THE CRISIS OF OFFICIAL DEVELOPMENT ASSISTANCE TO THE PHILIPPINES: NEW GLOBAL TRENDS AND OLD LOCAL ISSUES[1]

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EXECUTIVE SUMMARY

Official Development Assistance (ODA) may have a role to play in Philippine development, but for the past two decades, it has been mired in problems and long-standing inadequacies that only serve to negate its intentions and avowed objectives.

On a global scale, foreign assistance has increased over the past years, reversing the nineties' trend, but this aid has been almost exclusively tied to events following the September 11, 2001 attacks in the United States. It has thus has been concentrated on debt relief and rehabilitation/relief efforts in Iraq and Afghanistan, both countries cornering two-thirds of the increase in ODA in 2005.

The ODA to GNI (gross national income) ratio of the major donor countries has remained at about one third below the UN-mandated ratio of 0.7 percent. The Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) reports that the two top donor countries, the United States and Japan, rank nearly at the bottom from among 22 DAC member countries. The target is not expected to be achieved soon as donor countries have made only modest pledges to improve their respective ODA/GNI ratios.

Asia's number one donor, Japan, had revised its ODA Charter in 2003, a move that is seen as a shift away from humanitarian concerns to those that serve the country's own national interests, particularly its "security and prosperity." The new charter thus states that Japan's full use of ODA will meet the country's external need for resources and energy that can be sourced from developing countries who are ODA recipients.

While donors have publicly pledged to fulfill the human development objectives of the 2001 Millennium Development Goals (MDG), a 2005 report of the UN Millennium Project finds that the development aid system is not yet up to the task of the MDGs" and "needs to scale up its financial and technical support." It quotes no less than IMF Managing Director Rodrigo de Rato who noted in 2004 that "current aid flows are insufficient, unpredictable, and often

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uncoordinated among donors." Moreover, based on conservative estimates, 49 percent of OECD aid continues to be "tied."

An interesting challenge has been posed by emerging and non-DAC donor countries like China who, so far, have charted a different and sometimes controversial approach to ODA which implicitly rejects the aid conditionalities frequently attached to DAC member country assistance. Concerns, however, have been raised about China's apparent disregard for the social and environmental consequences of its aid projects.

For the Philippines, the trend of declining ODA allotments during the nineties has continued as, not surprisingly, the country has not benefited from any trickling-down effect of the global increase in ODA allotments. Annual average ODA commitments in the 2001-2006 period was 23 percent less than during the previous 1986-2000 years.

The decline is most evident in the case of Japanese development aid. While remaining the country's top donor, Japan's annual average commitment fell by 58 percent in the 2001-2006 period compared to the 1986-2000 annual average. This is notwithstanding a global rise in Japanese ODA and a 2004 promise by the Tokyo government to increase ODA commitments by US$10 billion over the next five years.

The loan-grant distribution of ODA to the Philippines remains grossly skewed in favor of loans. The share of loans to total ODA has even increased from 82 percent in the 1987-2000 period to 84 percent in the 2001-2006 years. On the positive side, the U.S. has shifted its entire ODA portfolio from loans to grants, but because of Japan's overwhelming share of total Philippine ODA (53 percent of bilateral ODA), the latter's loan component share of 99 percent practically defines the current overall loan-grant mix.

The human development component of foreign aid, which includes health, education, and housing, continues to suffer highly inadequate allocations. Its already minuscule share of 11 percent of Philippine ODA in 1986-2000 fell further to 7 percent in the 2001-2006 period. On the other hand, the economic growth-oriented sector of infrastructure development increased its share dramatically from 50 percent to 67 percent. This trend is hardly in keeping with MDG No. 8 of "developing a global partnership for development" of which increasing the share of human development in ODA commitments is an important component.

The geographical distribution of aid continues to favor the country's more developed regions while discriminating against the less-developed areas. In 2002, Luzon's share of ODA increased to 31 percent from 19 percent in 2001 with 20 percent of total ODA going to the Metro Manila region alone. The Visayas regions, on the other hand, had only a 10 percent share while Mindanao areas had a mere 7 percent share.

The pattern of foreign aid to Mindanao reflects the new global trend of emphasizing geo-political concerns over development issues. In the light of the 9/11 attacks and given the long-running Muslim separatist insurgencies in the island, ODA to Mindanao now falls basically under the context of peace building, conflict resolution, and undermining support for armed rebellion.

Dependency on ODA loans remains high as its share of the external debt, although decreasing, remains at an average of 44 percent for 2001-2006. A 2000 report by the Commission on Audit showed that the total amount the Philippine government repaid to ODA donors in interest payments, commitment charges and penalties exceeded the principal payments by ₱3.5

billion (₱13.68 billion vs. ₱10.2 billion). This does not include other donor charges and fees. In addition, the COA reports a total of ₱10.34 billion in superfluous, unnecessary and unauthorized ODA expenditures and the underreporting and overreporting of assets.

The issue of “tied aid” remains a major irritant in Philippine ODA. Overall, although it has been reported that Japanese tied loans had declined from almost 100 percent in the 1980s to only 27 percent in the nineties, “tied aid” seems to be enjoying a resurgence in the new millennium. Out of twenty-five (25) Japan Bank for International Cooperation (JBIC) project loans from 2000 to 2004, ten (40 percent) were totally tied, another ten were partially tied, and only three (8 percent) were totally untied. In terms of loan amounts 59 percent was totally tied, 28 percent was partially untied and only 2.8 percent was totally untied.

The tying of aid is linked to another ODA issue of concern – that of foreign consultants. Department of Budget officials have complained about “foreign consultants (who) come in and ‘call the shots,’ … pushing their own agenda and effectively driving the projects, rather than the recipients, … proposing solutions that are not adaptable to local situations” and only succeeding in “raising the costs of public services.”

The availment rate of ODA funds, which reflects the country’s aid absorptive capacity, has deteriorated from an annual availment rate of 75 percent in 1988-2000, to only 60 percent in the 2000-2006 period. Many projects have availment rates ranging from 0 percent to less than 10 percent.

Long-running problems in implementation continue to fester such as uncompleted projects, loan cancellations, budgeting issues and lack of local counterpart funds, limited capabilities of local government partners, procurement issues, right of way issues, resettlement and relocation, project cost overruns, frequent changes in heads of implementing agencies, and legal cases.

Corruption and lack of transparency are endemic in the handling of foreign assistance funds. But the decision in March 2007 of President Macapagal Arroyo and her Cabinet to remove from the NEDA Investment Coordinating Committee (ICC) the authority to screen and approve all foreign-assisted infrastructure projects has the potential of opening the floodgates wide open to more corrupt practices and other irregularities. Donor agencies, led by the World Bank have sent a memorandum urging the government to not only retain but also strengthen the ICC review process.

Human rights violations are sometimes associated with ODA-funded projects. Recent cases reported in 2006 are the forcible displacement of local residents in connection with the Bohol Irrigation Project and the Northern Negros Geothermal Power Plant project. Earlier, the killing of an environmental activist was linked to his opposition to a major dam project in Northern Luzon.

Large infrastructure and power projects, many of which are ODA-funded, often endanger the environment and cause physical dislocations of communities, especially indigenous peoples. Social conflicts are logical consequences. In recent years, nine (9) large-scale ODA projects have been identified as socially and environmentally harmful.

A 1986 report by a group of economists from the University of the Philippines concluded that "most of the projects that were financed by foreign loans were unproductive." In 1998 another study criticized the imposition by foreign assistance of “a resource bias against redistributive policies" since it “focuses on the economic sectors in fast-growing and highly urbanized areas.”

A 2004 COA report on the Philippine public debt contends that “loan proceeds did not significantly contribute to our economic development as these were expended for loan repayments and not to projects.” These three studies, in a nutshell, summarize the overall track record of foreign assistance in the Philippines.

Contents

List of Tables

Acronyms

ADB	Asian Development Bank
ARMM	Autonomous Region of Muslim Mindanao
BCDA	Bases Conversion Development Authority
BOT	Build - Operate - Transfer
COA	Commission on Audit
DA	Department of Agriculture
DAC	Development Assistance Committee (OECD)
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of the Environment and Natural Resources
DECS	Department of Education, Culture and Sports
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOTC	Department of Trade and Commerce
DPWH	Department of Public Works and Utilities
DSWD	Department of Social Work and Development
DTI	Department of Trade and Industry
ECC	Environmental Compliance Certificate
FfD	Financing for Development

GNP	Gross National Product
GNI	Gross National Income (same as GDP, adjusted for terms of trade)
GOCC	Government-Owned and Controlled Corporation
GOJ	Government of Japan
GRP	Government of the Republic of the Philippines
ICC	Investment Coordinating Committee (NEDA)
Infracom	Infrastructure Committee (NEDA)
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JCCIPI	Japan Chamber of Commerce in the Philippines, Inc.
JICA	Japan International Cooperation Agency
LBP	Land Bank of the Philippines
LGU	Local Government Unit
LLDA	Laguna Lake Development Authority
LWUA	Local Water Utilities Administration
MDG	Millennium Development Goals
MDFO	Municipal Development Finance Office
MWSS	Metropolitan Waterworks and Sewerage Authority
NEDA	National Economic Development Authority
NIA	National Irrigation Authority
PNOC	Philippine National Oil Company
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
SBMA	Subic Bay Management Authority
TESDA	Technical Education and Skills Development Authority
UN	United Nations
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

1. Introduction

The new millennium ushered in a series of events that impinged on policies, strategies and implementation of official development assistance (ODA) as formulated by donor countries and agencies.[2] The September 11, 2001 attacks in the United States jolted the developed world, particularly American society and government, into seriously considering the plight of underdeveloped societies and the resentment and pain that increasing global inequalities were causing.

The immediate result was a sudden increase in official development assistance from donor countries and institutions. This contrasted sharply with the nineties' decade where the end of the Cold War had resulted in decreasing levels of development assistance. This sudden enlightenment, however, may be short-lived as it has focused mainly on relief and rehabilitation efforts in Iraq and Afghanistan with meager results. Thus sustained and international efforts to end global poverty and social inequalities remain on the development agenda.

Japan, meanwhile, previously the top ODA donor, has been overtaken by the United States as it continued to suffer from a depressed economy and waning public support for its foreign assistance programs. A new ODA Charter in 2003 thus emphasizes Japan's national interests over the previous focus on humanitarian concerns. It had, however, responded to the 9/11 events by also increasing its development assistance contributions but not enough to regain its position as number one donor.

Critics, however, continue to question the effectivity of even increased aid as they raise long-standing issues of dependency, ownership, tied aid, impact on development, donors' geo-political and economic self-interest, corruption and transparency, accountability, wastage and depletion of scarce resources, inefficient implementation, social and environmental consequences, unequal distribution, and lack of popular participation.

This report focuses on the track record of official development assistance in the Philippines from the fall of the Marcos regime in 1986 to the present. Within the context of the new global trends, the Philippine ODA experience remains mired in the problems, inadequacies, and irregularities that characterized the previous decades. In addition to the above concerns, Philippine foreign aid has also seen declining levels, diminishing human development shares, continuing marginalization of grants in favor of loans, bias for the more developed regions, and long-festering problems in project implementation.

2. Definitions

The Organization for Economic Cooperation and Development (OECD) defines ODA as "flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character." The concessionality provision means that loans should have a grant element of at

[2] Although there are certain nuances, this paper uses the terms "official development assistance," "foreign aid," "aid," "foreign assistance," "development assistance," and "development aid" synonymously.

least 25 percent.[3] ODA flows consist of either bilateral contributions from donor government agencies to developing countries or multilateral assistance from international or regional institutions such as the World Bank, the various United Nations agencies, and the Asian Development Bank.

From the above, to qualify as ODA, aid clearly needs to contain three elements: (a) it is undertaken by the official sector, i.e., government bodies; (b) its main objective is the promotion of economic development and the welfare of recipient countries; (c) the aid is granted at concessional financial terms. It is also obvious that military assistance does not qualify as ODA.

ODA is thus an attractive source of development funds in that interest rates for loans are lower than commercial rates, repayment period have longer terms with extended grace periods, and funds are usually geared 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.

An important body for the formulation of policies on aid and the coordination of its implementation is the Organization for Economic Cooperation and Development (OECD). It is an economic policy coordination club composed of 30 of the world's richest economies. It was formed after World War II and originally was composed of non-socialist European countries. In 1961, it was expanded to include the United States, Canada, Australia, New Zealand, and Japan (Lappe, Collins, and Kinley 1980).[4] In its website, the OECD identifies itself as a "forum where governments can compare policy experiences, seek answers to common problems, identify good practice and co-ordinate domestic and international policies."

A precondition for OECD membership is a "commitment to a market economy and a pluralistic democracy." OECD member countries "produce almost 60% of the world's goods and services." Its 22-member Development Assistance Committee (DAC) is responsible for ODA monitoring and evaluation and is also engaged in "policy formulation, policy co-ordination and information systems for development." The DAC comprises the world's major aid donors, accounting for more than 90 percent of ODA worldwide.[5]

In the Philippines, the primary government agency that approves, monitors, and evaluates development aid projects is the National Economic and Development Authority (NEDA), a cabinet level body whose head carries the titles of NEDA Director General and Secretary for Socioeconomic Planning. NEDA's Investment Coordinating Committee (ICC) is in charge of evaluating and approving proposed ODA projects while another body, the Infrastructure Committee (Infracom), has recommendatory functions over infrastructure project proposals. Both

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[3] The "grant element" is an index that indicates the "softness" of a loan. "When a loan is given on a purely commercial basis, the 'grant element' is 0 percent, but when it is given in the form of a grant, its 'grant element' is 100 percent. The minimum 'grant element' required for ODA is 25 percent. For example, a loan with an annual interest rate of 5 percent and repayment period of 10 years including 5 years grace period has a 'grant element' of 25 percent" (APIC 1989).

[4] As of 2007, OECD members are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.

[5] Based on the above list of OECD members, eight of the 30 countries, namely, the Czech Republic, Hungary, Korea, Iceland, Mexico, Poland, Slovak Republic, and Turkey are not members of DAC.

are inter-agency committees. In March 2007, however, this set-up was overturned by President Macapagal-Arroyo's controversial decision to by-pass the ICC's screening process over foreign-funded infrastructure projects so that "proponents may now go directly to the implementing agency concerned" (Dumlao 2007a). This move, which raised concerns among the country's donor community, was precipitated by complaints that the ICC takes too long in approving ODA proposals due to strict regulations particularly on securing required environmental clearances.

3. New Global Trends

The nineties have been characterized by decreasing levels of ODA to developing countries. This development came about immediately after the end of the Cold War and the collapse of the Soviet Union. In a real sense, the ODA downturn reflected a triumphalist confidence among developed capitalist states that their global dominance was now assured and that they no longer had to exert extra efforts to win the allegiance and support of developed countries. Additionally, countries which had previously been regarded as underdeveloped and primary recipients of aid were now showing signs of robust economic growth. This was particularly evident in the East Asian and Southeast Asian regions.

At the level of the various United Nations (UN) organizations, however, concerns were being raised that the growth of the nineties was not reflected in large parts of the world, notably Africa and South Asia, where poverty levels remained unacceptably high. Yearly reports from the United Nations Development Program (UNDP) also showed that the growth patterns were highly skewed and were accompanied by increasing social and economic inequalities within and between countries.

Accordingly, the UN sponsored a major conference in September 2000 to address global problems of poverty and inequality. The conference issued a Millennium Declaration that called on all countries to "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty" (see next section). In a real sense, the September 11 attacks accelerated the process of seeking socio-economic solutions to global problems "in hopes of reducing poverty in developing countries, which they see as a main factor inflaming Islamic fundamentalism and therefore as the hotbed of terrorism" (Hisane 2004).

At the 2002 Monterrey Conference on Financing for Development (FfD), which was participated in by 51 presidents and prime ministers, as well as finance and foreign ministers, business and civil society leaders, discussions were often punctuated by reference to the September 11 events.[6] In a press briefing, conference spokesperson Susan Markham reported that "many speakers during the Conference pointed to the link with terrorism, which could not be fought with weapons alone" and that "poverty and inequalities could lead to despair and provide a breeding ground for violence, crime, corruption and terrorism."

Known as the Monterrey Consensus, the FfD conference document acknowledged that "a substantial increase in ODA [official development assistance] and other resources will be required if developing countries are to achieve the internationally agreed development goals

[6] However, discussions for organizing the conference began as early as 1997 and the UN General Assembly decision to convene the conference in 2002 was made in December 1999.

and objectives."[7] The Monterrey Consensus launched "new aid commitments by several donors (the European Union, the US, and Canada), (and) also committed UN member states to the Millennium Declaration" which aimed at bringing "greater poverty focus to ODA in efforts to halve the proportion of people living in absolute poverty and hunger (and) achieve several social development goals by 2015" (Padilla and Tomlinson 2006). Furthermore, the Consensus document urged developed countries "to make concrete efforts towards the target of 0.7 percent of gross national income as ODA to developing countries."[8] In November 2006, the UN General Assembly decided to hold a Follow-up International Conference on Financing for Development in Doha, Qatar in the second half of 2008.

Development assistance from OECD DAC countries generally follow the vision of the Washington Consensus which conditions aid to the adoption by recipient governments of political and economic reforms based on adherence to free market principles and a commitment to trade and investment liberalization, government deregulation, and privatization (Thompson 2005).

3.1 Millennium Development Goals and ODA

The Millennium Development Goals (MDG) is a set of eight objectives outlined in the United Nations Millennium Declaration adopted by 189 world leaders on 8 September 2000. These goals comprise a set of commitments by nations and their governments to reduce poverty, improve health, and promote peace, human rights, gender equality, and environmental sustainability by 2015. The MDGs consist of 8 goals, 18 targets, and 48 monitoring indicators. The eight goals are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental stability
8. Develop a global partnership for development

With respect to ODA, Goal 8 (Develop a global partnership for development), is particularly relevant. The Asian Development Bank (ADB) outlines the role of ODA in addressing this particular goal (ADB: 2006). The ODA-related targets include an "enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction." The indicators include:

1. "Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income."

[7] The Conference, however, failed to endorse then UN Secretary-General Kofi Annan's call for doubling ODA from $US50 billion to $US100 billion per year.

[8] This target was set as early as 1970 by a unanimous vote of the UN General Assembly.

2. The “proportion of total bilateral, sector allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water, and sanitation.”[9]

3. The “proportion of bilateral ODA of OECD/DAC donors that is untied.” This is defined as the “percentage of country to country ODA for which the associated goods and services may be fully and freely procured in substantially all countries.”

Four years after the MDG commitments were made, a report from the Millennium Project headed by Jeffrey Sachs finds that the development aid system is not yet up to the task of the MDGs” and “needs to scale up its financial and technical support” (UN Millennium Project 2005). The report identifies “ten central problems with the aid system.”[10] It quotes no less than International Monetary Fund Managing Director Rodrigo de Rato who noted in 2004 that “current aid flows are insufficient, unpredictable, and often uncoordinated among donors” and bewailed that the lack of “better coordination and multiyear commitments” is making development assistance less effective.

3.2 OECD Report on ODA

Ostensibly taking the cue from the above initiatives, developed member countries of the Organization for Economic Cooperation and Development (OECD) increased their aid allotments so that by 2005, a record US$106.8 billion was provided, thereby exceeding then UN Secretary General Kofi Annan’s pronounced goal of US$100 billion at the 2002 Monterrey Conference. This was 32 percent higher than the 2004 total of US$78.6 billion which was, in turn, higher by 4.6 percent over the 2003 figure. Total ODA had also increased by 4.3 percent from 2002 to 2003.

Continuing the new trend that began in 2001, the United States was the largest donor in 2005 followed by Japan, the United Kingdom, Germany and France. The United States’ net ODA in 2005 was US$27.6 billion, an increase of 36.5% in real terms over the 2004 contribution. Japan’s net ODA also rose to US$13.1 billion, an increase in real terms of 51.7 percent over 2004.

Most of the increase in aid after 2001, however, came from debt relief grants which increased threefold in 2005 alone. In other words, there was not much new money that went for development programs and projects. Total debt relief grants from DAC countries amounted to US$22.7 billion in 2005, or 21.3 percent of total ODA. Given this, new ODA allotments in 2005, therefore, would only total US$84.1 billion. In 2005, the 22-member-countries of OECD’s Development Assistance Committee (DAC) provided debt forgiveness of US$13.9 billion to Iraq. Humanitarian aid also rose by 15.8 percent in 2005.

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[9] This refers to the “percentage of the total country to country ODA to the basic social services such as: a) basic education which is comprised by primary education, basic life skills for youth and adults, and early childhood education; b) basic health that includes basic health care, basic health infrastructure, basic nutrition, infectious disease control, health education, and health personnel development; c) population policies/programmes and reproductive health that covers population policy and administrative management, reproductive health care, family planning, STD control including HIV/AIDS, and personnel development for population and reproductive health; and d) aid to water supply and sanitation that are poverty-focused.”

[10] See section 5. “What else is wrong with ODA?” below.

ODA patterns reflected the goals of the U.S.-led "War on Terror" as more than two-thirds of the increase in core development programs "was accounted for by only two countries, Afghanistan and Iraq" (OECD 2005). Iraq's annual ODA of US$12.9 billion in 2004-2005 makes it the world's number one ODA recipient country while Afghanistan ranks fourth overall with US$1.95 billion for the same period.

The ODA figures, however, are still short of the UN-mandated ratio of 0.7 percent of gross national income (GNI). The 2005 total represented only 0.33 percent of the donor countries' combined GNI even as this was the highest ratio since 1992 and was an improvement over the 2004 ratio of 0.26 percent. The United States' 2005 ODA/GNI ratio of 0.22 percent, however, was its highest since 1986 while Japan's 2005 ODA/GNI ratio was 0.28 percent. The only countries to exceed the targeted ODA/GNI ratio were Denmark, Luxembourg, the Netherlands, Norway and Sweden.

TABLE 1. NET ODA COMMITMENTS FROM OECD DAC MEMBER COUNTRIES, 2004, 2005 and 2006 (projections)

DAC Member	2004		2005		% Change 2004-2005	2006 Projections	
	US$ million	ODA/ GNI %	US$ million	ODA/ GNI %		US$ million	ODA/ GNI %
Australia	1,460	0.25	1,680	0.25	6.7	1,813	0.28
Austria	678	0.23	1,573	0.52	127.1	998	0.33
Belgium	1,463	0.41	1,963	0.53	31.5	1,876	0.50
Canada	2,599	0.27	3,756	0.34	31.2	2,879	0.28
Denmark	2,037	0.85	2,109	0.81	1.9	2,037	0.77
Finland	680	0.37	902	0.46	29.9	819	0.41
France	8,473	0.41	10,026	0.47	16.8	9,991	0.47
Germany	7,534	0.28	10,082	0.36	32.9	9,331	0.33
Greece	321	0.16	384	0.17	15.9	674	0.30
Ireland	607	0.39	719	0.42	15.7	877	0.50
Italy	2,462	0.15	5,091	0.29	101.4	5,721	0.33
Japan	8,922	0.19	13,147	0.28	51.7	9,922	0.20
Luxembourg	236	0.83	256	0.84	5.4	276	0.82
Netherlands	4,204	0.73	5,115	0.82	19.8	5,166	0.82
New Zealand	212	0.23	274	0.27	18.5	254	0.27
Norway	2,199	0.87	2,786	0.94	13.5	2,726	1.00
Portugal	1,031	0.63	377	0.21	-64.1	584	0.33
Spain	2,437	0.24	3,018	0.27	19.5	3,651	0.33
Sweden	2,722	0.78	3,362	0.94	24.1	3,722	1.00
Switzerland	1,545	0.41	1,767	0.44	13.7	1,666	0.41
United Kingdom	7,883	0.36	10,767	0.47	35.0	9,682	0.42
United States	19,705	0.17	27,622	0.22	36.5	24,000	0.19
TOTAL DAC	**79,410**	**0.26**	**106,777**	**0.33**	**32.0**	**98,684**	**0.36**

Source of basic data: OECD
Note: The OECD explains that 2006 projections are based on public announcements by DAC member countries as of December 2006.

The UN target is not expected to be achieved soon as donor countries have made only modest pledges to improve their respective ODA/GNI ratios. The European Council, for instance has pledged to achieve a ratio of only 0.56 percent by 2010, while five other donors stated their intent to reach 0.7 percent before 2015 with the result that by 2010, the overall ODA/GNI ratio of DAC members is projected to reach only 0.36 percent (Padilla and Tomlinson 2006).

Given the large proportion of ODA going to debt relief and that donors would be unwilling to sustain this trend, the OECD expects that aid volumes will decline in 2006 and 2007. The growing share of new donors from non-DAC members, such as China and Saudi Arabia, will also result in declining OECD aid allotments. At present, the 22 member countries of the OECD's DAC contribute around 95 percent of total ODA. In 2005 non-DAC development assistance amounted to US$3.2 billion, with Saudi Arabia contributing US$1.7 billion and not including China.

For 2006, OECD calculations show that, based on public pronouncements of DAC member countries, net ODA commitments for 2006 will total US$98.68 billion, a 7.58 percent reduction over the 2005 total. The ODA/GNI ratio, on the other hand, is projected to improve marginally, from 0.33 percent to 0.36 percent. Among the top donor countries, the US will decrease its ODA by 13 percent (from US$27.6 billion to US$24 billion) while Japan's contributions will fall by 25 percent (from US$13 billion to US$9.9 billion).

3.3 Japan's ODA

Japan had started its foreign assistance in 1954 in the form of war reparations for damages it inflicted in World War II. In the seventies and eighties, an economic boom enabled Japan to increase its ODA by "leaps and bounds" (Watanabe 2005). By 1989, it had become the world's top donor country, a position it kept until 2000. To provide an "aid vision," an ODA Charter was formulated in 1992 with a set of strategic guiding principles and the inclusion of cross-sectoral issues such as gender and environment. Economic stagnation, however, forced Japan to scale down on ODA contributions and later reorient its aid policy with the adoption of a new ODA Charter in 2003.

3.3.1 Japan's New ODA Charter

The revision of Japan's ODA Charter in 2003 took place in the midst of dramatic changes and events that took place in the international and national situation since the 1990s (MOFA Japan: 2004). On the international front, these included (1) the rapid advance of globalization and its impact on developing nations, (2) the adoption of the Millennium Development Goals in 2000, (3) the September 21, 2001 attacks in the United States which gave rise to the realization that widespread poverty and global inequalities "can be a hotbed of terrorism," and, (4) the subsequent increase in development assistance particularly from the United States and the European community. On Japan's domestic front, a severe economic and financial downturn and public demands "for improvements in the strategic value, flexibility, transparency and efficiency of ODA" saw a drastic reduction in aid outflows. The Japanese government also had to respond to calls from non-governmental organizations (NGOs) and universities for broader public participation in ODA formulation and implementation.

The 1992 ODA Charter advocated basic principles such "the humanitarian viewpoint, interdependence in the international community, environmental conservation, Japan's adherence to peace (including avoiding the use of ODA for military purposes), democratization and good governance, and promoting the development of market economies.

The 2003 ODA Charter, on the other hand, declares that the objectives of ODA are "to contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity." Japan's Ministry of Foreign Affairs explains that the new Charter "recognizes that the basic policies of Japan's diplomacy are to ensure Japan's security and prosperity, and that the importance of ODA, which is provided as an element of diplomacy, can neither be understood nor supported, unless it contributes to Japan's security and prosperity" (MOFA 2004). National interest, therefore, has now become the overriding principle of Japan's ODA.

In line with the primary concern for Japan's "security and prosperity," the new Charter includes the "prevention of terrorism" among its implementation principles (Koshida 2004). Even the goal of "poverty reduction" is seen as "essential for eliminating instability factors in the world such as terrorism." In addition to the concern with "terrorism," the new Charter also looks at other issues "such as humanitarian ones (poverty, hunger, refugees and disasters), global ones (the environment and water)." Consistent with the national interest principle, the resolution of the above issues is seen as satisfying Japan's requirements for resources and energy coming from developing countries.

> Japan's initiative in making full use of ODA to resolve these issues will not only benefit Japan in a number of ways, for example through further advancement of friendly relations and promotion of people-to-people exchanges and through improvement of Japan's position in the international arena, but also, it will lead to the stability and development of developing countries, which is vital for Japan as it is heavily dependent on overseas countries for resources and energy (MOFA 2004).

Other concerns in the new charter include "human security," and "the consolidation of peace." ODA is seen as playing an important role in "conflict prevention, emergency humanitarian assistance during conflict, promoting the conclusion of conflict, peace consolidation and nation-building after the conclusion of conflict." The consolidation of peace in Iraq through Japanese ODA is given special mention.

In the post-Cold War era, ODA was seen as an alternative weapon to military power. Under the new Charter, the concept of security is now broadened to include dispatching Japan's Self Defense Forces (SDF) to other countries and providing logistical help (Ota 2006). The use of ODA for "peace construction" is thus underlined. In this context, "ODA" forms a triad together with "negotiations" and "peace keeping operations." SDF and ODA can be viewed as "two wheels of the same cart." Strategic areas and regions identified are Iraq and Afghanistan on one hand and Southeast Asia on the other. According to opinion polls, 50 percent of the Japanese public now support the SDF while another 50 percent are for charter change, i.e., revise Japan's "peace constitution" (Ota 2006).

The new ODA Charter also commits Japan to "strengthening collaboration with NGOs, … both internal and external, and to increase public participation" as well as "preventing fraud and corruption with a view to ensuring the transparency of ODA, … and improving the effects of aid (through) … strengthening third-party evaluations and audits." Lastly, Japan promises to consider "the environmental and social impact (of) aid projects in recipient countries."

In terms of regional shares, Asia remains the top priority with emphasis on the ASEAN group. Japan however is to provide less ODA to China. Accordingly, Japanese ODA to China was halved from US$1.85 billion in 1999 to US$925 million in 2003 with 70 percent going for environment-related projects alone.

Japan's new ODA thrusts is also linked to the strategy of building a common economic market as an antidote to the 1997-98 economic crisis (Ota 2006). But since multilateral trade agreements have proven to be problematic, e.g., the WTO impasse, the tactic is to concentrate on bilateral free trade agreements as Japan has done with Mexico, Singapore, Thailand, Malaysia, and the Philippines. At the same time, ODA is also to be utilized for financing initiatives at ASEAN integration, including institution building.

Some observers see Japan being transformed from being "merely an auxiliary state to the US to a leading state given its capital expansion which sometimes compete with US capital" (Ota 2006). Japan, after all, is thought to follow a different economic strategy from the US, that of emphasizing the role of government in economic growth and development. The ODA provided by government can be a vehicle for protecting Japan's capital interests worldwide. Japan's global ambitions in the political sphere, e.g., its long-standing campaign for a permanent seat at the UN Security Council, can also be served by its ODA for countries whose votes at the UN it is trying to court.

3.3.2 Trends in Japanese ODA

In 2001, Japan was overtaken by the U.S. as the world's biggest ODA donor for the first time since 1989, "dealing a significant setback to Japan's influence in the international arena -- and to its national pride" (Hisane 2004). Japan's prolonged economic crisis, following the burst of its bubble economy in the late 1980s, had finally taken its toll on Japan's development assistance program, considered the cornerstone of its foreign policy. A mild and fitful economic recovery at the beginning of the new millennium has not brought relief to the country's fiscal situation which continues to be characterized by austerity measures due to heavy government indebtedness (including a budget deficit in trillions of dollars) and ever increasing social security expenditures for a rapidly aging population. Another factor is waning public support for ODA which, according to opinion surveys, has fallen from 41.1 percent in 1991 to only 19 percent in 2000 (Ota 2006).

From an average ODA allotment of US$11.6 billion per year from 1991 to 2000, Japan's ODA average fell to US$10 billion per year from 2001 to 2006. To make matters worse, in 2006, the OECD calculates that Japan will slide down to number three spot as a major ODA donor; overtaken by France (see table 1). Other observers predict that Japan will fall even further to fifth place in the coming years with Germany and the United Kingdom pushing ahead of it (Hisane 2004). Notwithstanding a pledge in 2005 by then Japanese Prime Minister Junichiro Koizumi to increase Japan's ODA budget by US$10 billion over the next five years (Kakuchi 2005), the country's foreign assistance is expected by OECD to fall in 2006 by 25 percent compared to its 2005 contributions, from US$13 billion to US$9.9 billion. By 2008, Japan will terminate its regular yen loan program.

In 2005, Japan's net ODA rose to US$13.1 billion, an increase of 51.7 percent over the 2004 figure of US$8.9 billion; its ODA/GNI ratio to 0.28 percent. Following the pattern set by the US, this included US$3.5 billion to Iraq, or 27 percent of Japan's total ODA for the year. In gross terms, Japan's ODA was US$18.6 billion, an increase of 18.6 percent in real terms. Japan's ODA/GNI ratio also improved to 0.28 percent from 0.19 percent in 2004.

The OECD reports that, in 2004, Japan's net ODA declined by 4.8 percent in real terms to US$8.9 billion or 0.19 percent of its GNI. In gross terms, however, its ODA rose by 24.5

percent to US$16.1 billion. As in 2005, the bulk of this amount went to aid for reconstruction of Iraq, and "increased debt relief to some of the most heavily indebted countries."[11]

TABLE 2. JAPAN'S ODA COMMITMENTS, 1991 TO 2006 (in US$ million)

YEAR	AMOUNT	YEAR	AMOUNT
1991	10,952	1999	12,162
1992	11,151	2000	13,508
1993	11,259	2001	9,847
1994	13,239	2002	9,283
1995	14,489	2003	8,880
1996	9,439	2004	8,906
1997	9,358	2005	13,147
1998	10,640	2006 (proj)	9,922
Yearly average for 1991 to 2000: US$11,620 million			
Yearly average for 2001 to 2006: US$ 9,998 million			

Source of basic data: Japan Ministry of Foreign Affairs
Note: 2006 figure is based on OECD projections

Despite its position as a major ODA donor, Japan has also been one of the poorest performers in terms of its ODA/GNI ratio as it has been consistently ranked in the bottom fifth of all DAC members. In 2004, its ODA/GNI ratio of 0.17 percent placed it fourth from the bottom; in 2005, it improved somewhat to sixth from the bottom, but in 2006, OECD projects that Japan's ratio will relegate it to second from the bottom (see table 1).

The primary outlet for Japanese loan assistance is the Japan Bank for International Cooperation (JBIC) which was established in October 1999 through the merger of the Export-Import Bank of Japan (JEXIM: established in 1950) and the Overseas Economic Cooperation Fund, Japan (OECF: established in 1961). JBIC's purposes are (1) the promotion of Japan's international trade and other international economic activities, (2) the stabilization of the international financial order, and (3) economic and social development and/or stability of developing areas.

3.4 The Untying of Aid: An Unfulfilled Project

The tying of aid has been a major issue in the implementing ODA projects. More than any other indicator, tied aid reflects the self-serving character of ODA and leads to charges of false altruism of donor countries. The untying of aid therefore is a primary demand of developing countries who are ODA recipients. "Untied aid" is defined as the "percentage of country to country ODA for which the associated goods and services may be fully and freely procured in substantially all countries" (ADB 2006).

[11] The OECD reports, however, that " this debt relief had little effect on net ODA since the bulk of the forgiven loans were counted as ODA when they were extended" and that "increased repayments of ODA loans, notably by countries that have recovered from the Asian financial crisis, also affected Japan's net ODA."

The untying of aid, however, should refer not only to the accessibility of parties outside of the donor countries to provide goods and services related to a particular ODA loan, but also the level of accessibility of parties from the recipient countries themselves, particularly the least developed countries. In this context, the internationally accepted definition of “untied aid” is inadequate and needs to be refined so as to make a distinction between developed and developing countries.

Recipient countries bear a double burden for tied aid (UNDP 2005). For one, they are denied the opportunity to access services and goods at a lower price due to “the absence of open market tendering” and secondly, it can lead to “the transfer of inappropriate technology and skills.” As a result of overpricing of goods and services by as much as 40 percent, tied aid “reduces the value of assistance by 11 percent to 30 percent” (UNDP 2005).

An international consulting firm, Euroact Japan, Ltd., lamented in 1999 that while “Japan’s ODA represents a multitude of business opportunities” and that “in theory, non -Japanese companies and non-Japanese consultants have almost complete access to Japanese ODA projects, in practice they often fail to take full advantage of these opportunities” (Euroact Japan 1999). The firm traces this situation to ignorance of the business opportunities because the “relevant project-related information is hard to obtain and is often available only in Japanese.”

Nevertheless, for Japan, from a tied ODA component of almost 100 percent in the 1980s, the share went down to an average of 26 percent in the early nineties (Ota 2006). But as the share of non-Japanese companies in procurement, engineering and consulting work funded by Japanese ODA gradually decreased, Japanese companies reportedly expressed apprehension about this development. With the support of the Japan Ministry of Trade and Industry (MITI), these firms actively lobbied the central government to reverse the trend (Euroact Japan 1999). Spurred by Japan’s economic woes, this lobby appeared to have gained ground. The 1998 Japanese yen loan became tied again. A 1999 estimate of the shares of contracts (grants and loans) among Japanese and non-Japanese firms show that 45 percent went to Japanese firms and 20 percent to contractors from other OECD countries (Euroact Japan 1999). Contractors from developing countries (where the ODA projects were situated) got only 35 percent.

That the Japanese government would accede to the demands of Japanese business is not surprising as the latter have “traditionally been the strongest and the most cohesive supporter of ODA, and has acted as a catalyst and magnet for concessional aid flows." Aid funds are viewed by Japanese aid officials as "seed money" that would pave the way for future investments by Japanese business in developing countries. The awarding of aid funds to a developing country serves as a signal to Japanese business that a favorable political and economic climate exists for Japanese investments in the said country. For this reason, the Japanese business community “takes an active and coordinated role in shaping and participating in Japan's aid program.”

In the nineties, business groups identified with donor countries often had prior access to contracts related to ODA projects. In 1996, the UN Department of Public Information reported that “of the $396 million in procurements approved by the UN Secretariat in New York in 1995, American companies got 47 per cent of the business, or $197 million.” It was further revealed that “for every dollar that the USA contributed in 1995 to the New York-based United Nations Development Programme, American companies got back more than US$2 in UNDP procurement orders.”

In August 1994, an Australian International Development Assistance Bureau (AIDAB) review of its aid program to Indonesia over the period 1980 - 1993 uncovered the information that "substantial commercial business was generated in Australia from the $990 million of aid funds for Indonesia." The agency reported that "the Australian economy has already benefited by some $1,474 million over the review period" and that "this figure is likely to reach $1,760 million by end 1994" and that "for every $100 of AIDAB funds spent on the Indonesia program prior to June 1993, about $178 of business for Australian companies (both private and public) is expected to be generated" (AIDAB 1995).

Under the slogan of "Aid Business - Good Business," the AIDAB sponsored a seminar in April 1995 for Australian business companies on how to "access the $35 billion international aid market which will orient Australian business companies on the range of procurement and consultancy opportunities available through international aid programs like those of the WB, ADB, Australian and Japanese aid programs" (AIDAB 1995). Speakers came from Japan's OECF, Ministry of Foreign Affairs, and JICA and the Australian Executive Director of the Asian Development Bank.

The clamor for untying aid has been a long sought for reform by developing countries and this subject almost always comes up in international conferences. This desire was given a strong impetus by the adoption of the Millennium Goals where it is a primary indicator for achieving goal number 8 (developing a global partnership for development) and by the Paris Declaration on Aid Effectiveness. In response the OECD/DAC have taken steps starting in 2001 to get its member countries to untie more of its aid (OECD 2006).

The lifting by DAC in 2006 of an exception concerning small contracts (i.e., less than US$1 million) as well as agreement on "an approach to reporting contract awards that provides the required degree of transparency, while minimizing reporting burdens" is projected by OECD to result in an additional US$440 million in ODA funds that will be untied (OECD 2006). The impact of the above initiative on aid effectiveness, however, will be restricted by "its limited geographic and activity coverage."

As of 2005, the OECD reports that 51 percent of aid was reported by donor countries to be untied in that it is not conditioned on procurement in the donor country. This official figure is still considered low and needs to improve substantially. But this particular statistic is likely to be an overestimate as the tying status is unknown for some 45 percent of all aid (OECD 2006).[12]

The UNDP contends that the "full extent of tied aid is unknown because of unclear or incomplete reporting by donors." This is reflected in (1) the lack of transparency and bias in procurement policies, (2) incomplete reporting (e.g., the US and Italy do not report fully to OECD; others give incomplete reports), and (3) the exemption of technical assistance from OECD reporting requirements. Thus, as the OECD had indicated in its report on the untying of aid, "the tying status of between one-third to one-half of aid to low income countries is unknown" (UNDP 2005).

What takes place therefore is a form of "aid taxation" or the imposition of additional costs to aid that recipient countries are forced to bear. This is translated into losses for developing

[12] Furthermore, the OECD does not make a distinction between "totally tied" aid and "partially tied" aid.

countries that the UNDP estimates at between US$5 billion to US$7 billion for 2002 and 2003 alone, “enough to finance universal primary education.” The biggest losses are incurred by low income countries (US$2.6 billion to US$4 billion). These figures, however, are still understated in that they exclude technical grant assistance.

3.5 The Emergence of China

China’s emergence as a new player in foreign development assistance introduces a new dimension to the global context of ODA. Based on OECD figures, China’s US$4.5 billion in ODA commitments in 2002 alone would have ranked it sixth globally for that year.[13] Africa is the priority region for Chinese ODA accounting for 30 percent of the total in 2002. In November 2006, the Chinese government pledged to double its assistance to Africa and provide US$5 billion in soft loans (Legwaila 2006). But since it is not an OECD member, China’s ODA contributions are not monitored on a regular basis and the Chinese government itself provides little or no information on its foreign assistance programs.

China’s aggressiveness in the ODA game is taking place against the backdrop of its own status as an ODA recipient country and Japan’s recent 50 percent cutback in foreign assistance to Beijing. At the same time, its own aid program is backstopped by a booming economy and foreign reserves that are now the largest in the world. As of December 2006, China’s foreign reserves in foreign currencies and securities totaled US$1.1 trillion, 16 percent higher than second ranked Japan’s US$895 billion (Batson 2007). These reserves increase by US$20 billion monthly brought in mainly by the economy’s vibrant export sector.

China’s ODA policy is purportedly based on a new donor paradigm known as the “Beijing Consensus” that challenges the framework espoused by the “Washington Consensus” as implemented by OECD members (Thompson 2005). While the imposition of aid conditionalities such as political and economic reforms are inherent in Washington Consensus–type aid programs, the Beijing Consensus adheres to the principle of non-interference in a recipient country’s internal affairs and sovereign integrity (Lewaila 2006). In Africa, for example, the Beijing government’s “steadfast refusal to criticize or involve itself in the internal affairs of African nations earns it the (support) of leaders and elites who have benefited from poor governance and opaque political systems and are reluctant to implement painful economic or political reforms demanded by the West” (Thompson 2005). China’s exercise of “soft power” diplomacy underpins its long history of friendly ties with African governments and is reflected in a “no-strings attached” approach to its development assistance program.

China’s development paradigm, therefore, rejects “Western notions of political liberalization or economic reforms as indispensable for long-term, sustained development.” It has “effectively exported its notion of economic development with Chinese characteristics to its African trading partners, encouraging them to develop their economy through trade and investment in infrastructure and social institutions, without dictating terms for political or economic reforms” (Thompson 2005).

The Beijing Consensus, however, and its lack of aid conditionalities, has come under fire from OECD circles. The European Investment Bank (EIB) has warned that “the world's development

[13] According to OECD statistics, the top ODA donors for 2002 were (1) US with US$13.3 billion, (2) Japan, US$9.3 billion, (3) France, US$5.5 billion, (4) Germany, US$5.3 billion, (5) UK, US$4.9 billion, and (6) Netherlands, US$3.3 billion.

banks may have to water down the social and environmental conditions they attach to loans in Africa and elsewhere because they are being undercut by less scrupulous Chinese lenders" (Parker and Beattie 2006). Bewailing China's supposedly lack of concern for "social and human rights conditions," EIB President Philippe Maystadt "claims Chinese banks have snatched projects from under the EIB's nose in Asia and Africa, after offering to undercut the conditions it imposed on labor standards and environmental protection." Maystadt called for a "common approach" from the West to meet the Chinese challenge, and suggested a rethinking of what he called "excessive conditions." He added that unless these conditions "are set at a realistic level, project managers in Asia, Africa and elsewhere will turn to other sources of financing without such strings attached."

4. ODA in the Philippines

Since achieving political independence in 1946, the Philippines has been dependent on foreign assistance to support its development agenda, particularly its economic projects. In the fifties' and early sixties', ODA contributed greatly to the country's post-war rehabilitation, and was mainly in the form of grant assistance with the United States as the main provider (UN International Labor Office 1976). The inflow of funds from ODA comprised 10 percent of foreign exchange and one percent of GNI during these two decades.

Foreign aid contributions dramatically increased at the beginning of the seventies' with the organization of the Consultative Group on the Philippines in 1971; ODA commitments during the first half of the decade were "larger than the total committed during the preceding 20 years." It now accounted for 14 percent of the country's foreign exchange requirements even as the composition and source of aid also changed from grants to loans and from bilateral to multilateral (Tadem 2003). An economically resurgent Japan also replaced the US as the country's primary contributor of bilateral development assistance.

Philippine government policy on development assistance is embodied in the Official Development Assistance Act of 1996 which defines the official position on crucial ODA issues and concerns (Tadem 2003). 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."

4.1 The Twenty-Year Record, 1986 to 2006

The year 1986 is used here as a benchmark because it marks a demarcation point between the Marcos authoritarian regime and succeeding non-authoritarian administrations. Foreign assistance during the Marcos years (1965-1986) had acquired an odious reputation for corruption, bribery, human rights violations, environmental degradation, and various implementation flaws (Yokoyama 1990, Tsuda and Deocadiz 1986). The ascension of the Aquino government was accompanied by calls for the re-examination and reforms in ODA policy and implementation.

In this report, the twenty-year record of ODA in the Philippines from 1986 to 2006 is examined to determine whether the lessons of the Marcos years have been properly learned. Indicators include (1) growth rates of ODA commitments, (2) the ratio of loans to grants, (3) sectoral allocation, (4) geographical distribution, (5) disbursement and availment rates, (6) ratio of ODA to external debt, (7) proportion of program loans to project loans, (8) the tying of aid, (9) social and environmental issues, and (10) various implementation problems.

Total ODA committed to the Philippines over the period from 1986 to 2006 amounted to US$37.9 billion. Of total ODA from 1986 to 2006, 84.22 percent was in the form of loans and only 15.78 percent was in grant form. Compared to the 1986-2000 loan-grant distribution of 85.42 percent and 14.58 percent respectively, a minimal improvement was also registered. This could perhaps be accounted for by the total absence of loan commitments from the US for the 2001-2006 period as the donor-country concentrated exclusively on giving out grants.

Of this amount, 36.35 percent was contributed by multilateral institutions with the rest, or 63.65 percent, shared by bilateral contributions. Compared to the data from 1986 to 2000, the contribution of multilateral agencies fell by 3.65 percent. Loans constituted 93.55 percent of multilateral ODA and only 6.45 percent was in the form of grants. This is a minuscule improvement from the 1986-2000 shares of 94.57 percent in loans and 5.43 percent in grants. On the other hand, 78.90 percent of bilateral assistance was in the form of loans, with only 21.10 percent in grants. Compared to the 1986-2000 shares of 78.43 percent and 21.57 percent respectively, bilateral assistance showed a deterioration in the loan-grant mix.

Among the multilaterals, the World Bank continues to be the largest provider at 50.66 percent but this was a decline from the 52 percent share for the 1986-2000 period. The ADB, on the other hand, increased its share from 43 percent in the 1986-2000 period to 44.2 percent. Total WB and ADB exposure is 94.86 percent which slightly less that the two institutions' share of 95.25 percent in 1986-2000.

TABLE 3. TOTAL ODA COMMITTED TO THE PHILIPPINES, 1986-2006 (in US$Million, By Source)

SOURCE Multilateral	TOTAL	LOANS	GRANTS
1. IBRD/WB	6,983.98	6,841.64	142.34
2. ADB	6,101.63	5,998.12	103.51
3. EU	344.90	------	344.90
4. UN System	322.74	25.54	299.06
5. Others	30.60	30.60	-------
Subtotal	**13,783.85**	**12,895.90**	**889.81**
Bilateral			
1. Japan	16,865.36	15,380.40	1,485.16
2. US	2,006.78	173.30	1,863.48
3. Germany	962.79	675.70	242.01
4. UK/GB	949.49	920.09	29.40
5. Australia	819.70	171.43	621.27
6. France	499.35	489.73	9.62
7. China	466.99	459.99	7.00
6. Canada	402.50	15.40	387.16
7. Spain	376.78	350.89	25.78
9. Italy	117.10	75.00	42.15
10. Brunei	100.00	100.00	--------
11. Korea	57.30	57.30	--------
11. Others	508.27	170.40	189.73
Subtotal	**24,132.41**	**19,039.63**	**4,902.76**
TOTAL	**37,916.26**	**31,935.53**	**5,792.57**

Source of basic data: NEDA Public Investment Staff
Note: Loans as of September 2006; grants as of June 2006.

Among bilateral donors, and contrary to the global trend, Japan continues to lead with 78.17 percent, an increase over its 1986-2000 share of 75.6 percent of total bilateral ODA. As before, the US lags behind as a poor second with 8.31 percent even as this was an improvement over its 1986-2000 share of 7.5 percent. An even more distant third is Germany with a mere 3.99 percent. The United Kingdom was fourth with 3.93 percent.

The 2001-2006 period was marked by the entry of two new ODA players in the Philippines, both of them from the Asian region, China and Korea. China made an impressive debut in the field of ODA donors to the Philippines by contributing US$467 million for three projects, making it the seventh largest bilateral donor. However, only 1.5 percent of this amount was in the form of grants. Moreover, 85.65 percent (or US$400 million), was for one single project, the rehabilitation of the North Luzon Railway system and this particular development project has been beset by controversy (see Section 4.9 below).

Notwithstanding the global trend of increasing ODA allotments, the figures for 2001-2006 confirm the Philippine trend of a continuing and rapid slowdown in ODA commitments from the country's traditional donors. The 1986-2000 20-year annual average was US$1,263.88 million while for the six-year period from 2001-2006, average ODA commitments was only US$978.82 million, a 22.55 percent reduction. The decrease in Japan's average allotments was even more significant – from US$562.18 million to US$351.33 million, a 37.51 percent decline.

TABLE 4. TOTAL ODA COMMITTED TO THE PHILIPPINES, 1986-2000 (in US$Million, By Source)

SOURCE			
Multilateral	**TOTAL**	**LOANS**	**GRANTS**
1. IBRD/WB	6,162.70	6,131.60	31.10
2. ADB	5,167.13	5,092.65	74.48
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 of basic data: NEDA Public Investment Staff

At the Philippines Development Forum (PDF) meetings from March 8-9, 2007 in Cebu City, however, the Department of Finance proposed a package of 10 "high-impact" infrastructure projects worth ₱83 billion (US$1.5 billion) to the country's major donors, including the World Bank, ADB, Japan, the US, and other bilateral donor countries. The projects include the ₱35.5 billion Light Rail Transit Line 6 and the ₱19.4 billion proposed 84.5-kilometer extension of the North Luzon Expressway (Manila Bulletin 2007).[14]

Since the Philippines had not benefited by the global expansion of ODA since 2001 and OECD projections are for declining global ODA levels beginning 2007, it stands to reason that the country would not be expecting any increased ODA commitments from hereon, at least, not from OECD DAC member countries. NEDA thus expects the bulk of the new ODA

[14] The Light Rail Transit Line 6 will extend the existing Line 1 from the Baclaran station to the cities of Parañaque, Las Piñas, and the adjoining municipalities of Bacoor, Imus, and Dasmariñas in Cavite. The North Luzon Expressway extension by 2.85 kilometers includes 12 interchanges and toll collection facilities, and two major bridges crossing the Agno and Bued Rivers and is meant to service Regions I, III, Cordillera Autonomous Region and Metro Manila, as well as decongest traffic on McArthur Highway.

funds to come from China or Chinese sources, thereby acknowledging that resources of OECD DAC donor countries resources cannot be relied upon to fill the country's development assistance needs (See Section 4.9 below).

In an effort to improve its fiscal status, the government is set to increase the country's dependence on ODA to fund its programs and projects (Dumlao 2006a). This was revealed by Finance Secretary Margarito Teves who said that of the programmed US$2.2 billion in fresh foreign borrowings for 2007, only US$600 million (28 percent) would be coursed from the commercial sector while the remainder of US$1.6 billion (72 percent) would be in cheaper ODA loans.

TABLE 5: ODA COMMITMENTS TO THE PHILIPPINES,
By Source, 2001-2006 (In US$Million)

Source	Total	Loans	% Loans	Grants	% Grants
Multilateral					
ADB	934.500	905.47	96.89	29.03	3.11
World Bank	821.280	710.04	86.45	111.24	13.55
UN System	92.700	23.68	25.54	69.02	74.46
OPEC	7.000	7.00	100.00	---	00.00
Euro Comm	34.710	----	00.00	34.71	100.00
NORDIC	6.000	6.00	100.00	---	00.00
Subtotal	**1,896.190**	**1,652.19**	**87.13**	**244.00**	**12.87**
Bilateral					
Japan	2,108.001	2,087.081	99.01	20.92	00.94
U.S.	390.420	-----	00.00	390.42	100.00
Germany	178.379	141.729	79.45	36.65	20.55
China	466.985	459.985	98.50	7.00	1.50
Canada	52.650	---	00.00	52.65	100.00
UK	362.940	362.940	100.00	---	00.00
Australia	167.680	---	00.00	167.68	100.00
Austria	33.370	33.370	100.00	---	00.00
Spain	69.408	65.728	94.70	3.68	5.30
Belgium	26.920	17.320	64.54	9.60	35.66
Korea	57.300	57.300	100.00	---	00.00
Netherlands	25.930	20.15	77.70	5.78	22.30
New Zealand	5.140	---	00.00	5.14	100.00
Norway	0.340	---	00.00	0.34	100.00
Saudi Arabia	19.995	19.995	100.00	---	00.00
Sweden	11.310	10.000	88.42	1.31	11.58
Subtotal	**3,976.758**	**3,275.598**	**82.37**	**701.16**	**17.63**
TOTALS	**5,872.948**	**4,927.788**	**83.91**	**945.16**	**16.09**

Note: Loans as of September 2006; Grants as of June 2006
Source for basic data: National Economic Development Authority

Philippine government agencies, however, do not to seem to coordinate their ODA initiatives. The Department of Budget and Management (DBM) has a lower estimate of US$1.0 billion in projected development financing for 2007 from JBIC, the World Bank and the Asian Development Bank. Of this amount, the bulk is to come from JBIC with US$660 million, followed by the World Bank with US$136 million and the ADB with US$94 million with US$111.3 million coming from other sources (Manila Bulletin 2007).

4.3 Japan's ODA to the Philippines

For the twenty-year period from 1986 to 2006, an overwhelmingly large 91.19 percent Japanese assistance was in the form of loans and only 8.81 percent was in the form of grants and technical assistance. The reverse was true with the US, on the other hand, with American assistance consisting of 92.86 percent in grants and only 7.14 percent in loans. Japan's share of total bilateral loans of 80.78 percent was greater than its share of total bilateral ODA. Its share of bilateral grant assistance, on the other hand, was only 30.29 percent.

Japan had lagged behind the US in terms of grant assistance with 30 percent of bilateral grants compared with 38 percent for the US in the 1986-2000 years. In the 2000-2006 period, this gap has widened with the US taking a 55.7 percent share of bilateral grants compared to Japan's 2.98 percent. However, as previously noted, there is no record of new U.S. loans for the 2000-2006 period.

The past two years (2005-2006) have seen a drastic scaling down of Japanese ODA to the Philippines. The total for the two years was only US$90.4 million consisting of one loan project in 2006 worth US$82 million and four grant assistance projects amounting to US$8.7 million. No new Japanese loans were granted in 2005. The US$3.85 million in Japanese ODA for 2005 was the lowest level ever reported throughout all the years that Japan has been providing development assistance to the Philippines.[15]

This development came about despite an announcement by the Japan International Cooperation Agency (JICA),[16] in October 2004 that Japanese ODA for the Philippines would increase in 2005 (Cagahastian 2004). JICA officials had said that the cuts in Japan's ODA to China will enable the increase in ODA commitments to the Philippines and Indonesia.

For 2007, JBIC has announced a Philippine loan for the expansion of a tire manufacturing and production facility. JBIC has also reported that the project has already met Philippine environmental standards. While the release of the loan supposedly took place on February 19, 2007, JBIC has not announced the project loan amount.

Despite the above developments, Japan remains the Philippines' top bilateral donor. The second running donor country, the US, is too far behind to catch up with Japan. Besides the US seems to be concentrating more on grant assistance rather than loans. With projected improvements in Japan's long-running economic downturn, some increases could be expected in the coming years, particularly given Japan's interest in projects related to peace building in Mindanao and other conflict-torn areas.

[15] Previous lows were in 1962 (US$7.02 million) and in 1961 (US$8.54 million).

[16] JICA is the Japanese government agency that administers Japanese technical assistance and financial grants to developing countries.

TABLE 6. JAPAN'S NET ODA TO THE PHILIPPINES
(1985-2006, in US$ Million)

Year	Total	Loans	Share (%)	Grants	Share (%)
1985	240.00	170.29	70.95	69.71	29.05
1986	437.96	357.58	81.65	80.37	18.35
1987	379.38	267.6	70.54	111.79	29.46
1988	534.72	403.62	75.48	131.1	24.52
1989	403.75	227.69	56.39	176.06	43.61
1990	647.45	494.31	76.35	153.14	23.65
1991	458.92	285.3	62.17	173.62	37.83
1992	1030.67	845.01	81.99	185.66	18.01
1993	758.39	512.96	67.64	245.42	32.36
1994	591.60	342.78	57.94	248.82	42.06
1995	416.13	180.62	43.40	235.51	56.60
1996	414.45	228.96	55.24	185.49	44.76
1997	318.98	161.51	50.63	157.47	49.37
1998	297.55	138.54	46.56	159.01	53.44
1999	412.98	238.68	57.79	174.30	42.21
2000	304.48	147.39	48.41	157.09	51.59
2001	298.22	146.77	49.22	151.45	50.78
2002	318.02	181.3	57.00	136.89	43.00
2003	528.78	367.53	69.50	161.25	30.50
2004	211.38	94.61	44.79	116.77	55.21
2005	3.85	----	----	3.85	100.00
2006	86.55	81.73	94.4	4.82	5.56
TOTAL	**9,003.81**	**5,793.05**	**64.34**	**3,210.92**	**35.66**

Source: Japan Ministry of Foreign Affairs

TABLE 7. JAPANESE ODA TO THE PHILIPPINES, 2005-2006

Project	Date of exchange of notes	US$ million
Grant Aid		
The Project for Human Resource Development Scholarship	July 8, 2005	3.850
Food Aid through WFP	March 17, 2006	0.965
The Project for Human Resource Development Scholarship	July 23, 2006	2.893
Food Aid	October 31, 2006	0.965
Loan Aid		
Pasig-Marikina River Channel Improvement Project (Phase II)	Dec. 9, 2006	81.734
TOTAL		**90.407**

Source: Japan Ministry of Foreign Affairs

4.3.1 Tied Aid in the Philippines

Despite internationally concerted and organized efforts to untie aid, the situation in the Philippines appears to have taken a turn for the worse beginning in the year 2000. This is particularly true of Japanese loans granted by JBIC as gathered from data released by the bank itself. Out of twenty-five (25) JBIC project loans from 2000 to 2004, ten (40 percent) were totally tied, another ten were partially tied, and only three (8 percent) were totally untied. Three projects totaling US$60.8 million had incomplete information.[17] In terms of loan amounts which totaled US$2.2 billion, 59 percent (US$1.3 billion) was totally tied, 28 percent (US$602 million) was partially untied, and only 2.8 percent (US$61 million) was totally untied.

Three of the biggest projects were totally tied, namely, the Subic Clark-Tarlac Expressway project (US$388 million), the Light Rail Transit (Line 1) Capacity Expansion Project (US$197 million), and the Urgent Bridges Construction for Rural Development Project (US$147 million). Only one major project was totally untied, the US$176 million New Communications, Navigation & Surveillance/Air Traffic Mgmt Systems Project.

Of the ten partially untied projects, nine untied the main portion of the loan, but tied the consultancy services component. Thus the issue of tied aid is intimately linked to another ODA issue of concern – that of foreign consultants (see 4.10.4 below). Given the observation that "a large portion of the so-called "untied" loan funds still end up in the hands of Japanese companies (as) feasibility studies are conducted by Japanese consultants (who) either specify the use of Japanese goods and equipment or recommend Japanese industrial standards" (Tadem 1983/1984 and Tadem 1990), the tying of consultancy services transforms the project, in effect, to a completely tied loan.

Since the advent of foreign assistance projects in the Philippines in the fifties' Filipino construction firms have continually bewailed what they see as preferential treatment given to their foreign counterparts (or competitors) especially when it comes to foreign assisted projects. The Philippine Constructors Association (PCA) complain that while "foreign contractors were allowed to bring equipment into the country tax-free, local contractors are slapped a 30 percent duty" (Moreno 1995). The PCA also criticizes the government for "failing to encourage foreign contractors to enter into joint ventures with local firms, unlike in China, Brunei, Japan, Malaysia, Indonesia, Taiwan and Thailand." Such business partnerships would have facilitated the transfer of technology, a goal that is inscribed in the Philippines' ODA Law of 1996.

Furthermore, the foreign contracting companies "bring in their own nationals to occupy top management positions which can easily be filled up by Filipinos." Aside from this, "foreign contractors are also inclined to purchase materials abroad despite available supply in the domestic market." Finally, the PCA complains that "since foreign contractors are paid in foreign currency, they are in effect exempted from VAT and income tax, and hence are able to present lower bids." The PCA concludes that the "uneven playing field for Filipino contractors has lessened initiatives to further develop the construction industry, in training their people, or upgrading their equipment" (Moreno 1995).

[17] For these three projects, while the main portion is untied, no information was given on the nature of the consultancy services portion.

TABLE 8. UNTYING STATUS OF JBIC LOANS, 2000-2004

Project Loan	**Year**	**US$ million**	**Main Portion Status**	**Consultancy Portion Status**
Kamanava Area Flood Control and Drainage System	2000	18.8	Tied	Tied
Mindanao Container Terminal Project	2000	79.0	Tied	Tied
LRT Line 1 Capacity Expansion	2000	197.0	Tied	Tied
New Iloilo Airport Development	2000	130.0	Tied	Tied
2nd Magsaysay Bridge and Butuan City Bypass Road Project	2000	31.4	Tied	Tied
Subic Bay Port Dev. Project	2000	145.6	Tied	Tied
Subic-Clark-Tarlac Expressway	2001	388.0	Tied	Tied
Northern Luzon Wind Project	2002	46.9	Tied	Tied
Urgent Bridges Construction for Rural Development	2002	147.0	Tied	Tied
Improvement of Marine Disaster Response & EnvironmentProtection	2002	74.8	Tied	Tied
TOTAL (TOTALLY TIED)		**1,277.3**		
Sustainable Environmental Management Proj (N. Palawan)	2001	18.8	Tied	Untied
The Laoag River Flood Control & Sabo Project	2001	58.4	Untied	Tied
Selected Airports(Trunkline) Development Project (Phase Ii)	2001	108.7	Untied	Tied
Help For Catubig Agricultural Advancement Project	2001	48.2	Untied	Tied
Mindanao Sustainable Settlement Area Development Project	2001	60.3	Untied	Tied
Metro Manila Interchange Construction Project(Phase V)	2001	51.4	Untied	Tied
Arterial Road Links Development Project(Phase V)	2001	76.8	Untied	Tied
Rural Road Network Development Project(Phase Iii)	2001	57.4	Untied	Tied
Bago River Irrigation System Rehabilitation & Improvement	2002	25.8	Untied	Tied
Iloilo Flood Control Project (Ii)	2002	54.3	Untied	Tied
TOTAL (PARTIALLY TIED)		**602.1**		
New Communications, Navigation & Surveillance/Air Traffic Mgmt Systems Project	2002	176.4	Untied	Untied
Arterial Road Bypass Project (I) (Plaridel & Cabanatuan)	2004	59.8	Untied	Untied
TOTAL (TOTALLY UNTIED)		**236.2**		
Subic Bay Freeport Environmental Mgt Project (Phase I)	2003	8.40	Untied	No information
ARMM Social Fund for Peace & Development Project	2003	20.9	Untied	No information
Central Mindanao Road Project	2003	31.5	Untied	No information
TOTAL (INCOMPLETE INFO)		**60.8**		

Source of basic data: Japan Bank for International Cooperation

Note: NEDA data has the Subic-Clark-Tarlac Expressway project loan valued at US$355 million.

TABLE 9. SUMMARY OF UNTYING STATUS OF JBIC LOANS TO PHILIPPINES, 2000-2004

Status	No. of projects	% share	Loan Amount (US$million)	% Share
Totally tied	10	40.00	1,277.3	58.69
Partially untied	10	40.00	602.1	27.66
Totally untied	2	8.00	236.2	10.85
Incomplete info.	3	12.00	60.8	2.79
Total	**25**	**100.00**	**2,176.4**	**100.00**

Source of basic data: Japan Bank for International Cooperation

4.3.2 The Subic-Clark-Tarlac Expressway

Japan's largest loan ever to the Philippines for a single project is the JBIC-funded Subic-Clark-Tarlac Expressway (SCTEP) project which went into effect in December 2001.[18] Eighty-five (85) percent of the project cost is covered by a loan from the Japan Bank for International Cooperation (JBIC) amounting to US$355 million. The Philippine government, through the Bases Conversion Development Authority (BCDA), provides the 15 percent local counterpart of US$62 million. Repayable in 40 years with a 10-year grace period, interest is set at 0.95 percent per annum, with Japanese content requirements set at 50 percent. The project being a tied loan, "only Japanese lead contractors were allowed to participate in the bidding for the construction."

When completed, the 93.77 kilometer, 4-lane highway will have two major sections: (1) the 50.5 kilometer Subic-Clark section and (2) the 43.27 kilometer Clark-Tarlac section. It will construct three major bridges: the Gumain River Bridge, the Pasig-Potrero River Bridge and the Sacobia-Bamban River Bridge as well as 8 interchanges, 35 minor bridges, 1 overpass and 36 underpasses.

On March 18, 2005 the BCDA, the project's implementation agency, awarded the contracts for the construction of SCTEP Package 1 (Subic-Clark section) to the consortium of Kajima Corp., Obayashi Corporation, JFE Engineering Corporation, Mitsubishi Heavy Industries Ltd., and the SCTEP Package 2 (Clark-Tarlac section) to the consortium of Hazama Corp., Taisei Corp., and Nippon Steel Corporation.

From the start, disputes arose between the National Economic Development Authority (NEDA) and BCDA on bidding and rebidding procedures and timetables. From an original estimated project cost of ₱15.247 billion in 1999, the final cost reached ₱21 billion in 2005, or a 40 percent increase, due to revisions in project design and implementation scope. Six years after NEDA originally approved the project, the groundbreaking finally took place on April 4, 2005 at the Clark Special Economic Zone. The scheduled completion of SCTEP is in the fourth quarter of 2007.

[18] The previous largest project was the US$300 million Industrial and Support Services Expansion program that commenced in March 2000.

Difficulties in implementation, however, may force the BCDA to reschedule project completion. A group of landowners in Pampanga and Tarlac provinces have put up barricades and fences along the project in protest against the failure for the past two years of the BCDA to compensate them for their lands in payment for right-of-way access (PDI 2007). The conflict involves an 8,000-square meter property that was initially valued at ₽1,000 per square meter but which increased ten-fold to ₽10,000 per square meter. In 2005, right-of-way issues in Bataan province had delayed for more than a year just one percent of the ROW main alignment (60-meter ROW) in that province (NEDA 2005). Some farmer-landowners were reportedly "demanding to be paid on the improvements in their property that were already paid by BCDA." The ROW problem has set back the project schedule by about 8 percent. As of January 2007, or one year and nine months after the groundbreaking, the project was only 59.27 percent completed.

The right-of-way issue is not the only cause of implementation delays in SCTEP implementation. BCDA President Narciso Abaya is reportedly concerned about violations of the project contract committed by the two Japanese construction consortia (Banal III 2007). The Japanese firms were supposed to bring in new equipment from Japan for the roadwork but instead have resorted to "hiring" second-hand machines from local sub-contractors. The "old" equipment has slowed down construction work. This is on top of the delay in start of the actual civil works by two months, which, observers point out, "is already grounds for revocation of the contract."

4.4 Sectoral Allocation of ODA

How ODA is allocated across the country's various economic and social sectors is an indicator of how serious donors and recipients are in achieving ODA reforms. The figures gathered from the Philippine case reveal no significant gains for reforms; instead backtracking has taken place on a major scale.

From 2000 to 2005, ODA commitments for infrastructure averaged a share of 66.7 percent of total ODA. This constituted a 16.6 percent increase compared to infrastructure's share of 50.1 percent during the 1987 to 2000 period. Agriculture, natural resources and agrarian reform had the second largest average share of 17.33 percent for 2000-2005. Industry and services was third with an average share of 7.7 percent, while social reform and community development was fourth with an average share of 7.0 percent. At the bottom of the list was governance and institutional development with an average share of 2.67 percent. Total allotments for the combined agriculture, land reform and industrial development sectors showed an increase to 25 percent from the 1986-2000 share of 21.23 percent.

Except in the case of "infrastructure support," there is some difficulty in comparing the 2000-2005 data with the 1986-2000 data because NEDA had renamed the categories in 2001. Previously, "agricultural and industrial development" were lumped together. "Social reform and community development" was previously known as "human development." Previously separate categories such as "commodity aid," "integrated area development", and "disaster mitigation" have presumably been integrated into one of the new categories.

For "human development" therefore, there was a significant decrease in ODA commitments from the already minuscule 1987-2000 share of 10.95 percent to only 7.0 percent in the 2000-2005 period. It would appear however that the increase in shares for infrastructure support, and agricultural and industrial development came at the expense of the human development component of ODA. The lowest points were in the years from 2000 to 2002, when "human development" took in an average share of only 5 percent per year. Although the average share eventually doubled between 2003 to 2005, the pattern bodes badly for the country's and its donors' ability to comply with MDG targets for the Philippines by 2015.

TABLE 10. SECTORAL SHARES OF ODA COMMITMENTS, 2000-2005

	Net Commitment						
Sector	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Average**
Infrastructure Support	66%	69%	63%	69%	68%	65%	**66.67%**
Agriculture, Natural Resources, and Agrarian Reform	16%	16%	21%	17%	17%	17%	**17.33%**
Industry and Services	10%	9%	9%	5%	5%	8%	**7.66%**
Social Reform and Community Development	5%	5%	5%	9%	8%	10%	**7.0%**
Governance and Institutional Development	3%	1%	2%	0%	2%	2%	**2.67%**

Source: NEDA Annual ODA Portfolio Reviews

TABLE 11. SECTORAL ALLOCATION OF ODA,
1987-2000 (In US$million)

	1987-2000	
Sector	**Amount**	**Percent Share**
Infrastructure Support	13,931.46	50.06
Agri-Industrial Development	5,906.64	21.23
Human Development	3,047.05	10.95
Development Administration	1,058.21	3.80
Commodity Aid	702.08	2.52
Integrated Area Development	974.93	3.50
Disaster Mitigation	256.79	0.92
Others	1,950.40	7.01
TOTAL	**27,827.56**	**100.00**

Source for basic data: NEDA Public Investment Staff

In terms of subsectors, transportation continued to have the biggest allocation of 50.1 percent as of December 2005, an almost fifty-percent increase from the 1994-2000 share of 26.46 percent. Agriculture and agrarian reform were in second place with 12.9 percent but this was a sharp decline from the previous share of 22 percent. Water resources moved up to third place with 8.4 percent even as its share declined from its previous allotment of 12.25 percent. In fourth is environment and natural resources with 4.3 percent (5.82 percent in 1994-2000) with energy, power, and electrification moving down to fifth place with 4.0 percent (down from 14.39 percent). As expected, human development related subsectors fared badly with education taking in only a tiny 3.9 percent share, health with a mere 3 percent, and social welfare and community development with only 2 percent.

TABLE 12. DISAGGREGATED SECTORAL ALLOCATION OF ODA COMMITMENTS (As of December 2005 and 1994-2000)

Sector/Sub-sector	As of December 2005		1994-2000	
	US$ m	% Share	US$ m	% Share
Agriculture, Agrarian Reform, and Natural Resources	**1,755.00**	**17.22**	**3,711.71**	**27.82**
Agriculture and Agrarian Reform	1,314.00	12.9	2,935.05	22.00
Environment and Natural Resources	441.0	4.3	776.66	5.82
Industry, Trade and Tourism	**770.1**	**7.55**	**612.65**	**4.43**
Infrastructure	**6,641.5**	**65.15**	**8,017.34**	**60.00**
Communications	29.8	0.3	135.48	1.01
Energy, Power, and Electrification	409.3	4.0	1,919.81	14.39
Social Infrastructure	244.6	2.4	0.60	0.00
Transportation	5,103.3	50.1	3,530.70	26.46
Water Resources	854.5	8.4	1,634.49	12.25
Social Reform and Com. Dev. (Human Development)	**1,005.7**	**9.85**	**1,316.32**	**9.86**
Education and Manpower Dev.	394.0	3.9	51.27	4.13
Health, Population, and Nutrition	310.6	3.0	283.75	2.12
Social Welfare and Com. Dev.	201.1	2.0	20.53	0.15
General Social	100.0	1.0	460.77	3.45
Governance and Institutions Development	**21.9**	**0.21**	**467.81**	**3.50**
Others	**-------**	**------**	**528.89**	**3.95**
TOTAL	**10,194.1**	**100.0**	**13,341.04**	**100.00**

Source of basic data: NEDA Annual ODA Portfolio Reviews
Note: “Others” include disaster mitigation and integrated area development.

4.5 Geographical Distribution of ODA

Data from the NEDA Annual ODA Portfolio Reviews from 2000 to 2002 on the geographical distribution of ODA show wide disparities in funding allocation. The most developed regions and provinces had the largest shares of ODA while less-developed regions with higher poverty levels got smaller allotments.

Luzon’s share of ODA had increased from 17 percent (US$2.2 billion) in 2001 to 19.4 percent (US$2.56 billion) to 31.2 percent (US$3.37 billion) in 2002.[19] Within Luzon, the National Capital Region (NCR), which includes the Metropolitan Manila area, cornered 20 percent (US$2.6 billion) of total ODA in 2000, 21 percent (US$2.8 billion) in 2001 and 14 percent (US$1.52 billion) in 2002. The Metro Manila area has the lowest incidence of poverty in the country. Next to NCR, the second highest level of ODA funds went to Region III (Central Luzon) with 7.9 (US$1,043 billion) in 2001 and 7.3 percent (US$790 million) in 2002. The country’s poorest region, Region V (Bicol), had a mere 0.5 percent share in 2001 and 0.7 percent in 2002.

[19] The NEDA Annual ODA Portfolio Reviews has data on the geographical distribution of ODA only for the years from 2000 to 2003. Its 2003 data, however, is in peso amounts and not disaggregated accordingly.

The three regions in the Visayas, on the other hand, had only 9 percent (US$1.2 billion) in 2000, 9.7 percent (US$1.3 billion) in 2001, and 9.6 percent (US$1.037 billion) in 2002. Furthermore, the most developed region in the Visayas, Region VII (Central Visayas), which includes Metropolitan Cebu, got the bulk of ODA for the Visayas island group at 39 percent.

TABLE 13. DISTRIBUTION OF TOTAL ODA LOAN COMMITMENTS BY GEOGRAPHICAL REGION, 2001 and 2002

Island Group/Region	**2001**		**2002**	
	Commitment ($ million)	**% Share**	**Commitment ($ million)**	**% Share**
LUZON	**2,557.92**	**19.4**	**3,366**	**31.2**
NCR	2,773.19	21.0	1,518	14.1
CAR	38.4	0.3	35	0.3
Region I	197.7	1.5	253	2.3
Region III	1,043.3	7.9	790	7.3
Region V	65.3	0.5	71	0.7
Luzon-wide	967.0	7.3	505	4.7
VISAYAS	**1,284.32**	**9.7**	**1,037**	**9.6**
Region VI	287.0	2.2	327	3.0
Region VII	507.0	3.8	385	3.6
Region VIII	119.9	0.9	100	0.9
Visayas-wide	370.5	2.8	226	2.1
MINDANAO	**904.94**	**6.9**	**856**	**7.9**
Region IX	25.1	0.2	18	0.2
Region X	119.0	0.9	109	1.0
Region XI	101.9	0.8	98	0.9
Region XII	85.1	0.6	35	0.3
ARMM	122.3	0.9	121	1.1
CARAGA	-----	-----	125	1.2
Mindanao-wide	307.3	2.3	351	3.3
MULTI-REGIONAL	**2,694.28**	**20.5**	**3,020**	**28.0**
NATIONWIDE	**2,959.70**	**22.5**	**2,512**	**23.3**
PROGRAM LOANS			**1,065**	**9.0**
GRAND TOTAL	**13,174.35**	**100.0**	**11,856**	**100.0**

Source: NEDA Annual ODA Portfolio Review, 2001 and 2002

Mindanao, with its six regions (including three of the country's poorest regions), lags behind even the Visayas with only 7 percent of total ODA (US$945 million) in 2000, 7 percent (US$905 million) in 2001, and 7.9 percent (US$856 million) in 2002. Inter-regional disparities were also noted as the developed region in Mindanao, Region X (Northern Mindanao) and XI (Davao) got the bulk of ODA in 2001 (22 percent) and in 2002 (24 percent).

These recent finding on the geographical distribution of ODA in the Philippines re-affirms what Rivera (2000) had observed for Japanese ODA in the nineties where "the regional distribution of 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 Japanese ODA.

This situation patently 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.

4.6 ODA as Share of External Debt

ODA's share of the country's external debt stands at 40.8 percent as of June 2006. Though this is one of lowest shares registered, the average share of ODA over the eighteen-year period from 1988 to 2006 is a high 45 percent. The highest level was in 1994 at 60 percent and the lowest was in 2005 with 39.9 percent.

World Bank loans command an interest rate that hovers around 6.94 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. There is also a one-percent "front-end fee." Thus for the US$91 million in new World Bank loans to the country in 2005 alone, the Philippine government was immediately saddled with annual interest payments of US$6.3 million and a front-end fee of $0.91 million.

TABLE 14. 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
2001	24.1	46.4
2002	24.5	45.7
2003	25.9	45.2
2004	25.2	46.0
2005	21.6	39.9
2006 (June)	22.0	40.8

Source: Department of Finance

Additional WB charges include a 0.85 percent commitment fee per year that is charged on the undisbursed amount “from the date of which such charges commences to accrue but excluding the fourth anniversary of such date.” After the fourth year, commitment fees are 0.75 percent. The larger the undrawn balance the larger the commitment fee. **At the beginning of year 2005, commitment charges for the undrawn balance of WB loans of US$601 million totaled at least US$4.51 million.**

ADB loans accessed from the bank's Ordinary Capital Resources (OCR) are pegged at 6.7 percent for dollar loans, 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 the1st year, 45 percent for the 2nd year, 85 percent for the 3rd year, and 100 percent thereafter). **At the beginning of year 2005, commitment fees for the undrawn balance of ADB loans worth US$519 million amounted to US$3.89 million.**

TABLE 15. COMMITMENT FEES PAID ON ODA LOANS, 2001 to 2004

Year	Cumulative Commitment Fees (US$)	Yearly Commitment Fees (US$))
2001	21 million	9.5 million
2002	40 million	9.2 million
2003	45 million	9.5 million
2004	48.5 million	7.5 million
2005	50.9 million	6.0 million

Source: NEDA Annual ODA Portfolio Reviews

Japanese bilateral loans have interest rates ranging from 0.75 percent to 2.2 percent, maturity periods of from 30 years to 40 years and a grace period of 10 years. This is an improvement from the nineties’ when interest rates for Japanese loans reached as high as 3.0 percent and the eighties’ where rates were pegged at 4 percent.. German loans are pegged at only 0.75 percent interest, Italy charges one percent, France, one percent for soft loans, Austria 4-5 percent, and 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.

As of December 2005, cumulative commitment fees amounted to US$50.9 million. These fees are paid mainly to the World Bank and the Asian Development Bank. Japanese loans through the JBIC do not charge commitment fees. For 2005, total commitment fees paid to the WB and ADB amounted to US$8.4 million.

According to NEDA, the following projects were major sources of the US$6 million in commitment fees in 2005:

1. Pasig River Environment Management & Rehabilitation Sector Development Program ($0.52 million);
2. Infrastructure for Rural Productivity Enhancement Sector ($0.50 million);
3. MM Air Quality Improvement Project (Investment Component) ($0.41 million);
4. Sixth Road Project ($0.35 million); and
5. Southern Philippine Irrigation Sector Project ($0.32 million).

Government agencies and corporations that led in paying commitment fees for 2005 are the following:

1. Department of Public Works and Highways (US$1 million)
2. Department of Finance (US$0.8 million)
3. Department of Agriculture (US$0.7 million)
4. Department of Environment and Natural Resources (US$0.5 million)
5. Department of Agrarian Reform (US$0.4 million)
6. Department of Education (US$0.4 million)
7. National Irrigation Authority (US$0.3 million)
8. Land Bank of the Philippines (US$0.3 million)
9. Department of Social Welfare and Development (US$0.3 million)
10. Development Bank of the Philippines (US$0.2 million)

Commitment fees are a consequence of delays in the implementation of ODA projects and reflect the inefficiency and low capacity of government and government-affiliated implementing agencies. In recent years, conflicts between the Executive branch and the Legislature (particularly the Senate) has resulted in the non-passage of the government budget bill. This forced the government to re-cycle the previous year's budget. As a result, the appropriate counterpart funds for ODA projects were jeopardized forcing delays in scheduled loan disbursements.
Buoyed by the appreciation of the peso relative to the US dollar, strong capital inflows, record remittances from Filipino overseas workers, tight spending policies and proceeds from sale of government properties, the government has adopted a policy of paying promptly its debts including the prepayment of foreign loans. Thus the foreign debt declined slightly to ₱1.69 billion in 2006 compared to ₱1.72 billion in 2005, a 1.5 percent reduction (BOT 2007). For 2007, the Bangko Sentral ng Pilipinas (BSP) has scheduled the prepayment of US$805 million in foreign loans that would still be due later in the year up to 2008 (Dumlao 2007). Not all foreign donors, however, allow for prepayment of loans.

According to the Bureau of Treasury, a large percentage of the government's annual revenue collection goes to debt servicing with "interest payments alone eating up one third of the national budget (Remo 2006). As of September 2006, a total of ₱114.54 billion was spent for debt servicing alone. Most of government debts in 2006 were in commercial loans - $3.1 billion compared to $900 million in ODA loans, a 77:23 mix in favor of the former. For 2007, the Philippines intends to improve this mix somewhat to 55 percent commercial and 45 percent ODA. However, as observed by the COA audit cited above, "the bulk of borrowings by government was used to pay existing obligations" (Remo 2007).

4.7 ODA Loan Disbursements and Availments

Availment rates characterize the absorptive capacity of the government with regard to contracted ODA funds. NEDA defines the availment rate as "the cumulative actual disbursements as a percentage of cumulative disbursement … reckoned from the start of implementation of projects" up to the end of a particular calendar year. The agency also notes that the "availment rate captures the historical performance of a project from start to finish" and that "backlogs compound commitment fees."

Disbursement level is the actual amount of disbursements from all ODA loans within a given calendar year. Disbursement rate, on the other hand, is defined as "a percentage of target disbursements for a given period, usually on an annual and quarterly basis. Disbursement ratio is defined as "the ratio of actual disbursements to the net loan amount available" at the beginning of a calendar year "plus the amount of new loans that became effective less loan cancellations during the year."

TABLE 16. PHILIPPINE ODA LOAN DISBURSEMENTS AND AVAILMENTS (1988-2005)

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%
2001	1,048	62%
2002	1,035	59%
2003	1,405	61%
2004	1,095	58%
2005	1,205	60%

Source: National Economic Development Authority

Interestingly, the NEDA Annual ODA Portfolio Review states that "while preferred targets for availment and disbursement rates are set at 100 percent, a disbursement ratio in the range of 18-20 percent is acceptable" and that "a 5-10 percent disbursement ratio for a project at detailed engineering stage should be acceptable."

As of December 2005, NEDA reported a 60.3 percent availment rate representing cumulative disbursements of US$4.71 billion out of a target disbursement amount of US$7.81 billion. This represents an increase by 2.8 percent over the 2004 availment rate of 57.5 percent which was US$4.3 billion disbursed out of a target of US$7.6 billion.

By sector, "social reform and development" had the highest availment rate of 71.7 percent (US$442 million out of US$616 million) followed by "industry, trade, and tourism" with 69.1 percent (US$348 million out of US$504 million). "Agriculture, agrarian reform, and natural resources" was third with 60.9 percent (US$891 million out of US$1.5 billion) with "governance and institutional development" bringing up the rear with only 15.1 percent (US$2 million out of US$11 million).

NEDA notes that problems in meeting targeted disbursement and availment levels were traced to "delays encountered in procurement; low demand for credit; unavailability of counterpart funds or insufficient budget cover; and, project completion or loan closure, … difficulty in catching-up with the initial cumulative delays incurred, and right of way issues." An additional problem of course is that for World Bank and ADB projects, higher undrawn balances also result in higher commitment fees.

TABLE 17. ODA PROJECTS WITH LOWEST AVAILMENT RATES (As of June 30, 2006, in US$M)

Source/Project		Net Commit-ment	Disburse-ment	Undrawn balance	Utilization Rate, %
World Bank					
DOH	Second Women's Health and Safe Motherhood Project	16.00	0.380	15.620	2.38
LBP	Manila Third Sewerage Proj.	64.000	1.999	62.001	3.12
LLDA	Laguna De Bay Inst'l. Strengthening and Community Dev't. Proj.	5.00	0.200	4.800	4.00
DENR	Land Administration and Management Proj. Phase II	18.995	0.894	18.101	4.71
Japan Bank for Int'l Coop (JBIC)					
SBMA	Subic Bay Freeport Environmental Mgt. Proj. II	8.398	0	8.398	0
PNOC	N. Luzon Wind Power Proj.	49.636	0	49.636	0
DOTC	Improvement of the Marine Disaster Response and Environment Protection Sys.	79.288	0	79.288	0
DOTC	New Communications, Navigation, Surveillance Traffic Mgt. Systems	186.856	0	186.856	0
ASFPD-FMO	ARMM Social Fund for Peace and Development	20.932	0.091	20.841	0.43
DPWH	Arterial Road Bypass Project I (Plaridel and Cabanatuan)	52.737	0.259	52.478	0.49
DPWH	Central Mindanao Road Proj.	31.500	1.085	30.415	3.44
DPWH	Urgent Bridges Construction Project for Rural Dev.	156.678	6.692	149.986	4.27
Asian Development Bank (ADB)					
DOH	Health Sector Dev. Project	13.00	0.360	12.640	2.77
DBP	Development of Poor Urban Community Sector Project	28.851	.893	27.958	3.1
TRANSCO	Elec. Market and Transm. Development Project	40	1.403	38.597	3.51

Source: NEDA Annual ODA Portfolio Reviews

As of June 2006, a number of projects suffer from extremely low availment rates. Those with zero availment rates include the Subic Bay Freeport Environmental Management Project II, Northern Luzon Wind Power Project, the New Communications, Navigation, Surveillance Traffic Management Systems, and the Improvement of the Marine Disaster Response and Environment Protection System all of which are funded by JBIC loans. Those with less than one percent availment rates are two other JBIC-funded projects - the ARMM Social Fund for Peace and Development and the Arterial Road Bypass Project I (Plaridel and Cabanatuan).

Despite the NEDA ODA Portfolio Review's satisfaction with availment rates of 18 to 20 percent, Socioeconomic Planning Secretary Romulo Neri admitted in February 2007 that "at the moment ODA utilization is very poor and the Department of Finance and the Department of Budget and Management are rationalizing the country's development financing profile" (Manila Bulletin 2007b).

4.8 Debt Passing

The country's debt burden as a result of ODA loans is magnified by the practice of the national government of assuming debts contracted by government-owned or controlled corporations (GOCC) or financial institutions or by the private sector. In the late nineties', the government conceived of a partnership with the private sector to support infrastructure projects financed by ODA.[20] Thus, the Build-Operate-Transfer (BOT) based on a market-based "user-pays" principle scheme came into being).

> 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 (Tadem 2003).

Examples of ODA-assisted projects supporting BOT-financed projects: are (1.) Casecnan Multipurpose Project, US$128 million, Japan; (2). San Roque Multipurpose Project, US$400 million, Japan ExIm Bank; (3) San Pascual Multipurpose Project, US$45 million, ADB; and, (4) Power Transmission Lines, Iligan Natural Gas Project, US$129 million, Japan. The biggest project under the scheme however is the Metro Rail Transit.

A "sovereign guarantee" issued by government usually accompanies such joint venture agreements, that is, "the government promises to assume liabilities incurred by the private sector partners that the latter (for whatever reason) is unable to pay" (Tadem 2003). These debts are listed as "contingent liabilities" of the national government and "become part of the consolidated public sector deficit."[21]

According to the Bureau of Treasury, total contingent liabilities of government as of December 2006 stood at ₱570 billion, of which ₱498 billion (87 percent) are foreign debts. Of the foreign-based contingent debts, ₱5.6 billion have been assumed by the Philippine government. The 2006 contingent liabilities of government constitute a increase of 163 percent over the 2001 total of ₱217 billion.[22] For 2001, however, assumed debts were higher at ₱12.03 billion.

[20] DevMagazine, July-August 1998.

[21] Philippine Daily Inquirer, July 16, 2001.

[22] Due to net repayments an the appreciation of the peso against the US dollar, the December 2006 contingent debt, however, was lower by 2.8 percent over the December 2005 figure.

> The biggest of these debt burdens passed on by the private sector to the government are the Metro Rail Transit (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 Metro Rail 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" (Tadem 2003).

4.9 China's ODA to the Philippines

The beginning of the new century saw an acceleration in Philippines-China economic relations (Storey 2006). Two-way trade rose a phenomenal 433 percent between the years 2000 and 2005, from US$3.3 billion to US$17.6 billion. China become the Philippines' fourth largest trading partner in 2005, up from 12th place in 2001.[23] The two governments have also agreed on a bilateral annual trade target of US$30 billion by 2010. Consequently, investment and development assistance followed.

During Chinese President Hu Jintao's state visit to the Philippines in April 2005, he agreed to invest US$1.1 billion in the country, including US$950 million in a nickel mining plant. A major China-Philippines agricultural agreement was signed in January 2007 which could mean the entry of ₱10 billion in Chinese investments for bioethanol projects, and contracts for growing corn, rice, sorghum, cassava, and tropical fruits and coco fiber production for export to China (Gaylican 2007). The 19 agreements stipulate that 1.24 million hectares of farmland will be reserved for the China agricultural deal.

In terms of development assistance, the Chinese government and corporations provided loans to five projects – (1) in 2002 for the Banaoang Pump Irrigation Project worth US$35million, (2) in 2003 for the expansion and improvement of the General Santos Fishing Port Complex in the amount of US$25 million, (3) in 2004 for the US$503 million North Rail Project, (4) in 2006 for the implementation of the Bureau of Customs' container inspection system, Phase 2, worth US$100 million, and (5) in 2006 for the US$100 million Salomague Freeport in Cabugao, Ilocos Sur which is part of the North Luzon Agribusiness Quadrangle. Other loan projects under consideration are the US$540 million Mindanao Railway System and the US$1 billion Laiban Dam project of the MWSS (Olchondora 2007 and Gaylican 2007).

Of the five approved loans, easily the most controversial is the North Rail project. On February 26, 2004, China's largest ODA commitment to the Philippines was made in a US$503 million concessional loan agreement signed by the Export-Import Bank of China and then Finance Secretary Juanita Amatong for the rehabilitation and upgrading of the North Luzon Railway project. The Philippine government's counterpart fund would amount to US$107 million. This project is meant to provide mass transport services connecting Metro Manila with Central Luzon provinces to the north.

The North Rail Project agreement, however, has been criticized as being grossly disadvantageous to the Philippine government (Rufo and Bagayaua 2007). At a total cost of US$503 million for a 32.2-kilometer length of rail line, the average cost per kilometer would be almost US$16 million

[23] For 2005 alone, two way trade between the two countries amounted to US$6.97 billion, or 8 percent of total external trade for the year. Interestingly, the Philippines enjoyed a healthy trade surplus of US$8.1 billion with China between 2000 and 2005.

(around ₱900 million) per kilometer, not considering the costs for clearing, relocation, and resettlement of 200,000 informal dwellers presently occupying the railroad's right of way.[24] The Philippine Center for Investigative Journalism (PCIJ) says that "this would make it the biggest — and costliest — resettlement project ever undertaken by the Philippine government" and quotes a former Philippine railway official who said that "the resettlement expenses were deliberately hidden so these would not reflect on the overall, already bloated, project cost" (Pabico 2005).

Furthermore, the interest rate of 3 percent per annum for 20 years (with a 5-year grace period) makes the loan more expensive to service than other loan agreements with other potential donors. The designation by the North Luzon Railways Corporation (NLRC) of the China National Machinery and Equipment Corporation group (CNMEC) as the project's primary contractor without the benefit of a competitive public bidding was also seen as violating Philippine laws, particularly Republic Act No. 9184, (the Government Procurement Reform Act).[25]

Most of these points were raised in a technical study conducted by the University of the Philippines Law Center and presented in a testimony in September 2005 before the Senate Committee on Housing and Urban Development headed by Senator Rodolfo Biazon. The U.P. study "recommended the cancellation of the contract and the filing of appropriate law suits," and "if warranted, criminal, civil and/or administrative cases should be filed against the concerned public officials and private individuals." Based on the UP Law Center's evidence and other testimonies, the Senate concluded that the project was full of irregularities and should be abandoned.[26] The case is now pending at the Supreme Court.

Undeterred by the controversy surrounding the Northrail Project, the Philippine and Chinese governments, through the NEDA and the Chinese Ministry of Commerce, respectively, have gone ahead to sign a new memorandum of understanding (MOU) in July 2006 on the rehabilitation and upgrading of the southern portion of Luzon's railway system (Escandor 2006). The 542-kilometer project will modernize the railway from Manila to Legazpi City and later extend it all the way to Matnog, Sorsogon, a gateway to the Visayas and Mindanao.

The above MOU was converted into two loan agreements between the two countries during the visit of Chinese Premier Wen Jiabao in January 2007 which committed US$1 billion in long-term fresh credits which would enable Chinese state-owned corporations to gain contracts for the building and repair of existing Luzon rail links without going through competitive bidding

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[24] For the relocation and resettlement of an initial 40,000 informal dwellers in the Bulacan segment alone of the North Rail project, the Housing and Urban Development Coordinating Council (HUDCC) estimates an additional cost of ₱6.6 billion (Pabico 2005). The National Housing Authority (NHA), on the other hand, the lead agency for implementing the resettlement program, has earmarked only ₱1.6 billion for relocation and resettlement of the project.

[25] The Office of the President claimed that a public bidding for the project was not required as this was an executive agreement between China and the Philippines.

[26] The irregularities related to the North Rail project were included in the list of charges in the impeachment complaint filed by opposition legislators against President Gloria Macapagal-Arroyo in 2005. The Senate hearings, meanwhile, reached an impasse when Malacanang issued Executive Order 464, which required Cabinet members to seek Presidential approval before they could testify in congressional hearings. In early 2006, the Supreme Court declared this EO 464 provision illegal.

(Landingin 2007). Two Chinese state companies, the China National Machinery Industry Corp. and the China National Technical Import and Export Corp., were automatically designated as contractors for the two rail projects.

Chinese banks, all of them state-owned, seem to be competing with each other to provide the Philippines with ODA loans. In February 2007, China Development Bank, reportedly China's biggest bank, has started talks with the Philippine government on providing concessional loans especially for infrastructure development (Manila Bulletin 2007b). This is in addition to the funds already committed through the China Export-Import Bank.

All in all, China has pledged to provide the Philippines with US$2 billion in loans each year from 2007-2009. This commitment was made during a lunch meeting of 100 aid donors in August 2006 in Manila, an announcement that shocked Western donors particularly since it made "the US$200 million offered separately by the World Bank and the Asian Development Bank look puny, and easily outstripped a $1 billion loan under negotiation with Japan" (Perlez 2006). An additional embarrassment is that the Philippines hosts the ADB headquarters, which is dominated by Japan and the United States.

China now appears to be filling the gap created by falling OECD DAC development assistance to the Philippines which observers say is caused in part by the US government's displeasure with Mrs. Arroyo's decision to withdraw Philippine troops from Iraq in 2004 (Perlez 2006). China has even managed to ease out no less than the ADB in one project. In February 2007, the Philippine government informed the ADB that it could keep its funds originally earmarked for Manila's new aqueduct because China "was offering cheaper rates, faster approval and fewer questions" (Naim 2007).[27] The issue of competitive pricing apparently does not apply in the case of government plans to build a national broadband network (NBN) where a Chinese firm (ZTE), to be backed by a Chinese ODA loan, appears to be favored by the DOTC over a Dutch company (Amsterdam Holdings) despite the latter's supposedly lower price offer (Lucas 2007).

China's aggressive push into the Philippine economy does not sit well, however, with some Philippine agrarian-support NGOs and peasant organizations. In a full-page advertisement in the **Philippine Daily Inquirer** on February 12, 2007, the groups demanded that the 19 agricultural agreements with China be cancelled because they were "tantamount to selling off national patrimony" and "violates the agrarian reform law and reverses attempts at attaining food security through self-sufficiency in production" (PDI Feb. 12, 2007). Led by UNORKA (Ugnayan ng Nagsasariling Organisasyon sa Kanayunan), Alliance for Rural Concerns, PKMM (Pambansang Katipunan ng Makabayang Magbubukid), (KPD) Kilusan para sa Pambansang Demokrasya, and (FIAN-Philippines) Food First Information Action Network, the groups also questioned where the 1.24 million hectares would be secured given that "there are no longer any idle alienable and disposable lands."

4.10 ODA in Mindanao

Since the September 11, 2001 attacks in the US, Mindanao has been given attention by ODA donors under the assumption that the Moro separatist movements in the area are somehow

[27] Comparing China's aid packages with other donors, Socioeconomic Planning Secretary Neri "noted the appealing absence of the expensive consultant fees common to Western projects" (Perlez 2006).

linked to a global Islamic militant movement. This is not to say that donors have not paid attention to Mindanao in the past. The World Bank had in 1998 committed US$10 million for the Special Zone of Peace and Development (SZOPAD) Social Fund Project following the signing of a peace agreement between the Ramos government and the Moro National Liberation Front (MNLF) in 1996.

The US Agency for International Development (USAID) has, since 1996, also provided grants under various programs in Mindanao that, as of 2006, totaled US$292 million. Following the post 9/11 pattern, USAID assistance almost tripled after 2001 from US$90.6 million in 1996-2001 to US$242 million in 2002-2006.

During the 25th Consultative Group Meeting for the Philippines in November 2003, with peace talks with the Moro Islamic Liberation Front (MILF) underway, the Philippines proposed a Multi-Donor Mindanao Trust Fund (MDMTF) amounting to US$50 million of which US$30 million to US$40 million would be in ODA funds. This proposal, however, was not immediately accepted by the donors and it received no mention in the succeeding Philippines Development Forum (PDF, the new name of the Consultative Group) in March 2005.[28]

As of September 2006, there were 21 ODA active loan projects in Mindanao totaling US$917.75 million. Ten of these were JBIC projects, with loan amounts amounting to US$473.04 million, or 52 percent of the total for the area. The next largest commitment came from the United Kingdom with US$194 million for one project. The ADB had two projects with loan amounts of US$91.74 million. Other donors were the World Bank (one project, US$34 million), the UN IFAD (two projects, US$28 million), China (one project, US$25 million), Korea (one project, US$25 million), Saudi Arabia (one project, US$20 million), and NDF (one project US$6 million).

From a national perspective, however, the total loan amounts allocated for Mindanao comprise a mere 10.61 percent of total ODA loan amounts as of September 2006. Thus despite the pronouncements by both the government and the donor community on paying more attention to Mindanao, the latter still lags behind the other regions of the country in terms of development aid. The bias against Mindanao is further underscored by the fact that such increased attention to the island is being undertaken only within the context of the so-called "War on Terrorism" without which the Southern Philippine regions would undoubtedly be experiencing even less consideration from the national government and the donors.

All these projects, plus the grants program of USAID are ostensibly meant to advance the peace building process in Mindanao. Japan had earlier launched in December 2002, a "Support Package for Peace and Security in Mindanao." The presence of US troops in Mindanao since 2002 (under the *Balikatan* training exercises) has resulted in what observers say is a division of labor between the two countries with Japan providing economic support while the US takes care of military assistance (Koshida 2004).

In April 2003, President Macapagal-Arroyo launched what has been termed a "Mini-Marshall Plan" for Mindanao called "Mindanao Natin" worth ₱5.5 billion in government funds and US$1.3 billion in ODA funds for the next three to five years (Padilla 2004). Targeting 5,000 Muslim villages in Mindanao's regions, the program was actually a repackaging of ongoing

[28] The cautious stance of the donors in 2005 was due to the breakout of armed hostilities between the government and MNLF forces in Sulu province.

and previously committed ODA projects and therefore did not involve any new funds. Moreover, the figures as of December 2006 show that not all of Mrs. Macapagal-Arroyo's announced projects got off the ground. For example, the World Bank's announced ODA commitment of US$279 million for four projects was eventually pared down to one project worth only US$34 million.

TABLE 18. ACTIVE ODA LOAN PROJECTS IN MINDANAO, 2006

PROJECT	DONOR	I.A.	START	END	LOAN $M
Southern Philippines Irrigation Sector Project	ADB	NIA	10/29/99	6/30/08	60.00
Mindanao Basic Urban Services Sector	ADB	LBP	9/13/02	6/30/08	31.735
Lower Agusan Dev't Proj.	GOJ-JBIC	NIA	6/28/96	6/28/06	34.516
PJFH Mindanao Sector Rehabilitation Project	GOJ-JBIC	DPWH	6/26/97	6/26/06	66.764
Lower Agusan Dev't Proj, Phase 2 (Flood Control)	GOJ-JBIC	DPWH	6/26/97	6/26/07	67.619
Metro Iligan Regional Infrastructure Dev. Prog.	GOJ-JBIC	Lanao del Norte	1/17/99	1/7/08	36.678
Southern Mindanao Integrated Coastal Zone Mgt. Project	GOJ-JBIC	DENR	1/7/99	1/7/07	27.127
PJFH Mindanao Sector Rehab Project (Phase 2)	GOJ-JBIC	DPWH	3/28/00	3/28/06	63.00
Mindanao Container Terminal Port	GOJ-JBIC	Phividec	9/4/00	9/4/2008	70.051
Mindanao Sustainable Settlement Area Dev Proj	GOJ-JBIC	DAR –	9/25/01	9/5/09	55.212
ARMM Social Fund for Peace and Development	GOJ-JBIC	ASFPD-FMO	4/30/04	4/30/11	20.932
Central Mindanao Road Project	GOJ-JBIC	DPWH –	4/30/04	4/30/11	31.500
General Santos Fish Port Complex Expansion & Improvement Project	China	DA	3/15/03	3/15/09	24.985
Northern Mindanao Community Initiative & Resource Mgmt.	IFAD	DAR	4/1/03	4/1/08	16.510
Western Mindanao Community Initiative Proj	IFAD	DAR	3/25/99	3/25/07	11.580
Mindanao 2nd Roads Improvement Proj	Kuwait	DPWH	10/1/98	12/31-06	19.790
Mindanao Basic Urban Services Sector Proj	NDF	DILG	9/12/02	6/30/07	6.658
Laguindingan Airport Development Project	Korea	DOTC	6/19/98	6/19/08	25.00
Mindanao Roads Improvement Project	Saudi Arabia	DPWH	4/2/06	4/2/09	19.995
Tulay ng Pangulo sa SZOPAD	UK	DPWH	12/1/01	12/1/06	194.50
ARMM Social Fund for Peace and Development	World Bank	ASFPD-FMO	5/19/03	6/30/08	33.60
TOTAL Mindanao					**917.752**
TOTAL Active Loans					**8,651.553**
% Mindanao					**10.61**

Source of basic data: National Economic and Development Authority

Aside from the “Mindanao Atin” initiative, a multi-donor Mindanao Trust Fund – Reconstruction and Development Program (MTF-RDP) has been established with the World Bank as the lead donor and Secretariat Coordinator. Other participating donors are the European Commission, Canada, New Zealand, Sweden, Australia (AusAID) and UNDP. Also known as the Peace Fund, MTF-RDP followed the recommendations of a Joint Needs Assessment (JNA) conducted in 2004 to identify the rehabilitation needs of MILF combatants, MILF communities and indigenous peoples (IPs). The JNA estimated the cost of such a rehabilitation program at US$400 million. The fund’s objectives are “to promote inclusive and effective governance processes, and to assist in the economic recovery in the conflict-affected areas in Mindanao” primarily the provinces of Maguindanao, North Cotabato, Lanao del Sur, Lanao del Norte, Sultan Kudarat, Sarangani, Basilan and Sulu). The MTF-RDP has two phases:

(a) Phase 1, launched in March 2006, “involves capacity building of Mindanao stakeholders and piloting learning activities in barangays.” Total cost is US$2.7 million.

(b) Phase 2, “focuses on full implementation of the sub-projects in conflict-affected areas, provision of technical assistance, continuation of capacity building, and a phased transfer of full program management responsibility to the Bangsamoro entity to be identified/confirmed after the peace signing.” This phase is estimated to cost at least US$50 million and its implementation is contingent upon the signing of a final peace agreement between the MILF and the Philippine government.

4.11 The 2000 COA Report on ODA

The report of the Commission on Audit (COA) on ODA for 2000 contains findings that put the Philippine government’s and the donor community’s handling of foreign aid in a particularly bad light. The report contains the results of audit of two hundred seventy-three (273) projects funded by three hundred four (304) ODA loan accounts. The COA audit team uncovered numerous anomalies and irregularities related to ODA implementation and management resulting in huge losses for the government and glaring inefficiencies in project implementation.

The report starts off by noting that “in terms of availment efficiency rate by creditor,” World Bank loans had higher availment rates of 66.06 percent whereas for JBIC loans, the availment rate was only 41.31 percent. The COA traces this discrepancy to the fact that World Bank charges commitment fees on the undrawn amount of the loan while JBIC does not. In effect, the audit report questions the government’s tendency to more efficient availment of ODA funds only if commitment fees are imposed by the donor. The issue of commitment fees is also identified by the report as the reason for the unusual situation of the “country’s biggest loan commitment (being) with JBIC and at the same time (having) the lowest in availment efficiency rate.”

The most glaring anomaly uncovered in the 2000 COA report is that the total amount the Philippine government repaid to donor countries and international agencies in interest payments, commitment charges, penalties, and other charges exceeded the principal amortization payments by ₱3.5 billion (₱13.68 billion vs. ₱10.2 billion). This amount is understated as it does not include “capitalized charges (interest and commitment fees during construction and service charges from ADB, front-end fee from IBRD and service charges from JBIC) which formed part of the total availments would be added."

In addition, the COA reports a total of ₱10.34 billion in superfluous, unnecessary and unauthorized expenditures, underreporting and overreporting of assets, and non-use of purchased equipment and materials. The sixteen (16) instances of superfluous expenditures amounting to ₱184.4 million were related to overpricing and overquantifying of equipment, overpayment of consultancy fees, unnecessary hiring of consultants, overpayment of suppliers, non-awarding to the lowest bidder, excessive training expenses, unauthorized honoraria to implementing agencies, unliquidated cash advances, expenditures unrelated to the project, illegal contract fees, omission of contract provisions, and ineffective NGO partnerships. The underreporting of assets includes unrecorded fixed assets and projects that have been completed but were still classified under "Construction in Progress." The latter constitutes the largest questionable audited amount of ₱9.560 billion.

The questionable amounts cited above are actually an understatement as COA mentions thirteen (13) other instances of unnecessary expenditures to which a peso amount was not indicated. These include inappropriate and costly design of facilities, various issues related to consultancy services, overpayment of salaries, unauthorized purchase of equipment, various unauthorized or disallowed expenditures, double or excessive representation allowances, and unauthorized use of project vehicles. It is interesting to note that of the total of twenty-nine (29) cases of unnecessary expenditures, nine (9) were related to the hiring and utilization of consultancy services.

4.12 Other ODA Issues and Concerns

The implementation of ODA projects in the Philippines is constantly mired in problems that have continually recurred over the years. Except for corruption, social and environmental concerns, and foreign consultants, the other issues and problems presented below are culled from NEDA's 15th Annual ODA Portfolio Review (2005) and they sound like a familiar refrain.[29] These are problematic areas in addition to the issues discussed above.

4.12.1 Corruption and Transparency Issues

The downfall of the Marcos regime in January 1986 revealed an elaborate web of corruption in the disbursement of Japanese ODA funds that consisted in the payment of large sums to Marcos and his cronies in the form of rebates (or commissions), in return for facilitating loan projects (Tsuda and Deocadiz 1986 and Yokoyama 1990). Estimates of "embezzled" loan proceeds reached as high as 30 percent of loan amounts. 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.

Twenty-one years later, the situation remains basically unchanged. In a January 2007 survey of expatriate business persons in thirteen Asian countries and territories, the Philippines was considered "the most corrupt" (Bonabente 2007). The survey was conducted among 1,476

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[29] NEDA started its 16th ODA Portfolio Review (2006) in February 2007 and is expected to complete this in September 2007.

foreign business persons (100 of them based in the Philippines) by the Hongkong-based Political and Economic Risk Consultancy (PERC) group. The Philippine rating of 9.40 out of a possible 10.00 enabled it to topple Indonesia (with 8.03 rating) as the region's most corrupt area.[30]

The country's policy and implementing environment is also seen as a breeding ground for corrupt practices. A paper prepared by the Economic Policy Research and Advocacy Group (Epra) headed by former NEDA Director General Cielito Habito notes that the "lack of transparency and insufficient disclosure in infrastructure projects with private sector participation engender graft and corruption that work against the interests of the taxpaying public (Lucas 2007). This lack of transparency and disclosure "increases fiscal and transaction costs, … causes distortions in how resources are allocated" and results in overpriced infrastructure projects. As a solution, the group called for the passage of a local version of the US Freedom of Information Act.

A 2005 World Bank report on "Philippines – Meeting the Infrastructure Challenge," observed that the Build-Operate-Transfer (BOT) law, which allows for greater private sector participation in ODA-supported infrastructure development, "remains hounded by controversies related to vagueness over unsolicited bids where the scope of corruption becomes considerable" (Alunan 2006). In the 2006 Philippines Development Forum (PDF), the international donor community "urged the government to plug expenditure leakages caused by corruption"(Dumlao 2006). In January 2007, Finance Secretary Margarito Teves admitted that the country's access to more grant assistance from the US hinges on its ability to implement government reform, "especially in the area of corruption control" (Remo 2007b).

One of the country's largest ODA projects, the Subic-Clark Tarlac Expressway (SCTEP), has been hounded by allegations of corruption (Orejas 2006). A group called the Concerned Central Luzon Contractors (CCLC) claimed that its members had paid between P1 million and P5 million to an official of the Bases Conversion Development Authority in exchange for non-existent subcontracts. Known among contractors as "shortlist fee" the charges have been ordered investigated by BCDA president Narciso Abaya.

The decision in March 2007 of President Macapagal Arroyo and her Cabinet to remove from the NEDA Investment Coordinating Committee (ICC) the authority to screen and approve all foreign-assisted infrastructure projects has the potential of opening the floodgates wide open to more corrupt practices and other irregularities. The rationale for this move is to speed up the approval of major infrastructure projects. Donor agencies, however, led by the World Bank, have expressed unanimous concern during the Philippine Development Forum in March 2007 and sent a memorandum urging the government to reverse its decision and not only maintain but also strengthen the ICC review process (PDI 2007). World Bank country director and PDF co-chair Joachim von Amsberg said that the ICC process ensures "proper prioritization by government." Former NEDA Director General Felipe Medalla, for his part, fears that government agencies might just go on a "borrowing binge" without an external checks and balance system in place (Dumlao 2007a). Medalla is worried that there will be players who are "not disciplined by multilateral rules."

Transparency issues are not the monopoly of recipient countries like the Philippines alone. Concerned about the high rate of unsuccessful projects under the Asian Development Bank's

[30] The PERC ratings for the thirteen countries and territories are: (1) Philippines, 9.40; (2-3) Indonesia and Thailand, 8.03; (4) Vietnam, 7.54; (5) India, 6.67; (6) South Korea, 6.3; (7) China, 6.29; (8) Malaysia, 6.25; (9) Taiwan, 6.23; (10) Macau, 5.11; (11) Japan, 2.10; (12) Hongkong, 1.87; (13) Singapore, 1.20.

poverty eradication program, donor countries, meeting in Manila in June 2003, called for greater transparency and accountability in the operations of the ADB's US$5.6 billion anti-poverty fund known as the Asian Development Fund, or ADF (Saulon 2003). In particular, the donors want the program's key department supervising the ADF, the operations evaluation department (OED) to be made independent from the bank's immediate control and supervision.

4.12.2 Social and environmental concerns

Large infrastructure and power projects, many of which are ODA-funded, often endanger the environment and cause involuntary dislocations of communities in the target area. For the latter, indigenous peoples are often the victims of human rights violations who not only lose their homes and farm-based sources of livelihood but also their ancestral lands. Social conflicts are the logical consequences of such ill-conceived development projects. In recent years, some of these socially and environmentally controversial projects are:

(1) The JBIC-funded San Roque Multi-Purpose Dam Project;
(2) The Agno River Integrated Irrigation Project;
(3) the JBIC-funded 400-hectare Leyte Industrial Development Estate which housed a copper smelter plant, a fertilizer plant, and a mining firm;
(4) the Calabarzon Industrial Zone whose master plan was funded by a JICA grant;
(5) the MWSS Umiray River Diversion Project funded by ADB;
(6) the Pampanga Delta Development Project, again funded by JBIC;
(7) the ADB-funded Umiray River diversion Project;
(8) the Calaca Coal-fired Thermal Power Plant;
(9) various infrastructure projects in Manila financed by JBIC.

In June 2006, local and international environmental groups asked the Japanese government to review two JBIC-funded projects, the US$58 million Bohol Irrigation Project and the US$124 million Northern Negros Geothermal Power Plant Project due to "to human rights violations complaints involving forcible displacement of locals" (Business World 2006a). Japanese activists belonging to "Friends of the Earth," an international environmentalist group, asked JBIC and the Japanese Ministry of Foreign Affairs "to investigate for themselves what is happening on the ground. Human rights violations could actually be a cause for them to withdraw their funding since it is one of the principles of the ODA Charter."

The killing of environmental activists has also been linked to ODA projects. In a meeting between the Japanese government and non-government organizations in June 2006, environmental groups have presented the case of peasant leader Jose Doton who was slain while campaigning against the San Roque Dam Multi-Purpose Project and the Agno River Integrated Irrigation Project at the boundary of Pangasinan and Benguet provinces (Malaya 2006). The group Kalikasan-PNE claimed that since Mrs. Arroyo became President, 15 environmental activists have been murdered as part of a wave of extra-judicial killings that had by then already totaled 700 victims.

Back in 1994, NEDA had acknowledged in its Annual ODA Portfolio Review the problems of "social unacceptability" of some ODA projects and difficulties in securing Environmental Compliance Certificates (ECCs). Instead of addressing the issues, however, the NEDA ECC Committee had tried to water down environmental and social safeguards in order to speed up the ICC certifying process (Tadem 2003). Since then, however, NEDA has ceased to monitor environmental and social issues with respect to ODA projects.

4.12.3 Lack of Counterpart Funding

The issue of counterpart funding is related to several problems discussed in this report – low availment rates, low disbursement levels, budgeting problems, right of way and land acquisition issues, and LGU participation, among others. Agencies reporting the above-named problems all cite the unavailability of counterpart funding as a major factor that hinders the smooth and trouble-free implementation of ODA projects under their jurisdiction.

The issue of counterpart funding takes place at two levels: (1) between the donor agency or country and the Philippine government, and (2) between national government agencies and local government units. In 2005, government agencies whose foreign-assisted projects were adversely affected by the unavailability of counterpart funds were: NLRC, DOTC, DBP, DBM, TRANSCO, DILG, DOF, PPA, LWUA, PHIVIDEC and NIA. At the local government level, some projects, e.g., the World Bank-funded Agrarian Reform Communities Development Project, follow the cost sharing policy of 50-50 between the national government (NG) and local government units (LGU). This is particularly burdensome to the local units resulting in several LGU withdrawals from the project. But even in cases where the LG-LGU sharing policy requires only as little as 10 percent LGU equity, e.g., DA and DPWH managed projects, counterpart funds were still hard to come by at the local level (Galang 2002). For the latter sharing policy, LGU participation depends on their Internal Revenue Allotment (IRA) level.

The counterpart funding shortfall has become serious enough for the World Bank and JBIC to take the unusual step of instituting policy changes in project cost sharing ratios (NEDA 2006). The WB's new policy now “provides the flexibility to permit Bank financing up to 100 percent of cost of individual projects and activities, where appropriate, within the context of an overall cost sharing framework.” The JBIC, on the other hand, “has offered to increase its disbursement ratio (financing ratio) to the highest possible limit based on actual requirements provided that it will be limited to existing loan amounts.” Increasing donor share of project costs, however, also entails a higher debt burden for the Philippine government and increased administrative costs. Moreover, it does not address implementation concerns not related to local counterpart funding problems.

4.12.4 Foreign Consultants

The ODA Act of 1966 (in Section 11c) and its implementing rules and regulations (in Section 6.2) state a preference for the hiring of Filipino experts in implementing projects even when the consulting or contracting firm is of foreign origin. The NEDA "Rules and Regulations on the Procurement of Consulting Services for Government Projects," approved in September 1998, echo the above and add that in cases where the hiring of foreign consultants is unavoidable, the “foreign consultants shall be required to associate themselves with Filipino consultants." The exercise of this preferential option is rationalized in the interest of effecting technology transfer. It also comes in the wake of numerous complaints in previous years regarding the “superfluous” presence of highly-paid foreign consultants in ODA projects in positions where Filipino expertise was not deficient (Tadem 1990).[31]

[31] In 1989, the Senate Blue Ribbon Committee branded as "superfluous and unnecessary " the consultancy fees paid to foreign consultants of ODA projects for services well within the expertise of Filipinos. In the mid-1990s, concerns were raised about the abnormally large presence of Japanese consultants in JICA-funded grant assistance projects and that in one Japanese-funded coal power project, 82 percent of the environmental management costs went to Japanese consultancy fees.

An ADB technical report on one its funded projects gives an indication of the glaring inequities in salary rates between foreign consultants and local experts. In the ADB-funded "Harmonization and Results Technical Assistance Project," the project budget allots to foreign consultants honoraria amounting to US$217,400 with international travel costs of US$104,000 while Filipino consultants were to be paid a total of US$5,580 (₱279,000). Thus local consultants would be getting a mere 2.6 percent of the salaries of their foreign counterparts, excluding the international travel privileges.

The Philippine government apparently is aware of resentments that these inequities engender so that in the Philippines Development Forum (PDF)[32] in March 2006, NEDA Director General Romulo Neri called on the donor community to "work to sustain ODA portfolio improvements and enhance development impact," by, among others, "helping the government find ways to cut costs for consulting services and to achieve design and cost efficiency in implementation." The particular issue of consultancy costs, however, did not find a responsive chord among the donors, who ignored this specific concern in their comments and merely "welcomed the Government's intention to look into the provision of budget and funding for project preparation up to loan effectiveness."

In February 2004, following complaints from local construction and consultancy firms, President Macapagal Arroyo issued Executive Order 278 "directing all government agencies to prioritize Filipino-owned construction and consultancy firms in the bidding for government projects." The Construction Industry Association of the Philippines and the Filipino Consulting Organizations had lamented that they have been "losing out to foreign companies in the competition for big government projects," especially foreign-funded ones.

In a November 2001 meeting of project implementation officers (PIOs) of foreign-funded projects on measuring the performance of project consultants, the PIOs decried "exclusive eligibility requirements" provided for in loan contracts which require implementing agencies to contract the services of foreign consultants "even in instances when the needed expertise could be hired locally" (Luib 2001). This came about in the light of observations on "the high costs of acquiring consultancy services;" subsequently, the PIOs "suggested that this be addressed during loan negotiations between the Philippine government and the lending agency."

These concerns were raised on top of reports of poor performances by consultants and the need to reform the hiring process and install a reporting system that will sanction poorly-performing consultants. The presence of underperforming consultants may be linked to the phenomenon of significant delays in the implementation of ODA projects and resulting cost overruns "owing to penalties that lenders impose on unused loan money."

Surprisingly, despite the concerns expressed by PIOs (who are high ranking government officials themselves) "officials of oversight agencies have yet to issue statements on whether this particular issue will be used to reform the process of hiring project consultants."

One consequence of the hiring of foreign consultants in the design and implementation of ODA projects is that, "in most cases, local communities or their organizations are not consulted" (Padilla 2004). Thus, as designed and implemented, ODA projects often "do not

[32] The PDF was formerly called the Consultative Group Meeting on the Philippines.

reflect the true development needs of communities but the interests of foreign corporations" and in some cases, "could lead to economic and physical displacement of communities" particularly indigenous peoples. One such project is the ₱3.8 billion Japanese-funded Saug River Multi-Purpose Project (SRMP) in Davao del Norte in Southern Mindanao which will affect the ancestral lands of 8,000 people belonging to four indigenous ethnic groups.

In some cases, the foreign consulting firm is an affiliate of a corporation that has business interests in the project area (Padilla 2004). This is the case with Cargill Technical Services (CTS) which is a subsidiary of Cargill, one of the world's biggest agribusiness transnational corporation (TNC). CTS undertakes consultancy work for USAID's Growth with Equity in Mindanao (GEM) Project by providing "technical assistance in agriculture management, agro-industrial development, investment promotion, and privatization." Cargill's Philippine subsidiary, Cargill Philippines Inc., operates large-scale integrated animal feeds plantations in General Santos City in Central Mindanao.

Perhaps due in part to the inability of host countries like the Philippines to effectively enforce policies and laws on the hiring of foreign consultants, the UNDP has established a "Development Support Services Center" (DSSC) for "the purpose of strengthening UNDP's operational support for Nationally Executed (NEx) projects" by stressing "the importance of using national capacities to undertake programs and projects." To achieve its objectives, the UNDP-DSSC "regularly undertakes local and international contracting of consultants in various fields of expertise, as well as selection of suppliers of good/equipment, among others."

That the issue of foreign consultants continues to linger reflects the tied nature of ODA loans and grants, which, after a period of decline in the nineties', seems to be enjoying a resurgence especially with Japanese-funded projects (see above). This in turn reinforces the criticism that ODA is basically self-serving as a significant portion of ODA funds eventually end up in the hands of the donor countries themselves through their own corporations and citizens.

4.12.5 VAT Reimbursements

Under a government-to-government agreement, the Philippines exempts Japanese contractors, consultants, and suppliers of Japanese-funded ODA projects from the payment of Value Added Taxes (VAT). These are, however, advanced by consultants and contractors of GOJ-JBIC/JICA-assisted projects "subject to reimbursement by concerned government agencies." The absence of appropriation cover, however, caused delays in the reimbursement of such payments which, in 2005, amounted to ₱1.185 billion for projects implemented by eight agencies.[33]

According to the Japan Chamber of Commerce and Industry in the Philippines, Inc. (JCCIPI), 23 Japanese companies had 205 pending applications for VAT refunds as of February 2005. These delays resulted in: "(a) suspension in the processing of projects under the Japan General Grant-Aid program; b) delay in the commencement of the 27th Yen Loan Package negotiation; and c) decreased confidence on GOP's capability to meet its obligations."

[33] These agencies were DPWH, DOTC, Manila International Airport Authority (MIAA), NIA, PPA, NPC, DepEd and Benguet Provincial Government.

For four years from 2002-2005, the government was unable to pay fully VAT refunds because of its huge budget deficit (Manila Bulletin 2006). By September 2006, pending VAT refunds still amounted to ₱736 million on yen loans, an amount which the government said it would repay completely at the end of the year. The problem had become serious enough for the Japanese government to threaten to cut its ODA to the Philippines for 2006 unless the tax refunds were immediately remitted (Remo 2006). Philippine government and the Japanese Embassy also decided to form a committee to closely monitor the VAT payments of Japanese-sponsored projects in the country.

The exemption from VAT levies of fees paid to foreign consultants and contractors of ODA projects constitute an added cost burden and foregone income for the Philippine government. The amounts involved are quite large and for the foreign players, are added incentives (in the form of additional incomes) for participating in ODA projects. As these projects are likely to be "tied loans" they reflect the self-serving character of the latter. Considering that Filipinos are made to pay the full cost of the added VAT payments, the exemptions also end up discriminating against local taxpayers with meager incomes and salaries.

4.12.6 Budgeting Problems

Of the 20 implementing agencies dependent on the government budget, six (6) reported budget issues in the implementation of 30 of their ongoing ODA projects. Reasons cited were: "(a) delayed approval of the 2005 General Appropriations Act (GAA); (b) inadequate appropriations cover; c) delayed release of Special Allotment Release Order (SARO) and Notice of Cash Allocation (NCA); and d) confusion among projects using the Municipal Development Finance Office (MDFO) as conduit."

The 2005 GAA (RA 9336), allotted ₱37 billion for foreign-assisted projects (FAPs), which was 12 percent lower than the proposed FAPs budget of ₱41.4 billion but 5 percent higher than the recycled 2004 budget of P35.3 billion. The budget deficit for ODA projects from 2004 to 2005 "contributed to extensions in implementation schedules and closing dates of more than 13 projects implemented by DA, DAR, NIA, DENR, DOF, DOTC, DPWH, and TESDA" thus increasing project costs.

The Department of Budget and Management (DBM), however, reported total accounts payable of the National Government at ₱80 billion in 2005, a 38 percent decline from P130 billion in 2002. Large unpaid billings were attributed to three agencies implementing FAPs funded by GOJ-JBIC loans with reported unpaid billings of at least ₱2.1 billion. The implementing agencies with unpaid billings as of December 2005 were DPWH with P1.1 billion, NIA with P740 million and Provincial Government of Lanao del Norte with P282 million.

NEDA reports that "under the 2006 National Expenditure Program (NEP), some P56 billion has been allocated for the implementation of FAPs representing a P19 billion increase (50 percent) over the 2005 allocation of P37 billion" broken down into "P39 billion loan proceeds, P16 billion GOP counterpart and P0.56 billion grant proceeds." Assuming that they are fully disbursed, "the loan proceeds will equal US$730 million, which is nine percent higher than the 2005 actual disbursement of US$670 million, excluding carry over budgets from 2005."

4.12.7 Procurement Issues

The NEDA Review examined 21 civil works, 4 consulting services and 11 goods contract packages and noted “a wide variance in procurement periods” ranging from 1.44 months to 35 months “versus the prescribed timeline of 3.2 months per Republic Act 9184 or the Government Procurement Reform Act (GPRA).” Procurement delays by BCDA, MWSS, PNOC-EDC and SBMA “with amounts ranging from P106 million to P14 billion, resulting in the agencies' inability to meet performance targets.”

The reasons cited by agencies concerned for the procurement delays were: “(a) high bid prices (BCDA, DOTC and DPWH); (b) failure in bidding/rebidding of contracts (DepEd and PNOC-EDC); (c) lengthy review process (MWSS and SC); (d) changes in leadership (DAR, BCDA, ASFP-FMO); and (e) lack of familiarity with RA 9184 and/or funding institutions' procurement guidelines (LWUA, DA and TESDA).”

Other projects which encountered procurement problems were the Judiciary Reform Support Project implemented by the Supreme Court (5 months) and the North Luzon Wind Power Project (PNOC-EDC) funded by GOJ-JBIC Special Yen Loan Package (SYLP) facility (over 12 months). The main reason cited for the delay of the latter project was the tied loan character of the Special Yen Loan support which required “at least 50 percent Japanese content for goods and services and limited only to Japanese as the primary contractor and supplier.” Bids submitted were thus “more expensive than international prices leading to total project costs which are substantially higher than ICC-approved costs, thus requiring ICC reevaluation to reaffirm viability of the project.”

Some projects, however, completed their procurement within the prescribed time. These were projects handled by DENR, LWUA, DSWD and LLDA in the KALAHI–CIDSS and Laguna de Bay Institutional Strengthening and Community Development Projects.

4.12.8 Local Government Units

The involvement of local government units (LGUs) as ODA implementing agencies, while laudable in principle, often results in problems in project implementation. NEDA reports that in 2005, “a total of 44 ODA projects with direct LGU participation accounted for 18 percent of the portfolio.” A major problem is the “lack of LGU equity” which is the case for the Mindanao Basic Urban Services Sector Project of DILG/LBP and Rural Water Supply and Sanitation Project V of DILG.

The requirement by the national government for LGUs to put up 50 percent of the local counterpart funds “affected the interest and capacity of LGUs to participate in the project and put up the required counterpart for the priority subprojects.” This was especially true for the Agrarian Reform Communities Development Project (ARCDP) II. This particular policy has resulted in eight LGUs formally withdrawing from “36 proposed subprojects with an aggregate value of P219 million.”

A second major problem is the “limited technical capacity of LGUs, particularly those in the lower income class.” This problem arises during the “preparation and submission of documents required during the subproject appraisal stage, e.g., the conduct of surveys, preparation of loan applications and documents to comply with Bank requirements (i.e., cost recovery for O & M and formation of autonomous units for solid waste management in the

LGUs) and preparation of engineering plans and Environmental Compliance Certificate/Certificate of Non-Coverage (ECC/CNC) from DENR and detailed engineering design stage." ODA projects affected were DOF's Local Government Finance and Development Project and the Credit Line for Solid Waste Management Project.

4.12.9 Right-of-Way/Land Acquisition Issues

ODA projects, especially major infrastructure-related ones, often require the takeover by government of privately-owned lands after paying the proper compensation. Funds for landowner compensation, however, are often inadequate, due to budget constraints[34] and in some cases, disagreements arise on compensation payments with the landowners ending up rejecting the government's final proffered price. Other right-of-way issues involve the "resistance of project affected people/relocatees, presence of illegal settlers and claimants and deferment in the acquisition of housing units."

NEDA lists the following projects and their respective implementing agencies as having major right-of-way and land acquisition problems:

1. Rehabilitation of Bridges along Arterial Roads IV (DPWH);
2. Metro Manila Flood Control Project – West of Mangahan Floodway (DPWH);
3. Lower Agusan Development Project - Flood Control Component (DPWH);
4. Selected Airports Phases I and II (DOTC);
5. Laguindingan Airport (DOTC);
6. New Iloilo Airport (DOTC));
7. National Highway Road Widening Project (DPWH);
8. Provincial Towns Water Supply Projects (PTWSP) I/II in Urdaneta WD subproject, Ramon (Isabela), San Miguel (Bulacan), Hermosa (Bulacan), Bugallon (Pangasinan), Tubungan (Iloilo), Malay (Aklan), San Francisco (Agusan), Pandi (Bulacan), Talugtog (N. Ecija), and Metro Hilongos (S. Leyte) – (LWUA);
9. Banaoang Pump Irrigation Project (NIA);
10. Pasig River Rehabilitation Project (PRRC); and,
11. Subic-Clark-Tarlac Expressway (BCDA).

4.12.10 Project Management.

Political instabilities, an insecure national leadership, and questions about the legitimacy of the government have characterized Philippine governance the past years. These has resulted in frequent "changes in heads of agencies/management" which, in turn, "impact on implementation of ODA projects." The results are "delays in award of contracts, because of repeated reviews of contracts for due diligence, or in certain cases, even changes in project design." Among the projects affected were DAR's Agrarian Reform Infrastructure Support Project II (ARISP), SBMA's Subic Bay Freeport Development Project, and the ARMM Social Fund for Peace and Development Project.

In the case of DAR, "a change in leadership required evidence of authority for the new appointee" while for SBMA, "new management had to review the procurement processes

[34] "The law requires the implementing agency to deposit the payment of 100 percent Bureau of Internal Revenue (BIR) zonal value or proffered value of the property to be acquired with a government bank after filing the petition on eminent domain case" (NEDA 2005).

/decisions adopted by the previous administration.” For ARMM, the planned “transition in project management from the Fund Management Office (FMO) to the ARMM Regional Government, (then still pending with the Office of the President) created “uncertainties in project management.”

4.12.11 Project Cost Overruns

Increases in project costs are perennial problems encountered in ODA project implementation. For 2005, an additional ₽29 billion was added to the project costs of seventeen projects. Twelve of these, or 70 percent, were projects managed by the DPWH, three by NIA, and one each by DOTC and LRTA. In terms of funding course, 15 projects (with additional outlays of ₽21 billion) were funded by JBIC while the World Bank and China accounted for one project each.

The reasons given by implementing agencies for the project overruns are: “a) additional civil works (changes in scope/ variation orders/ supplemental agreements); b) increase in right-of-way/ land acquisition/ resettlement costs; c) increase in unit cost of labor, materials and equipment; d) high bids (bids above Approved Budget for the Contract/Approved Agency Estimate); e) currency exchange rate movement; and, f) claims for price escalation.” Most of these reasons, however, point to faulty planning and lack of foresight not just on the part of the implementation agencies but also of the donor agencies or countries.

The ₽29 billion additional allocations for 17 projects in 2005 constituted a 163 percent rise in increased project costs and a 212 percent rise in the number of projects over the 2004 figure of ₽11 billion and eight projects. The obvious conclusion here is that the deterioration in the cost situation of a large number of projects between 2004 and 2005 clearly reflects a drastic decline in the efficiency of ODA project implementation.

4.12.12 Loan Cancellations, Closed Loans, and Loan Extensions

Twenty-three (23) loans totaling US$260 million were cancelled in 2005. These consisted of (1) 8 loans from ADB, $19 million; (2) 8 loans from GOJ-JBIC, $211 million; (3) 5 loans from WB, $23 million; and (4) 2 loans from Other Sources, $7 million. Both implementing and funding agencies agreed on the cancellations due to: “a) unutilized balance at the close of the loan; b) excess financing as a result of foreign exchange rate movement; c) low demand for relending; d) reduction in scope of projects; and, e) budget constraints.”

A previously approved major project that was cancelled was the JBIC-funded Phase 5 of the Metro Manila Interchange Construction Project worth US$47 million which went into effect in September 2001 and was supposed to have been completed in September 2006 (de la Cruz 2006).

In 2004, NEDA Director General Romulo Neri announced the cancellation of ₽13 billion (US$260 million) of ODA loans that were due to be implemented by the Department of Transportation and Communication (DOTC) because of insufficient budget cover for counterpart funding and loan repayment (Remo 2004).

Of the twenty-nine loans that were reported as closed and/or fully availed in 2005, at least 3 have incomplete project outputs. These were: a) Acquisition of the Fisheries Patrol Vessels (DA/Spain); b) Clark Area Municipal Development Project (DILG/ADB); and c) Provincial

Cities Water Supply Project V (LWUA/GOJ-JBIC). The implementing agencies for the above projects cited “budgetary constraints and technical issues” for the incomplete project outputs.

Fourteen (14) loans worth US$923 million were extended in 2005. These constituted nine (9) percent of the ODA portfolio.” Five loans were extended for six months to one year, five loans for 1.5 to two years, three loans for 2.5 to three years and one loan for four years.” No details on the reasons for the extension were reported by NEDA.

A 23-kilometer road project in South Cotabato has been extended due to “peace and order problems, logistical problems and bad weather” (Business World 2006). Originally scheduled for completion in May 2006, the ₱73 million project was only 50 percent completed in June 2006. The project was intended to tap the agribusiness potentials of 20,000 hectares of farmland in the two hinterland villages of Upper Sepaka in Surralah town and Ned in Lake Sebu. The area, however, has also been the scene of “bloody killings among warring local armed groups over the last few years.”

4.12.13 Low Demand for Credit

Two government-controlled financial institutions, the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) access ODA funds which are then relent to other government agencies, including local government units, or the private sector. In recent years, however, the demand for credit from these two institutions has been low which adversely affected the ODA programs under their supervision.

NEDA reports that “for projects implemented by DBP, low demand was experienced in the following projects: (1) Industrial Support Services Expansion Project II, (2) Domestic Shipping Modernization Project I, (3) Industrial Pollution Control Loan Project II, (4) LGU-Urban Water Supply APL 2, and (5) Fund for Technical Education and Skills Development. Reasons for the low demand included: “(a) wait-and-see attitude of domestic and foreign investors in light of the financial crisis” and “fear of a possible downgrade of the country's sovereign international rating,” (b) selective lending by private financial institutions to big projects, (c) increase in prices of equipment due to “peso devaluation, fuel oil crisis and price adjustments,” (d) non-prioritization of environmental projects, (e) rejection of Design-Build-Lease scheme by LGUs, and, (e) “competition from state universities and other public institutions which offer training courses at lower cost.”

The 2005 performance of DBP-managed ODA loans contrasted sharply with the optimism expressed in 2004 by then DBP President Simon Paterno regarding the bank’s relending program in ODA funds which he had then estimated at ₱57 billion (Dumlao 2004). This was to be coursed mainly to infrastructure projects in the countryside, including social infrastructure support projects.

For LBP-implemented projects, NEDA reports that low demand was in the Water Districts Development Project and in the Third Rural Finance Project. Reasons cited were: (a) limited types of projects that can be funded and non-viability of sub-projects, (b) weakness of both large and medium scale businesses due to prolonged effects of the Asian financial crisis, (c) “excess liquidity in the banking system,” and (d) competition from DBP with its below-market lending rates.

4.12.14 Legal Cases

The NEDA Portfolio Review 2006 reports that legal cases are sometimes filed in court by interested parties based on allegations of irregularities in project implementation. In the DPWH-managed Agno River Flood Control Project – Phase II, charges of "irregularity and anomaly in the bidding and award of the contract to the lowest bidder" went all the way to the Supreme Court in 2002. Although the SC dismissed the petition, in April 2005, the DPWH successfully completed the bidding process only in February 2006 because of the need for further studies on unit cost prices due to "the three and a half year delay in contract award."

There is a pending legal case in the Southern Mindanao Integrated Coastal Zone Management Project, where the DENR and the Provincial Government of Sarangani have yet to resolve the legal personality of the Environmental Conservation and Protection Center (ECPC). The most high profile legal case, however, is the Chinese-funded Northrail Project where a petition for the canceling of the project is pending with the Supreme Court (see 4.9 above).

5. What Else is Wrong with ODA?

This section takes a look at three reports which examined the worldwide experience of official development assistance and enumerated its many shortcomings. These are the UNDP **2005 Human Development Report** (International Cooperation at a Crossroads), the report of the UN Millennium Project entitled **Investing in Development: A Practical Plan to Achieve the Millennium Development Goals,** and lastly, the OECD's **2006 Development Co-Operation Report**. The critical positions taken by these reports is all the more significant and noteworthy in that they come from or are made under the sponsorship of the donor agencies and creditor countries themselves.

5.1 UNDP Human Development Report 2005 (Summary)

The UNDP HDR Report's section on "international aid" is prefaced by the slogan: "increasing the quantity, improving the quality." While viewing ODA as "one of the most effective weapons against poverty," the report nevertheless concludes that, especially in the context of the Millennium Development Goals, "the weapon is underused, inefficiently targeted, and in need of repair."

Aid is seen as a two-way partnership with "responsibilities and obligations on both sides." Recipient countries are responsible for creating "an environment in which aid can yield optimal results." Donor countries, on the other hand, "have an obligation to act on their commitments." In practice, however, the "partnership has been a one-way street."

The UNDP cites three conditions for development aid to be effective. First, given the financing gap, "it has to be delivered in sufficient quantity to support human development take-off." Second, aid has to be "predictable", of low cost, and commensurate with the amounts delivered. Third, recipient countries must have a sense of "ownership" of aid programs and projects. Sadly, the Report says that "none of these conditions has yet been met."

While there is some progress in increasing aid, a large shortfall of US$46 billion will still exist for 2006, increasing to US$52 billion in 2010. Despite public acknowledgments by developed countries on the importance of aid, “their actions so far have not matched their words.” Since 1990, per capita income in rich countries has increased by US$6,070, while per capita aid has fallen by US$1. Thus those who have gained and have been enriched by globalization have not reached out enough to help those who have been pauperized by the same process. Worse, “for every US$1 that rich countries spend on aid they allocate another US$10 to military budgets.” And the amount that Europeans spend on perfume and what Americans shell out for cosmetic surgery dwarfs the US$7 billion needed annually to provide 2.6 billion poor people with access to clean water and “save an estimated 4,000 lives each day.”

Notwithstanding periodic donor meetings and agreements on important principles for improving aid effectiveness and its quality, e.g., the March 2005 Paris Declaration on Aid Effectiveness, “aid delivery still falls far short of pledges” and “the specific form that conditionality takes often weakens national ownership and contributes to disruptions in aid flows.” Furthermore, “donor reluctance to use national systems adds to transaction costs and weakens national capacity.”

The UNDP report is particularly concerned with the issue of “tied aid” (already discussed in sections 3.4 and 4.3 above) calling it “one of the most egregious abuses of poverty-focused development assistance.” Noting that the practice “remains widely prevalent and underreported” the report’s authors “conservatively estimate the costs of tied aid for low income countries at US$5 – US$7 billion” with Sub-Saharan Africa alone “paying a ‘tied aid tax’ of $1.6 billion.”

The old unequal relationships between donor and recipient has simply been “repackaged” with “a continuing imbalance in responsibilities and obligations.” While recipient countries “are required to set targets for achieving the MDGs,” exercise fiscal restraints under IMF supervision, “comply with a bewildering array of conditions set by donors and to deal with donor practices that raise transaction costs and reduce the value of aid,” donors are freed from any obligations apart from “broad, non-binding commitments on aid quantity (most of which are subsequently ignored) and even broader and vaguer commitments to improve aid quality.”

5.2 The UN Millennium Project Report

Created in July 2002, the UN Millennium Project was an independent advisory body to then UN Secretary General Kofi Annan. Its project head was the noted economist Jeffrey D. Sachs. The project report on **Investing in Development: A Practical Plan to Achieve the Millennium Development Goals** was completed in 2005 and co-authored by the coordinators of the project’s 10 task forces and Secretariat, “building on the contributions made by hundreds of scholars, development practitioners, scientists, political leaders, and policy leaders.” The reports’ primary concern is how to achieve the Millennium Development Goals given the problems that stand in its way. Chapter 13, “Fixing the Aid System” deals with the problems of ODA and calls for its realignment to serve MDG goals rather than “political purposes and incremental budgeting.” Ten central problems related to the aid system are identified in the Report.

5.2.1 Aid processes are not MDG-based. Donor countries and multilateral aid agencies have paid merely lip service to the Millennium Development Goals in their assistance programs. For example, the poverty reduction strategies of the Bretton Woods institutions (International

Monetary Fund and the World Bank) in their recipient countries ignore MDG-based strategies. Aid documents “refer to the Goals either in passing or as a lofty ambition” and donors sometimes advise recipient countries to abandon scaled-up sector strategies.

5.2.2 Donors do not approach country-level needs systematically. The aid system does not have a “coherent set of operational targets” and therefore “no clear criteria for evaluating the types or amounts of development assistance required by individual countries.” In the absence of such an operational framework there is no way to differentiate support based on, for example, “governance” indicators.

5.3.3 Most development aid processes are stuck in the short run. While there is widespread agreement that “development is a long-term process,” aid programs are often “short-term in their orientation.” Planning cycles through Consultative Group meetings are held annually while Poverty Reduction Strategy Papers are based on three-year plans. Thus resource flows become unpredictable, precluding long-term planning by recipient countries. The irony is that “they are then chastised for not thinking or behaving with a long-term vision.”

5.3.4 Technical support is inadequate for MDG scale-up. While scaled-up technical support for specific sectors is needed to achieve the Goals, “international agencies that are the global repositories of sector-specific knowledge — such as FAO or IFAD for agriculture, UNICEF for child health, UNIDO for industrial development, or WHO for health systems and disease control” choose instead to “focus on small pilot projects.”

5.35 Multilateral agencies are not coordinating their support. Competition for funds from donor governments, rather than coordination, characterize the development assistance programs of the multilateral agencies such as the various UN agencies and the Bretton Woods institutions. Moreover, most funds generated go for small projects, “instead of supporting country-scale plans and budgets.”

5.3.6 Development assistance is not set to meet the Goals. “Assistance levels are generally set more by donor preferences than by developing country needs.” The refusal or inability of donors to support recurrent costs (e.g., salaries and maintenance) as well as long-term pre-service training of social workers undermines “long-term sustainability and capacity building” in the poorest countries. With aid flows growing only at a snail’s-pace, developing countries have every reason to question the developed countries’ commitment to the Goals.

5.3.7 Debt relief is not aligned with the Goals. Random and subjective indicators, such as debt-to-export ratios, not MDG-based needs geared towards sustainability, are often used as indicators to determine whether a country is qualified for debt relief. But even after relief, many poor countries “retain excessive debt” - the same situation for middle income countries that are not considered for debt relief programs.

5.3.8 Development finance is of very poor quality. The poor quality of bilateral aid is reflected in its high unpredictability, its emphasis on “technical assistance and emergency aid rather than investments, long-term capacity, and institutional support,” its tied character, its donor driven thrusts, its hostage to geopolitical concerns, and its lack of systematic evaluation and documentation. Low-quality assistance results in only 24 percent of bilateral aid actually financing “real MDG-based development investments on the ground” for low-income countries and only 9 percent for middle-income countries. This is after “one subtracts the money counted as official development assistance that is actually interest payments on debt, payments to consultants from developed countries, food aid, and debt forgiveness."

5.3.9 Major MDG priorities are systematically overlooked. Development assistance programs "routinely overlook needed investments in regional integration, environmental conservation, technological upgrading and long-term scientific capacities, efforts to promote gender equality, adequate shelter, disease control, soil nutrients, and sexual and reproductive health and cross-border infrastructure.

5.3.10 Policy incoherence is pervasive. Many developed countries have incoherent and contradictory policies in trade, finance, development and foreign relations as when a government provides "aid to support agriculture in a food-exporting country while also applying market access barriers to the same agricultural exports." Or when a finance ministry "might collect debt payments that negate the benefits of aid being disbursed by the development ministry."

5.4 The 2006 OECD Development Co-operation Report

In the Overview to the OECD Report by the DAC Chair, Richard Manning, wrote of the need to "search for practical steps that would enhance aid effectiveness by tackling some of the unnecessary complications and duplication inherent in much aid delivery." Among the problems he cited were "donor-led approaches that are not really "owned" by the recipient country or institution, lack of alignment of aid to local priorities, inadequate use of local systems and over-reliance on stand-alone donor-led structures and accountability."

Manning bewails that while donors have agreed on the Millennium Development Goals as the focus for aid programs, the process is still characterized by "sheer inefficiency and waste caused by the large number of donors operating in the same field each with its own "rule-book", procedures and decision-making systems."

While acknowledging the need for reducing the transaction costs of ODA programs and projects, the DAC Chair also calls for recipient countries to reform their budget systems as a way of strengthening and making more accountable local institutions. Alluding to corrupt practices, Manning points to "substantial discrepancies between the funds disbursed by donors and the information recorded in the budget."

Ironically, domestic accountability could be undermined by levels of aid that are larger than domestic taxation "however virtuous the intentions of the donor community." The absence of such accountability mechanisms serve as breeding grounds for "tyranny and kleptocracy … even for regimes that start out with strong developmental aims." Given this, donors must therefore "make a greater collective effort to encourage and support higher levels of domestic revenue collection in aid-dependent countries, particularly those where levels of dependence are high or rising significantly."

Manning further notes that while "donors spend much time and money on country and sector analytical work, on pre-feasibility and feasibility studies, on appraisal, and on monitoring and evaluation systems, … what is often missing is an authentic domestic system for assessing policies, programmes and projects against the evidence."

The DAC Chair identifies four domestic institutions that need donor support but which are often neglected and bypassed for various reasons. These are legislative bodies, an independent judiciary, an independent media, and civil society organizations.

Concluding his report, Manning calls for “not just more aid, but more effective aid.”

> In all the areas mentioned above, it is not just a question of donors being willing to do more. At least as important is how they do it. In many cases, one can find donor-financed activities, each of which has some justification, but which add up to less than the sum of their parts. Too seldom does one find activities that are the product of a consistent strategy, supported by the recipient country, and pursued over the medium to long term with collective and cohesive support from the donors.

The OECD report notes that “aid dependency can make governments less responsive to their citizens and less likely to collect taxes” and that

> Aid volume is important, but effective distribution and use are equally necessary. Both donor and recipient countries must be held accountable. For example, there is a gap of billions of dollars between what donor countries report as aid and what recipients see and control through their own budgets.

5.5 Summing up the Philippine ODA Experience

From 1947 to 1977, the US provided US$1.7 billion in economic assistance to the Philippines but a U.S. government study concluded that “concrete development advances are hard to identify” (Shirmer and Shalom 1987). In 1979, an independent study of the impact of US aid projects to the Philippines noted that “only 22 percent of the aid is reaching the needy … amounting to less than a penny per person per day” (Morrel 1987). Only a few projects “has reached the poor … such as irrigation works, rural roads, safe water facilities, and rural health centers” while “the majority of US aid (was) not even intended to help the poor.” The latter consisted in “tobacco loans, insurance for a Bank of America branch, military aid, expensive rural electricity services, and balance-of-payments loans conditioned on the adoption of government policies that reduce real wages for the poor.” Against the Philippine backdrop of grinding poverty, low incomes, malnutrition and homelessness, the response of the Jimmy Carter administration in 1979 was to increase military aid to the Marcos regime by 138 percent.

A 1986 report by a group of sixteen (16) economists from the University of the Philippines on the socio-economic reforms needed after the overthrow of the Marcos regime pointed to “the foreign debt as one of the biggest obstacles to economic recovery” (Alburo et al 1986).[35] It was not only the size of the debt that was worrisome but that "most of the projects that were financed by foreign loans were unproductive" in that they were not used “to increase exports and reduce imports” thus resulting in unmanageable debt service and debt to GDP ratios. This is because many foreign financed projects "were not well chosen or were probably chosen precisely to finance capital flight through the overpricing of projects." An additional burden was that "many private sector projects relied on government financial institutions for foreign loans and guarantees." The UP group further pointed out that "official assistance was tied to projects which

[35] At the time that Marcos was overthrown, the Philippines “was one of the most heavily indebted countries in the world: seventh in size of debt, sixth in debt to exports ratio, fourth in debt to gross domestic product, and ninth in debt service ratio” (Alburo et al 1986).

were not necessarily high in the country's priorities or were tied to sources of imports and equipment that were more expensive than competitive suppliers." On top of this, "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, Malaluan (1998) criticized the government's public investment program's excessive obsession with growth to the detriment of a redistributive agenda. His study contends that this investment pattern is reflected in the track record of foreign assistance that "imposes a resource bias against redistributive policies" since aid criteria "are based mainly on projected project contributions to capital formation and foreign exchange." Thus "foreign assistance focuses on the economic sectors in fast-growing … and highly urbanized areas" thereby exacerbating regional, geographical and sectoral imbalances.

As the new millennium slowly unfolds, the issues that have long characterized foreign assistance to the Philippines continues to haunt both the government and its creditors. The 2004 COA "Sectoral Performance Audit Report on Public Debt" shows how little has changed over the last decades. The following are the highlights of the COA audit (underscoring supplied):

1. "Existing laws, rules and regulations were inadequate to ensure proper management and monitoring of public debt as evident in" the absence of a "mandated ceiling on public debt" which "resulted in unlimited contracting of loans and issuance of guarantees, and continuous programming of expenditures over and above the estimated income. As the estimated income were most often not realized, **actual borrowings even exceeded the amount programmed to be borrowed."**
2. "**The loan proceeds did not significantly contribute to our economic development as these were expended for loan repayments and not to projects.** Because of the absence of limitations, the total loan repayments included, among others, servicing of GOCC (government-owned and controlled corporations) debts assumed by the national government amounting to ₱63.959B from CYs 1999 to 2003 and advances by the national government for GOCC loans which amounted to ₱36.229B as of December 2003."
3. "There is **inconsistent treatment of liabilities of the different sectors for lack of definition of the components to be considered as public debt**. For national government and LGUs, the DOF considers only loans contracted and bonds issued. However, for the 14 monitored GOCCs, the DOF includes all liabilities reflected in their respective financial statements which may include payables to contractors, employees and other miscellaneous liabilities."
4. "The DOF's data on outstanding public debt does not also include indebtedness of other government corporations amounting to ₱22.585B and contingent liabilities on account of guarantees issued by the national government on BOT/PSP projects estimated to be ₱308.850B. Payments for some of these loans have already been advanced by the national government. In addition, the amount of indebtedness of LGUs differs from the amount reflected in the LGUs financial statements. Under these conditions, **the government could not make an accurate assessment of its financial condition.**
5. "**A number of projects funded from borrowings were approved without proper evaluation** thus, risks in project implementation were not addressed before the projects were started. The project implementation were either delayed or the loans were totally cancelled due to unpreparedness of the implementing

> agencies, unresolved right of way problems, lack of funds or inadequate facilities, among others, after incurring substantial amounts of project expenditures including commitment fees, thus, **wasting limited government resources at the expense of the taxpayers and depriving the public of the benefits to be derived from the projects.** The project evaluation likewise did not cover adequacy of planning and project design to ensure that projects would be completed, operational and could be properly maintained. There are projects with substantial loan balances but already undergoing rehabilitation works funded under other foreign loans."

In a 2003 international conference on the quality of aid, then Budget Secretary Emilia Boncodin enumerated "painful blunders that have been committed in the name of development" and cited loans that "have ignored pressing needs and yielded counter-productive results" (Sison 2003). Boncodin raised the issue of "ownership" of development projects particularly "when foreign consultants come in and 'call the shots,' proposing solutions that are not adaptable to local situations" In the case of new technologies that are introduced, the result is only to "raise the costs of public services."

Echoing Boncodin's complaint in the same conference, Jonathan Uy, director of the NEDA public investment staff, said that, in some instances, "there was disregard for existing structures and local practices which should have been adapted rather than supplanted." Uy further scored the "recipient's weakness in identifying its needs and donors and consultants having their own agenda to push, effectively 'driving' the preparation and implementation of the projects/programs rather than the recipients."

6. Conclusions

This report by no means exhausts all the issues and concerns that have been raised about official development assistance both globally and in the Philippine case. Nevertheless, this partial assessment already forms a strong indictment of both the quantity and quality of foreign assistance at both the donors' and the recipient Philippine government's end. The problems associated with foreign assistance have persisted for over five decades with no sensible and sustainable solutions and have now reached crisis proportions.

A 2006 book by William Easterly[36] concludes that the aid industry is deeply flawed and that there is no correlation between aid levels on one hand and economic growth and development on the other. He shows how developing countries (particularly in Asia) who have had the most success in combating poverty have also been the ones who have received the least foreign aid. In contrast, those with the lowest per capita growth rates had also received the highest aid levels.

Given the evidence, and in a deeply significant sense, the term "development assistance" has become an oxymoron. Unfortunately for the poor, the term does not just connote a figure of speech but a reality that unfolds on a daily basis, the presumed benefits of which they only have a phantom acquaintance.

27 March 2007

[36] **The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good** (Oxford University Press) 2006. Easterly is Professor of Economics at New York University. From 1989-to 2001, he was World Bank Senior Adviser, Macroeconomics and Growth Division, Research Department.

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