

DEVELOPMENT DOWN THE DRAIN

THE CRISIS OF OFFICIAL DEVELOPMENT ASSISTANCE TO THE PHILIPPINES¹

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1. Introduction

Foreign aid, or official development assistance (ODA), is said to play an important role in Philippine development, but for the past two decades and despite the overthrow of the scandal-plagued Marcos dictatorship, it has been continually mired in problems and long-standing inadequacies that only serve to negate its intentions and avowed objectives.

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. Revelations of ODA misuse including corrupt practices and misdirected and ill-conceived projects had hounded Philippine foreign assistance in the two decades of the Marcos regime (1965-1986). The downfall of one-man rule had thus raised expectations of long-overdue reforms in the sourcing and utilization of foreign aid. These hopes have not been realized and, in addition, 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-festered 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...” To qualify as ODA, aid 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.² The concessional provision means that loans should have a grant element of at least 25 percent.³ ODA consists

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² From the above definition, it is obvious that all forms of military assistance do not qualify as ODA.

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).

of either bilateral contributions from donor government agencies to developing countries or multilateral assistance from international or regional institutions.

ODA is an attractive source of development funds in that interest rates for loans are lower than commercial rates, repayment period are longer 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 appeal.

An important international body for the formulation of policies on aid and the coordination and monitoring of its implementation is the OECD, an economic policy coordination club composed of 30 of the world's richest economies. 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 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). Grants and technical assistance, on the other hand, are disbursed mainly by the Japan International Cooperation Agency (JICA) and, to a lesser extent by the Ministry of Foreign Affairs (MOFA). By October 2008, however, JICA will be restructured to take over JBIC's loan granting component and MOFA's grants aid program (Ogata 2007). This would make the new JICA the world's largest bilateral development agency with resources amounting to US\$8.8 billion and, for the first time, will place management of Japan's ODA "under one roof."

In the Philippines, the government agency that approves, monitors, and evaluates ODA projects is the National Economic and Development Authority (NEDA), a cabinet level inter-agency 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 aid projects while another body, the Infrastructure Committee (Infracom), has recommendatory functions over infrastructure project proposals.

3. ODA in the Philippines

Since achieving political independence in 1946, the Philippines has been dependent on foreign assistance to support its economic development agenda. In the fifties' and early sixties', ODA was used for post-war rehabilitation, and was primarily in the form of grant assistance from the United States and Japanese reparations payments (UN International Labor Office 1976). Foreign aid dramatically increased at the beginning of the seventies' with the organization of the Consultative Group on the Philippines in 1971. 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 contains the following pertinent sections (Tadem 2003):

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."

3.1 The Twenty-Year Record, 1986 to 2006

The year 1986 is used here as a benchmark as 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 of ODA and for reforms in aid 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 proper ODA reform measures have been put in place. To assess the progress of ODA, two time trends have been set: the first from 1986 to 2000 and the second from 2000 to 2006. This would indicate a line dividing the years before and after three defining events – the adoption of the Millennium Development Goals, the September 11 attacks, and Japan's new ODA Charter.

The positive indicators looked for are the following: (1) increases in ODA commitments, (2) change in the loan-grant mix in favor of the latter, (3) increases in sectoral allocation to human development projects, (4) change in geographical distribution in favor of less developed regions, (5) improvement in the disbursement and availment rates, (6) decrease in the ratio of ODA to external debt, (7) the untying of aid, (8) enhanced sensitivity to social and environmental issues, and (9) fixing 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 registered. This could

perhaps be accounted for by the total absence of loan commitments from the US for the 2001-2006 period as it concentrated exclusively on giving out grants.

Of this amount, 63.65 percent was shared by bilateral contributions. Compared to the data from 1986 to 2000, the contribution of multilateral agencies fell by 3.65 percent in 2001-2006. 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.

**TABLE 1. 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
8. Canada	402.50	15.40	387.16
9. Spain	376.78	350.89	25.78
10. Italy	117.10	75.00	42.15
11. Brunei	100.00	100.00	-----
12. Korea	57.30	57.30	-----
13. 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 the multilaterals, the World Bank is 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 is slightly less than the two institutions' share of 95.25 percent in 1986-2000.

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. Germany was third with a mere 3.99 percent and the UK 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 by contributing US\$467 million for only 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 controversial rehabilitation of the North Luzon Railway system (see Section 4.9 below).

TABLE 2. 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

The figures for 2001-2006, however, 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.

At the Philippine 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).

Since the Philippines had not benefited by the global expansion of ODA previously recorded for the 2001-2005 period and OECD projects a prolonged continuation of the decline registered in 2006, 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 funds to come from China or Chinese sources, thus marking a radical shift in ODA sourcing for the Philippines (See Section 4.9 below).

Given the need to improve its fiscal status, the government has decided to increase its dependence on ODA to fund its programs and projects (Dumlao 2006a). Finance Secretary Margarito Teves revealed that of the programmed US\$2.2 billion in fresh foreign borrowings earmarked 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 3: ODA COMMITMENTS TO THE PHILIPPINES,
By Source, 2001-2006 (In US\$Million)**

Source					
Multilateral	Total	Loans	% Loans	Grants	% Grants
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

3.2 Japan's ODA to the Philippines

For the twenty-year period from 1986 to 2006, an overwhelmingly large 91.19 percent of 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 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 three years (2005-2007) have seen a drastic scaling down of Japanese ODA to the Philippines. The total for the three years was only US\$101.5 million consisting of one loan project in 2006 worth US\$72.7 million and eight grant assistance projects amounting to US\$28.8 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.⁴

TABLE 4. JAPANESE ODA TO THE PHILIPPINES, 2005-2007

Project	Date of exchange of notes	US\$ million
Grant Aid		
Human Resource Development Scholarship	July 8, 2005	3.97
Food Aid through WFP	March 17, 2006	1.19
Human Resource Development Scholarship	July 23, 2006	3.30
Food Aid through WFP	October 31, 2006	1.18
Human Resource Development Scholarship	July 2, 2007	3.92
Rural Electrification (N. Luzon)	Oct. 10, 2007	6.28
Improvement of Flood Forecasting & Warning System (Pampanga & Agno River Basins)	July 31, 2007	6.41
Grant Assistance for Farmers	Mar. 19, 2007	2.55
Loan Aid		
Pasig-Marikina River Channel Improvement Project (Phase II)	Dec. 9, 2006	72.70
TOTAL		101.50

Source: Japan Ministry of Foreign Affairs

⁴ Previous lows were in 1962 (US\$7.02 million) and in 1961 (US\$8.54 million).

This decline came about despite an announcement by the Japan International Cooperation Agency (JICA),⁵ 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.

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.

3.2.1 Japan's 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. 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.⁶ In terms of loan amounts, 59 percent was totally tied, 28 percent was partially untied, and only 2.8 percent 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 could transform the project 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). 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.” Such partnerships would have facilitated technology transfer, a goal that is inscribed in the Philippines' ODA Law of 1996.

⁵ JICA is the Japanese government agency that administers Japanese technical assistance and financial grants to developing countries.

⁶ For these three projects, while the main portion is untied, no information was given on the nature of the consultancy services portion.

TABLE 5. 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
2 nd 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 & Environment Protection	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.

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).

**TABLE 6. 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

3.2.2 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 2001.⁷ Eighty-five (85) percent of the project cost is covered by a JBIC loan amounting to US\$355 million with the Philippine government, through the Bases Conversion Development Authority (BCDA), providing the local counterpart of US\$62 million. The project being a tied loan, “only Japanese lead contractors were allowed to participate in the bidding for the construction.”

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 cost of ₱15.247 billion in 1999, the final cost reached ₱21 billion in 2005, a 40 percent increase, due to revisions in project design and implementation scope. Groundbreaking did not take place until April 4, 2005, or six years after NEDA project approval. The scheduled completion is in the fourth quarter of 2007.

⁷ The previous largest project was the US\$300 million Industrial and Support Services Expansion program that commenced in March 2000.

Difficulties in implementation, however, such as land compensation disputes and right-of-way conflicts may force the BCDA to reschedule project completion (NEDA 2005). The ROW problem has set back the project schedule by about 8 percent. The latter 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) such as “hiring” second-hand road-working machines from local sub-contractors instead of bringing in new equipment, as was required. Observers also point out that the delay in start of actual civil works by two months “is already grounds for revocation of the contract.”

3.3 Sectoral Allocation of ODA

The seriousness of donors and recipients in achieving ODA reforms can be gleaned by how aid has been allocated across the various economic and social sectors. The Philippine case reveals no significant reform gains; instead backtracking has taken place on a major scale.

From 2000 to 2006, ODA commitments for infrastructure averaged a share of 65.28 percent of total ODA. This constituted a 15.2 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 17.43 percent for 2000-2006. Industry and services was third with an average share of 8.14 percent, while social reform and community development was fourth with an average share of 7.85 percent. At the bottom of the list was governance and institutional development with an average share of 1.46 percent. Total allotments for the combined agriculture, land reform and industrial development sectors showed an increase to 25.3 percent from the 1986-2000 share of 21.23 percent.⁸

TABLE 7. SECTORAL SHARES OF ODA COMMITMENTS, 2000-2006

Sector	Net Commitment							
	2000	2001	2002	2003	2004	2005	2006	Average
Infrastructure Support	66%	69%	63%	69%	68%	65%	57%	65.28%
Agriculture, Natural Resources, and Agrarian Reform	16%	16%	21%	17%	17%	17%	18%	17.43%
Industry and Services	10%	9%	9%	5%	5%	8%	11%	8.14%
Social Reform and Community Development	5%	5%	5%	9%	8%	10%	13%	7.85%
Governance and Institutional Development	3%	1%	2%	0%	2%	2%	0.23%	1.46%

Source: NEDA Annual ODA Portfolio Reviews

⁸ Except in the case of “infrastructure support,” there is some difficulty in comparing the 2000-2006 data with the 1986-2000 figures 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.

**TABLE 8. SECTORAL ALLOCATION OF ODA,
1987-2000 (In US\$million)**

Sector	1987-2000	
	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

**TABLE 9. DISAGGREGATED SECTORAL ALLOCATION OF
ODA COMMITMENTS (As of December 2006 and 1994-2000)**

Sector/Sub-sector	As of December 2006		1994-2000	
	US\$ m	% Share	US\$ m	% Share
Agriculture, Agrarian Reform, and Natural Resources	1,734.66	18.25	3,711.71	27.82
Agriculture and Agrarian Reform	1,347.88	14.18	2,935.05	22.00
Environment and Natural Resources	386.78	4.07	776.66	5.82
Industry, Trade and Tourism	1,052.30	11.07	612.65	4.43
Infrastructure	5,461.15	57.45	8,017.34	60.00
Communications	29.8*	0.3	135.48	1.01
Energy, Power, and Electrification	638.71	6.72	1,919.81	14.39
Social Infrastructure	198.57	2.09	0.60	0.00
Transportation	4,009.21	42.17	3,530.70	26.46
Water Resources	614.66	6.47	1,634.49	12.25
Social Reform and Com. Dev. (Human Development)	1,236.26	13.00	1,316.32	9.86
Education and Manpower Dev.	551.68	5.8	51.27	4.13
Health, Population, and Nutrition	359.15	3.8	283.75	2.12
Social Welfare and Com. Dev.	196.58	2.1	20.53	0.15
General Social	100.0	1.1	460.77	3.45
Shelter & Urban Development**	28.85	0.3	-----	----
Governance and Institutions Development (Political governance)	21.9	0.23	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

*As of Dec. 2005. This category is missing in the 2006 Report.

** This is a new category introduced in the 2006 Report.

Note: "Others" include disaster mitigation and integrated area development.

What is clear, however, is that for “human development” there was a significant decrease in ODA commitments in the 2000-2006 period (7.85 percent) compared with the already minuscule 1987-2000 share of 10.95 percent.. It also appears 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 complying with Philippine MDG targets by 2015.

In terms of subsectors, transportation continued to have the biggest allocation of 42.17 percent as of December 2006, a 59 percent increase from the 1994-2000 share of 26.46 percent. Agriculture and agrarian reform were in second place with 14.18 percent but this was a sharp decline from the previous share of 22 percent. Energy, power, and electrification was in third with 6.72 percent, a decline from 14.39 percent in 1994-2000. Water resources was close behind with 6.47 percent even as its share declined from its previous allotment of 12.25 percent. Education and manpower development was fifth with 5.8 percent, a modest increase from its previous share of 4.13 percent. Environment and natural resources was sixth with 4.07 percent, a decline from 5.82 percent. As expected, other human development related subsectors fared badly with health, population and nutrition with a mere 3.8 percent, and social welfare and community development with only 2.1 percent.

3.4 Geographical Distribution of ODA

Data from the NEDA Annual ODA Portfolio Reviews from 2000 to 2002 on the geographical distribution of ODA show that 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. 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.

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.

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.

It must be noted that the NEDA Annual ODA Portfolio Reviews provide 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. Thereafter, NEDA has ceased reporting on the regional distribution of ODA. This was one of the reasons cited in Philippine Senate Resolution No. 179 filed by Senator Loren Legarda in November 2007 for the Committee on Economic Affairs to conduct an inquiry on, among others, “the extent to which ... ODA has promoted sustainable and economic development and the welfare of the Philippines” (Philippine Senate 2007).

**TABLE 10. 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

The pattern, however, is clear and the 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.

3.5 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. There is also a one-percent "front-end fee." Thus for the US\$410 million in new World Bank loans to the country in 2006 alone, the Philippine government was immediately saddled with a front-end fee of \$4.1 million and annual interest payments of US\$28.45 million.

TABLE 11. ODA AS SHARE OF EXTERNAL DEBT, 1988-2006 (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. ADB loans are pegged at 6.7 percent for dollar loans, 5.5 percent for multi-currency loans. The 0.75 percent commitment fee is paid annually on the undisbursed portion of the loan based on a disbursement schedule (15 percent of Total Project Commitment for the 1st year, 45 percent for the 2nd year, 85 percent for the 3rd year, and 100 percent thereafter).

Japanese bilateral loans have interest rates ranging from 0.75 percent to 2.2 percent. 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. Loans from other countries range from a low of 0.75 percent for Germany to a high of 4-5 percent for Austria. There are no interest charges for loans from Belgium, Finland and Norway.

In 2006 alone, the Philippine government paid US\$5.7 million in commitment fees, which was 11 percent less than the total paid in 2005 of US\$6.4 million. 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.⁹ For 2005, total commitment fees paid to the WB and ADB amounted to US\$8.4 million.

**TABLE 12. COMMITMENT FEES PAID ON ODA LOANS,
2001 to 2006**

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	6.4 million
2006	n.a.	5.7 million

Source: NEDA Annual ODA Portfolio Reviews

Government agencies and corporations that paid the most in commitment fees in 2006 were the Department of Finance (US\$1.3 million), the Department of Agriculture (US\$0.7 million), Land Bank of the Philippines (US\$0.4 million), and 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.

The Bureau of Treasury reports that 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). Seventy-seven percent of government debts in 2006 were in commercial loans. For 2007, the government intends to improve the mix somewhat to 55 percent commercial and 45 percent ODA. However, "the bulk of borrowings by government

⁹ JBIC loans do not charge commitment fees.

was simply used to pay existing obligations” (Remo 2007). For the period January 2007 to July 2007, debt service payments have already totaled ₱409.37 billion with 39 percent of the amount consisting of interest payments alone.

On November 12, 2007, the House of Representatives passed its version of the 2008 government budget (General Appropriations Bill – House Bill 2454) where it voted to reduce interest payments on the foreign debt by ₱17.8 billion. More significantly, the legislators, voting 174-8, included a special provision stressing that “no amount shall be used for the payment on debts which are challenged as fraudulent, wasteful, and/or useless.

3.6 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.”¹⁰

As of December 2006, NEDA reported a 71 percent availment rate representing cumulative disbursements of US\$5.49 billion out of a target disbursement of US\$7.74 billion. This was a 10.7 percent improvement over the 2005 availment rate of 60.3 percent representing cumulative disbursements of US\$4.71 billion out of a target disbursement amount of US\$7.81 billion. The 2005 availment rate was, in turn, better by 2.8 percent over the 2004 level of 57.5 percent which was US\$4.3 billion disbursed out of a target of US\$7.6 billion.

The “industry, trade and tourism” sector had the highest availment rate in 2006 with 94.35 percent (US\$480 million out of US\$508 million) a big jump from its 2005 availment rate of 69.1 percent (US\$348 million out of US\$504 million). The previous year’s leader, the “social reform and development” sector came in second this time with 75.76 percent (US\$482 million out of US\$637 million) an improvement over its 71.7 percent availment rate in 2005 (US\$442 million out of US\$616 million). “Agriculture, agrarian reform, and natural resources” retained its third position with 69.85 percent (US\$981 million out of US\$1,405 million) compared to its 2005 rate of 60.9 percent (US\$891 million out of US\$1.5 billion). Ironically, the sector with the highest share in ODA allotments, “infrastructure,” was second to the last in terms of availment rates with 61.52 percent (US\$2,615 million out of US\$4,251 million) with “governance and institutional development” bringing up the rear with 31.94 percent (US\$5.36 million out of US\$16.77 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.

¹⁰ 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.”

TABLE 13. 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%
2006	1,937	71%

Source: National Economic Development Authority

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, then 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).

TABLE 14. ODA PROJECTS WITH LOWEST AVAILMENT RATES
(As of June 30, 2006, in US\$M)

Source/Project		Net Commitment	Disbursement	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

3.7 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.¹¹ Thus, the Build-Operate-Transfer (BOT) based on a market-based "user-pays" principle scheme came into being.¹²

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).

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."¹³

According to the Bureau of Treasury, total contingent liabilities of government as of August 2007 stood at ₱537.2 billion, of which ₱472.2 billion (88 percent) are foreign debts. This constituted a decline of 5.75 percent from the December 2006 total contingent liabilities of ₱570 billion, an improvement that was due to the appreciation of the Philippine peso *vis a vis* the US dollar. Of the foreign-based contingent debts, ₱4.2 billion have been assumed by the Philippine government as of June 2007. The August 2007 contingent liabilities of government constitute an increase of 147 percent over the 2001 total of ₱217 billion.¹⁴ For 2001, however, assumed debts were higher at ₱12.03 billion.¹⁵

3.8 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 became the Philippines' fourth largest trading partner in 2005, up from 12th place in 2001.¹⁶ The two governments have also agreed on a bilateral annual trade target of US\$30 billion by 2010. Consequently, investment and development assistance followed.

¹¹ DevMagazine, July-August 1998.

¹² Examples of ODA-assisted 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.

¹³ Philippine Daily Inquirer, July 16, 2001.

¹⁴ Due to net repayments and 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.

¹⁵ 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). (Tadem 2003).

¹⁶ 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.

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 provided loans to five projects worth a total of US\$763 million. An additional US\$541 million for two loan infrastructure projects are also under consideration (Olchondora 2007 and Gaylican 2007). Of the five approved loans, easily the most controversial is the North Rail project, which consists of a US\$503 million concessional loan from the Export-Import Bank of China and a Philippine government's counterpart of US\$107 million. Signed on February 26, 2004, China's largest ODA commitment to the Philippines is for the rehabilitation and upgrading of the North Luzon Railway project.

The ODA agreement, however, has been criticized as being grossly disadvantageous to the Philippine government (Rufo and Bagayaua 2007). The average cost per kilometer would be almost US\$16 million (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.¹⁷ 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.¹⁸

Given these onerous terms a study by the University of the Philippines Law Center "recommended the cancellation of the contract" and "if warranted, criminal, civil and/or administrative cases should be filed against the concerned public officials and private individuals." Based on this UP Law Center report and other testimonies during public hearings, the Philippine Senate concluded that the project was full of irregularities and should be abandoned.¹⁹ As of November 2007, the case was pending at the Supreme Court.

¹⁷ 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.

¹⁸ 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.

¹⁹ 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.

Undeterred by the controversy surrounding the Northrail Project, the Philippine and Chinese governments, 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). This 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 (Landingin 2007).

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, Manila's new aqueduct, as it offered "cheaper rates, faster approval and fewer questions" (Naim 2007).²⁰ The issue of competitive pricing apparently does not apply in the case of (the now mothballed) 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 local company despite the latter's supposedly lower price offer (Lucas 2007).²¹

Another controversial Chinese loan project is the US\$465.5 million cyber-education project of the Department of Education which aims to use satellite technology to electronically link schools nationwide (Ubac and Esplanada 2007). Critics have called the project an unnecessary expense given the more pressing problems of classroom and textbook shortages. They also aired concerns that the project "aims to replace teachers with satellite-beamed lessons, and force the use of English instruction instead of encouraging the use of local languages."

Philippine peasant organizations and agrarian-support NGOs are not happy with China's aggressive push into the Philippine economy. In a full-page advertisement in the **Philippine**

²⁰ 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).

²¹ Due to sensational and embarrassing exposés in Senate hearings of attempted bribery and various forms of influence peddling involving the Chair of the Commission on Elections, the Speaker of the House of Representatives, the President's husband, and President Macapagal-Arroyo herself, the National Broadband Project project was cancelled by the government in September 2007.

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 (the) national patrimony” and “violates the agrarian reform law and reverses attempts at attaining food security through self-sufficiency in production” (PDI Feb. 12, 2007). 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.”

As Japanese ODA to the Philippines continues its decline, China is poised to take over as the country’s primary foreign aid source (Amojelar 2007). For 2007 alone, Chinese loans in terms of pledged funds and signed agreements have reached US\$2.21 billion. Acting NEDA Director General Augusto Santos echoes the line that Chinese loans are more concessional and more affordable than either ADB or World Bank loans. This appears to be a barbed reaction to the recent cancellation by the World Bank of a road project loan (see section on corruption above).

3.9 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 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 2005.²²

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

²² 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.

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 primarily within the context of the so-called “War on Terror” 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 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.

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, costing US\$50 million, focuses on full implementation of the sub-projects in conflict-affected areas, technical assistance, continuation of capacity building, and a phased transfer of program management responsibility to the Bangsamoro entity to be identified/confirmed after the peace signing.” Its implementation, however, is contingent upon the signing of a final peace agreement between the MILF and the government.

In November 2007, following the announcement of the resumption of the stalled RP-MILF peace the US government released US\$750,000 to the Bangsamoro Development Agency (BDA), the development arm of the MILF, be used for capacity-building purposes (Maitem 2007).

3.10 The 2005 COA Report on ODA

The report of the Commission on Audit (COA) on ODA for 2005 contains findings on 55 ongoing foreign-funded projects that put the Philippine government's and the donor community's handling of foreign aid in a particularly bad light. The COA audit team uncovered a number of anomalies and irregularities related to ODA implementation and management resulting in huge losses for the government and glaring inefficiencies in project implementation. Total losses resulting from the above irregularities amounted to PhP4.7 billion (US\$85 million).

The irregularities consisted of (1) overpricing of relocation sites, (2) "unrecorded transactions, double recording, understatement and overstatement of various accounts, (3) improper or non-recording and inventory of property, plant, equipment and office supplies, (4) misclassification or non-reporting of accounts, (5) "non-compliance with prescribed laws, rules, regulations, loan agreements and contracts, (6) delays or non-completion of projects "resulting in slow availment of loan proceeds/low utilization rate and contributing to additional commitment fees, (7) the non-utilization of facilities, textbooks and other items which deprived the beneficiaries of project benefits, and (8) the non-transfer to the government of "titles for forty-six (46) purchased lots.

3.11 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 the issue foreign consultants, the other issues and problems presented below are culled from NEDA's 14th Annual ODA Portfolio Review (2005) and they sound like a familiar refrain.²³ These are problematic areas in addition to the issues discussed above.

3.12 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 foreign business persons (100 of them based in the Philippines) by the Hongkong-based Political

²³ NEDA's 15th ODA Portfolio Review (2006) was released in September 2007 and the Review's updated ODA figures have been incorporated in this study, but not the implementation problems which appear to be mere repetitions of past concerns.

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.²⁴

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, EPRA 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).²⁵

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 Chinese-funded US\$330 million National Broadband Project (NBN) was scuttled due to disclosures of bribery attempts involving high government officials.

In November 2007, the World Bank, in a highly unusual move, suspended the release of \$232 million in loans earmarked for the 2nd National Roads Improvement and Management Program (NRIMP) after the Bank's Internal Investigation Unit reported instances of corruption in the bidding process during the project's first phase (IHT 2007, World Bank 2007). The investigation unit had uncovered anomalies involving the China State Construction Engineering, a company owned by the Chinese government "which won a \$6.2 million contract for road maintenance in the Philippines in 2002," and "had tried to rig bids with a cartel of construction companies in later bidding rounds" (IHT 2007). The Bank's 24-member governing board "refused to authorise the project, arguing that the corruption issues

²⁴ 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.

²⁵ 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 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.

in the first phase of the project hadn't been resolved and that (World Bank President Robert) Zoellick hadn't been appraised of the loan request" (Davis and Simpson, 2007).

3.13 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 unfortunately ceased to monitor environmental and social issues with respect to ODA projects.

3.14 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).²⁶

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)²⁷ 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

²⁶ 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.

²⁷ The PDF was formerly called the Consultative Group Meeting on the Philippines.

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 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.

3.15 Lack of Counterpart Funding and Procurement Delays

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, 11 government agencies had foreign-assisted projects that were adversely affected by the unavailability of counterpart funds. 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) that is burdensome to the latter resulting in LGU withdrawals from the projects. 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, local counterpart funds were still hard to come by (Galang 2002).

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.

With respect to 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 four agencies “with amounts ranging from P106 million to P14 billion, resulting in the agencies' inability to meet performance targets.” These delays were attributed to “(a) high bid prices; (b) failure in bidding/rebidding of contracts; (c) lengthy review process; (d) changes in the agencies' leadership; and (e) lack of familiarity with RA 9184 and/or funding institutions' procurement guidelines”

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.”

3.16 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.²⁸

According to the Japan Chamber of Commerce and Industry in the Philippines, Inc. (JCCIFI), 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 in GOP's capability to meet its obligations.”

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. Taking the side of its business community, the Japanese government threatened to cut its ODA to the Philippines for 2006 unless the tax refunds were immediately remitted (Remo 2006).

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 substantial 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.

3.17 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 in 2005. 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 thus increasing project costs.

²⁸ These agencies were DPWH, DOTC, Manila International Airport Authority (MIAA), NIA, PPA, NPC, DepEd and Benguet Provincial Government.

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 government agencies implementing FAPs funded by GOJ-JBIC loans with reported unpaid billings of at least ₱2.1 billion.

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.”

3.18 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 discussed in Section 3.15 above.

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.

3.19 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 constraints²⁹ 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 listed eleven major infrastructure projects and their respective implementing agencies as having major right-of-way and land acquisition problems in 2005. These involve bridge projects, flood control works, airports, highways and expressways, water supply projects, irrigation schemes, and river rehabilitation plans.

²⁹ “The law requires the implementing agency to deposit the payment of 100 percent of the 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).

3.20 Project Management.

Political instabilities, an insecure national leadership, and questions about the legitimacy of the government have characterized Philippine governance over the past years. These have 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 /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.”

3.21 Project Cost Overruns

Increases in project costs are perennial problems encountered in ODA projects. For 2005, an additional ₱29 billion was added to the project costs of seventeen projects. In terms of funding source, 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.

3.22 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.” In 2004, then 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). 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).

Of the twenty-nine loans that were reported as closed and/or fully availed in 2005, at least 3 have incomplete project outputs. The implementing agencies for these unfinished 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.” 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 area has been the scene of “bloody killings among warring local armed groups over the last few years.”

Japanese loans suffer from the most number of cancellations. In 2006, 14 JBIC loans amounting to US\$166 million were canceled (Amojelar 2007). These were due to “unutilized balances at the close of the loan, excess financing as a result of foreign-exchange rate movements, low demand for relending, reduction in scope of projects, and budget constraints.”

3.23 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 five projects having to do with industrial support, domestic shipping, pollution control, water supply, and technical education. Reasons for the low demand included: “(a) wait-and-see attitude of 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,” (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 cheaper training courses.” The 2005 performance of DBP-managed ODA loans contrasted sharply with the optimism expressed by then DBP President Simon Paterno in 2004 regarding the bank’s relending program in ODA funds (Dumlao 2004).

For LBP-implemented projects, NEDA reports that low demand was in rural finance and local water supply development. 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.

3.24 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 cancelling of the project is pending with the Supreme Court (see Section 3.8 above).

4. Best Practices?

The Philippine ODA picture, however, does not look entirely bleak. There are some projects that have been cited for their effectiveness and appropriateness in addressing the more relevant concerns of the Filipino people. Further evaluation and validation, however, are needed before the verdict on these projects are finalized. The possible candidates for best ODA practices are:

- 4.1 The Second Communal Irrigation Development Project (CIDP 2) - World Bank
- 4.2 Alliance for Mindanao Off-Grid Renewable Energy (AMORE) – USAID
- 4.3 The Third Elementary Education Project (TEEP) – JBIC

The characteristics that the CIDP2 and AMORE projects have in common are (1) community-based; (2) direct participation by beneficiaries and stakeholders in project implementation and maintenance; and (3) relatively small-scale operations and lower per-capita costs. The TEEP, on the other hand, was initially problematic, but the takeover by dedicated, non-bureaucratic and efficient managers turned the project around. The results among the targetted areas were lower drop-out rates, narrower gaps in completion rates, higher academic performances, and improved national rankings (JBIC Study Team 2006).

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 “have 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).³⁰ 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 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 have 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 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.”
3. “There is inconsistent treatment of liabilities of the different sectors for lack of definition of the components to be considered as public debt.”
4. “The DOF’s data on outstanding public debt does not include indebtedness of other government corporations” and “contingent liabilities on account of guarantees issued by the national government. 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. ... Risks in project implementation were not addressed before the projects were started, thus, wasting limited government resources at the expense of the taxpayers and depriving the public of the benefits to be derived from the projects.”

³⁰ 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).

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 questioned the “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 was only to “raise the costs of public services.”

Echoing Boncodin’s complaint in the same meeting, 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” (Sison 2003).

6. List of Recommendations

The policies and practices surrounding ODA in the Philippines are obviously in need of a thoroughgoing overhaul. The problem is that not all of the issues and concerns identified in this study are acknowledged by official government reports, particularly the annual NEDA portfolio reviews which deal mainly with implementation glitches. Notable exceptions are the COA audits which, however, are released to the public on an intermittent basis and which, despite the seriousness of the problems that are reported, appear to have been regularly ignored by the agencies to which they are addressed. In the meantime, this report makes the following urgent recommendations, for whatever they are worth:

6.1 Recommendations to donor governments and multilateral institutions

- 6.1.1 Increase and improve the quality of aid allotments
- 6.1.2 Realign the loan-grant mix to favor the latter
- 6.1.3 Increase the share of projects on human and social development
- 6.1.4 Realign regional and provincial distribution of aid to poorer areas
- 6.1.5 Address social and environmental concerns
- 6.1.6 End all tied aid
- 6.1.7 Delink aid from the war on terror, particularly in Mindanao
- 6.1.8 Closely monitor aid effectiveness

6.2 Recommendations to the Philippine government

- 6.2.1 Fix implementation problems
- 6.2.2 Plug the hemorrhage of government funds in repaying loans
- 6.2.3 Address the foreign consultants’ issue
- 6.2.4 End human rights violations in aid projects
- 6.2.5 Focus on long-term and alternative sources of development financing
- 6.2.6 Strictly follow the legal requirements in negotiating loan agreements
- 6.2.7 Adopt a policy of transparency and popular participation
- 6.2.8 Draw up comprehensive and consistent ODA performance standards
- 6.2.9 Re-evaluate government policies and thrusts on ODA
- 6.2.10 Adopt a policy of preferential option for untied aid

7. Conclusions

This report by no means exhausts all the issues and concerns that have been raised about official development assistance in the Philippine case. Nevertheless, this partial assessment already forms a strong indictment of the quality, quantity, and effectiveness 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.

Given the evidence, and in a deeply significant sense, the term "development assistance" in the Philippines has become an oxymoron. Unfortunately for the poor and disadvantaged sectors of society, "foreign aid" 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.

December 2007

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