Democratic ownership of aid in the Philippines

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There are many challenges to democratic ownership of official development assistance (ODA) in the Philippines although there are also some reasons to be hopeful. Aid goes mainly to furthering foreign and elite policy interests and only secondarily to addressing the country's considerable development needs. Aid has been used to influence national policies that are adverse to the Filipino people's interests. Large parts of aid are also disconnected from social realities and priorities.

The Philippines has some internal weaknesses stemming from the country still being in its long-drawn-out democratic transition. Whilst citizens actively engage in governance efforts, especially through civil society, the formal mechanisms for greater public involvement are either absent, underutilized or even bypassed and subverted. Within such a context, aid has tended to align with and reinforce the inequitable political and economic status quo. Recent years have even seen some worrying anti-democratic tendencies.

Filipino citizens and civil society nonetheless continue to strengthen themselves. They struggle to hold government accountable and to open up avenues for greater democratic involvement by women and marginalized sectors. In terms of aid effectiveness these social pressures, organized advocacies and principled engagement are vital for increasing democratic ownership of aid. They create the solid basis for improving decision making on where aid goes, how it is used and towards what ends. They are essential to strengthening transparency and accountability in the country's aid processes.

Overall aid trends

Aid flows to the Philippines have been generally declining since their peak in 1992, including in the period 2000 to 2006 for which the most recent full-year data are available. The value of total on-going ODA loans fell from US$13.3 billion in 2000 to US$9.5 billion (for 135 project and six program loans) in 2006, while total ODA net loan commitments dropped from US$19.0 billion to US$15.4 billion (for 237 loans).[1]

The country's top five donors accounted for nearly 95% of all on-going loans in 2006. The biggest donor was Japan, through the Japan Bank for International Cooperation (JBIC), whose US$4.7 billion in loans accounted for 49.3 percent of total on-going loans.[2] This was followed by the Asian Development Bank (ADB) with US$1.8 billion in loans (18.6 percent of the total), World Bank (WB) with US$1.5 billion (16.0 percent), United Kingdom with US$588 million (6.2%) and China with US$460 million (4.8%); the balance of US$484 million was provided by thirteen other donors.

China was only the fifth biggest donor in 2006 but its loans were the largest on average at some US$153 million per loan (i.e. US$460 million for just three loans). The sheer size of these loans combined with China's more lax approach to ODA compared to the more established donors has tended to foster irregularities and corruption.[3] China's donor standing in the country could, however, change significantly with the signing of a China-Philippines Framework Agreement in January 2007 that potentially covers at least US$1.6–2.7 billion in additional ODA for seven infrastructure projects.[4] This rising aid presence reflects China's increasing global aggressiveness in the ODA realm and, at least in the Philippines, the filling in of gaps due to falling contributions from traditional donors.

ODA remains very significant in economic terms especially since the Philippines remains essentially underdeveloped and unable to generate sufficient capital resources internally.

The value of total on-going loans remains substantial and was equivalent to 8.1 percent of gross domestic product (GDP) in 2006; total net loan commitments in turn were equivalent to 13.1 percent of GDP.[5] ODA from bilateral and multilateral sources has fallen from its peak of 81.8 percent of the total public external debt stock in 1994 to a still large 56.4% in September 2007.[6] The total share of ODA in the external debt stock likewise fell from 66.6 percent to 38.5 percent over the same period.[7] The country has had no outstanding International Monetary Fund (IMF) loans since 2006.

Actual ODA disbursements of US$1.94 billion in 2006 were large relative to national government finances and were equivalent to 13.5% of total non-debt expenditures and 10.2% of revenues collected for the year.[8] ODA is particularly significant in the case of particular line agencies.

For instance, ODA disbursements of US$454.5 million to the infrastructure-heavy Department of Public Works and Highways (DPWH) in 2006 were equivalent to 27.3 percent of the agency's expenditure program.[9] A similar situation is found in particular sectors. Total ODA disbursements of US$226.2 million to the agriculture, agrarian reform and natural resources sector in 2006, for example, were equivalent to 24.4% of the national government's allocation for the sector.[10]

This significance of ODA means that, in the absence of pro-active measures that create a firewall against donor influence, the Philippine government is put in a situation in which the donors have considerable direct and indirect leverage over it. This has strong implications for the democratic ownership of aid.

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Aid, conditionality and ownership

The Paris Declaration (PD) narrowly construes ownership as partners having "operational development strategies". The limitations of this approach are clear in the case of the Philippines where the government feels able to claim that it "has well advanced efforts to comply with the PD principles [on ownership]". Simply by asserting the existence of a Medium-Term Philippine Development Plan (MTPDP) and its subsidiary or accompanying documents, the government argues that the Philippines "truly owns its development agenda and processes." [11]

Yet governance and policy-making in the country remain deeply undemocratic. The direction of major national policies such as the MTPDP historically comes from foreign and elite interests, which subsequently end up benefiting more from these policies than the majority of the population. At first glance this appears to be a purely internal problem: that the Philippines is still in the process of building a genuinely broad-based and representative democracy. However, in reality, donors are effectively exploiting and indeed reinforcing the lack of democratic accountability to serve their interests.

Donor countries use foreign policy tools for their economic and geopolitical objectives. In this regard, ODA, whether bilaterally or through the multilateral agencies which donor governments control, is one of the most important mechanisms for exerting influence. This self-interested use of aid has effects extending far beyond the timeframe of specific loans and that cut across the breadth of national life. The accumulated adverse impacts are even grave enough to off-set the small and scattered micro-scale benefits of aid projects. This is what makes policy conditionalities, direct or indirect, a central and overriding problem of the aid system.

Economic policy conditionalities are a particularly brazen form of exerting power through aid. This is in addition to the effects of decades of relentless big power economic, political and ideological influence. For instance, local policy-making elites have already largely embraced neoliberal "free market" ideology, the main economic content of conditionality, thus greatly reducing domestic official resistance. Economic strategies are nowadays from the very start crafted to be appealing to donors and foreign investors.

Three decades of "free market" conditionalities have already turned the Philippines into one of Southeast Asia's most open economies with the lowest tariffs and least restrictions on foreign capital next to Singapore – so there are now fewer policy areas needing a "free market" overhaul compared to decades past. Yet, because there are still some hold-outs, formal conditionalities do still persist. The country's last IMF loan was a US$1.4 billion stand-by arrangement from 1998-2000 which had 110 conditionalities euphemistically called "structural reform measures". This capped four decades of stabilization programs with tight fiscal and monetary policies contained in 24 IMF loans totaling US$3.0 billion and SDR3.1 billion.

The WB meanwhile continues with its structural and sectoral adjustment loans that have totaled some US$2.8 billion so far. It gave a US$250 million Development Policy Loan (DPL) at the end of 2006 that covered, among other things, fiscal austerity and new taxes – picking up from where the IMF left off – as well as power privatization. The DPL is an innovation from previous adjustment loans in that it was formally drawn up and given wholly only after the policy changes were made, rather than being negotiated and then subsequently disbursed based on prior formal commitments.

Donor pressure is also applied on the basis of the sum of all ODA and not just on a case-to-case basis. The pending Japan-Philippines Economic Partnership Agreement (JPEPA) is an example of aid being used to leverage particular policy outcomes. The JPEPA was signed in 2006 and only needs ratification by the Philippine Senate to come into effect. Japan has effectively been using its past and current yen loan packages as leverage for the free trade deal's ratification with constant allusions to its being the country's largest donor. Philippine government economic managers themselves have openly argued that non-ratification of the JPEPA could antagonize the country's biggest aid source. The latest 27th and 28th yen loan packages have been reported to be worth at least PhP67 billion so far (around US$1.7 billion at current exchange rates).

Aid has also been used to advance donor geopolitical interests at the expense of national sovereignty and development objectives. The United States (US) is the country's largest grant donor and since 2001 has accounted for between a third and nearly half of all grants received in any given year. It has used this as leverage for an increased US military presence in the Philippines as part of its global "war on terror". US foreign assistance to the country – covering both development and military aid – immediately tripled post-9/11 from US$48.7 million in 2001 to US$132.4 million in 2002.[12] Levels have remained high since then with the total US$743.0 million over the period 2002-2007 implying an average of US$123.8 million per year. This is even as the Philippine military and its paramilitary forces have been found to be complicit in mounting human rights violations and a wave of political killings, forced disappearances and abductions.[13] Outside of these grants, the US has, since 2000, been providing some US$20-40 million yearly in Public Law 480 (P.L. 480) loans ostensibly as "food aid" but really to purchase US food surpluses and support its own domestic agribusiness.

The US's whole approach is patently geared to promote its strategic military presence in the country. Its total grant package is divided into USAID funding and military and security-related funding. The share of military and security-related aid in its total grant package for the Philippines increased four-fold from 10.5 percent in 2001 to 39.5 percent in 2007, with the absolute amount increasing eight-fold from US$5.1 million to US41.7 million; the cumulative total for 2002-2007 reached US$273.1 million.[14]

United States Agency for International Development (USAID) funding in turn increased only slightly from US$43.6 million in 2001 to US$63.9 million in 2007 – with, for instance, the Development Assistance (DA) component actually halving from US$30.3 million in 2001 to US$14.9 million in 2007. Moreover, some three-fifths of USAID funding – covering DA, Economic Support Funds (ESF) and Child Survival and Health (CSH) – has become concentrated in local community projects in the Mindanao region.[15] These southern provinces were the re-entry point for US military forces in the country in 2002. Since 2002, there has been in the Philippines a continuous presence of US troops – from a few hundred to over 6,000 (especially in Mindanao) – pre-positioning of war materiel and the transit of US forces heading for Afghanistan and Iraq.

China is rapidly emerging as a new source of geopolitical influence in the Philippines and is the Philippines' fastest growing donor by far. Even if only the pipeline projects discussed recently come on-line then China will have over US$2 billion worth of commitments to the country – bringing it from virtually nowhere to being a close second to Japan in just a few years. This is happening at around the same time that the Philippines has made an unprecedented concession to China over disputed territory in the South China Sea. In 2004, the Philippines effectively downgraded its sovereignty claims over the disputed Spratley Islands by entering into an agreement with China for joint exploration and possibly development of the area's energy resources.[16] Four Association of Southeast Asian Nations (ASEAN) have made territorial claims on the area, aside from China and Taiwan, so the unilateral Philippine action breaks ASEAN solidarity on the issue.

A non-participatory aid system

There is an urgent need for a more democratic and participatory aid system to resist the pressures of the major donors. However, aid policies are heavily centered on official bodies and the executive branch in particular. Government policy is defined by the ODA Act of 1996 which also identifies the main bodies involved: the economic planning agency National Economic and Development Authority (NEDA), the Commission on Audit (COA) and a Congressional Oversight Committee on ODA (COCODA). The long-time donor-government venue for taking up ODA-related policies was the Consultative Group (CG) which was broadened into the Philippines Development Forum (PDF) in 2004.

There is still much to be done for citizens to be more genuinely engaged in the ODA process. The COCODA is a potentially important parliamentary mechanism but this remains basically dormant. It was only convened in 2005, a decade after the enactment of the ODA law; since then it has only had a handful of meetings mostly involving general ODA briefings. The PDF is nominally a multi-stakeholder body, but donor and government voices remain extremely dominant. There is also the risk that the PDF, by coordinating donor efforts, simply serves to further increase their individual and collective leverage over the country's policies.

Civil society organizations (CSOs) meanwhile are disconnected from large parts of aid and aid-related processes. Infrastructure projects and program loans already take up at least two-thirds of total ODA and CSOs have no direct involvement in these. Yet CSOs have the potential to play a significant role here. With sufficient transparency, access to information and real mechanisms for engagement, they could serve as effective independent watchdogs against project-level corruption, social dislocation and undue environmental damage. CSOs are also uniquely positioned to bring grassroots perspectives to policy processes.

CSO involvement has largely been as ground-level implementers of aid projects in their perceived areas of greatest expertise – typically social and rural development. The case of Japanese ODA with respect to local non-governmental organizations (NGOs) is revealing, particularly since Japan is overwhelmingly the country's largest donor so its behavior strongly influences the character of the overall aid package. Japan's Grant Assistance for Grassroots Human Security Project (GGP) is the main window for CSO involvement. Yet, in 2004, the GGP accounted for a miniscule 2.3% of total Japanese ODA to the country.[17] The WB and ADB are more active users of CSO channels for their assistance – the WB recently reported that up to 70% of its projects involve CSOs – but they are the notable exceptions amongst official donors. In any case, a substantial portion of the value of WB and ADB assistance goes to infrastructure and program loans that by their nature exclude CSOs.

There are also no indications that it is standard practice for CSOs to be involved in project framework- and direction-setting. They are for the most part seen as mere implementers of grassroots projects largely designed according to donor preferences and priorities. There is rich anecdotal evidence of projects inappropriate to actual needs and communities' overall political-economic context being implemented with the donor bias for short-term measurable indicators influencing the design of community development programs. Furthermore, donors can even be wary of greater engagement with CSOs especially when these adopt a critical posture to the government.

As the formal ODA process becomes more vulnerable to irregularities, increased CSO involvement is becoming even more urgent. For instance, the NEDA's Investment Coordinating Committee (ICC) – which is tasked to approve ODA loan projects – was weakened in early 2007 and foreign-assisted infrastructure projects can now proceed without its screening and approval. This was done ostensibly to speed up loan processing, but it increases the risk of irregularities and the adoption of questionable projects with low or negative socio-economic returns resulting in unnecessary debt service burdens and undue pressure on already scarce government budgets.

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Political influence over loan decisions was also recently highlighted with scandals of alleged kickbacks of US$50 million (for an on-going US$400 million railways project) and US$130 million (for a US$329 million national broadband network project cancelled because of the controversy). Both cases involved Chinese ODA with project implementation tied to Chinese state firms. There are allegations of involvement by high-ranking government officials closely associated with the president of the Philippines and, in one case, the president's husband himself.

Conclusions: Towards a more democratic aid system

The Philippine experience draws attention to three levels of effort necessary to build democratic ownership of aid. At the international level there is an urgent need for greater donor willingness to de-link aid from their specific foreign policy objectives especially insofar as these conflict with or compromise recipient country interests. Explicit loan conditionalities and tied aid are the most blatant expression of this and certainly the most urgent to remove. Conditionalities in ODA are the single biggest barrier to democratic ownership and aid effectiveness and it is vital that they are removed. Similarly, the other indirect and less obvious ways that donors use aid as leverage to further their ends are also significant and need to be addressed.

At the national level there is a need for more democratic planning, monitoring and implementation of aid. This means improved official mechanisms for greater involvement of citizens through parliament and CSOs – such as in national or regional development planning and consultative meetings with donors, and ODA project monitoring. There can also be improvements towards greater transparency and accountability, increased access to information, and stronger measures against rent-seeking and corruption. This presents a challenge for CSOs to have greater constructive engagement with governments and donors without compromising their grassroots grounding or core development principles. Greater CSO capacity for policy-formulation, advocacy and lobbying would help make such engagement more effective. Multi-stakeholder policy advocacy groups – but with a bias for amplifying grassroots voices – could be formed alongside aid project implementation watchdog groups. These groups could encourage indicators of aid outcomes focused more on development, tempering of disbursement-focused approaches, and enhanced anti-corruption efforts.

Lastly, democratic ownership can be improved with even greater CSO involvement at the project or community level where their comparative advantages are greatest – i.e, integration with marginalized sectors and grassroots communities, relative independence from political interests, skills with participatory processes, commitment to empowerment approaches, and a focus on the poorest and most oppressed. CSOs have also proven to be particularly strong in mobilizing farmers, workers, indigenous peoples, women, youth and other marginalized sectors as well as in increasing their involvement in social and political issues.

Underlying all these necessary measures and changes is the basic principle that truly democratic ownership of aid is essential to ensure that it genuinely serves the interests and welfare of the largest number of people. Only when aid is allocated and implemented democratically will it be sure to contribute to the development of sustainable societies free from poverty.

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