was being imposed on all foreign assistance contracts, grants, aids and loans. It was discovered then that of the 59 consultants in five government agencies looked into, only five were Filipinos. While the highest paid Filipino consultant received $780 a month, the lowest paid consultant, a Japanese "motor vehicle inspector," got $3,000 a month. Several foreign consultants received monthly fees ranging from $5,000 to $16,700. And this was in 1989!

> ... of the 59 consultants in five government agencies, only five were Filipinos.

Several years later in the mid-1990s, the situation seemed to have worsened. In 11 government agencies, there were 68 Japanese consultants hired under grant projects funded by the Japan International Cooperation Agency (JICA).[38] In the OECF-funded Calaca Phase II coal-fired power plant, $5.5 million of the project's $6.7 million for environmental management went to Japanese consultancy fees.

How far things have changed since then in the consultancy game remains to be seen but provisions in recent legislation are important to note. Aside from Section 11c of the ODA Act of 1996 (cited at the beginning of this paper), the Implementing Rules and Regulations of the same law state in Section 6.2:

> Filipino Preference/Association by Foreign Firms with Local Firms/ Practitioners. In order to develop/upgrade a pool of Filipino experts and managers, the role of technology transfer in the implementation of development projects shall be ensured. To effect technology transfer to local firms/individuals, foreign consulting and/or construction firms wishing to participate in development projects in the Philippines shall be required to associate themselves with local firms and/or shall be required to engage Filipinos in carrying out the projects which they have selected to undertake. Such preference shall not adversely affect the project and shall meet the minimum standards/specifications required thereof.

The above is echoed by the "Implementing Rules and Regulations on the Procurement of Consulting Services for Government Projects," as approved by the NEDA Board on Sept. 1998 as follows:

> 2.5.2 In order to manifest trust and confidence in and promote the development of Filipino consultancy, Filipino Consultants shall be hired whenever the services required for the project are within the expertise and capability of Filipino Consultants. However, in the event that the Filipino Consultants do not have the sufficient expertise and capability to render the services required under the project, Foreign Consultants may be hired, provided that in the interest of effecting technology

transfer, Foreign Consultants shall be required to associate themselves with Filipino Consultants.

An indicator of the state of the consultancy issue for the Asian region as a whole is that several Japanese firms ended up as major consultants for ADB projects from 1995-1999.[39] Twelve of these consultancy companies cornered lucrative contracts totaling US$60 million. These included Japan Overseas Consultants (7 contracts worth US$20 million), Nippon Koei (4 contracts worth US$13 million), Pacific Consultants (6 contracts worth US$10 million), and Padeco (12 contracts worth US$6 million).

Environmental and Social Issues

Social unrest sometimes accompanies ODA projects

Some ODA-funded activities, particularly large infrastructure and energy projects, constitute hazards to the ecology and biodiversity of the target area. Community and livelihood displacements also take place as a result of these projects. Productive agricultural lands are further jeopardized in the process. Social unrest sometimes accompanies ODA projects particularly if the local communities in affected areas resist their implementation. Some environmentally controversial projects are as follows:

(1) the OECF-funded 400-hectare Leyte Industrial Development Estate which housed a copper smelter plant, a fertilizer plant and a mining firm;
(2) the Calabarzon Industrial Zone whose master plan was funded by a JICA grant;
(3) the MWSS Umiray River Diversion Project funded by ADB;
(4) the Pampanga Delta Development Project, again funded by the OECF; and
(5) various infrastructure projects in Manila financed by OECF.

The US$92 million ADB-funded Umiray River Diversion Project tunneled through mountains to divert waters from the river to Metro Manila several hundred kilometers away. One study reported that "apart from the environmental destruction caused by the construction of the 'transbasin,' critics deplored the lack of transparency and consultations, particularly among indigenous water users who depended on the waters of the Umiray River for their daily sustenance and livelihoods."[40]

The Calaca Coal-Fired Thermal Power Plant in Batangas province was the scene of a recent protest action by Greenpeace Philippines whose members planted 200 white crosses in a barren ash covered field of the NPC-operated plant.[41] Greenpeace wanted to dramatize the extent of environmental damage caused by the dumping of mercury-laden ash on once productive open fields beside coastal fishing grounds. Ironically, the plant was the recipient of Japanese ODA funds for environmental protection purposes. The project was completed in December 2000 and NEDA claimed that the plant's pollution problems had been mitigated in terms of coal dust emissions, odor, sea water intrusion, particulate emissions and noise.

In its Annual ODA Portfolio Review (1994), NEDA acknowledged that some ODA projects encountered difficulties in securing Environmental Compliance Certificates (ECCs) from the DENR. The issue of social unacceptability of projects was discussed. As a response, the Interagency ECC Committee drew up proposed revisions to "existing guidelines on social acceptability and environmental clearance towards streamlining the tedious process of securing an ECC." In effect, government planners in 1994 intended to compromise environmental and social guidelines simply to fast track ODA project implementation. To the DENR's credit, its representatives at that time refused to endorse the proposed revisions.

Other Issues

Corruption. Shortly after the downfall of Marcos, thousands of pages of documents turned over to the Presidential Commission on Good Government (PCGG) by US Customs authorities revealed the extent of corruption that accompanied the disbursement of Japanese ODA funds during the Marcos regime.[41] The documents uncovered an intricate web of corruption involving the payment of huge sums to Marcos and his cronies in the form of rebates or commissions for the facilitation of the implementation of yen loan projects.

These funds were "embezzled" from loan proceeds and may have constituted as much as 25 percent to 30 percent of loan contract amounts. The payments were made by Japanese companies that won contracts to implement the ODA projects. Since Japanese companies regard the payment of commissions, or rebates, as "normal procedure in ordinary commercial transactions" and are known worldwide for such practices, it stands to reason that such activities continue unabated till today.

Impact on Macro Economic and Social Indicators. Citing an econometric study by Mapalad, Gwendolyn Tecson avers that Japanese ODA exerted a positive impact on the Philippine economy.[42] She cites the following percentages of actual values generated real income: 0.83 percent, employment: 0.36 percent, exports: 0.49 percent, and imports: 0.41 percent for the 1973-1995 period. To the layman however, such figures are hardly impressive, considering the tens of billions of dollars funneled into the economy in the period covered by the above study. It might also be worthwhile to look into the net impact of ODA, given the social and environmental costs as well as the drain on the Philippine treasury caused by interest payments, cost overruns, sovereign guarantees and commitment fees.

As an example, a more wholistic and relevant study would look into how many livelihood opportunities were lost through the forced dislocation of communities to make way for an ODA project and compare this with the number of jobs supposedly created. Similarly, the environmental damage and the loss of biodiversity that results from some large-scale ODA infrastructure projects could also be determined by such an alternative study.

Tecson admits that when compared with other Southeast Asian countries, Mapalad's positive figures "paled in comparison" (see Table 10 below). Of the four Southeast Asian countries compared, Thailand seems to have benefited the most from ODA, followed by Indonesia. But even third placer Malaysia is way ahead of the Philippines. A question may be raised with respect to the ODA impact on imports. It would seem that the higher figures in this category attributed to ODA could simply be the result of the tied aid (both loans and grants) which Japan is notorious for.

TABLE 10: COMPARISON OF THE IMPACT OF JAPAN'S ODA IN SELECTED SOUTHEAST ASIAN COUNTRIES *(as percentage of actual values)*

Country	Real Income	Employment	Exports	Imports
Indonesia*	3.3	1.6	2.9	5.0
Malaysia*	1.4	0.9	2.1	2.6
Thailand*	5.3	2.3	9.5	7.3
Philippines**	0.83	0.36	0.49	0.41

**1971-1991; **1973-1995*

Source: Mapalad as reproduced in Tecson (2001)

Other Implementation Problems. Based on the ninth Annual ODA Portfolio Review by NEDA, almost all of the 45 priority projects listed suffered from one or the other of the following implementation problems:

1. procurement issues,
2. right of way acquisition,
3. resettlement and squatter relocation,
4. land acquisition issues,
5. project design and preparedness,
6. financial and project management,
7. peace and order,
8. *force majeur*,
9. change in project design,
10. delayed release of tranches,
11. slow disbursement of funds,
12. problems with the contractor,
13. lack of qualified beneficiaries,
14. delays or failures in bidding and awarding of contracts,
15. large unliquidated advances,
16. competition with other ODA projects, and,
17. non-passage of legislation.

Recommendations

The current state of ODA to the Philippines points to disturbing characteristics that deserve serious attention. In general, ODA has not changed significantly from the pattern established in earlier decades. This despite policy pronouncements (from both donors and recipient countries) on shifting towards more social and human development-oriented activities, on increasing overall ODA, on providing more grants and more program loans and improving implementation. In fact, there has been a marked reversal as far as these commitments are concerned.

To summarize the major findings from the data gathered:

1. Total ODA commitments have declined within the last seven years.
2. Loans continue to dominate ODA with their share increasing over the years.
3. Grant assistance, on the other hand, has been declining.
4. Bilateral assistance has overtaken multilateral assistance.
5. Infrastructure support has increased its share of ODA.
6. The share of human development funds has decreased.
7. Geographically, ODA is biased towards the more affluent regions.
8. Project loans continue to be emphasized over program loans.
9. ODA projects continue to be tied to donor countries.
10. The government pays more for ODA costs and debt servicing due to:
    a. time and cost overruns,
    b. the "sovereign guaranty" for private loans,
    c. lack of counterpart funding, and
    d. low loan availment rates.
11. There are long-standing issues that have yet to be fully addressed such as foreign consultants, corruption and environmental and social issues.

The above concerns are by no means all inclusive. Due to time and resource constraints, this present study has not been able to look into other immediate issues that also deserve attention but for which information has not been readily available. These are: (1) small-scale and medium-scale projects vs. mega projects, and (2) ODA support channeled to or directly granted to NGOs.

Given the problem areas examined in this study, the following recommendations are being offered:

1. In order to fulfill announced policy shifts that are generally positive, the grants and technical cooperation component of ODA should increase vis a vis the loan component. The trend towards increasing the loan component should be swiftly reversed.
2. More program loans should be given but without IMF-type conditionalities that only provide quick fix solutions. Recipient countries should be given more leeway in allocating program loans in the context of long-term and sustainable development goals.
3. The human development sectoral component, while having shown some improvement relative to the 1970s and 1980s, still has a long way to go. Worse, some backsliding has taken place. This is unfortunate, given the commitments stated in the ODA Act of 1996 and those made by the Philippine government along with other governments in the 1995 Copenhagen (WSSD) conference and in the 2000 Geneva WSSD+5 conference.
4. The geographical distribution of ODA should be redirected away from the more affluent areas towards the poorer regions of the Philippines. This is in line with the announced anti-poverty thrusts of both the Philippine government and its major donors.
5. The issue of untying grants and loans has to be addressed decisively as it is a long-standing major irritant in donor-recipient relations. As one writer emphasized, "no aid should be extended for projects which will require continued and repeated servicing, or spare parts which can be obtained only from abroad."[44]
6. Given the huge cost overruns and overextended time overruns of many projects, it is obvious that many of them are poorly conceived and carelessly planned. A reexamination is in order here with regard to viability and sustainability.
7. There should be more transparency and accountability in the whole ODA process from the initial conceptualization stage all the way to the implementation stage. Civil society groups and affected communities must be

represented in the study groups, feasibility studies, committees, working groups and decision-making bodies at all stages of the ODA process.

Periodic and token consultations are not sufficient to fulfill the requirements of transparent governance and democratic participation. Serious, meaningful and substantive mechanisms and structures for more participative and transparent ODA processes should be put in place by the Philippine government as well as by the donor community.

8. In connection with cases involving corruption in ODA use, a special investigation committee must be constituted at the highest levels of government. A starting point here would be the practice by Japanese companies of paying "commissions" or "rebates."
9. The "sovereign guaranty' for private sector-led projects must be terminated particularly since the ODA Act of 1996 provides in Section 4 that "ODA shall not be availed of or utilized directly or indirectly for ... financing for private corporations with access to commercial credit." The ordinary Filipino taxpayer should not be made to pay for the inefficiencies of and mismanagement by private corporations.
10. Environmentally harmful and socially disruptive effects often accompany large-scale and expensive projects. A shift must be made towards smaller scale and community-based projects that are more ecologically-friendly and participative.
11. The requirement on the preference for Filipino consultants in implementing ODA projects must be strictly enforced.
12. The above recommendations call for a virtual reformatting of ODA that requires immediate measures from both donors and recipients. If they can be carried out properly, the final step would be to reverse the trend of decreasing ODA commitments to the Philippines. While ODA is being shifted to even less developed countries in Asia, the fact remains that the Philippines remains an underperforming society in terms of economic and social development.

Conclusions

In 1977, a US Senate staff report on the Philippines concluded harshly that "after 30 years and US$1.7 billion in U.S. economic assistance, concrete development advances are hard to identify."[45] An agency-by-agency review of USAID programs conducted in 1979 "suggests that only about 22 percent has gone into projects directly benefiting the poor."

In 1986, a group of faculty members from the UP School of Economics determined that "most of the projects that were financed by foreign loans were unproductive" in that many of them "were not well chosen or were probably chosen to finance capital flight through the overpricing of projects."[46] The economics professors also lamented that "many private sector projects relied on government financial institutions for foreign loans and guarantees." The group further pointed out that "... many of the projects were overpriced, mismanaged, not viable to begin with, or made unviable by changes in the exchange rate and the international environment..."

Twelve years later, a 1998 study lamented that "foreign assistance imposes a resource bias against redistributive policies" since the "criteria for providing foreign assistance are based mainly on projected project contributions to capital formation and foreign exchange."[47] Furthermore, "foreign assistance focuses on the economic sectors in fast-growing areas," thus exacerbating regional, geographical and sectoral imbalances. Given this, the impact of ODA on poverty alleviation and social and asset reforms will surely be negligible.

The above critiques point to the urgent need for undertaking real, meaningful and long-lasting changes in the planning and implementation of official development assistance programs and projects in the Philippines. Failing the realization of these changes, a serious reconsideration of the necessity and relevance of ODA to overall Philippine economic and human development will certainly be in order.

Notes

1 Revised version of a paper presented at the National Consultation on Financing for Development: Civil Society Agenda Building, sponsored by Social Watch Philippines, 13-15 August 2001, Quezon City, Philippines. In preparing this report, the research assistance of Lulu Melchor is gratefully acknowledged.

2 International Labor Office, *Sharing in Development*, 1976.

3 The Zedillo Commission, June 22, 2001. Officially known as the "High Level Panel on Financing for Development," the Commission was organized by UN Secretary General Koffi Annan to make recommendations on financing development in poor countries.

4 Ryokichi Hirono, "Major Issues in Japan's ODA in the 21st Century," 1994.

5 Mamoru Tsuda and Reylito Elbo, "Japan's Official Development Assistance: Issues and Challenges in Asia," 2001.

6 Ibid. Japan's post-World War II Constitution (imposed by Gen. Douglas MacArthur during the American Occupation period, 1945-1952) prohibits it from once again becoming a military power.

7 Ibid. This includes both bilateral ODA and contributions to multilateral institutions such as the Asian Development Bank and the World Bank.

8 Temario Rivera, "The Political Economy of Aid: Japanese ODA in the Philippines," 2000. Based on data provided by the Japan Ministry of Foreign Affairs in its annual ODA reports. Differences in Philippine and Japanese figures have been noted for years. A NEDA official says that Philippine data on ODA is "generally underestimated."

9 It is also noteworthy that countries that gave only grants in the first period such as Australia, Canada and Denmark now added loan components to their ODA to the Philippines. Australia, which is the fifth largest bilateral donor, had a zero percent loan component in 1987-1993 but in the 1994-2000 period, had nearly 50 percent of its ODA in loans.

10 Infrastructure support includes transportation, water resources, energy, power and electrification, communications and social infrastructure. Agriculture and industrial development includes agriculture, agrarian reform, cooperatives, environment and natural resources, industry, trade and tourism, science and technology. Human development includes education and manpower development, housing, health and nutrition, social welfare and community development. Development administration funds go for policy and institutional reforms and development, public and urban city administration, policy sector studies and formulation, national development plan formulation, sound governance.

11 There seems to be a misplacement of the category of "social infrastructure" which (insignificant though it may be) should probably be classified under "human development."

12 The reason given by donor agencies such as the World Bank is that this would not fall under the category of "public investment," could not be quantified following standard ODA monitoring and evaluation criteria and would distort land markets. In a forum, a Belgian Embassy official also objected to handing out ODA funds to landlords who would not be expected to productively make use of them.

13 Philippine Daily Inquirer, July 16, 2001.

14 Masaki Yokoyama, "Marcos Yen for Corruption," 1986.

15 Victoria Viterbo-Quimbo, "Philippine-Japan Economic Cooperation in the 21st Century," 2001.

16 Violeta Perez-Corral, "ADB's Private Sector Development Strategy," 2001. Among the corporations that benefited from goods, related services and civil works (GRSCW) contracts of ADB-funded projects were Mitsui, Mitsubishi, Marubeni and Itochu for Japan; Westinghouse, AT&T, Cargill, Cooper Rolls and Raytheon for the US; Siemens AG, MAN B&W and UNICO for Germany; and for the UK, British Steel, Acme Maris, NVPAKG and Siemens PLC.

17 Ibid. This could refer to polluting technologies or those that have been phased out in the donor countries.

18 Tsuda and Elbo, 2001. The only sector that Japanese companies seem to be shying away from is the information technology field, given the current downturn in IT stocks and sales, and is therefore seen as a "fresh and risky investment." Outside of IT, "Japanese businesses play a proactive and major role in bringing ODA to the doorsteps of the recipient country."

19 Temario Rivera, 2000. This claim was made for the year 1996 and included in the 1999 ODA Annual Report published by the Japan Ministry of Foreign Affairs.

20 Tsuda and Elbo, 2001.

21 Tomoyo Saito and Kyoko Ishida, "ADB and Japan," April 2001. Mitsui had a contract worth US$168 million; Mitsubishi, US$84 million; Mitsui, US$35 million, Marubeni, US$33 million and Sumitomo, US$15 million.

22 Temario Rivera, 2000. Exceptions were noted however during the Marcos regime when Imelda Marcos' home province, Leyte in the Visayas, "received a disproportionately large share, 16 percent of the total (excluding commodity loans). This was more than the project loans that went to the Metro Manila region proper which received only 9 percent of the total." Two other favored provinces during the Marcos administration were Cagayan (home province of then Defense Minister Juan Ponce Enrile, and Ilocos Norte (Marcos' own home province). "These three areas alone accounted for close to one-third (27 percent) of the total OECF-funded projects during the Marcos period."

23 National Economic Development Authority, "9th Annual ODA Portfolio Review," 2000.

24 Philippine Daily Inquirer, July 13, 2001.

25 Philippine Daily Inquirer, Sept 3, 2001. Adding to the problem is that Mount Kanlaon is also an active volcano.

26 Ibid.

27 On September 6, 2001, the PNOC-Energy Development Corporation decided to withdraw its plan to conduct geothermal operations in the buffer zone of Mount Kanlaon "because of massive opposition to the project" (Philippine Daily Inquirer; September 7, 2001. A PNOC spokesman said that they "would only enter the buffer zone ... to plant at least one million trees a year." This cancellation would most likely result in the restructuring of the US$128 million JBIC loan.

28 Business World, July 6-7, 2001. This was gathered from the 9th Annual ODA Portfolio Review by the NEDA Project Monitoring Staff.

29 Business World, July 3, 2001.

30 DevMagazine, July-August 1998.

31 Robert Sobrepena, a property magnate, was a close supporter of President Ramos which explains the granting of sovereign guaranty to his project. He however quickly shifted allegiance to Joseph Estrada when the latter won the Presidency in 1998.

32 Philippine Daily Inquirer, July 16, 2001.

33 Frances Moore Lappe, Joseph Collins and David Kinley, *Aid As Obstacle*, 1980.

34 Cheryl Payer, *The World Bank: A Critical Analysis*, 1982.

35 Viterbo-Quimbo, 2001. There are difficulties however "in packaging a sufficient number of projects" under a program loan.

36 Perez-Corral, 2001. The New Miyazawa Fund, under which the Philippine Power Sector restructuring plan was funded, was set up in 1997 with total commitments of US$30 billion and was meant to "assist the stabilization of the financial sector and economic recovery of countries hardest hit by the Asian crisis" (Saito and Ishida, 2001).

37 Eduardo C. Tadem, "The US, Japan and Official Development Assistance to the Philippines," 1990.

38 Ibon Facts and Figures, "Maleficent Aid," February 1996.

39 Saito and Ishida, April 2001. The ADB is regarded as a Japanese-dominated regional financial institution. Japan is the largest contributor to ADB funds including its ordinary capital resoources (OCR), the Asian Development Fund (ADF), the Japan Special Fund, the ADBI Fund, the Asian Currency Crisis Support Facility (ACCSF) and the Japan Poverty Reduction Fund (JPRF). Since the ADB's founding, all of its seven Presidents have been Japanese nationals.

40 Perez-Corral, 2001. The Umiray River project was part of a US$426 million ADB project to "improve the water supply and distribution of Manila's Metropolitan Waterworks and Sewerage Services (MWSS). Coupled with advice from the World Bank's International Finance Corporation, this resulted in the privatization of Metro Manila's water services in 2000.

41 Philippine Daily Inquirer, September 3, 2001.

42 Mamoru Tsuda and Leo Deocadiz (eds.) *RP-Japan Relations and ADB: In Search of a New Horizon,* 1986 and Yokoyama, 1990.

43 Gwendolyn Tecson, "Japanese ODA for Human Development: Views from the Philippines," 2001.

44 Cheryl Payer, 1982.

45 Jim Morrel, 1987. The author spent several months in the Philippines in 1986 and traveled all over the country examining foreign aid projects at the ground level.

46 Florian Alburo, Romeo Bautista, Dante Canlas, Benjamin Diokno, Emmanuel de Dios, et al, May 1, 1986. Sixteen of the country's top economists took part in preparing this 2-volume report containing proposals on how the Philippine economy could recover from the depredations of the Marcos years.

47 Nepomuceno Malaluan, 1998.

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