

# Aid trends in a middle-income country: The Philippines case

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## Forward: Understanding the effect aid has on development

This study is an effort to bring together the best available general data on the involvement of overseas capital on the development of the Filipino state. These figures are supposed to act as a basis for further research; however, a number of clear trends can be identified from the beginning. First, it is clear that there is a link between ODA and private investment in the Philippines. The data shows clearly that as levels of private investment increase levels of ODA drop and visa versa. This is interesting given the fact that levels of welfare in the Philippines have not increased or decreased dramatically over the time period examined.<sup>1</sup> It can therefore be concluded that historically, aid donations are tied more closely to performance of the economy than the needs of the poor. A further conclusion therefore is that ODA has played an important role in preparing the Philippines for increased external market interaction and capitalisation.

Another key finding was that levels of Bilateral ODA have completely overtaken Multilateral ODA in size during the 1990s. It is clear that the international donor community has come to prefer taking a unilateral approach to aid interaction. Further analysis shows that each of the

top five donors to the Philippines have very different policies regarding the dissemination of aid. For example, Japan has provided much larger amounts of loans than other donors and the USA has generally favoured providing purely technical assistance in the form of grants, therefore keeping partisan interaction fully out of the process. Policy variables are even more obvious when examining which sectors donors choose to invest their development capital in. Unilateral dissemination has also allowed donors to tie their aid so that domestic corporations and aid agencies provide the social and economic infrastructure donated. The so called aid industry that has developed as a result has been the focus of intense criticism from the NGO community. These findings highlight the painful reality that for over twenty-five years there has been no common approach to development assistance in the Philippines nor has there been any serious regulation of policy from the international donor community.

It is very important to note that the sources of capital highlighted in this study do not represent all external interaction, which has had an influence on the development of the Filipino state. Remittances from Overseas Filipino Workers (OFWs) have had an enormous impact on the financial situation of the country. Remittance money protected

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<sup>1</sup> See: Appendix 4: Basic Social Indicators

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the Philippines during the 1997 financial crisis.<sup>2</sup> Remitted money as a proportion of GNP increased from 0.07% in 1980 to 7.7% in 2000 where remittances accounted for US\$ 6 billion of the country's income for the year.<sup>3</sup> Since then this figure has almost doubled to over US\$ 12 billion in 2006.<sup>4</sup> Remittance money therefore dwarfs income from international loans, ODA and the international market. Figures and analysis regarding the black market economy or external military support are also important sources of capital and aid that are not represented in this research. Data regarding these types of capital is enormously hard to collect and is unlikely to match the methodology of data found in this study.

### Methodology of the study

The largest database of statistics on aid and other resource flows into developing countries comes from the Development Assistance Commission (DAC) of the Organisation for Economic Co-ordination and Development (OECD). The OECD is an international organisation that groups together 30 member countries that believe in the propagation and promulgation of democratic governance and market economics. This group of the 30 wealthiest nations in the world use the organisation as a means to compare foreign policy experiences, debate future policy goals, identify good policy practise and co-ordinate their actions with regard to developmental policy in general. The DAC are well respected for collecting and publishing data indicating

the extent of the activities of its members, particularly regarding the dissemination of ODA. This study has almost exclusively used the OECD DAC International Development Statistics (IDS) Online Database on aid and other resource flows, not only because it is the most comprehensive data available but because its large and complex databases allow for in depth and specific research regarding any donor or recipient nation and their interaction. Furthermore, using the DAC allows the researcher to stick to a clear pattern of data retrieval, which greatly enhances the possibility of useful comparative study.

### Unit of measurement: US\$ million (current prices)

The unit of measurement used when analysing the dissemination of ODA is a critical component of data retrieval because a mix up in the measurement used renders comparison impossible. In general there are two forms of measurement available: current and constant prices. Constant prices measure donations using a fixed currency value. This type of measurement uses a specific exchange rate for the dollar or a fixed price of stock and uses that value to calculate the worth of the donation. Current prices measure donations using the value of the market for the specific year in question. This study has used current prices so levels of ODA have been measured using the value of the market in any given year. This method has drawbacks in terms of comparative study because the value of the

<sup>2</sup> Patricio N. Abinales and Donna J. Amoroso, "State and Society in the Philippines", Anvil Publishing Inc. 2005, p. 256

<sup>3</sup> Ibid, p. 298.

<sup>4</sup> The incremental increase in OFW remittances is well documented. For a recent article see: [http://money.inquirer.net/topstories/view\\_topstories.php?yyyy=2006&mon=04&dd=13&file=1](http://money.inquirer.net/topstories/view_topstories.php?yyyy=2006&mon=04&dd=13&file=1)

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donation changes yearly with the market. However, the value of the US dollar itself has not changed dramatically during the period in question and this method is useful because it demonstrates the worth of the aid in the world market at the time.<sup>5</sup>

### OECD datasets and definitions

Data taken from the OECD DAC International Development Statistics (IDS) Online Database on aid and other resource flows is split into two parts; the first, the Database on Annual Aggregates, is comprised of datasets created by the DAC with pre-determined parameters to show records of specific development related financial interactions.<sup>6</sup> The second is the newly created and more flexible creditor reporting system (CRS), which allows the user to set their own specific parameters for data retrieval. Each system has advantages and disadvantages: CRS is a new system and data does not exist for all categories much earlier than the year 2000, the DAC database has much better historical data but is much less detailed. The statistical reporting directives for the DAC datasets used in this study are listed in Appendix 1.

They are:

1. DAC2a Official Development Assistance – Disbursements. Includes directives for: Total Net ODA, Total Net Loans and Technical Cooperation;
2. Dataset DAC4 – Private Flows;
3. Dataset DAC2b – Other Official Flows; and
4. DAC7b – Tying Status of Bilateral ODA.

While conducting the study various discrepancies were found between the figures in CRS and the Database on Annual Aggregates. After consulting with the DAC on the subject the study found that these could be easily explained.<sup>7</sup>

### AiDA: detailed project information

A major aspect missing from the study is comprehensive information showing details of externally funded aid projects on the ground. The AiDA database does provide this information and can be used to collate some specific data on individual aid projects in the Philippines.<sup>8</sup> AiDA describes itself as, “the largest online directory of official development aid activities.” However, the mass of largely unorganised and incomplete data found on this website is only really useful for matching projects to specific sectors in development. AiDA itself notes that its information is provided by donors and may not reflect all activities or most recent activities. However, this information does provide a useful basis to explore specific projects in more detail and can act as a link between the general data provided in the main body of this study and recent projects on the ground.

<sup>5</sup> For data showing the historical value of the US Dollar see: [http://en.wikipedia.org/wiki/History\\_of\\_the\\_United\\_States\\_dollar](http://en.wikipedia.org/wiki/History_of_the_United_States_dollar)

<sup>6</sup> At time of publication the International Development Statistics (IDS) Online Database on aid and other resource flows could be accessed at: <http://www.oecd.org/dataoecd/50/17/5037721.htm>

<sup>7</sup> See Appendix 2: Notes on retrieval of data from CRS.

<sup>8</sup> Website: <http://aida.developmentgateway.org/>; general data on aid projects in the Philippines can be accessed at: <http://www.ruralpovertyportal.org/english/regions/asia/phl/projects.htm>

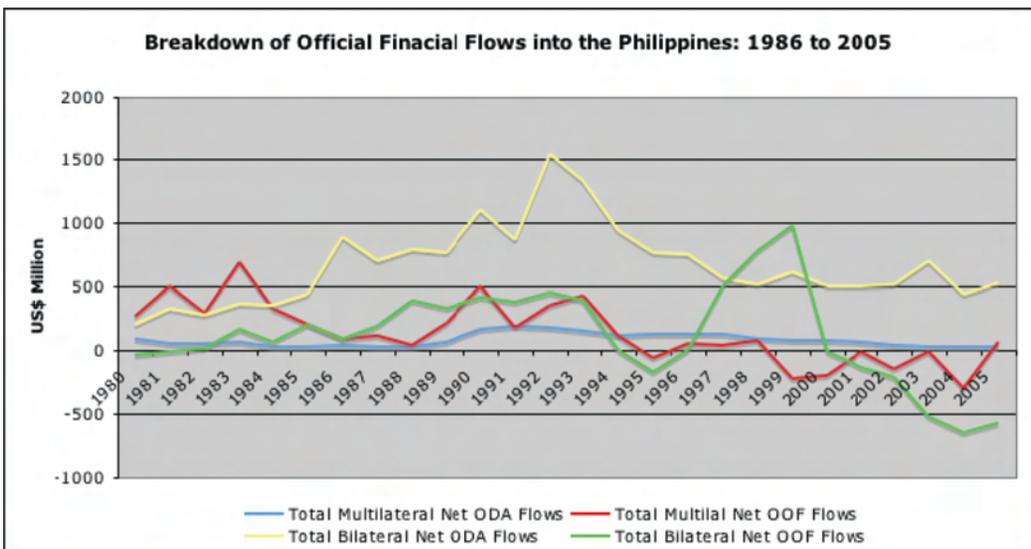
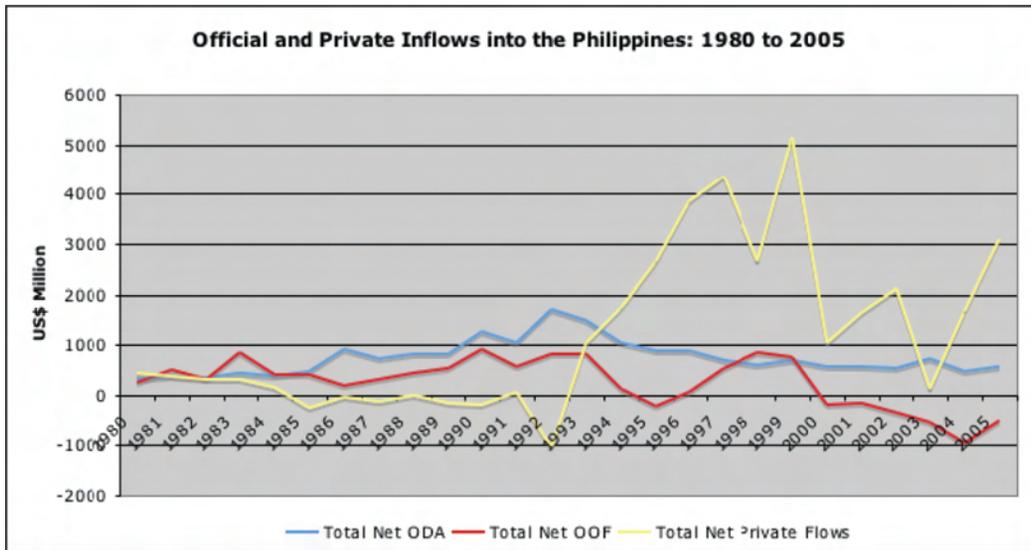
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### Access to raw data

Due to the large amounts of raw data processed in this study it has been impossible to include everything in the

main body of this paper. Raw data for every graph used is available in Microsoft Excel format by e-mailing the author at: alexandermilesjones@googlemail.com.

General data showing development capital inflows to the Philippines: 1980 to 2005



Raw data can be retrieved from the file: Breakdown of all financial flows into the Philippines from 1980 to 2005.xls

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Source: Econstats: Web address: <http://econstats.com/weo/C127V019.htm>

### Analysis of general data:

A number of important points can be taken from this data overview. The first is to note the sharp ascendance of private investment after 1993 as well as a noticeable decrease in aid after this date. It is this broad evidence, which suggests that there is a link between development assistance and free market capitalisation. ODA can be seen to have provided development capital to the Philippines at a time when the market refused to, due to unfavourable economic conditions in the country. Evidence for this is most obvious in 1992 when ODA to some extent compensated for major capital flight from the private sector as a result of the Filipino economy entering a recession in 1991.<sup>9</sup> This can also be seen throughout

the period of Corazon Aquino's presidency where the Philippines' economy recovered from the Marcos era and moved towards free market reform.

As economic growth increased in 1992 aid disbursements have slowly decreased. This can be seen by looking at private investment flows and Gross Domestic Product (GDP) both of which represent economic growth and both of which began to increase dramatically about 1993. Consequently, levels of aid dropped and debt repayments increased. In this respect aid can be interpreted as having prepared the Filipino market for privatisation and highlights the donors' belief in neo-liberal development policy. It is also important to highlight the fact that bilateral aid, as opposed to multilateral aid, dominated the

<sup>9</sup> Abinales and Amoroso, p. 243.

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disemination of Filipino development aid after the fall of Marcos in 1984. As noted above, donors preferred to interact with the Philippines unilaterally, this reflects the fact that no international consensus existed so donors followed their own development agenda on the ground. Another aspect of this move towards independent engagement, tied aid and the aid industry, will be addressed in more detail below.

Another important aspect of this data overview is that there seems to be a correlation between the Pinoy political landscape and the flow of development capital. The most obvious example of this can be found during the unstable Estrada administration, which lasted from June 30, 1998 to January 20, 2001. During this period \$ 4 billion dollars worth of investment was lost in one year following massive political and economic scandal. A short case study of this period has been provided in Appendix 5.<sup>10</sup> The important lesson learned from this event was that in the future, as development capital increasingly originates in the private sector and the world market, the Philippines will have to demonstrate high levels of commitment to neo-liberal economic principals in order to ensure that money continues to come in. Furthermore, this capital can easily be lost as the 1997 Asian financial crisis demonstrated. A look at the financial ups and downs of the other ASEAN founding nations below is testament to this.

The most important conclusion is the fact that development aid has lead the Philippines towards liberal market reform and away from import substitution industrialisation. In economic terms this seems to have paid off. The Philippines had a long period of economic growth throughout most of the 1990s however, as Estrada's presidency showed, the Philippines must continue to facilitate free market norms if it is to rely on foreign development capital in the future. A move towards government control over the economy could be very damaging indeed.

Finally, this data has demonstrated that ODA has focussed largely on economic development and growth as a root towards addressing issues of poverty. As noted above decreases in poverty over the period in question have not been dramatic, particularly in rural areas. Having said this increases in private investment and GDP do correlate with decreases in poverty post 1993.<sup>11</sup> The question is whether or not poverty could be reduced more quickly with increased levels of state intervention in the economy.

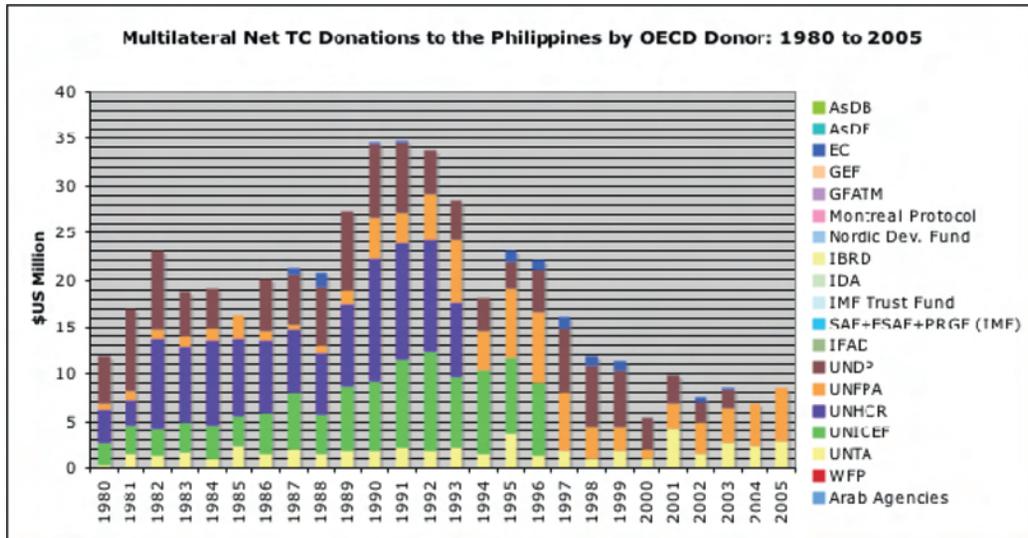
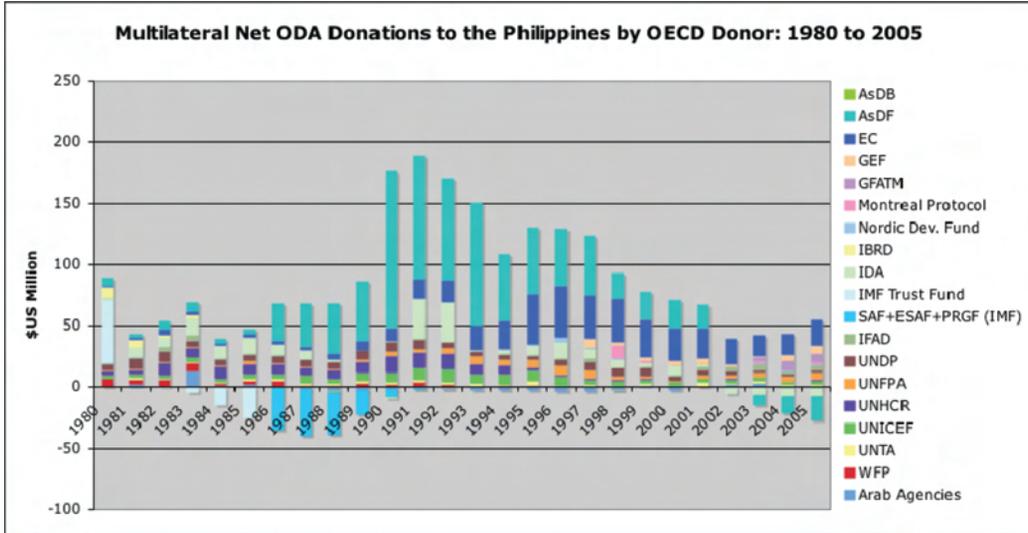
The following sections return the focus to ODA by providing a broad data overview of how development aid flowed into the Philippines since 1980. This section to looks to break down and categorise the role international donors have played in the Philippines development.

<sup>10</sup> See: Appendix 5: Case Study: Joseph Estrada and international capital flight

<sup>11</sup> See: Appendix 4: Basic Social Indicators

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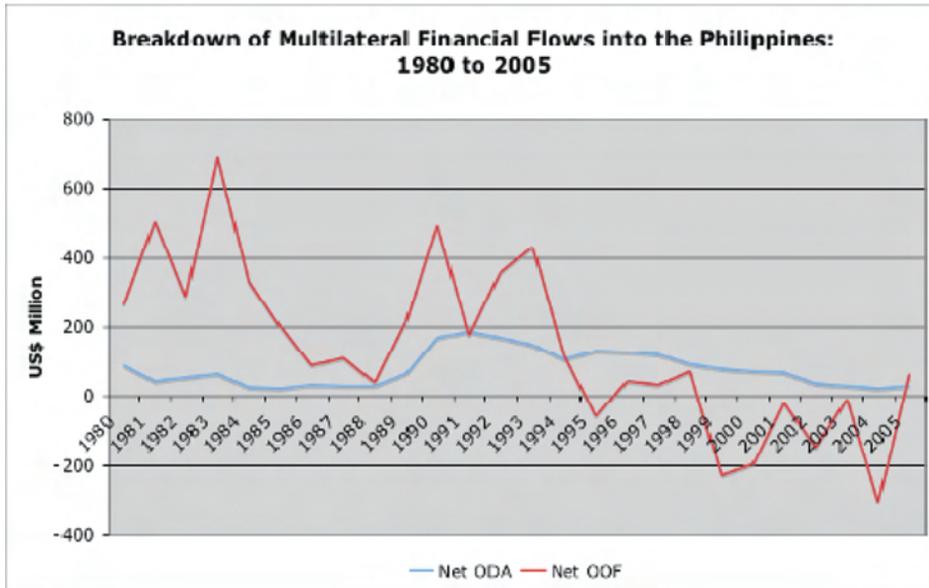
## 4. Multilateral inflows in depth



An overview of the international institutions involved can be found in: **Appendix 3: List of Acronyms**

Raw Data can be retrieved from the file: *Multilateral Net ODA Donations to the Philippines by OECD Donor 1980 to 2005.xls* and *Multilateral Net TC Donations to the Philippines by OECD Donor 1980 to 2005.xls*

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Raw data can be retrieved from the file: *Breakdown of Multilateral Financial Flows into the Philippines 1980 to 2005.xls*

### Notes and analysis on multilateral capital flows

There are two major points to highlight regarding the data provided above. First the data for multilaterals is often non-specific. The figures provided showing the provision of non-concessional loans (OOF) do not highlight the institution where the money originated. In this case taking into account the amounts of money involved the study has assumed that the majority of this money has come from the World Bank and the IMF.<sup>12</sup> Second it is important to note that of the major donors the IMF, World Bank and

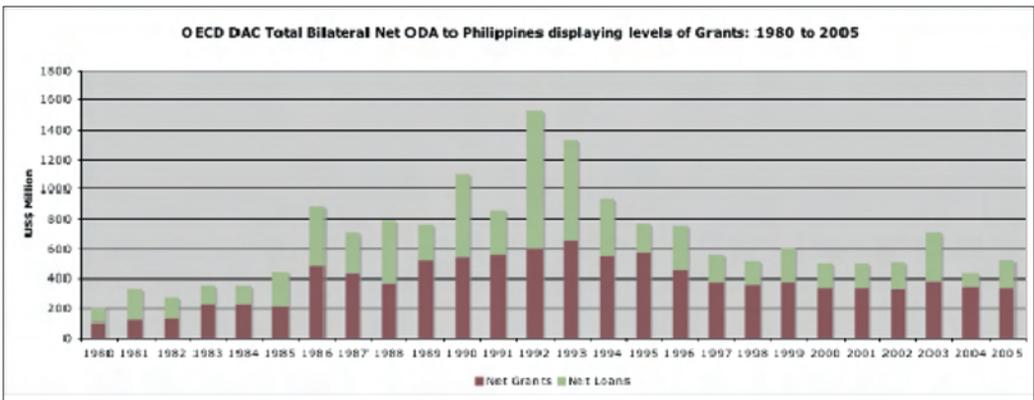
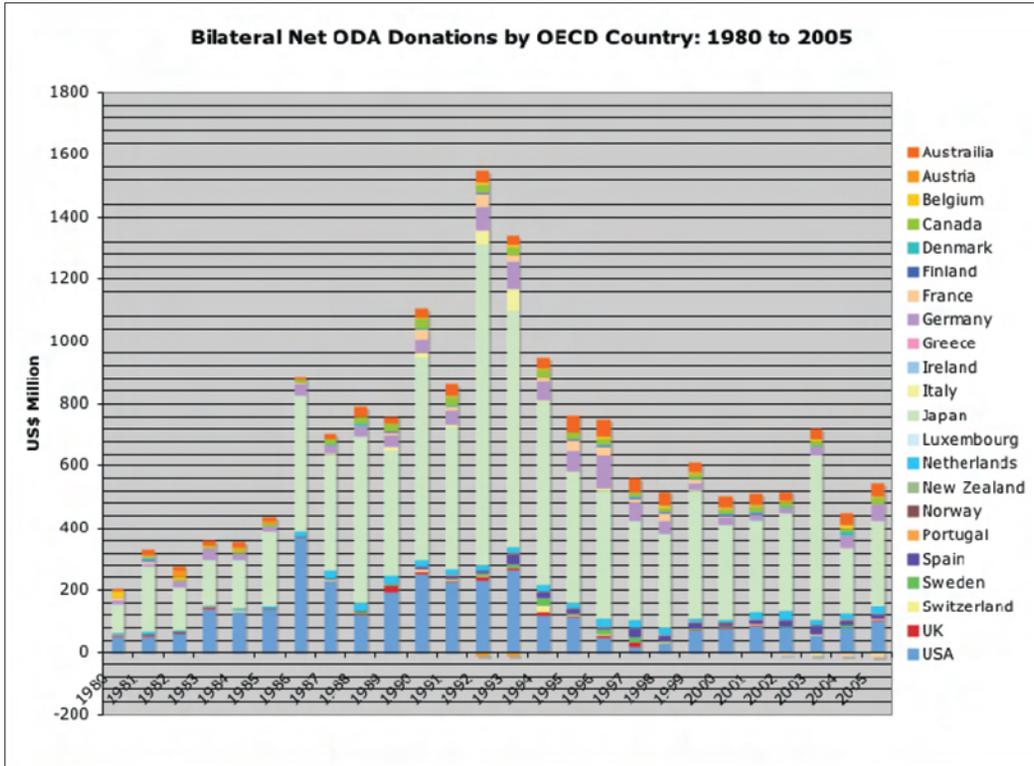
Asian Development Fund largely provided loans to the Philippines, only the EC donated grants in significant proportions.

The most important conclusion to make regarding this data is that in general terms the big multilateral donors have acted as creditors or banks not donors, by lending money at non-concessional interest rates. In terms of ODA only the UN has provided technical assistance to the Philippines via its various institutions and is therefore the only institution to be directly involved on the ground.

<sup>12</sup> More detailed summaries of the ODA Datasets relating to the IMF, Asian Development Fund and EC donations are available in the raw data file on Multilateral Inflows.

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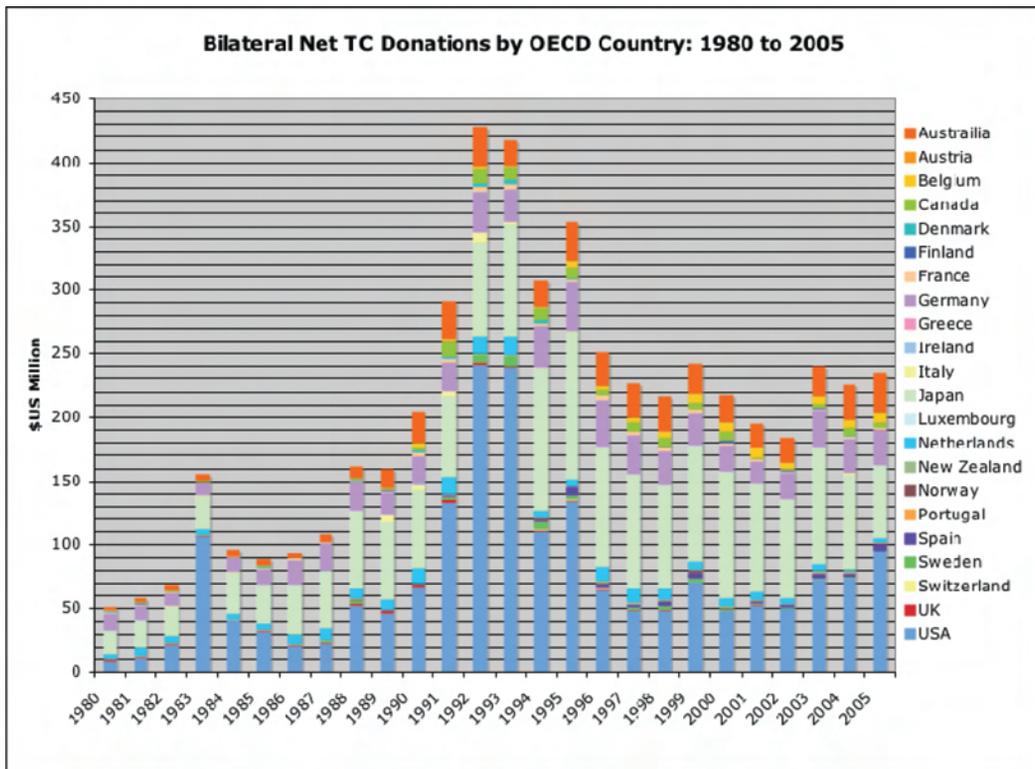
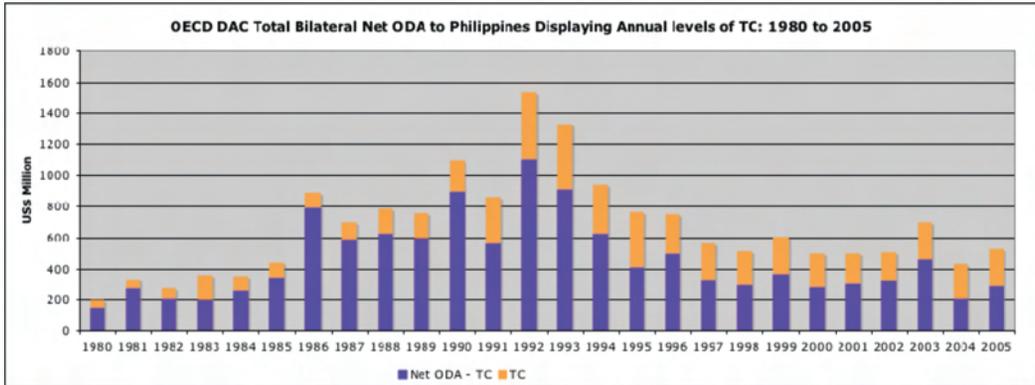
## Bilateral ODA in depth



Raw data can be retrieved from the files: *Bilateral Net ODA Donations by OECD Country 1980 to 2005.xls* and *OECD DAC Total Bilateral Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls*

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## Bilateral TC in depth



Raw data can be retrieved from the files: *OECD DAC Total Bilateral Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls* and *Bilateral Net TC Donations by OECD Country 1980 to 2005.xls*

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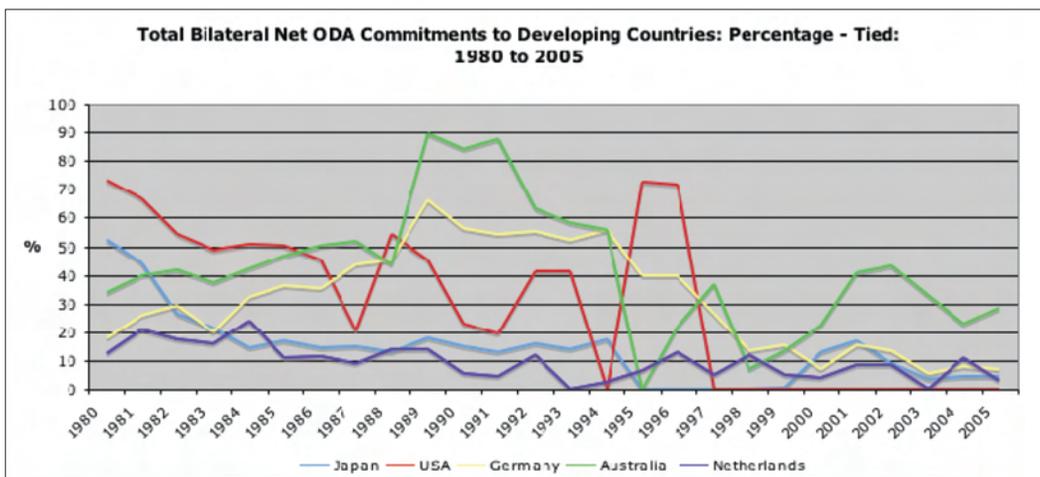
### Notes on bilateral ODA

This section provides a broad overview of bilateral aid flows during the period. Some important points can be made. For a start almost every OECD nation has interacted with the country since 1980. It is clear that in total the balance of grants against concessional loans is fairly even with a slight historical bias towards grants historically. It is important to remember that a high percentage of ODA comes in terms of a loan. The Technical Co-operation (TC) graphs broadly represent how hands on the donors have been.<sup>13</sup> In this vein it is clear that the Philippines has been subjected to a high level of direct foreign interference within the country on the back of ODA donations.

It is obvious that a number of donors have dominated aid flows to the Philippines since

1980. Japan, the Philippines wealthiest geographical neighbour is the country's chief donor by quite some distance. This reflects Japan's ambitions as a regional leader and its desire to garner influence as it continues to outsource production to the country. Japan is followed closely by the USA, who have always had a close strategic and economic relationship with the Philippines as its former colonial power. Germany is the next biggest donor historically; all three of these countries have strong business interests in the Philippines. The next biggest donors, the Netherlands and Australia fall into similar categories, the Dutch having an interest in the Filipino market and the Australians having a strategic and business interest. It is easy to conclude therefore that aid is in more ways than one often used to gain influence in the recipient country. The final section of the paper will analyse the interaction of the nations main donors in detail.

### Top 5 donors to the Philippines: Levels of Tied Aid



Raw data can be retrieved from the file: [Total Bilateral Net ODA Commitments to Developing Countries Percentage - Tied 1980 to 2005.xls](#)

<sup>13</sup> See: Appendix 1: OECD Statistical Reporting Directives

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### Notes on tied aid

The OECD datasets only provide general data regarding levels of ODA that can be classified as tied. The concept refers to aid that is disbursed only on the condition that it is provided by a company or contractor within the donating country. It is therefore representative of an important link between ODA and the private sector. Although there are no specific figures for the Philippines there is historical data available showing the level of total tied aid committed to the developing world by each OECD country. This study collated tied aid figures for each of the top five donors to the Philippines from 1980 to 2005 and calculated it as a percentage of total committed ODA for each year.

Before proceeding with the analysis it is important to be clear that the dataset for tied aid used figures for ODA commitments, as opposed to disbursements and therefore cannot provide a perfect comparison to the datasets and graphs on bilateral ODA flows used above. Nevertheless, it does provide the best historical data available on the subject. It is also very important to note that DAC member states agreed that administrative costs and technical co-operation expenditure should be disregarded in assessing the percentages of tied aid.<sup>14</sup> By its very nature technical assistance is tied so the figures provided below represent only a conservative estimate. An extensive overview of the issues and concerns surrounding technical assistance provided by bilateral donors is provided in Appendix 6: Defining and understanding Technical Assistance.

It is also worth mentioning that tied aid is a touchy subject for some of the OECD member states. For example, the USA failed to provide data for the year 1994 and from 1997 onwards. It can therefore only be assumed that the levels of tied aid were considered too embarrassing to be reported, the same can be said of Australia in 1995.

The data shows that much of the Philippines ODA is likely to have been tied particularly during the late 80s and early 90s, the period directly before the Philippines' drive towards economic growth. Assuming that the data collected is representative of the level of aid that was tied in the Philippines it can be concluded that aid was used to give donors' domestic companies access to the Filipino market. This conclusion seems even more likely when it is considered that TC is omitted from the data. The fact that America is one of the worst offenders in this respect is reflected in the heavy presence of American business in the Philippines today. In fact few of the Philippines major donors are exempt from this criticism. The effect this may have had on the development of the Pinoy economy cannot be underestimated.

The ramifications of these findings are important not only because it brings into question the intentions behind the provision of aid but most importantly because it can firmly link ODA to the development of Western business in the Philippines. In general it seems that the immorality of such practise has been addressed by many of the worlds donor nations (this is reflected in figures provided here). However, others

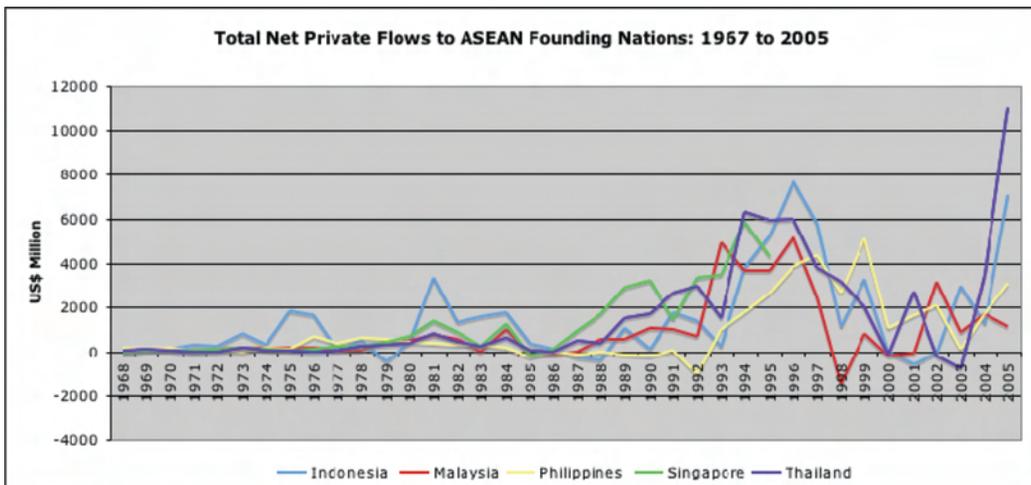
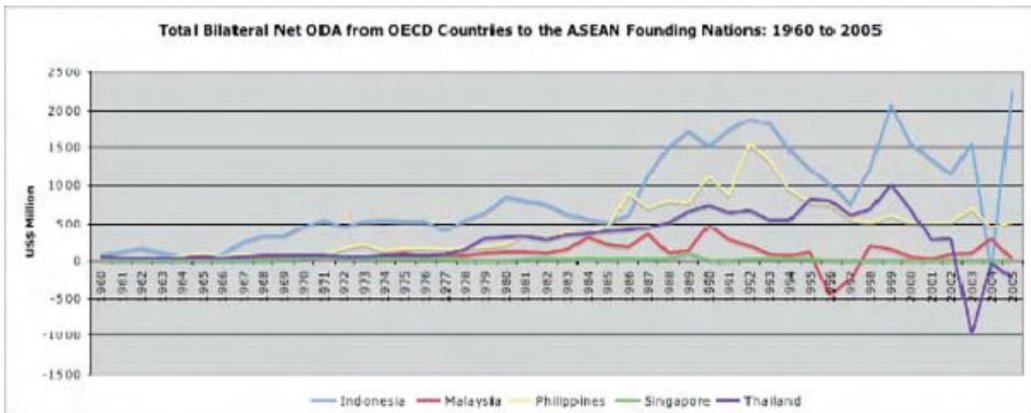
<sup>14</sup> See: Appendix 1: Statistical Reporting Directives

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such as the USA and Australia still seem to be using aid more as a tool to benefit their own economies rather than that of the recipient country. The point is that the Philippines has all too often been seen as a market where

money could be made rather than a poverty-stricken country in need of Western support. This problem has been a major focus of the international NGO community who have lobbied fervently for reform of aid practise.<sup>15</sup>

### The regional perspective: Financial flows and the founding ASEAN nations



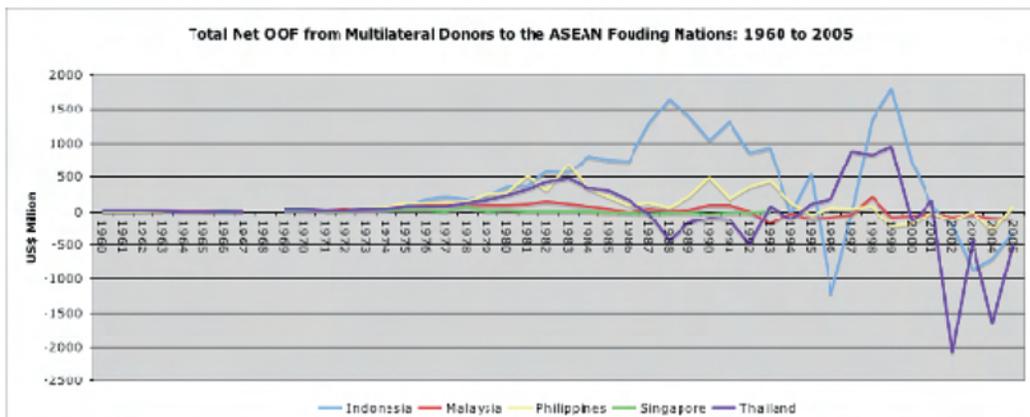
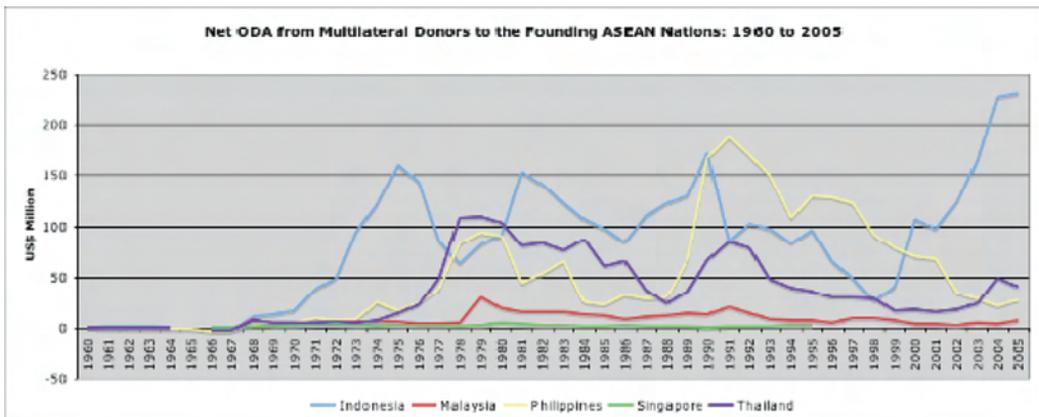
<sup>15</sup> For a critical overview of tied aid and technical cooperation see: ActionAid International publication: Real Aid 2 Making Technical Assistance Work. Available from: <http://www.actionaid.org/main.aspx?PageID=242>

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Raw data can be retrieved from the file: *Financial Flows to the ASEAN Founding Nations 1960 to 2005.xls*

### Multilateral financial flows to the ASEAN founding nations



Raw data can be retrieved from the file: *Multilateral Financial Flows to the ASEAN Founding Nations 1960 to 2005.xls*

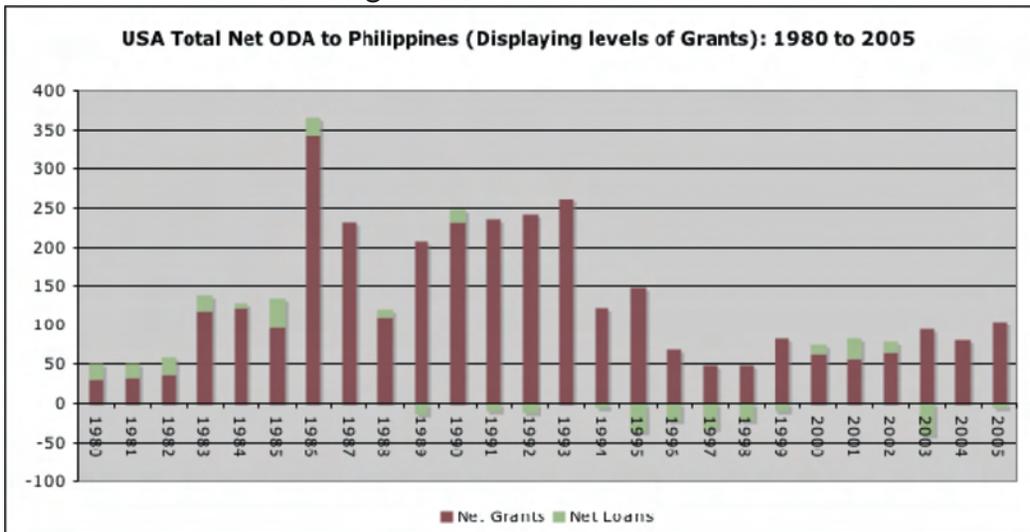
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### Notes on ASEAN Figures

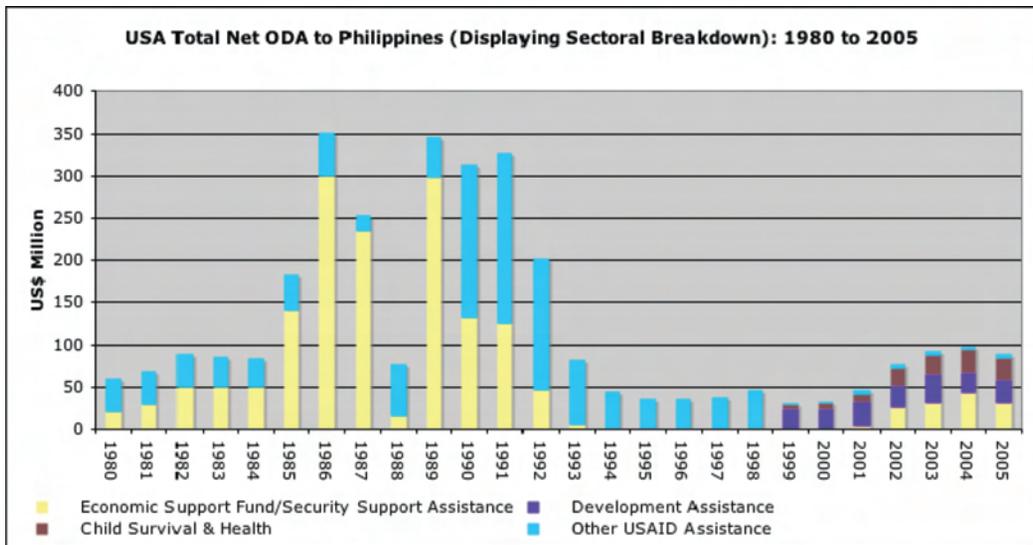
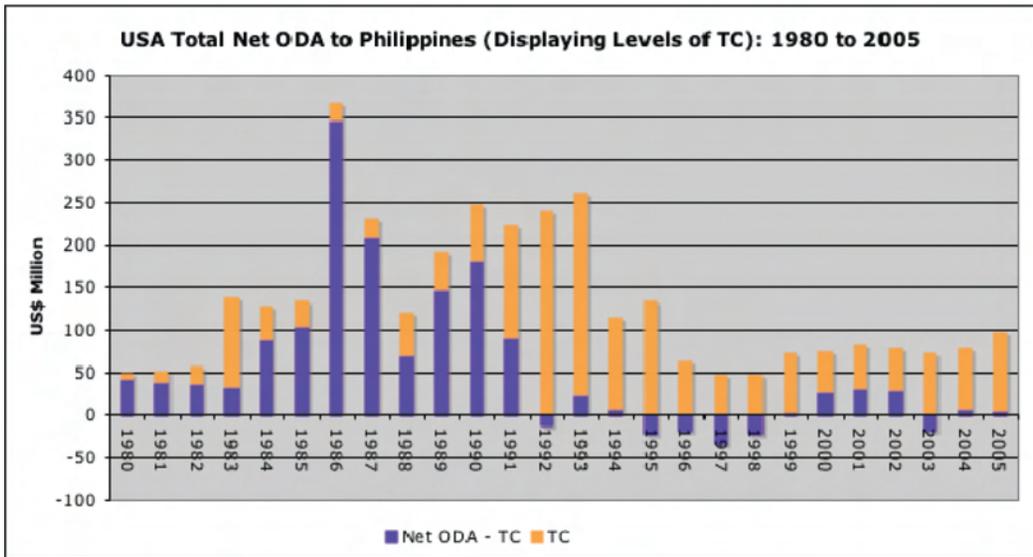
A substantial amount of information can be taken from this data. It was collected in order to find out whether a specific country in Southeast Asia had received preferential treatment. The Philippines has consistently received the second highest amount of aid from both bilateral and multilateral donors after Indonesia, which has a significantly larger population. Furthermore, the Philippines has taken out much smaller amounts of high interest

loans than Indonesia and Malaysia. However, it has also received much less external private investment than the other countries particularly during the late 80s and early 90s. On the whole it is clear that the Philippines has not been disadvantaged in development capital terms. Its level of comparative underdevelopment is most likely linked to the fact that the Philippines received significantly less international private investment between 1986 and 1998 as well as the poor performance of the domestic economy during this period.

### Focus: USA ODA, TC, grants, sectoral breakdown



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Raw data can be retrieved from the file: *USA Total Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls*

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### Notes on USA ODA

When it came to looking at ODA figures from the USA it was possible to compare the OECD datasets with America's published statistics on Grants and Loans (published in the so called Greenbook of US development assistance) to the Philippines for the same time period. This proved to be interesting for two reasons, first, the Greenbook figures came up short on the OECD ones demonstrating that American politics might have an effect on the level of spending shown and second, because the Greenbook highlights in more detail how the US aid money was spent.<sup>16</sup> It is also important to note the great emphasis on Economic support prior to 1993 which adds weight to

the conclusion that aid was used to prepare the Philippines for market capitalism.

### Notes on Sectoral Breakdown

The following data uses the DAC Creditor Reporting System to detail the sectors into which ODA has been disbursed from 2001 to 2005. It is important to note that due to differences in methodology the data differs from above. Disbursement figures are represented in (Gross) as opposed to (Net) terms. (For an in depth explanation return to the methodology section.) All data is measured in \$ Million and has been rounded to three decimal places in order to simplify analysis. Data is only available in this detail as of 2001 resulting in the limited time period analysed.

### Sectoral breakdown: USA ODA<sup>1</sup>

Sector	2001	2002	2003	2004	2005
<b>Social Infrastructure and Services</b>		<b>13.024</b>	<b>42.284</b>	<b>57.477</b>	<b>67.328</b>
Education				0.098	6.417
Health		0.006	0.27	0.016	0.242
Population Programmes		3.903	21.433	28.517	36.144
Water Supply and Sanitation		0.303			0.254
Government and Civil Society		0.964	2.324	11.34	5.088
Conflict, Peace and Security		0.681	13.257	16.999	17.497
Other Social Infrastructure and Services		7.167	5	0.507	1.686
<b>Economic Infrastructure</b>		<b>0.875</b>	<b>12.173</b>	<b>0.067</b>	<b>11.021</b>
Transport and Storage		0.103	0.025		
Communications					
Energy			0.066		0.298
Banking and Financial Services		0.74	11.126		0.005

<sup>16</sup> Greenbook data is available at: <http://qesdb.usaid.gov/gbk/> The U.S. Loans & Grants (Greenbook) publication is produced by the Economic Analysis and Data Services (contract RAN-M-00-07-00004-00). The contractor is DevTech Systems, Inc.

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Sectoral breakdown: USA ODA (continued)

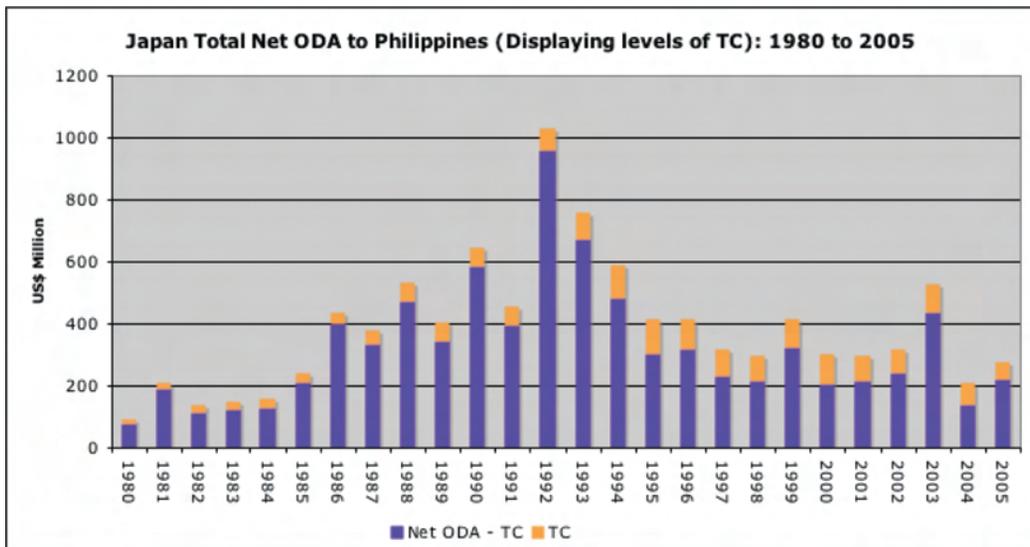
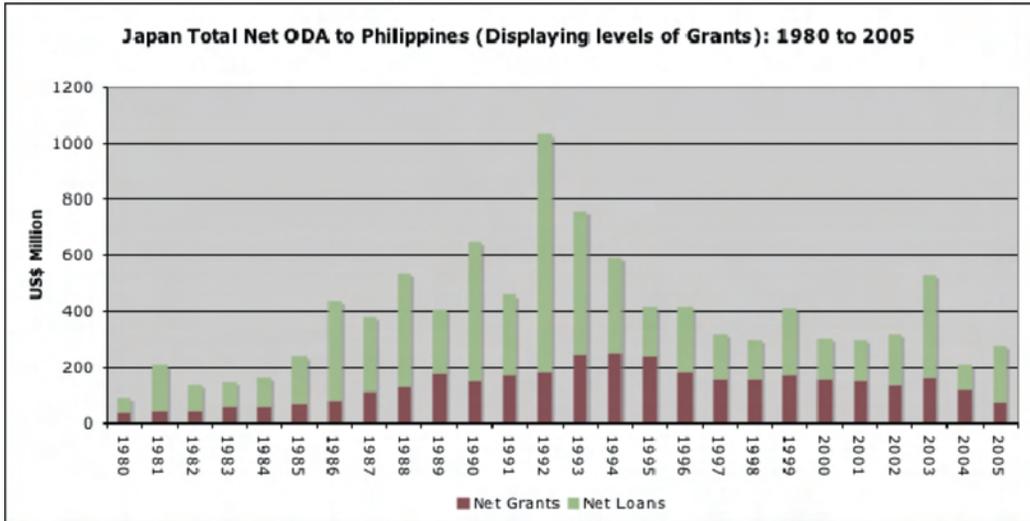
Sector	2001	2002	2003	2004	2005
Business and Other Services		0.032	0.956	0.067	10.718
<b>Production Sectors</b>		0.013	0.72	0.024	1.249
Agriculture, Forestry and Fishing			0.715	0.009	0.527
Industry, Mining, Construction			0.005		0.722
Trade Policy and Regulations		0.013		0.015	
Tourism					
<b>Multisector</b>		<b>7.581</b>	<b>17.295</b>	<b>16.126</b>	<b>16.378</b>
General Environmental Protection		5.13	11.98	12.796	14.511
Women in Development					
Other Multisector		2.451	5.315	3.33	1.867
<b>Commodity Aid and General Programme Assistance</b>	<b>40.879</b>	<b>29.346</b>	<b>7.721</b>	<b>30.087</b>	<b>28.058</b>
General Budget Support					
Development Food Aid/Food Security Assistance	40.879	29.346	7.721	30.087	28.058
Other Commodity Assistance					
<b>Action relating to Debt</b>		<b>0.123</b>	<b>13.898</b>		
<b>Emergency Assistance and Reconstruction</b>		<b>0.64</b>	<b>0.72</b>	<b>0.009</b>	<b>0.746</b>
Emergency and Distress Relief		0.64	0.72	0.009	0.746
Reconstruction Relief					
Distaster Prevention and Preparedness					
<b>Administration Costs of Donors</b>					
<b>Support NGOs</b>					
<b>Refugees in Donor Countries</b>					
<b>Unallocated and Unspecified</b>					
<b>Unknown</b>		<b>81.141</b>			
<b>Total Sector Allocable</b>	<b>40.879</b>	<b>132.743</b>	<b>94.811</b>	<b>103.79</b>	<b>124.78</b>

<sup>1</sup> All sector specific data taken from International Development Statistics (IDS) Online Database on aid and other resource flows. This data was specifically accessed from the Creditor Reporting System (CRS). Figures can be accessed from: <http://www.oecd.org/dataoecd/50/17/5037721.htm>

**Notes:** During this recent period American assistance has focussed on population programmes (family health care), environmental protection and chiefly development food aid and food security assistance. Of all the major donor nations America has consistently invested the most in conflict peace and security. Unlike most other donors it has provided little or nothing in education, water and sanitation and any part of the production sector.

# Aid trends in a middle-income country: The Philippines case

Focus: Japan ODA, TC, grants, sectoral breakdown



Raw data can be retrieved from the file: *Japan Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls*

**Notes:** Initial general data shows that historically Japan has provided ODA in loans, although it still provides more in grants than the rest of the donors. Japan has provided little TC as a percentage of its total ODA again in total terms it provides as much TC as Germany.

## Aid trends in a middle-income country: The Philippines case

### Sectoral breakdown: Japan ODA

Sector	2001	2002	2003	2004	2005
<b>Social Infrastructure and Services</b>	<b>64.459</b>	<b>74.661</b>	<b>149.727</b>	<b>146.162</b>	<b>106.242</b>
Education	8.198	15.507	41.03	52.785	38.736
Health	12.239	7.382	14.831	6.078	2.945
Population Programmes			0.046	0.029	0.017
Water Supply and Sanitation	43.243	51.093	70.623	69.123	57.861
Government and Civil Society		0.678	20.84	14.439	1.667
Conflict, Peace and Security					
Other Social Infrastructure and Services	0.807		2.358	3.708	5.015
<b>Economic Infrastructure</b>	<b>324.123</b>	<b>373.288</b>	<b>435.453</b>	<b>294.829</b>	<b>444.088</b>
Transport and Storage	218.889	319.585	385.948	253.21	380.326
Communications	12.453		1.276	1.619	2.57
Energy	78.041	47.103	47.748	39.223	60.043
Banking and Financial Services	14.741	6.6	0.228	0.177	0.285
Business and Other Services			0.254	0.6	0.864
<b>Production Sectors</b>	<b>119.202</b>	<b>96.704</b>	<b>102.236</b>	<b>105.401</b>	<b>107.272</b>
Agriculture, Forestry and Fishing	77.975	63.192	45.22	43.89	37.868
Industry, Mining, Construction	33.193	17.207	37.343	54.644	65.196
Trade Policy and Regulations			0.615	4.535	0.786
Tourism				0.013	0.031
<b>Multisector</b>	<b>42.123</b>	<b>56.648</b>	<b>232.534</b>	<b>109.514</b>	<b>90.258</b>
General Environmental Protection	21.366	25.211	188.617	68.297	43.106
Women in Development					
Other Multisector	20.757	31.437	43.917	41.217	47.153
<b>Commodity Aid and General Programme Assistance</b>	<b>16.460</b>		<b>12.942</b>		
General Budget Support	<b>16.460</b>		<b>12.942</b>		
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
<b>Action relating to Debt</b>					
<b>Emergency Assistance and Reconstruction</b>				<b>0.358</b>	
Emergency and Distress Relief				<b>0.358</b>	

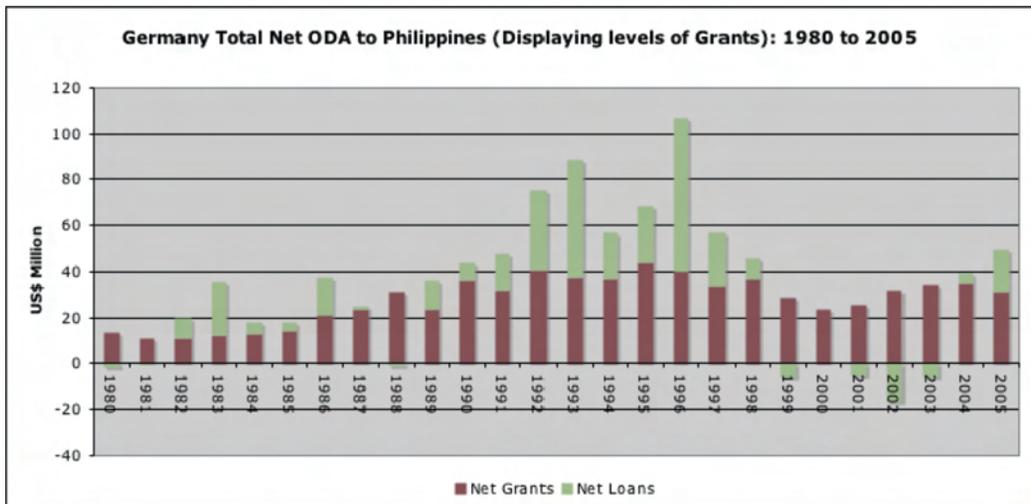
# Aid trends in a middle-income country: The Philippines case

Sectoral breakdown: Japan ODA (continued)

Sector	2001	2002	2003	2004	2005
Reconstruction Relief					
Distaster Prevention and Preparedness					
<b>Administration Costs of Donors</b>					
<b>Support NGOs</b>			2.14	1.82	1.29
<b>Refugees in Donor Countries</b>					
<b>Unallocated and Unspecified</b>			7.175	4.426	0.919
<b>Unknown</b>				0.395	
<b>Total Sector Allocable</b>	<b>566.395</b>	<b>601.301</b>	<b>942.208</b>	<b>662.899</b>	<b>750.068</b>

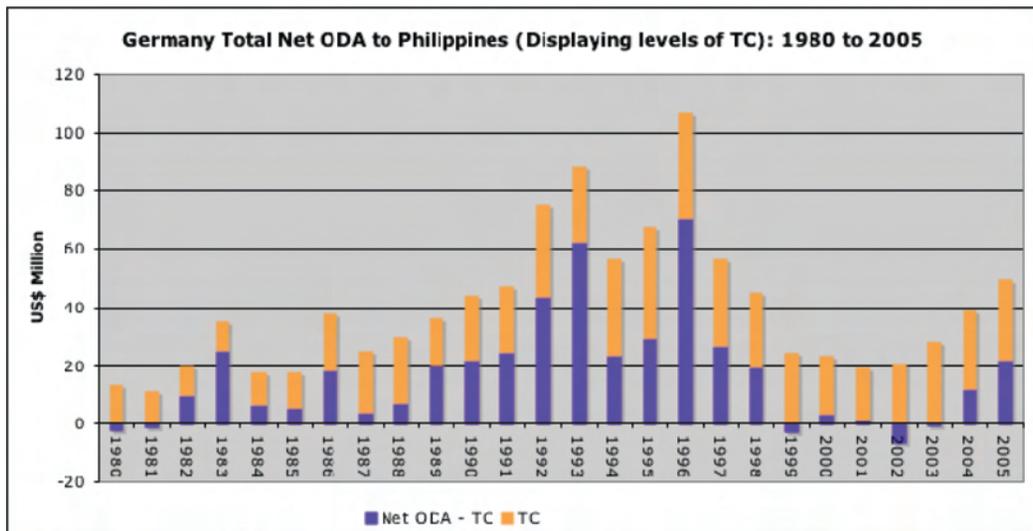
**Notes:** During the period analysed Japan provided aid to almost every sector with a focus on transport and storage infrastructure, agriculture and industrial production, energy infrastructure, water and sanitation and increasingly education and environmental protection. What becomes obvious from the data is that Japan has been facilitating the creation of a production hub. Economic infrastructure is needed if the Philippines labour force is to be productive when employed by Japanese firms. Although this development is welcome a cynic might argue that the policy has benefited Japan.

## Focus: Germany ODA, TC, grants, sectoral breakdown



**Notes:** In general Germany has favoured grants as opposed to concessional loans except for a sustained period between 1992 and 1997 where loans occasionally overtook grants. It seems that much of this money is yet to be paid back. Germany has recorded high levels of TC particularly in recent years showing a bias towards involving itself in aid programmes on the ground.

## Aid trends in a middle-income country: The Philippines case



Raw data can be retrieved from the file: *Germany Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls*

### Sectoral Breakdown: Germany ODA

Sector	2001	2002	2003	2004	2005
<b>Social Infrastructure and Services</b>	<b>11.195</b>	<b>10.375</b>	<b>20.816</b>	<b>25.840</b>	<b>25.516</b>
Education	1.968	2.82	7.089	8.703	5.396
Health	0.371	0.239	2.246	4.471	3.009
Population Programmes	6.467	3.783	4.396	3.64	0.037
Water Supply and Sanitation	0.856	0.04	1.2	2.998	9.866
Government and Civil Society	0.62	2.353	4.247	4.474	5.272
Conflict, Peace and Security		0.025	0.063	0.152	0.557
Other Social Infrastructure and Services	0.913	0.116	1.575	1.404	1.378
<b>Economic Infrastructure</b>	<b>4.507</b>	<b>1.409</b>	<b>8.041</b>	<b>14.227</b>	<b>4.861</b>
Transport and Storage			0.264	2.511	
Communications			0.038		0.003
Energy	2.217			0.029	
Banking and Financial Services	2.18	1.217	7.146	10.983	2.317
Business and Other Services	0.111	0.192	0.592	0.704	2.541
<b>Production Sectors</b>	<b>1.542</b>	<b>1.793</b>	<b>2.114</b>	<b>6.812</b>	<b>4.45</b>

## Aid trends in a middle-income country: The Philippines case

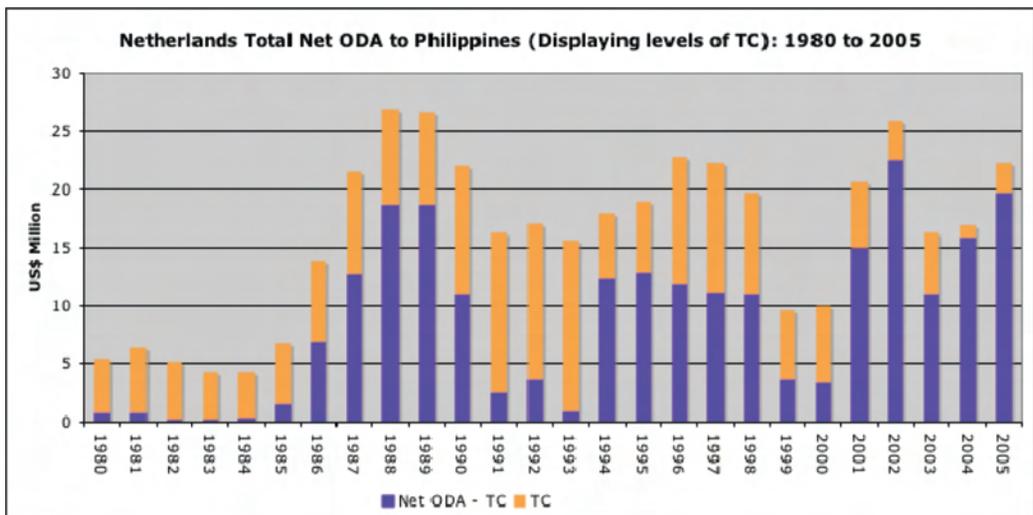
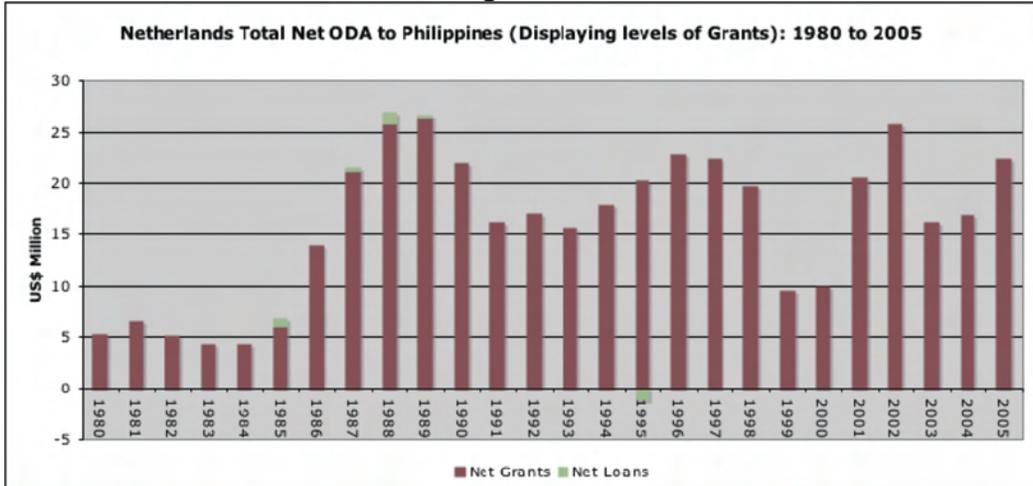
*Sectoral breakdown: Germany ODA (continued)*

Sector	2001	2002	2003	2004	2005
Agriculture, Forestry and Fishing	1.208	1.596	1.8	3.345	3.073
Industry, Mining, Construction	0.333	0.197	0.314	3.097	1.151
Trade Policy and Regulations				0.286	0.135
Tourism				0.084	0.091
<b>Multisector</b>	<b>3.250</b>	<b>4.377</b>	<b>10.35</b>	<b>5.885</b>	<b>5.715</b>
General Environmental Protection	0.084	0.006	0.152	0.998	2.198
Women in Development					
Other Multisector	3.166	4.371	10.197	4.886	3.517
<b>Commodity Aid and General Programme Assistance</b>					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
<b>Action relating to Debt</b>					
<b>Emergency Assistance and Reconstruction</b>			<b>0.192</b>	<b>0.506</b>	<b>0.903</b>
Emergency and Distress Relief			0.192	0.506	0.168
Reconstruction Relief					0.736
Distaster Prevention and Preparedness					
<b>Administration Costs of Donors</b>					
<b>Support NGOs</b>				<b>0.173</b>	<b>0.176</b>
<b>Refugees in Donor Countries</b>					
<b>Unallocated and Unspecified</b>	<b>2.05</b>	<b>1.992</b>	<b>0.555</b>	<b>1.139</b>	<b>0.356</b>
<b>Unknown</b>	<b>0.425</b>	<b>1.985</b>			
<b>Total Sector Allocable</b>	<b>21.97</b>	<b>21.93</b>	<b>42.068</b>	<b>54.583</b>	<b>41.978</b>

**Notes:** Comparatively Germany's level of aid inflows are significantly less than the USA or Japan. Having said this it focuses on very different development sectors. These include government and civil society support, banking and financial services and education. This suggests that German aid goes further towards supporting the Filipino state, helping it come to terms with political and economic problems, as oppose to simply pushing for economic growth.

## Aid trends in a middle-income country: The Philippines case

Focus: Netherlands ODA, TC, grants, sectoral breakdown



Raw data can be retrieved from the file: *Netherlands Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls*

**Notes:** Like the USA and Australia the Netherlands has almost exclusively provided grants. This may highlight the strategy of other nations looking promote efficient practise and get a return on their investment. The Dutch provided just under half the value in grants of its larger European compatriot, Germany, during the period in question as well as reducing levels of TC over time. In recent years the Netherlands has been a exemplary donor to the Philippines.

## Aid trends in a middle-income country: The Philippines case

### Sectoral breakdown: Netherlands ODA

Sector	2001	2002	2003	2004	2005
<b>Social Infrastructure and Services</b>	<b>5.608</b>	<b>2.749</b>	<b>3.184</b>	<b>5.262</b>	<b>1.352</b>
Education	3.192	0.07		2.978	0.987
Health	0.298	0.270			
Population Programmes	0.107	0.246			
Water Supply and Sanitation	0.586	1.301	3.129	2.258	0.226
Government and Civil Society	1.290	0.72	0.055	0.03	0.13
Conflict, Peace and Security					
Other Social Infrastructure and Services	0.135	0.142			0.009
<b>Economic Infrastructure</b>	<b>0.239</b>	<b>0.653</b>	<b>0.793</b>	<b>0.717</b>	<b>1.149</b>
Transport and Storage					
Communications					
Energy	0.168	0.026			
Banking and Financial Services					
Business and Other Services	0.071	0.627	0.793	0.717	1.149
<b>Production Sectors</b>	<b>0.616</b>	<b>0.882</b>	<b>0.616</b>	<b>0.765</b>	<b>0,344</b>
Agriculture, Forestry and Fishing	0.565	0.827	0.616	0.765	0,344
Industry, Mining, Construction	0.006	0.003			
Trade Policy and Regulations	0.04	0.05			
Tourism					
<b>Multisector</b>	<b>4.679</b>	<b>4.092</b>	<b>3.318</b>	<b>1.696</b>	<b>1.94</b>
General Environmental Protection	3.934	3.524	3.168	1.684	1.94
Women in Development					
Other Multisector	0.745	0.568	0.151	0.013	
<b>Commodity Aid and General Programme Assistance</b>					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
<b>Action relating to Debt</b>					
<b>Emergency Assistance and Reconstruction</b>				<b>0.311</b>	

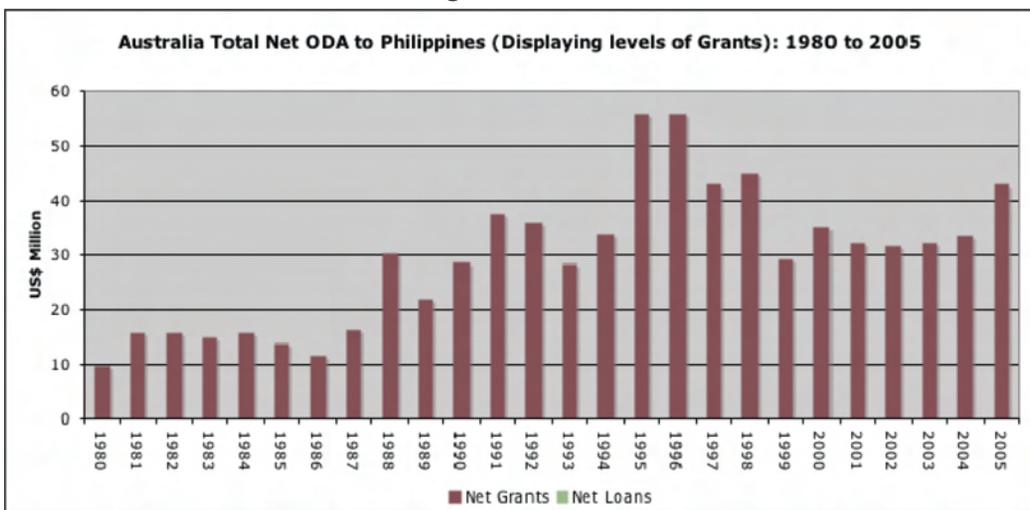
## Aid trends in a middle-income country: The Philippines case

*Sectoral breakdown: Netherlands ODA (continued)*

Sector	2001	2002	2003	2004	2005
Emergency and Distress Relief				0.311	
Reconstruction Relief					
Disaster Prevention and Preparedness					
<b>Administration Costs of Donors</b>	<b>8.561</b>				
<b>Support NGOs</b>	<b>0.263</b>	<b>7.743</b>	<b>7.787</b>	<b>8.271</b>	<b>8.029</b>
<b>Refugees in Donor Countries</b>					<b>0.053</b>
<b>Unallocated and Unspecified</b>	<b>0.638</b>	<b>9.755</b>	<b>0.579</b>	<b>0.086</b>	<b>9.463</b>
<b>Unknown</b>					
<b>Total Sector Allocable</b>	<b>20.605</b>	<b>25.874</b>	<b>16.277</b>	<b>17.109</b>	<b>22.33</b>

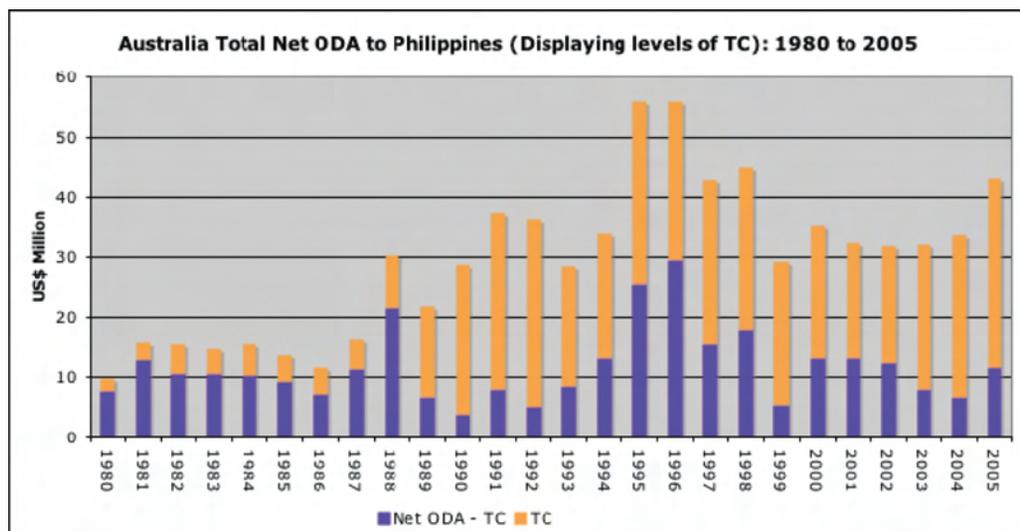
**Notes:** *Of its development assistance to the Philippines during the period in question the Netherlands is unique in its massive commitment to the NGO community which dwarfs other large donors. Like Germany, the Netherlands other focuses include environmental protection, education, water and sanitation, perhaps reflecting European values in ODA disbursement.*

### Focus: Australian ODA, TC, grants, sectoral breakdown



Raw data can be retrieved from the file: *Australia Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls*

## Aid trends in a middle-income country: The Philippines case



*Notes: Australian ODA disbursement seems similar to the American approach providing only grants and high levels of technical assistance after the 1990s.*

### Sectoral breakdown: Australia ODA

Sector	2001	2002	2003	2004	2005
<b>Social Infrastructure and Services</b>	<b>26.124</b>	<b>25.519</b>	<b>17.56</b>	<b>20.286</b>	<b>1.463</b>
Education	6.012	6.006	5.675	10.730	
Health	4.811	5.311	1.9	2.895	0.19
Population Programmes	0.234				0.322
Water Supply and Sanitation	0.387	0.387	0.044	0.335	
Government and Civil Society	7.198	7.545	3.046	4.298	0.654
Conflict, Peace and Security	1.555	2.717	3.503	1.337	0.172
Other Social Infrastructure and Services	5.927	3.554	3.392	0.692	0.125
<b>Economic Infrastructure</b>	<b>0.002</b>		<b>0.002</b>	<b>0.409</b>	
Transport and Storage					
Communications			0.002		
Energy				0.188	
Banking and Financial Services				0.22	
Business and Other Services	0.002				

## Aid trends in a middle-income country: The Philippines case

*Sectoral breakdown: Australia ODA (continued)*

Sector	2001	2002	2003	2004	2005
<b>Production Sectors</b>	<b>2.794</b>	<b>4.223</b>	<b>5.789</b>	<b>6.552</b>	<b>0.414</b>
Agriculture, Forestry and Fishing	2.671	4.204	5.787	6.552	0.411
Industry, Mining, Construction	0.018	0.016			0.003
Trade Policy and Regulations	0.105	0.004	0.003		
Tourism					
<b>Multisector</b>	<b>2.502</b>	<b>1.247</b>	<b>6.013</b>	<b>2.426</b>	<b>0.044</b>
General Environmental Protection			0.536	0.594	
Women in Development					
Other Multisector	2.502	1.247	5.478	1.832	0.044
<b>Commodity Aid and General Programme Assistance</b>					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
<b>Action relating to Debt</b>					
<b>Emergency Assistance and Reconstruction</b>	<b>0.258</b>	<b>0.543</b>		<b>0.234</b>	<b>0.657</b>
Emergency and Distress Relief	0.258	0.543		0.234	0.594
Reconstruction Relief					0.063
Distaster Prevention and Preparedness					
<b>Administration Costs of Donors</b>	<b>0.113</b>	<b>0.008</b>	<b>0.001</b>	<b>0.085</b>	
<b>Support NGOs</b>					
<b>Refugees in Donor Countries</b>					
<b>Unallocated and Unspecified</b>	<b>0.007</b>	<b>0.003</b>	<b>0.247</b>	<b>0.729</b>	
<b>Unknown</b>	<b>0.438</b>	<b>0.16</b>	<b>2.426</b>	<b>2.759</b>	<b>40.52</b>
<b>Total Sector Allocable</b>	<b>32.238</b>	<b>31.704</b>	<b>32.039</b>	<b>33.48</b>	<b>43.098</b>

**Notes:** Australia's figures for 2005 are practically useless because their ODA disbursements seem to have been un-audited or not recorded. During the rest of the period in question Australia has focussed on education, government and civil society infrastructure as well as health and agricultural production. After USA Australia is the only country to allocate large amounts of money to conflict, peace and security reflecting their strategic interest and involvement in the war on terror.

## Aid trends in a middle-income country: The Philippines case

### Conclusion: Valuable lessons can be learned from the Philippines experience

It is important to be clear that this analysis represents only the tip of the iceberg not just regarding the information available and its breakdown but also the human and political story of the Philippines' development. Furthermore, this data is purely historical and although useful has little bearing on what might happen next.

It is likely that in the near future the Philippines will receive much less development assistance in the form of loans or grants from the World Bank and its main bilateral donors. The Philippines now falls into a group of important middle-income countries that will soon pay off their debts and graduate from the World Bank's supervision therefore having to conduct their financial affairs entirely with private banks and investors instead. Broadly speaking, this will be a good thing for the country's economic growth but will require constant domestic political and economic stability.

However, there is a flip side to the coin. This study has also shown that increased growth is not necessarily associated with reductions in poverty, particularly in the countryside. Because of these trends the NGO community must accept and address the state's drive towards economic growth. It will need to regulate the human costs associated with an influx of private investment as well as the Filipino

and international companies which take advantage of it; particularly where national and local government and the judiciary fail. In this vein Filipino civil society must pay much closer attention to the political climate within industrialised countries where investment capital originates. There, high levels of regulation as well as government, judicial and local community interference ensure that companies are taxed adequately and take responsibility for their actions and externalities.

A final concern regarding the Philippines' new influx of private investment can be seen in the section about financial flows to the ASEAN founding nations. The Philippines was not hit as hard by the Asian Financial Crisis in 1997 largely because its economy was not completely full of international capital in the first place. As Filipino interaction in the world market increases the risk of a similar event disrupting the economy will increase.

Perhaps the most perplexing and frustrating part of this study relates to the failure of the donor community to better regulate and coordinate their activities in the Philippines. During the period in which data was collected donors failed to provide the country with consistent levels of ODA while constantly varying their approach to development in the country. Many different variables seem to have played a part in influencing the amount of aid the Philippines could rely on from any given donor annually including: the performance of the economy; the political situation in the Philippines; the political situation

## Aid trends in a middle-income country: The Philippines case

in the donor nation; as well as major shifts in world politics and approaches to development.

Another major failing of the donor community has been their obsession with economic growth as a root to development. With the exception of the Netherlands, and to some extent Germany, none of the Philippines' main donors provided aid that looked to empower civil society as well as supporting economic growth. By far the most telling finding was that no major donor has provided significant financial aid to support Filipino trade policy and regulation. If nothing else this demonstrates that donors wanted to have control of the Filipino market for their own gain. Without knowledge in this area the Philippines is without the power to combat the negative effects of international finance and will remain at the mercy of the free market.

### Appendix 1: OECD statistical reporting directives

All directives are sourced directly from the OECD website: <http://www.oecd.org/dataoecd/36/32/31723929.htm#15,16,17,18>

1. DAC2a Official Development Assistance – Disbursements.
2. Includes directives for: Total Net ODA, Total Net Loans and Technical Cooperation.
3. Dataset DAC4 – Private Flows.
4. Dataset DAC2b – Other Official Flows.
5. DAC7b – Tying Status of Bilateral ODA.

#### **DAC2a Official Development Assistance – Disbursements**

Description: Destination of Official Development Assistance and Official Aid Disbursements. Geographical breakdown by donor, recipient and for some types of aid (e.g. grant, loan, technical co-operation) on a disbursement basis (i.e. actual expenditures). The data cover flows from all bilateral and multilateral donors except for Tables DAC 1, DAC 4, DAC 5 and DAC 7b which focus on flows from DAC member countries and the EC.

#### **ODA (OA): Total Net**

Description: Official Development Assistance (ODA) is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and ii) it is concessional in character and conveys a grant element of at least 25 percent.

#### **ODA (OA): Loans Total Net**

Description: ODA/OA Loans: loans with maturities of over one year and meeting the criteria set under "Official

## Aid trends in a middle-income country: The Philippines case

Development Assistance” and “Official Aid (ODA/OA)”, extended by governments or official agencies, and for which repayment is required in convertible currencies or in kind. Rescheduling (maturity extension of loans originally made by a government or official agency) and loans made by a government or an official agency to refinance indebtedness due to the private or official sector, are included if reported as Official Development Assistance or Official Aid, otherwise as “Other Official Flows”. **The net data are reported after deduction of amortisation payments and the impact of other measures reducing debt (e.g. forgiveness).** **NOTE:** As a result the tables can show negative figures because the Philippines could be repaying more in debt than it receives in donations.

### *Technical Cooperation*

OECD Description: Technical Co-operation: This is defined as activities whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population of developing countries, i.e., increasing their stock of human intellectual capital, or their capacity for more effective use of their existing factor endowment. Accordingly, the figures relate mainly to activities involving the supply of human resources (teachers, volunteers, experts in various sectors) and action targeted on human resources (education, training, advice). The supply of expertise designed primarily to support the implementation of capital projects (“Investment-Related Technical Co-operation” - IRTC) is not included under this heading.

### **Dataset DAC4 – Private Flows**

Private sector, net is broken down, for DAC Members combined, into direct investment, portfolio investment and export credits (net). The transactions covered are those undertaken by residents of DAC Member countries. Portfolio investment corresponds to bonds and equities. Inflows into emerging countries’ stock markets are, however, heavily understated. Accordingly, the coverage of portfolio investment differs in these regards from the coverage of bank claims, which include indistinguishably export credit lending by banks. The bank claims data represent the net change in banks’ claims after adjustment to eliminate the effect of changes in exchange rates. They are therefore a proxy for net flow data, but are not themselves a net flow figure. They differ in two further regards from the other data in the report. First, they relate to loans by banks resident in countries which report quarterly to the Bank for International Settlements (BIS). Secondly, no adjustment has been made to exclude short-term claims.

### **Dataset DAC2b – Other Official Flows**

Other Official Flows (OOF): transactions by the official sector whose main objective is other than development-motivated, or, if development-motivated, whose grant element is below the 25 per cent threshold which would make them eligible to be recorded as ODA/OA. The main classes of transactions included here are official export credits, official sector equity and portfolio investment, and debt reorganisation undertaken by the

## Aid trends in a middle-income country: The Philippines case

official sector at non-concessional terms (irrespective of the nature or the identity of the original creditor).

### DAC7b – Tying Status of Bilateral ODA

Table DAC 7b is used to report the tying status of bilateral ODA commitments. Members have agreed that administrative costs and technical co-operation expenditure should be disregarded in assessing the percentages of tied, partially untied and untied aid. These items should therefore not be included in the data reported in this Table.

### Appendix 2: Notes on retrieval of data from CRS

In CRS figures for disbursement of ODA and TC were in a different format to those taken from the Database on Annual Aggregates. Data was only available showing gross aid disbursement rather than net ODA. The data therefore takes into account total loans received without deducting repayments. As a result the amount of donation often appears significantly higher than in the original dataset. It was also noted that there was a discrepancy between datasets particularly regarding the calculation of TC. It is again likely that this is due to the difference between Gross and Net calculations.

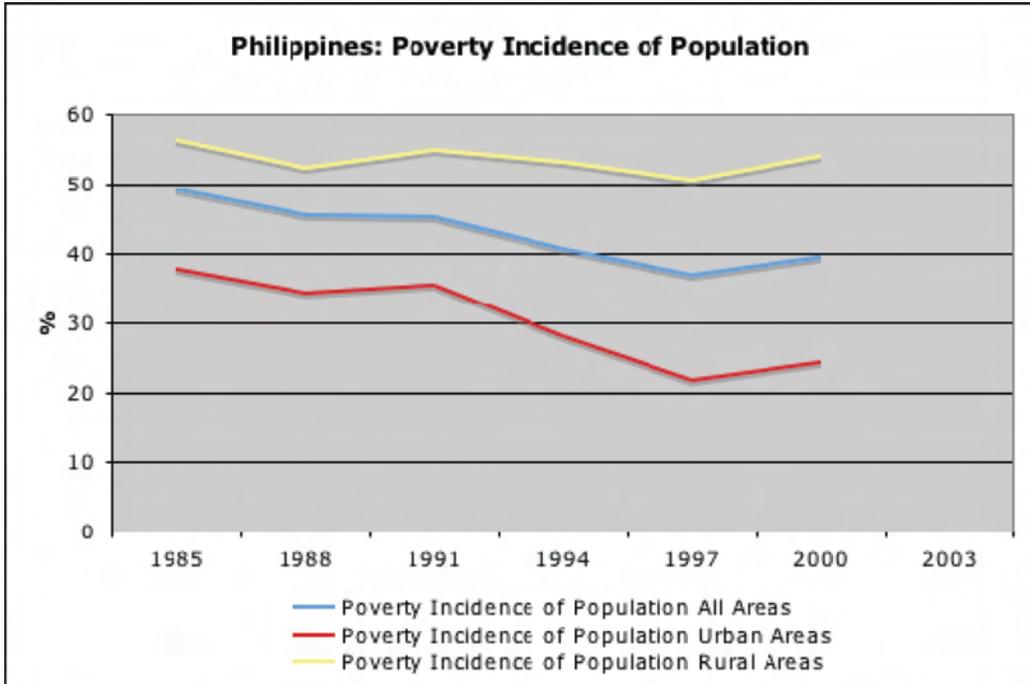
### Appendix 3: List of acronyms

**AsDB** – Asian Development Bank  
**AsDF** – Asian Development Fund  
**ASEAN** – Association of Southeast Asian Nations

**EC** – European Community  
**GEF** – Global Environmental Facility  
**GFATM** – Global Fund to Fight AIDS, TB and Malaria  
**Montreal Protocol** – set up to provide grants that help to protect the Earth's Ozone Layer  
**Nordic Dev. Fund** – Nordic Development Fund (provides small loans for development)  
**IBRD** – International Bank of Reconstruction and Development (official name of the World Bank until 1984)  
**IDA** – International Development Association (Official name of World Bank post 1984)  
**IMF Trust Fund** – Official name of International Monetary Fund until 1985)  
**SAF + ESAF + PRGF** – Institutions that make up the modern institution known as the International Monetary Fund  
**IFAD** – International Fund for Agricultural Development  
**UNDP** – United Nations Development Program (provides grants most of assistance is TC)  
**UNFPA** – United Nations Population Fund (provides grants to assist with reproductive health)  
**UNHCR** – United Nations High Commissioner for Refugees  
**UNICEF** – United Nations Children's Fund  
**UNTA** – United Nations program for Technical Assistance  
**WFP** – World Food Program

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### Appendix 4: Basic social indicators



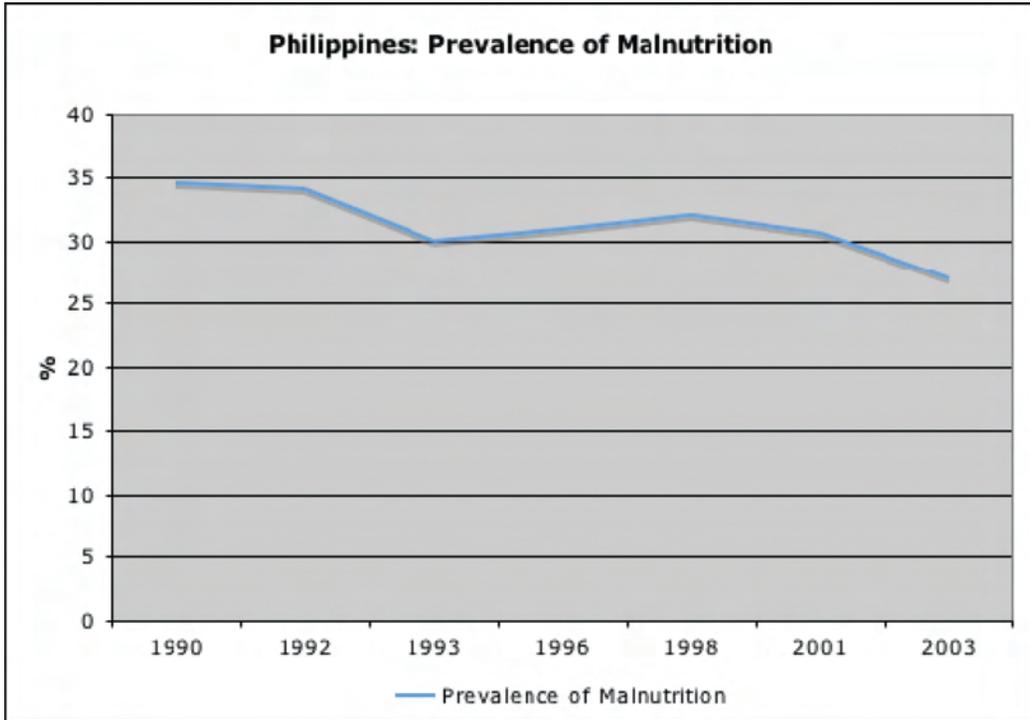
Source: Philippines Institute for Development Studies Web address: [http://econdb.pids.gov.ph/index.php?option=com\\_dirp&tab2=33&class\\_id=&sort\\_id=Place\\_ID&disp\\_flag=&dat\\_class=150](http://econdb.pids.gov.ph/index.php?option=com_dirp&tab2=33&class_id=&sort_id=Place_ID&disp_flag=&dat_class=150)

*Definitions: Poverty Incidence of Population Urban Areas: is the proportion of individuals in urban areas whose income cannot provide for the basic food and non-food requirements called the poverty threshold to the total number of individuals in urban areas. (magnitude of poor population urban areas / total number of population urban areas) X 100*

*Poverty Incidence of Population Rural Areas: is the proportion of individuals in rural areas whose income cannot provide for the basic food and non-food requirements called the poverty threshold to the total number of individuals in rural areas. (magnitude of poor population rural areas / total number of population rural areas) X 100*

**Notes:** This graph shows that the incidence of poverty has dropped about ten percent since 1985, however it demonstrates that this is almost entirely the result of decreases in urban areas.

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Source: Philippines Institute for Development Studies Web address: [http://econdb.pids.gov.ph/index.php?option=com\\_dirp&tab2=246&class\\_id=&sort\\_id=Place\\_ID&disp\\_flag=&dat\\_class=147](http://econdb.pids.gov.ph/index.php?option=com_dirp&tab2=246&class_id=&sort_id=Place_ID&disp_flag=&dat_class=147)

*Definition and notes: Contains the proportion of underweight among 0-5 year-old children.*

**Notes:** This graph is quite positive demonstrating a ten percent drop in the prevalence of malnutrition from 1990 to 2003. This correlates with increased economic growth over that period.

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### Appendix 5: Case study: Joseph Estrada and international capital flight

Joseph Estrada was president of the Philippines from June 30, 1998 to January 20, 2001. In this relatively short period he had a marked effect on the level of development capital that flowed into the Philippines from abroad.

Estrada came to the Presidency advocating the poor, apparently committed to populist ideology and dedicated to anti-corruption. Within months it was clear that he had failed on all counts. In terms of external interaction Estrada borrowed more from bilateral sources in 1999 (Net OOF topped US\$ 1 billion that year) than he received in bilateral ODA disbursements, but most importantly he oversaw the biggest drop in net private flows in Filipino history between 1999 and 2000. Given the importance of private investment flows as a source of development capital it is important to understand why this happened and why the fall was so dramatic.

A look through the international financial press during the period of Estrada's presidency highlights the problem. On January 16, 1999 The Economist reported that the Estrada government's issue of US\$ 1 billion in Philippines sovereign bonds had been met by great excitement by foreign investors. The article concluded that the Philippines had been rewarded, "for its

strong economy, its banks' low exposures to property loans, and its government's professionalism in dealing with foreign investors."<sup>17</sup> The economy was indeed performing well and Erap's initial pro-corporate and business stance had a positive effect on international investment. However, things soon changed; by early 2000 it became clear to international investors that corruption could have a very damaging effect on the value of their investment.

On March 25, 2000 The Economist released details of the Lucio Tan scandal, the first major insider trading breach in the Philippines. What was important about this, from a foreign investors perspective, was that when Ruben Almadro (head of the Filipino Stock Exchange's (PSE) surveillance department) tried to report what he had found to senior officials (including Senator Paul Roco and the PSE chairman) they tried to silence him. On 7 March Mr Almadro and sixteen of his colleagues resigned, the PSE was no longer regulating itself and as a result investors pulled out all of their capital.<sup>18</sup> In August 2005 The Economist reported on the risk of investing in the Philippines highlighting evidence of corruption in the government's sale of shares in the Philippine National Bank (PNB). The only bidder was Lucio Tan, a close friend of Estrada, whose companies already received preferential treatment when borrowing from the PNB. This high level government intervention in the market provided an even stronger incentive for investors to leave because

<sup>17</sup> The Economist, "Virtue's own reward", Jan 16, 1999, p69(1).

<sup>18</sup> The Economist, "Thriller in Manila", March 25, 2000, p83.

<sup>19</sup> The Economist, August 5, 2000, p70.

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they had no assurance that the market was operating efficiently.<sup>19</sup>

What can be taken from Estrada's presidency is the clear message that the markets perception of the level of corruption in the Philippines has a large affect on the amounts of investment that it receives. Well before Jose Singson nailed the final pin into the Erap administrations credibility investment had fled the country. This period demonstrates the importance of political stability and good governance to the level of investment the Philippines receives. It also shows how quickly the market can desert an economy if it finds market conditions unfavourable. Another interesting point to make is that aid in general also dropped slightly between 1999 and 2000, demonstrating that international and bilateral donors also responded negatively to political instability and poor governance.

### Appendix 6: Defining and understanding Technical Assistance

It must be noted that during the course of this paper the terms Technical Assistance (TA) and Technical Cooperation (TC) have been taken to mean the same thing. TC is a newer more politically sensitive term used by international donors to emphasise mutual cooperation and is effectively a reaction to criticism that donors use TA to push for specific development policies, such as liberal market reform, and undermine local participation in the development process.

It is important to be clear from the start that this paper is concerned only with TA that comes as part of ODA. Finding a fully comprehensive definition for TA in this context is difficult. The principal problem is that in development literature TA tends to be used in the context of broader multilateral financial assistance from either of the Bretton Woods Institutions, The World Bank and International Monetary Fund (IMF), or from other large regional bodies, in this case the Asian Development Bank (AsDB). However, the concept of external donors providing a country with technical advice regarding their development policy extends out with the boundaries of international multilateral financial assistance. Within this definition the wider community of bilateral donors as well as international NGOs can be seen to provide assistance in a number of different developmental sectors including: education, energy, agriculture, security and business.

TA is therefore an important aspect of development cooperation in providing services that complement and provide advice to development programmes. It includes support for policy and economic reform in recipient countries, preparation, implementation and monitoring of infrastructure projects and other development programs as well as direct provision of social services to the poor.

TA is provided by technical advisors who can be seen to operate on two levels, as bureaucrats and on the ground. They

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are consultants, researchers and trainers that usually come part and parcel with aid packages. They are normally paid representatives of their respective donor agency and more than often come from the private sector within the donor country. At the bureaucratic level they tend to occupy related ministries to oversee government policy and the distribution of their aid and loans. On the ground they facilitate the identification, creation and operation of development projects and provide the capacity necessary for their operation.

### Pressing Issues and Concerns

There are a number of pressing issues at hand regarding the provision of TA. The first is the overarching concern that it may be an under-effective drain on aid resources. In an extensive recent report Actionaid UK calculated that in 2004 \$11.8 billion of the headline total \$79 billion of real aid funds was spent on overvalued and ineffective TA.<sup>20</sup>

The second concern is that TA seriously jeopardises partisan ownership of political and economic policy. As noted above TA is often a conditional part of ODA. Technical assistants exist to oversee the provision of aid and advise national and local government on development projects. The result is that donors effectively dictate how development policy is formed. The fact that technical assistants are accountable to donors not local government means that TA can be used to exert significant

foreign control over the type of economic, security and political reforms set in place by the state. ODA can effectively be used as a tool to support the donor's political and economic interests abroad.

In this regard the Philippines provides an interesting case study. For example, it is the most aggressive exponent of economic liberalisation in Southeast Asia. This policy has been supported by the nation's long-standing relationship with the IMF (the longest in history), an institution principally run and funded by the Western powers, which have business interests in the country.<sup>21</sup> A similar concern surrounds USAID's significant contribution to the security services in the Philippines. Its support post 9/11 has led to a great deal of concern that American aid has directly influenced the political process by facilitating the subversion of various political groups.<sup>22</sup> There is therefore a great risk that external aid contributions in the form of TA are tied to reform in the economic and security sector at the expense of the will and best interests of the Filipino people.

Another important aspect of TA is that it is frequently provided by the private sector. The provision of ODA is often tied to the sub-contracting of large foreign corporations or trans-national corporations (TNCs) on aid projects. This is problematic for three obvious reasons. First, TNCs are legally bound to generate high profits for their shareholders and therefore aim to generate

<sup>20</sup> See: [http://www.actionaid.org/1120/taking\\_action.html](http://www.actionaid.org/1120/taking_action.html)

<sup>21</sup> See: [http://money.inquirer.net/columns/view\\_columns.php?yyyy=2004&mon=11&dd=29&file=1](http://money.inquirer.net/columns/view_columns.php?yyyy=2004&mon=11&dd=29&file=1).

<sup>22</sup> See: [http://newsinfo.inquirer.net/breakingnews/nation/view\\_article.php?article\\_id=55095](http://newsinfo.inquirer.net/breakingnews/nation/view_article.php?article_id=55095)

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the best return possible from their business. This is awkward from an ethical standpoint because by their very nature these contractors seek to profit from aid projects. Second, there is the concern that linking the provision of external aid to contracting a domestic corporation inhibits competition over the contract. The corporation can therefore set its own prices and performance targets without having to worry about competition from rival companies. This inefficiency could constitute a drain on development funds. Finally, the use of foreign contractors further blurs the ethics of ODA because their involvement supports foreign business, investors and economies at the expense of local enterprise. TA can be used to create exploitative relationships and

is guilty of turning development aid into a profitable industry.

Perhaps the most pressing concern is that TA could damage the progress of development itself by forcing ineffective policy and undermining local ownership of the process. As shown above, aid tends to be conditional upon the creation of projects that support wider policy agendas like, for example, the privatisation of state institutions. This strategy has created a culture of policy inflexibility, which in turn has led to a high degree of policy failure. In many cases these could have been avoided had local experts been consulted in more depth.