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TIME TO DISMANTLE THE ROOTS OF EVIL

A Citizens' Report on Official Development Assistance (ODA) to the Philippines

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An old adage says that one knows the tree by the fruit that it bears. We the undersigned share the national outrage brought about by anomalies behind the planned $329-million ZTE-National Broadband Network (NBN) project, which we believe is the latest in a grim harvest of scandal involving projects funded by official development assistance (ODA). It comes in the heels of one unrelenting controversy after another—the North Luzon Railways Project, the South Luzon Railways Project and the Cyber Education Project—to name just a few under the Macapagal-Arroyo administration. The scale of new exposés on ODA misuse brings to mind the dark days of Marcos' authoritarian rule when foreign assistance had acquired the vile reputation for corruption, bribery, human rights violations and environmental degradation, among other social evils.

While we recognize that ODA has a role to play in Philippine development, we also affirm that inadequacies in the country's foreign aid system has persisted for far too long, and a judicious end is nowhere in sight. After over five decades, accumulated evidence reveal countless instances of political influence peddling, huge kickbacks for government officials, questionable altruism among aid donors, useless yet expensive projects that cost Filipinos billions in loan repayments and a host of other issues associated with the sourcing and utilization of foreign aid money. Worse, indications are rife that what financial experts described as an already critical situation will get aggravated by new surges in ODA loans from countries like China, exacerbating longstanding problems and threatening to sink the Philippines in a debt crisis similar to that of the 1980s.

We believe that clearly, change is imperative and it must begin by reaching a consensus on the systemic problems plaguing foreign assistance in the Philippines, as well as by the immediate initiation of concrete and accountable processes to govern the quality, quantity and effectiveness of aid by stakeholders from civil society, donors and government organizations.

Lessons drawn from independent studies and investigative reviews by experts and specialists from the academe, media, government and non-government organizations on the Philippine experience with ODA affirm the following findings:

FIRST, **billions of dollars that poured in Philippine coffers since 1986 under the aegis of official development assistance largely failed in its mission to promote sustainable social and economic development and the welfare of the Filipino people. Instead, there are very strong indications that ODA benefited the economies and businesses of lending countries, as well as local 'loan brokers' who facilitated the transaction of foreign aid loans. Filipino taxpayers get the short end of such dealings, as ODA loan obligations add up to the nation's debt burden.**

CONSENSUS ON ODA FAILINGS

There is a consensus among Philippine ODA reviewers and investigators that "development assistance has become an oxymoron" as the volume of evidence suggests that the effects of ODA misuse and abuse for the last two decades run contrary to its development objectives. Corrupt practices and misdirected, ill-conceived projects are compounded by ODA's declining levels, diminishing human development shares, continuing marginalization of grants in favor of loans, bias for the more developed regions, and long-festering problems in project implementation (Tadem, 2007). Other evaluative studies on ODA point out that aid does not benefit the poor and that projects financed by foreign loans were wasteful and useless. These include:

- A 1979 study of the impact of US aid projects to the Philippines that reported “only 22 percent of aid is reaching the needy … while “the majority of US aid (was) not even intended to help the poor.”

- A 1986 report by a group of economists from the University of the Philippines, which concluded that "most projects financed by foreign loans were unproductive." The study went on to say that many foreign financed projects "were not well chosen or were probably chosen precisely to finance capital flight through the overpricing of projects" (Alburo et al 1986). Further, it was pointed out that "official assistance was tied to projects which were not necessarily high in the country’s priorities or were tied to sources of imports and equipment that were more expensive than competitive suppliers” and that “many of the projects were overpriced, mismanaged, not viable to begin with, or made unviable by changes in the exchange rate and the international environment."

- Another study (Malaluan, 1998) criticized the imposition by foreign assistance of “a resource bias against redistributive policies" since it “focuses on the economic sectors in fast-growing and highly urbanized areas.”

- A six-month review by the Philippine Center of Investigative Journalism (PCIJ) covering 71 ODA projects also showed that seven of 10 projects “fall short of economic benefits promised, even after completion and roll-out. Serious flaws in the identification, design, evaluation, and implementation of government projects have resulted in failed or bad projects. Too often, lenders tie up ODA outlays to contractors of their choice. Worst of all, kickbacks exacted by political sponsors in some cases have yielded overpriced projects” (Landingin, 2008).

The Commission on Audit (COA)’s 2004 report on Philippine public debt also found that “loan proceeds did not significantly contribute to our economic development as these were expended for loan repayments and not to projects.” Furthermore, it revealed that “a number of projects funded from borrowings were approved without proper evaluation. Risks in project implementation were not addressed before the projects were started, thus, wasting limited government resources at the expense of the taxpayers and depriving the public of the benefits to be derived from the projects.”

In COA’s 2005 report containing findings on 55 ongoing foreign-funded projects, the COA audit team uncovered a number of anomalies and irregularities related to ODA implementation and management resulting in huge losses for the government and glaring inefficiencies in project implementation. Total losses resulting from the above irregularities amounted to PhP4.7 billion (US$85 million).

For 2006, the COA's report covered commitments for 301 ODA loans as of end-2006 that totaled almost $10 billion, or more than P860 billion. Of these, P107 billion worth of loans were cancelled and P102 million were suspended due to non-compliance with procurement rules. Involved in these loans were "unnecessary and overpriced" land acquisitions that cost more than P36 billion; double-recording, unrecorded or erroneous transactions that resulted into a net overstatement of P2.6 billion; unliquidated cash advances and fund transfers amounting to P1.56 billion; "irregular, unnecessary and uneconomical use of funds" worth P475 million; and P13.6 million worth of "excessive and defective" school implements, among others.

DUPLICITY OF FOREIGN AID

Philippine experience with ODA validate studies and monitoring reports by agencies of the United Nations and other local and international development institutions that have scored donor-imposed policy conditions as well as the practice of advancing lending countries’ economic priorities, agendas and geo-political interests over aid’s humanitarian goals. As such, development objectives are defeated and aid recipient countries like the Philippines get mired in deeper indebtedness, worsening poverty and exploitation.

Profits from concessional loan obligations. Despite decades of receiving huge sums in development assistance—a total of US$37.9 billion from 1986 to 2006 and a surge in new loan approvals worth at least $1.26 billion in 2007—economic growth for the Philippines remains elusive and the fight against poverty continues to be our country's 'greatest battle[i]'. Ironically, a recent study shows that developing countries mostly in Asia who were successful in fighting poverty were also the ones who received the least foreign aid (Easterly, 2006).

Out of the total ODA from 1986 to 2006, loans have dominated grants under forms of aid received—84.22 percent against 15.78 percent respectively. The 2001-2006 period was marked by the entry of two new ODA players in the Philippines, namely China and Korea, with China contributing US$467 million for only three projects. However, only 1.5 percent of this amount was in the form of grants and 85.65 percent (or US$400 million) was for one single project, the controversial rehabilitation of the North Luzon railway system.

While ODA loans are concessional and have low interest rates, it cannot be denied that the attendant loan obligations that have to be paid for still constitutes a substantial addition to the debt burden shouldered by the Filipino people. ODA's share of the country's external debt stands at 40.8 percent as of June 2006. The average share of ODA over the eighteen-year period from 1988 to 2006 is a high 45 percent (Tadem, 2007). Moreover, interest payments of these loans—the rates of which can range from 0.75 percent to a high 6.94 percent—often exceed principal repayments, such that there is no actual transfer of funds in the process of aid-giving, only deeper indebtedness. There are also additional charges imposed by multilateral institutions such as "front-end fees" and "commitment fees" that unnecessarily add to the country's external debt service payments. The government paid a total of US$51 million in cumulative commitment charges from 2001-2005. For 2006, the amount exacted for commitment fees totaled US$5.7 million.

The Bureau of Treasury (BOT) reports that a large percentage of the government's annual revenue collection goes to debt servicing with "interest payments alone eating up one third of the national budget (Remo 2006). As of December 2007, debt service payments have already totaled ₱3.712 trillion of which, P1.511 trillion or 41% is owed to foreign creditors. Aggravating the situation is the practice of issuing sovereign guarantees for foreign loans acquired by both government corporations and the private sector. BOT reports that total contingent liabilities of government as of December 2007 stood at ₱484.2 billion, of which ₱419.2 billion are foreign debts.

The business of tied aid and other conditionalities. Studies by the UN Development Programme (UNDP) in 2005 have scored the irony behind the practice of tied aid—financing packages where the procurement of goods or services involved is limited to the donor country or a group of countries—because it "reduces the value of assistance by 11 to 30 percent" as a result of overpricing, which could run up to as high as 40 percent. Other reports cited that prices of tied goods were over 20 percent higher than the lowest available international prices and reduced aid value by an average of 10 to 15 percent (Tadem)[ii].

Other reports show the enormous benefits derived by donor countries from providing ODA. For instance, the UN Department of Public Information reported that for every dollar that the USA contributed in 1995 to the New York-based UNDP, American companies got back more than US$2 in UNDP procurement orders. The Australian International Development Assistance Bureau (AIDAB) in a 1994 review of its aid program to Indonesia over the period 1980-1993 saw that "the Australian economy benefited by some $1,474 million over the review period" and that for every $100 of AIDAB funds spent on the Indonesia program prior to June 1993, about $178 of business for Australian companies (both private and public) was generated. Japan, Asia and the Philippines' biggest aid donor, had openly declared that national interest is their overriding principle behind dispensing aid. A 1999 estimate of the shares of contracts (grants and loans) among Japanese and non-Japanese firms show that 45 percent went to Japanese firms while 20 percent went to contractors from other OECD countries (Euroact Japan 1999). Contractors from developing countries where the ODA projects were situated got only 35 percent. Other reports have also cited that Japan earned from 75 cents to 95 cents for every dollar of aid it gives in the form of goods and services purchased by the recipient country.

Despite claim by the Japanese Ministry of Foreign Affairs that 98 percent of Japanese aid has been untied, the extent of Japanese tied aid in the Philippines has reportedly taken a turn for the worse, as 40 percent or ten out of 25 project loans from 2000-2004 were totally tied. Included here are three of the government's biggest projects, namely the Subic Clark-Tarlac Expressway project (US$388 million), the Light Rail Transit (Line 1) Capacity Expansion Project (US$197 million), and the Urgent Bridges Construction for Rural Development Project (US$147 million). Another ten of the 25 project loans partially tied the main portion of the loan, but nine of these projects tied the consultancy services component. Given the observation that "a large portion of the so-called "untied" loan funds still end up in the hands of Japanese companies (as) feasibility studies are conducted by Japanese consultants (who) either specify the use of Japanese goods and equipment or recommend Japanese industrial standards" (Tadem 1983/1984 and Tadem 1990), the tying of consultancy services could transform the project to a completely tied loan.

ODA from other sources such as China, the emerging top donor to the Philippines, also contains conditionalities requiring the provision of engineering, procurement and construction services by Chinese companies. In terms of development assistance, the Chinese government provided loans to five projects worth a total of US$763 million. An additional US$541 million for two loan infrastructure projects are also under consideration (Olchondora 2007 and Gaylican 2007). However, what is worrisome with Chinese aid are the anomalies that hound most of project loan transactions, as well as observations that most of the project loans were funding socially and environmentally damaging projects.

The kind of aid that the country has overwhelmingly received has largely been oriented toward furthering donor foreign policy interests more than the country's considerable development needs. Aid from multilateral agencies has also continued to attach explicit and implicit conditions that are inimical to Filipino interests.

Donors have also used aid to advance their foreign policy interests at the expense of the country. Japan has been criticized for effectively using its past and current yen loan packages as leverage for the ratification of the Japan-Philippines Economic Partnership Agreement (JPEPA), now awaiting ratification from the Senate. Government economic managers themselves have argued that non-ratification of the JPEPA could antagonize the country's biggest aid source. Another major Philippine donor, the United States has been providing grant aid packages to revive, expand and deepen its military presence, especially in Mindanao but also in conflict-affected areas across the country. Furthermore, there has been $460 million in US aid over the 2004-2007 period, not even including some $20 million yearly in Public Law 480 loans to purchase US food surpluses. Meanwhile, the biggest loans of the World Bank and Asian Development Bank (ADB) have had "free market" policy conditionalities attached to them since at least the 1980s. These have required changes in overall macroeconomic and sectoral policy frameworks, as well as gone into very specific implementation details. The World Bank's US$250-million Development Policy Loan (DPL) in 2006 for instance was given after the government's harsh fiscal austerity including cutbacks on social services, the imposition of new taxes, and continued power sector privatization (IBON Foundation, 2008).

Inequities and iniquities from aid. The preferential treatment accorded foreign contractors and consultants as a result of foreign aid as well as attendant conditionalities to liberalize goods and services of government projects, especially on matters of procurement and accountability has marginalized local firms and experts and has proven to be a major source of inefficiencies that bloat up costs of ODA-funded projects.

Whether tied or untied, biases for donor countries remain prevalent in areas such as hiring of consultants from the donor-country or the use of donor-country standards in the acquisition of equipment and other project requirements. This bias is evident in complaints filed by the Philippine

Constructors Association (PCA) on the matter of foreign contractors being allowed to bring equipment into the country tax-free, while local contractors doing the same are slapped a 30 percent duty (Moreno 1995). The PCA also criticizes the government for "failing to encourage foreign contractors to enter into joint ventures with local firms" that would have facilitated technology transfer, a goal that is inscribed in the Philippines' ODA Law of 1996. Aside from this, foreign contractors are inclined to purchase materials abroad despite available supply in the domestic market. They are also exempted from VAT and income taxes.

Inequities are also evident with the hiring of foreign consultants in ODA projects for positions where Filipino expertise was not deficient. In the mid-1990s, concerns were raised about the abnormally large presence of Japanese consultants in JICA-funded grant assistance projects and that in one Japanese-funded coal power project, 82 percent of the environmental management costs went to Japanese consultancy fees. Another case concerns the huge difference in salary rates between foreign consultants and local experts that can be seen in the case of the ADB-funded "Harmonization and Results Technical Assistance Project," where local consultants got a mere 2.6 percent of the salaries of their foreign counterparts and were excluded from enjoying travel privileges.

Officials of oversight bodies have yet to act on appeals of entities such as the Construction Industry Association of the Philippines and the Filipino Consulting Organizations to address complaints of bias for foreign companies in the competition for big government projects, as well as calls for sanctioning underperforming consultants that oftentimes are responsible for delays in the implementation of ODA projects. A major consequence of the hiring of foreign consultants in the design and implementation of ODA projects is that, "in most cases, local communities or their organizations are not consulted" (Padilla 2004)

Policies that favor donors, especially on matters of government procurement are another major cause of both inequity and iniquity. Despite Philippine laws that require all government procurement to be subjected to bidding and other forms of price competition, most ODA-funded projects are awarded special exemptions from such mandatory procedures. This includes government-to-government contracts or executive agreements where the President has the leeway to waive or modify compliance to the Procurement Law. A policy against bid caps or ceilings also benefit big foreign construction companies that win contracts for public-works projects funded by ODA loans. A PCIJ report recently bared how pressures from country managers of the Japan Bank for International Cooperation (JBIC), Asian Development Bank (ADB), and World Bank succeeded in defeating the initiative of the Public Works Department in June 2002 to implement a department order rejecting outright bids for civil works and supply contracts above 15 percent of the approved budget contract.

The PCIJ has brought to the fore the Arroyo administration's moves to give implementing agencies more power to approve big state projects, without going through the strict but often time-consuming evaluation process of the National Economic Development Authority (NEDA) and its Investment Coordinating Committee (ICC).

A March 2005 policy directive by President Arroyo has "authorized agencies to approve contracts (worth) less than P500 million, except BOT, without going through the NEDA-ICC process, as long as the DBM (Department of Budget and Management) can certify the availability of funds." Last 2007, under the guise of hastening the evaluation process governing BOT projects, President Arroyo proposed new BOT law implementing rules that would diminish NEDA-ICC's powers in approving infrastructure projects funded and implemented by the private sector. The rules would give authority to implementing agencies such as government departments, state-owned firms, and local government units to approve the projects. Malacañang has put off issuing the new BOT rules after multilateral lenders and the foreign chambers of commerce objected to clipping the powers of the NEDA-ICC.

President Arroyo has also created new Cabinet groupings with powers that overstep those of existing NEDA bodies. In May 2007, President Arroyo issued an administrative order creating the so-called NEDA Cabinet Group that makes major economic decisions, including the approval of proposed projects, in between the monthly meetings of the NEDA Board. She also set up the Pro-Performance System Steering Committee that would monitor and evaluate "all increases in project cost, whether local or foreign funded." Until then, it was the NEDA-ICC that approved cost increases in foreign-assisted projects, without which the Department of Budget and Management could not release additional funding. In a memorandum issued after an October 9 meeting of the NEDA Cabinet group, Cabinet Secretary Ricardo Saludo told NEDA to review the 15-percent minimum economic internal rate of return (EIRR) required for ICC approval of proposed projects "with the end in view of reducing it."

This liberalized policy environment has allowed foreign firms to become big players in the contracting business at the expense of their local counterparts. A report prepared by the Construction Industry Authority of the Philippines and Philippine Domestic Construction Board (CIAP-PDCB) shows that nine firms accounted for 46 percent of the total value of civil-works contracts of ongoing or completed foreign-assisted projects between 2004 and 2006 (Landingin, 2008). It also showed that 18 companies from Japan, Korea, Thailand, and China won 71 percent of the total value of civil-works contracts for foreign-assisted projects reviewed by CIAP-PDCB. These foreign firms were awarded an average of P2.6 billion worth of contracts. In contrast, 79 Philippine companies, which got the remaining 29 percent of civil-works contracts, won an average of only P240 million worth of contracts per firm. Of the 10 biggest construction contracts for ODA-funded projects included in the report, only one was awarded to a Philippine company, Cavite Ideal International Construction & Development Corp.

The World Bank instigated what seemed to be promising moves to give local suppliers and contractors an even chance to win contracts. According to WB data, Philippine-based suppliers won about 55 percent of goods and services for WB-funded projects procured through international competitive bidding between July 2000 and February 2007. However it was exposed that some of the so-called Philippine companies are subsidiaries of foreign companies that were incorporated locally. In fact, the single biggest World Bank-funded civil-works contract tendered through national competitive bidding was awarded to China State Construction Engineering Corp., which was classified in the World Bank database as a Philippine company even though it is a unit of a Chinese state firm.

One consequence of this liberalized procurement policy are project cost overruns, which entails costs for borrowers such as the Philippines that must raise its local counterpart funding. A 2007 study for JBIC by the consulting firm Virata and Associates found that 13 of 14 road projects funded by the World Bank, ADB, and JBIC cost 26 percent to 51 percent more than DPWH estimates. Last year, the National Economic and Development Authority (NEDA) also reported that 21 projects — nearly a fifth of the 123 ongoing foreign-assisted projects it reviewed — incurred cost overruns amounting to almost P36 billion, raising the total costs for these projects by more than a third. In nine of the 21 projects, bids in excess of the approved costs were cited as a reason for the cost escalation. Eight of these nine projects were financed by JBIC. The JBIC also funded 18 of the 21 projects that incurred cost overruns last year, while the other three were financed by loans from China, South Korea, and the World Bank (Landingin, 2008).

SCAMS AND SCANDALS GALORE

Lack of transparency and insufficient disclosure of the detailed terms and conditions of ODA funds, particularly for large-scale infrastructure projects have proven to be breeding grounds for graft and corruption and other irregularities. Such anomalies are ultimately shouldered by the Filipino people through illegitimate debt service burdens for projects with unjustifiably low or even negative social and economic returns.

Web of corruption. During the Marcos regime, as much as 30 percent of ODA loan funds were thought to have been channeled to Marcos and his cronies in the form of commissions, rebates, and secret payments by Japanese companies that had won contracts to implement ODA projects. Since Japanese companies regard the payment of commissions, or rebates, as "normal procedure in ordinary commercial transactions" and are known worldwide for such practices, it stands to reason that such activities continue unabated till today. Revelations of fat commissions sought by government officials in the National Broadband Network-ZTE scandal also indicates that Chinese ODA likewise adhere to such practices.

Cases of corruption and irregularities have been widely acknowledged as a major concern associated with ODA-funded projects. In a paper prepared by the Economic Policy Research and Advocacy Group (Epra) headed by former NEDA Director General Cielito Habito, it was pointed out that lack of transparency and disclosure "increases fiscal and transaction costs, … causes distortions in how resources are allocated" and results in overpriced infrastructure projects. Another report by the World Bank in 2005 observed that the Build-Operate-Transfer (BOT) law, which allows for greater private sector participation in ODA-supported infrastructure development, "remains hounded by controversies related to vagueness over unsolicited bids where the scope of corruption becomes considerable" (Alunan 2006). In the 2006 Philippines Development Forum (PDF), the international donor community "urged the government to plug expenditure leakages caused by corruption"(Dumlao 2006). In January 2007, Finance Secretary Margarito Teves admitted that the country's access to more grant assistance from the US hinges on its ability to implement government reform, "especially in the area of corruption control" (Remo 2007b).[iii] A few celebrated ODA projects hounded by controversy include the following:

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

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

Illegitimate debts. Civil society organizations have also scored several loan agreements for government projects that are deemed to be illegitimate, or unacceptable because the debts were incurred to finance flawed and anti-people development projects. The list below enumerates anomalous government projects funded by loans from China and the World Bank:

- The North Luzon Railways Project, which has been criticized as being grossly disadvantageous to the Philippine government (Rufo and Bagayaua 2007). The average cost per kilometer would be almost US$16 million (around ₱900 million) per kilometer, not considering the costs for clearing, relocation, and resettlement of 200,000 informal dwellers presently occupying the railroad's right of way.[iv] Reports by the PCIJ says that "this would make it the biggest — and costliest — resettlement project ever undertaken by the Philippine government" and quotes a former Philippine railway official who said that "the resettlement expenses were deliberately hidden so these would not reflect on the overall, already bloated, project cost" (Pabico 2005). Furthermore, the interest rate of 3 percent per annum for 20 years (with a 5-year grace period) makes the loan more expensive to service than other loan agreements with other potential donors. The designation by the North Luzon Railways Corporation (NLRC) of the China National Machinery and Equipment Corporation group (CNMEC) as the project's primary contractor without the benefit of a competitive public bidding was also seen as violating Philippine laws.[v] Given these onerous terms a study by the University of the Philippines Law Center "recommended the cancellation of the contract" and "if warranted, criminal, civil and/or administrative cases should be filed against the concerned public officials and private individuals."

- South Luzon Railways Project. Undeterred by the controversy surrounding the Northrail Project, the Philippine and Chinese governments, have gone ahead to sign a new memorandum of understanding (MOU) in July 2006 on the rehabilitation and upgrading of the southern portion of Luzon's railway system (Escandor 2006). This MOU was converted into two loan agreements between the two countries during the visit of Chinese Premier Wen Jiabao in January 2007, which committed US$1 billion in long-term fresh credits, which would enable Chinese state-owned corporations to gain contracts for the building and repair of existing Luzon rail links without going through competitive bidding (Landingin 2007). About 7, 000 families were displaced to give way to the laying of the tracks in Muntinlupa. This project was also reportedly overpriced by as much as $70 million.

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

- Secondary Social Expenditure Management Program-Secondary Education Development and Improvement Project (SEMP2-SEDIP). Tagged as a "textbook scam," this project was meant to fund 17.5 million textbooks and teachers' manuals for public elementary and high schools. However, high-profile fraud and power play issues involving the World Bank, Inter-Agency Bids and Awards Committee (IABAC) and the Vibal Publishing Group reportedly marred the project. In the bidding process, the World Bank allegedly pressured IABAC to reverse its earlier decision to disqualify Vibal Publishing Group despite being ineligible due to conflict of interests. Despite the disqualification of Vibal, the World Bank grossly intervened in the procurement process and pressured IABAC to award the project to the controversial publishing group," Almost 75 percent of the books are defective. It was found out that at least 60,000 textbooks or 75 percent of the total were found to have inverted and erroneous pages. Despite all the controversies surrounding the said IBRD-WB loan, the Filipino people will still have to pay for it until April 2019.

- Small Coconut Farms Development Project (SCFDP). The irregularities in the project range from complete non-delivery, to the sale of fertilizers to private companies engaged in trading or manufacturing fertilizers, and non-deliveries due to default by principal contractors in their obligation to pay the intermediary warehouses or contractors hired. It is estimated that at least 40 percent of the funds intended for the project's fertilizer deliveries had been malversed.

SECOND, **Philippine experience with ODA-funded projects exacerbates conditions that sustain poverty and inequality. Development management processes that encompasses strategic planning, implementation and assessment—from which all foreign-funded development projects should be based upon—is not inclusive, transparent, accountable nor coherent with rights-based aspirations of the poor and marginalized in society. A collective/ communal response from civil society organizations is urgently needed to address these basic problems that lie behind longstanding problems associated with ODA**.

DEVELOPMENT MIS-PRIORITIES

The seriousness of donors and recipients in achieving ODA's development objectives can be gleaned by how aid has been allocated across the various economic and social sectors. One of the eight Millennium Development Goals invokes "developing a global partnership for development" of which increasing the share of human development in ODA commitments is an important component to achieve targets of ending extreme poverty and worst forms of human deprivation by 2015.

However, the Philippine case reveals no significant reform gains in this direction. Instead backtracking has taken place on a major scale. Geographical distribution of ODA also leaves much to be desired as official data show that the most developed regions in the Philippines had the largest shares of ODA while the less-developed areas got the smallest allotments. While the Mindanao region receives the least allocations of ODA, the influx of aid is also tied and focused to curbing perceived threats related to the global war on terror instigated by the US rather than addressing urgent human development needs in the region. Majority of projects supported by foreign aid has also displaced entire communities, dislocated livelihoods, devastated indigenous peoples and irreversibly destroyed the environment.

Decreasing already miniscule ODA commitments for human development. From 2000 to 2006, ODA commitments for infrastructure averaged at 65.28 percent of total ODA constituting an increase compared to the 1987 to 2000 share of 50.1 percent. Agriculture, natural resources and agrarian reform had the second largest average share of 17.43 percent for 2000-2006. Industry and services was third with an average share of 8.14 percent, while social reform and community development was fourth with an average share of 7.85 percent. At the bottom of the list was governance and institutional development with an average share of 1.46 percent. Total allotments for the combined agriculture, land reform and industrial development sectors showed an increase to 25.3 percent from the 1986-2000 share of 21.23 percent.[vi]

What is clear, however, is that for "human development" there was a significant decrease in ODA commitments in the 2000-2006 period (7.85 percent) compared with the already minuscule 1987-2000 share of 10.95 percent. It also appears that the increase in shares for infrastructure support, and agricultural and industrial development came at the expense of the human development component of ODA. The lowest points were in the years from 2000 to 2002, when "human development" took in an average share of only 5 percent per year. Although the average share eventually doubled between 2003 to 2005, the pattern bodes badly for complying with Philippine MDG targets by 2015.

In terms of subsectors, transportation continued to have the biggest allocation of 42.17 percent as of December 2006. Agriculture and agrarian reform were in second place with 14.18 percent. Energy, power, and electrification was in third with 6.72 percent, while water resources was close behind with 6.47 percent. Education and manpower development was fifth with 5.8 percent. Environment and natural resources was sixth with 4.07 percent, a decline from 5.82 percent. Other human development related subsectors such as health, population and nutrition fared badly with a mere 3.8 percent, Social welfare and community development had only 2.1 percent.

Prioritizing the most developed regions with the least poverty incidence. NEDA Annual ODA Portfolio Reviews from 2000 to 2002 on the geographical distribution of ODA[vii] show that the most developed regions and provinces had the largest shares of ODA while less-developed regions with higher poverty levels got smaller allotments.

In 2002, Luzon's share of ODA increased to 31 percent from its 2001 share of 19 percent with 20 percent of total ODA going to the Metropolitan Manila area, the region with the least poverty incidence in the country. The country's poorest region, Region V (Bicol), had a mere 0.5 percent share in 2001 and 0.7 percent in 2002. The Visayas regions on the other hand, had only a 9.6 percent share in 2002 while Mindanao areas with its six regions (including three of the country's poorest regions), got only 7.9 percent.

This clearly violates the Philippine ODA Act of 1996 mandating the use of ODA for equal development and growth of all provinces, with attention to areas that are resource poor and characterized by low levels of human development and high poverty incidence.

As of September 2006, there were 21 ODA active loan projects in Mindanao totaling US$917.75 million. However, the total loan amounts allocated for Mindanao comprise a mere 10.61 percent of total ODA loan amounts as of September 2006. Thus despite the pronouncements by both the government and the donor community on paying more attention to Mindanao, the latter still lags behind the other regions of the country in terms of development aid. The bias against Mindanao is further underscored by the fact that increased attention to the island is undertaken primarily within the context of the "War on Terror."

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

- San Roque Multi-Purpose Dam Project (JBIC-funded)
- Agno River Integrated Irrigation Project
- Leyte Industrial Development Estate which housed a copper smelter plant, a fertilizer plant, and a mining firm (JBIC-funded)
- Calabarzon Industrial Zone (its master plan was funded by a JICA grant)
- MWSS Umiray River Diversion Project (ADB-funded)
- Pampanga Delta Development Project (JBIC-funded)
- Umiray River Diversion Project (ADB-funded)
- Calaca Coal-fired Thermal Power Plant

In June 2006, human rights violations complaints involving the forcible displacement of locals were reported to two JBIC-funded projects, the US$58 million Bohol Irrigation Project and the US$124 million Northern Negros Geothermal Power Plant Project. The killing of environmental activists has also been linked to ODA projects. In a meeting between the Japanese government and non-government organizations in June 2006, environmental groups have presented the case of peasant leader Jose Doton who was slain while campaigning against the San Roque Dam Multi-Purpose Project and the Agno River Integrated Irrigation Project at the boundary of Pangasinan and Benguet provinces (Malaya 2006). The group Kalikasan-PNE claimed that since Mrs. Arroyo became President, 15 environmental activists have been murdered as part of a wave of extra-judicial killings that had by then already totaled 700 victims.

Problems on social unacceptability of some ODA projects and difficulties in securing Environmental Compliance Certificates (ECCs) were acknowledged by NEDA since 1994. But instead of addressing the issues, the NEDA ECC Committee tried to water down environmental and social safeguards to speed up the ICC certifying process (Tadem 2003). NEDA also ceased to monitor environmental and social issues with respect to ODA projects.

TOWARDS REFORMING THE AID SYSTEM IN THE PHILIPPINES

The practice of aid-giving in the Philippines remains to be an exclusively government-to-government transaction, with little or no venue for participatory consultation processes that will help identify the most urgent needs of communities and stakeholders and help ensure community ownership. Although stakeholders from civil society have been invited in consultative meetings of the Philippine Development Forum (PDF)—the primary mechanism of the government for facilitating policy dialogue among stakeholders on the country's national development strategy—donors' interests and agenda continue to dominate in national development programs and policy priorities even as volume, allocation and modalities of ODA are also determined by them.

Transparency and accountability in aid sourcing and disbursement is sorely lacking, as shown by a recent baseline study and survey on the Philippines' compliance with the Paris Declaration, a set of reforms aimed at improving the effectiveness of aid.

While there have been steps undertaken by donors and the government in this regard, these measures must go beyond improving technical processes for managing aid flows and lowering transaction costs. It must strictly adhere to principles of democratic ownership and accountability as the basis for relationships between donors and recipients to be able to help support democracy and the empowerment of poor and marginalized people in pursuing development aspirations. Reforming the aid system should also begin to decisively confront a number of key issues which are controversial in aid reform in the Philippines—tied aid and conditionalities among a few—in order to facilitate meaningful change over current practices.

THIRD, **exorcising and dismantling the evils associated with the current crisis in ODA requires that civil society be given full play in holding donors and the government to account in implementing and enriching the principles of aid effectiveness, as well as empowering the poor and marginalized to assert their rights. Concrete steps need to be initiated towards strengthening empowerment, local capacity, participation, transparency, leadership and joint responsibility. Aid reforms need to be undertaken through the establishment of a broader and more equitable governance system for ODA.**

Towards this end, we must work to:

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MAKE ODA ACCOUNTABLE TO THE PEOPLE

Donors and the governments, with other actors in the aid system must be accountable for the impacts and development outcomes of aid. Aid accountability mechanisms should include a wider ranger of stakeholders that will engage poor and marginalized people in the decisions that affect their lives. Steps must be taken to:

- Closely monitor and evaluate aid effectiveness through the establishment of an independent Citizens Watch on ODA;
- Introduce mutually agreed, transparent and binding contracts to govern aid relationships;
- Establish mechanisms for citizens, the Senate of the Philippines and the House of Representatives to hold the Executive to account for aid decisions.

WORK FOR MORE INCLUSIVE AND SUSTAINABLE IMPLEMENTATION OF DEVELOPMENT MANAGEMENT PROCESSES

The decisive factors in “exorcizing and dismantling the evils associated with the present crisis of ODA” are the people themselves and their own organizations. Mechanisms for broad and meaningful civil society participation must be provided and ensured at all levels of the ODA transaction: from the setting of the development framework to the negotiation of aid to implementation of the ODA-funded projects. Such participation involves the holding of both donors and the government accountable for both the implementation and the results of the assistance. Measures must be carried out to:

- Ensure that the citizens’ voices and concerns are central to national development plans and processes by establishing governance mechanisms that integrate broad stakeholders into strategic national planning, implementation and assessment;
- End all donor-imposed policy conditions and practice of using aid that advances foreign and economic interests, priorities and military interventions;
- Ensure the timely and meaningful dissemination of information, particularly during aid negotiations and about disbursements, and the adoption of a policy of automatic and full disclosure of relevant information, in forms that are appropriate to concerned stakeholders, with limited exceptions.
- Establish mechanisms that will set open and transparent policies on how aid is to be sourced, spent, monitored and accounted for;
- Reform and make procurement systems more accountable, not more liberalized.

DEMAND THE DELIVERY OF BASIC STANDARDS OF AID QUALITY FROM DONORS AND GOVERNMENT OFFICIALS

ODA's longstanding (structural) inadequacies and failings negate its avowed purpose and its effectiveness. The Filipino people does not need a) aid that does not go to their intended beneficiaries and does not effectively contribute to social development and poverty alleviation; b) aid that is "tied" to onerous and disadvantageous conditions; c) aid that helps degrade the environment and violates the rights of people; and d) indiscriminate aid that simply increases the national debt burden. The following recommendations are therefore put forward:

<u>Recommendations to donor governments and multilateral institutions</u>

- Increase and improve the quality of aid allotments
- Realign the loan-grant mix to favor the latter
- Increase the share of projects on human and social development
- Realign regional and provincial distribution of aid to poorer areas
- Address social and environmental concerns
- End all tied aid
- Delink aid from the war on terror, particularly in Mindanao
- Reform technical assistance to respond to national priorities and build capacity.

<u>Recommendations to the Philippine government</u>

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

We, the undersigned pledge our general support to calls for reforming the foreign aid system in the Philippines. Affirmations contained in this *Citizens' Report* are but an expression of a common resolve to put an end to the ODA scourge, first and foremost by strengthening aid accountability initiatives while simultaneously carrying out endeavors towards the implementation of inclusive and sustainable development management processes and asserting the delivery of basic standards in aid quality from donors and government agencies.

Let us all close ranks and unite in this cause.

Signed,

Major portions of this Citizens' Report were taken from Dr. Eduardo C. Tadem's ***Development Down the Drain, The Crisis of Official Development Assistance (ODA) to the Philippines*** and ***Global Trends on Official Development Assistance***, his research undertaking with Social Watch Philippines and ODA Watch Philippines, February 2008.

<u>Other sources</u>:

Philippine Center for Investigative Journalism, ***The Perils and Pitfalls of Aid*** by Roel R. Landingin, February 2008

International Civil Society Steering Group under the chairmanship of Ibon Foundation, ***From Paris 2005 To Accra 2008: Will Aid Be More Accountable and Effective?***, January 2008

Case studies and policy papers of the Freedom from Debt Coalition and ODA Watch Philippines

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[i] Paraphrasing National Anti-Poverty Commission Assistant Secretary Dolores de Quiros-Castillo's press statement after the release of the 2006 Poverty Statistics showing that poverty incidence increased to 26.9% for families in 2006 compared to 24.4% in 2003 (this translates to 27.6 million poor Filipinos in 2006, with a 3.8 million increase from 2003).

[ii] Nora O. Gamolo, "Civil society says tied aid makes Pinoys subservient," *Analysis*, The Manila Times, 6 March 2008.

[iii] Dr. Eduardo Tadem, *Development Down The Drain The Crisis of Official Development Assistance to the Philippines*, March 2007. Dr. Tadem notes that "transparency issues are not the monopoly of recipient countries like the Philippines alone. Concerned about the high rate of unsuccessful projects under the Asian Development Bank's poverty eradication program, donor countries, meeting in Manila in June 2003, called for greater transparency and accountability in the operations of the ADB's US$5.6 billion anti-poverty fund known as the Asian Development Fund, or ADF (Saulon 2003). In particular, the donors want the program's key department supervising the ADF, the operations evaluation department (OED) to be made independent from the bank's immediate control and supervision."

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

[v] ibid. Dr. Tadem notes that "the Office of the President claimed that a public bidding for the project was not required as this was an executive agreement between China and the Philippines."

[vi] ibid. Dr. Tadem notes that "except in the case of 'infrastructure support' there is some difficulty in comparing the 2000-2006 data with the 1986-2000 figures because NEDA had renamed the categories in 2001. Previously, 'agricultural and industrial development' was lumped together. 'Social reform and community development' was previously known as 'human development'. Previously separate categories such as 'commodity aid', 'integrated area development', and 'disaster mitigation' have presumably been integrated into one of the new categories."

[vii] ibid. Dr. Tadem notes that "the NEDA Annual ODA Portfolio Reviews provide data on the geographical distribution of ODA only for the years from 2000 to 2003. Its 2003 data, however, is in peso amounts and not disaggregated accordingly. Thereafter, NEDA has ceased reporting on the regional distribution of ODA. This was one of the reasons cited in Philippine Senate Resolution No. 179 filed by Senator Loren Legarda in November 2007 for the Committee on Economic Affairs to conduct an inquiry on, among others, 'the extent to which … ODA has promoted sustainable and economic development and the welfare of the Philippines' (Philippine Senate 2007).