

**JAPANESE AND U.S.
DEVELOPMENT ASSISTANCE
TO THE PHILIPPINES:
A PHILIPPINE PERSPECTIVE**

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JAPANESE AND U.S. DEVELOPMENT ASSISTANCE
TO THE PHILIPPINES: A PHILIPPINE PERSPECTIVE

Filologo Pante, Jr. and Romeo A. Reyes*

I. INTRODUCTION

Japanese and U.S. official development assistance (ODA) to the Philippines have played an important role in postwar Philippine development. Together, they account for 81.5 percent of the total development assistance flows from bilateral sources and nearly 40 percent of development assistance flows from both bilateral and multilateral sources during the period 1952-1986. Over the years, the volume, composition and direction of Japanese and U.S. ODA to the Philippines have been changing. In the future, the question is how these elements should evolve in order to maximize the contribution of the two countries' assistance to the achievement of Philippine development goals.

This paper presents a Philippine perspective on Japanese and U.S. ODA to the Philippines. It does not attempt to quantify the contribution of such assistance to development, aware of the pitfalls and difficulty of impact assessment. Rather, it reviews the flows of Japanese and US assistance in terms of both quantity and quality and indicates some possible directions regarding the future role of Japanese and U.S. development assistance to the Philippines.

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Section 2 provides a brief historical background of Japanese and U.S. ODA to the Philippines. Section 3 contains a comparative analysis of Japanese and U.S. ODA to the Philippines in terms of their size, composition, interest rate and term structure, sectoral allocation, procurement, and planning and programming, among others. Finally, Section 4 discusses the future role of Japanese and U.S. assistance to the Philippines, highlighting a number of ways by which the contribution of such assistance to Philippine development can be enhanced.

II. HISTORICAL BACKGROUND

U.S. development assistance to the Philippines began during the postwar period of the 1940s. The Rehabilitation Act (Tydings Act) of 1946 provided compensation to Filipinos in the form of financial and technical assistance for the reconstruction and rehabilitation of roads, bridges and public buildings. A sum of \$400 million was awarded to the Philippine Government for war damage and US\$120 million was given for the rebuilding of public works and highways in 1946-1948.

A significant breakthrough was achieved on November 14, 1950, with the signing of the Quirino-Foster Memorandum of Agreement. It created the legal framework establishing economic and technical ties between the U.S. and the Philippines and formally assured U.S. assistance to the Philippine efforts toward economic reconstruction. The agreement provided for the following: (1) creation of the U.S. Economic Survey Mission to the Philippines which would take charge of assessing the Philippine economic situation and providing a program of social and economic reforms; (2) formulation of economic measures for consideration by the Philippine Congress; (3) provision of consultancy services in the field of taxation and revenue collection, social legislation and economic development; and (4) formation of the Philippine Council for U.S. Aid (PHILCUSA), the agency which represented the Philippine Government in its transactions with the U.S. Economic Cooperation Administration (ECA). ECA had the responsibility for overseeing, advising and guiding the Philippine Government in the use of American funds and for providing assistance in the implementation of the general aims and recommendations of the Economic Survey Mission to the Philippines. ECA came to be known later as the U.S. Agency for International Development (USAID). As for PHILCUSA, its tasks vis-à-vis ECA are now being performed by the National Economic and Development Authority (NEDA), which is the central planning and policymaking body in the Philippines.

Japanese development assistance to the Philippines commenced later in 1956 with the reparations payments or "baisho." Under the reparations agreement, the Philippine Government was to receive \$550 million in capital goods and technical services from

Japan during the period 1956-1976. This amount was to be disbursed in the following manner: US\$25 million annually for the first ten years and US\$30 million annually for the succeeding ten years.

Services and products supplied by way of reparations consisted of items needed for projects chosen from among those enumerated in the Annex of the Agreement, such as: (1) agricultural and fishery development projects; (2) electric power development projects; (3) mineral resources development projects; (4) industrial development projects; (5) transportation and communications projects; (6) public works projects; and (7) other projects, such as education, health and social welfare facilities, research laboratory and equipment, and training of Filipino technicians in Japan.

From 1959 to 1969, the bulk of reparations was devoted to public works, transport and communications, education and health facilities. The reparations program came primarily in the form of purchase of Japanese machinery, such as spare parts and raw materials.

It can readily be seen from the above that Japanese and U.S. development assistance to the Philippines sprang from the need to rebuild the Philippine economy after World War II. This set the stage for the more significant role which these two sources of official development assistance were to subsequently perform in the development of the economy.

III. COMPARATIVE ANALYSIS OF JAPANESE AND U.S. ODA

A. Types of Assistance

1. U.S. Development Assistance

U.S. development assistance comes in the form of grants and loans. Grants are used primarily to finance the costs of technical assistance, training, and commodity procurement to support institution building; loans are used to cover the requirements of public investment projects. U.S. assistance consists of the following programs: (1) Development assistance (DA); (2) Economic Support Fund (ESF); (3) U.S. Public Law 480 (PL 480); and (4) U.S. Agricultural Act of 1949 (Section 416).

Development Assistance. DA is project oriented, and it has the basic aim of promoting the country's economic development and welfare. Projects are identified based on specific priorities determined by the U.S. Congress.

Economic Support Fund. ESF is a type of assistance which, in the Philippine case is largely tied to the agreement for continued American access to the facilities at Clark Air Base and Subic Naval Base. Under the 1979 amendment to the Bases Agreement, the U.S. government provided US\$200 million in ESF grants from 1979 to 1984. In the 1983 review, the U.S. agreed to provide an additional US\$475 million in economic support for 1985-1989. In 1986, the first year of the Aquino government, ESF was utilized purely for budgetary support. This includes the US\$80 million ESF undisbursed amount under the past administration, plus an additional US\$220 million obligated in 1986 consisting of an additional US\$120 million bases-related and US\$100 million nonbases related assistance. In 1987, the Philippines was expected to receive approximately US\$250 million ESF from the U.S., US\$150 million of which will be allocated for budgetary support.

Programs Under U.S. PL 480. By virtue of the Agricultural Trade Development and Assistance Act of 1954 (U.S. PL 480), support in the form of proceeds from sales of U.S. surplus agricultural commodities, to be either loaned or donated, has been extended by the U.S. to developing countries, including the Philippines. U.S. PL 480 is covered by four (4) titles, namely: Title I which includes commodities that can be sold for foreign currencies; Title II which includes commodities that can be utilized to supply famine relief and other emergency assistance; Title III which includes commodities that can be donated to nonprofit voluntary organizations; and Title IV which includes commodities that can be sold for dollars under long-term credit agreements. Most of the excess agricultural commodities made available to the Philippines fall under either Title I or Title II.

Under U.S. PL 480 Title II, food commodities are provided on a grant basis, and are distributed through nonprofit organizations, such as the Catholic Relief Services (CRS) and the Cooperative for American Relief Everywhere (CARE). In 1985, nearly US\$16 million in food was provided for malnourished children through maternal and child health programs and school feeding projects of the said organizations. About \$6 million in food was also provided to needy families in Metro Manila.

U.S. Agricultural Act of 1949 (Section 416). This legislation, also known as "An Act to Stabilize Prices of Agricultural Commodities," has specifically provided, under Section 416, (b)(1), that the U.S. Secretary of Agriculture may furnish "eligible commodities" for carrying out programs of assistance in developing countries and friendly countries. An agreement under this Act was signed on December 2, 1986, allowing for local disbursement of 128,500 metric tons of U.S. wheat. Proceeds from the sale will be allocated to the following activities: (1) supplementary child feeding programs in the province of Negros Oriental; (2) payment of transportation costs

in the delivery of commodity aids that fall under PL 480; (3) other supplementary feeding programs of nonprofit, charitable organizations not directly supported by a foreign or international donor agency; and (4) selected programs of the Philippine Department of Agriculture.

2. Japanese Development Assistance

Economic cooperation between the Philippines and Japan may be classified into three categories, namely: (1) loan assistance; (2) grant-aid; and (3) technical cooperation.

Loan assistance. Japan extends a major portion of its development assistance to the Philippines in the form of loans through its Overseas Economic Cooperation Fund (OECF). From the First Yen Credit in 1971, to the 13th Yen Credit in 1986, the Philippines' cumulative loan commitment from Japan amounted to ¥515 billion or approximately US\$2.3 billion.^{1/} This amount includes three special yen credits in 1979, 1983 and 1986 for power projects. Commodity loans accounted for 24.3 percent, with the remaining 75.7 percent channelled to the energy, transport, industry, water resources, agriculture and communications sectors.

Grant aid. In lesser magnitude, Japan extends development assistance to the Philippines in the form of capital grants for building construction and equipment supply. To date, Japan has committed a cumulative total of US\$386.18 million (yen equivalent) in grant aid. This figure covers 58 projects financed under the following categories: general grant-aid (64.3 percent), cultural grant-aid (0.9 percent), food aid (2.8 percent), and the remainder for increased food production.

Technical cooperation. From fiscal years 1954 to 1985, the Japanese government provided a total of US\$130.58 million (yen equivalent) to the Philippines which came in the form of expert services, training, master plan and feasibility studies, as well as equipment. In 1985-1986, the total amount of assistance extended under technical cooperation was US\$31.63 million. A major portion of this amount was used to finance activities involving projects and development surveys. The rest were used for training local counterparts, expert dispatch and the provision of equipment on a limited scale.

^{1/} ¥ amounts were converted to their dollar equivalent using the annual average exchange rates reported in the IMF Financial Statistics.

B. Size of Development Assistance

ODA flows to the Philippines from multilateral and bilateral sources amounted to US\$10.8 billion in 1952-1986 on a commitment basis (Table 1). Of this amount, 78.1 percent came in the form of loans; the balance of 21.9 percent came in the form of grants.

For the whole period, Japan's share in total ODA was about 20.0 percent, while that of the U.S. stood at 17.0 percent (Table 2). However, these percentages do not tell the whole story. In the 1950s and the 1960s, the U.S. was clearly the major source of development assistance to the Philippines (86.8 percent share in 1952-1961 and 40.2 percent share in 1962-1970). Japan at this time was only a minor donor (negligible share in 1952-1961 and 6.3 percent share in 1962-1970).

With the introduction of the Yen Loan Package in the 1970s, Japan's share to total ODA leaped from 6.3 percent in the 1960s to 15.3 percent in the 1970s and 22.8 percent in the 1980s. While U.S. development assistance continued to increase in absolute terms, its share in total ODA drastically dropped from 40.0 percent in the 1960s to 13.0 percent in the 1970s and 14.0 percent in 1980-1986. In 1986, the Japanese contributed 36.4 percent of total ODA as compared to the U.S. which contributed 26.1 percent. ^{2/}

C. Composition of Development Assistance Flows

Table 3 shows a breakdown of Japanese and US ODA in terms of loans and grants. Two observations can be made from the data in the table. First, while the U.S. was a principal source of ODA in the form of loans in the 1950s, it became quite a minor provider of ODA loans in the following decades. In contrast, Japanese ODA loans began to account for a much larger share of total ODA loans in the 1970s. Second, the US is the principal source of grants among all ODA sources; Japan performs only a modest role in this respect, with its contribution becoming significant only in the 1970s and still far behind the U.S. both in terms of absolute amounts and share in total grants.

With respect to the loan-grant mix of Japanese and U.S. ODA, Table 4 clearly shows the superiority of U.S. ODA. In the 1950s and 1960s, grants accounted for over 90.0 percent of total U.S. ODA. Though this declined in the 1970s and 1980s, the share of grants remained substantial at about 70.0 percent in the 1970s and 78.0 percent in 1980-1986. In comparison, Japanese assistance since the 1970s has consisted mainly of loans, the share of grants being only about 18-20 percent of total Japanese ODA to the Philippines.

^{2/}

Based on commitments as of September 30, 1986.

Table 1
OFFICIAL DEVELOPMENT ASSISTANCE TO THE PHILIPPINES
1952-1986
(In US\$M)

Year	Total	Development Assistance	
		ODA Loans Amount (%)	ODA Grants Amount (%)
1952-61	265.60	38.19 (14.4)	227.41 (85.6)
1962-70	537.76	248.20 (46.2)	289.56 (53.8)
1971-79	2,757.44	2,321.05 (84.2)	436.39 (15.8)
1980-86	7,247.87	5,828.79 (80.4)	1,419.08 (19.6)
1952-86	10,808.67	8,436.23 (78.1)	2,372.44 (21.9)

Source: External Assistance Staff, NEDA
USAID

Table 2
OFFICIAL DEVELOPMENT ASSISTANCE TO THE PHILIPPINES
1952-1986
(In US\$M)

Year	Amount	U.S.		JAPAN	
		Amount	(%) a/	Amount	(%) a/
1952-61	230.54		(86.8)	0.08	(0.0)
1962-70	216.46		(40.2)	34.02	(6.3)
1971-79	357.86		(13.0)	422.42	(15.3)
1980-86	1,024.13		(14.1)	1,652.27	(22.8)
1952-86	1,828.99		(16.9)	2,108.79	(19.5)

Source: External Assistance Staff, NEDA.

a/ As a percentage of total ODA.

Table 4
 U.S. AND JAPANESE LOAN/GRANT MIX
 1952-1986
 (In %)

Year	U.S.		JAPAN	
	Loan	Grant	Loan	Grant
1952-61	8.6	91.4	-	100.00 a/
1962-70	4.5	95.5	-	100.00 a/
1971-79	30.6	69.4	81.8	18.2
1980-86	22.1	77.9	80.2	19.8

a/ Japanese assistance in the 1950s and 1960s were provided through reparation payments in the form of grants. Loan assistance through OECF started only in 1971.

Source: External Assistance Staff, NEDA

D. Interest Rate and Term Structure of ODA Loans.

U.S. ODA loans carry an interest rate of 2.0 percent per annum during the first ten years (grace period) and 3.0 percent per annum thereafter for 30 years.

Japan's interest rate and loan-term structure varies according to the economic situation of the grantee. It charges interest rates ranging from 1.75 percent to 5.75 percent per annum depending on the capacity to pay of the recipient country. For the Philippines, the interest rate ranges from 3.0-3.5 percent per annum, with a repayment period of 27-30 years, inclusive of a ten-year grace period. ^{3/}

E. Sectoral Allocation

There exists a marked difference as to the project destination of assistance extended by these two countries. Projects financed by USAID have been allocated as follows: (1) agriculture (58.0 percent); (2) social services (24.3 percent, 78.0 percent of which has gone to health and population); (3) power and energy (10.8 percent); and (4) transportation (6.9 percent). On the other hand, Japanese assistance has been devoted to: (1) energy (35.2 percent); (2) transport and public works (31.2 percent); (3) industry (12.1 percent); (4) water resources (10.8 percent); (5) agriculture (7.7 percent); and (6) communications (3.0 percent).

Generally, U.S. assistance has been more of the institution-building type, while Japanese assistance has been largely focused on infrastructure support. Moreover, while the US has provided substantial support to social services, Japan has not done so to the same extent, because of the orientation of its assistance program.

The direction of ODA from Japan and the U.S. has, of course, been largely influenced by policies set at home. While the orientation of Japanese ODA has remained unchanged, that of the US has undergone a number of shifts in emphasis.

During the early 1950s, the thrust of U.S. assistance was geared towards the rebuilding of national institutions and the training of administrative and technical personnel to respond to the requirements of a growing development effort, particularly in the areas of agricultural production and education. Toward the latter half of the 1950s, the ODA's emphasis shifted to investment for industrial development and the improvement of

^{3/} The interest rate on OECF loans actually reached 4.25 percent in 1979. This was subsequently brought down to 3.0 percent in 1984.

management skills in government. The passage of the U.S. Foreign Assistance Act of 1961 resulted in a gradual move from industrial development towards agricultural production, community development and a variety of social programs. By 1973, the thrust of U.S. assistance has been aimed at improving the conditions of the rural poor.

F. ODA Planning and Programming

Planning and programming of assistance funds vary according to composition and source.

1. ODA grants

For grants from the U.S. and Japan, the administrative structure and processes are basically the same. NEDA serves as the grant coordinator, and donors deal with it, as well as with other government departments, such as: (1) the Department of Foreign Affairs (DFA), which serves as the diplomatic channel of communication; (2) the Department of Budget and Management (DBM), in cases where the grant requires budgetary counterpart support; and (3) the recipient agencies. Before any grant-aid is released, a donor country first advises NEDA on how much assistance it would extend to the Philippine Government. NEDA then studies and reviews proposals submitted by the recipient agencies, and together with these agencies, negotiates the grant assistance with the donor country.

Programming of ODA grants is done annually. With regard to Japan, annual missions are dispatched to formally discuss with the Philippine Government the programming of grant assistance. For the U.S., programming is done through informal consultations between USAID and NEDA, as the former maintains a fairly large mission in the Philippines. The USAID Office in Manila is manned by 98 technical personnel. The comparable figure for Japan, based on the number of technical personnel engaged in full-time ODA administration, is 24 (Embassy, seven; OECF, four; and JICA, 13). Japan's handicap in aid administration comes out more clearly if one considers that in 1986, for example, Japan's aid program to the Philippines amounted to US\$530.67 million, while the U.S. program totalled US\$435.84 million. These translate to an ODA volume per staff of US\$22.11 million for Japan and US\$4.45 million for the U.S.

In the case of the U.S., however, there is a cost to aid administration which the Philippines incurs. Office rental, housing, utilities, furniture and even educational allowance of children of USAID Mission officials and employees are borne by the Philippine Government. Salaries of local employees hired by the USAID Mission are also paid by the host government. In 1987, the cost of aid administration to the Philippine Government is estimated to amount to about US\$2.7 million. This may seem to be a small sum compared to the annual U.S. ODA program. However, a

question of principle may be raised, as this arrangement is only true in the case of the USAID Mission in Manila. The cost of maintaining the development assistance staffs of other bilateral donors in the Philippines accrue solely to their own account.

2. ODA Loans

ODA loan programming is more complex than that for grants, inasmuch as it involves the participation of several government agencies. There are significant differences between the U.S. and Japanese loan programming in terms of project identification and monitoring.

In project identification, the U.S. takes the initiative in determining how much and for what purpose USAID loans should be allocated. Survey missions are dispatched to assess the economic needs and situation of the Philippines. On the basis of their report, medium-term (five years) objectives and thrusts of assistance are defined for the Philippine Government; this is covered in its Country Development Strategy Statement (CDSS). Subsequently, the U.S. identifies the projects necessary to achieve the goals and objectives defined in its five-year program. USAID prepares the proposals and feasibility studies, sometimes with the assistance of foreign and local consultants. As a matter of practice, USAID consults NEDA prior to its presentation of proposals to Washington D.C. for approval. Upon approval by Congress, release of funds to implementing agencies is effected, with NEDA acting as the overall coordinator in the use of funds and in the monitoring of the progress of project implementation.

In the case of Japan, projects are identified by the Philippine Government within the framework of its development plans. However, in some cases, Japan dispatches project-finding missions to determine economic areas that need to be tapped by the recipient country. Once the projects are identified, the Philippine Government prepares feasibility studies based on certain criteria and format required by the Japanese government. Where it is difficult for technical and/or financial reasons for the Philippines to prepare feasibility studies, OECF offers the following assistance: (1) technical assistance from the Japan International Cooperation Agency (JICA) on a grant basis; and (2) Engineering Services Loan which finances detailed engineering and the preparation of tender documents.

After the projects are identified and developed, these are submitted to OECF which then appraises the projects and issues pledges for those projects which it finds acceptable. The approval of the assistance package is then based on a consensus among four Japanese Ministries, namely: the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Trade and Industry and the Economic Planning Agency.

The Philippine Government is represented by an Implementing Officer (IO) and a Secretariat in its dealings with various Japanese Government agencies. The IO serves as the locus of coordination for the implementation of OECF-funded projects.

It will be interesting to add that on the side of the Philippines, programming for ODA loans and grants is still very much centralized, reflecting the generally centralized nature of resource allocation decisions in government. Majority of the projects approved under Japanese ODA, for instance, are projects of central government departments. A handful fall under the category of local integrated area development projects, but components of these projects are implemented by central departments just the same. In the case of U.S. ODA, the institutional development orientation of the programs they have supported has tended to somewhat mitigate the centralized system of resource allocation. In fact, one of the continuing emphasis of U.S. assistance to the Philippines is the effort to help local governments become more self-reliant in their developmental activities.

The present government has committed itself to a policy of decentralization. In terms of ODA programming, concrete efforts are being taken to generate grassroots participation in the identification, development and prioritization of development programs and projects. Projects proposed by central government departments are now required to have the imprimatur of the Regional Development Councils, in order to make sure that their proposed projects are in fact considered as high priority at the regional and sub-regional levels.

G. Procurement

Procurement of goods and services may either be tied or untied. In the case of the U.S., procurement of goods and services is generally tied to specific U.S. geographic codes, such as:

Code 000 the United States: including areas of US associated sovereignty.

Code 899 Free World: any area in the Free World excluding the cooperating country. The Free World includes the following countries: Albania, Bulgaria, Cambodia, Cuba, Czechoslovakia, Hungary, North Korea, Mongolia, Poland, Romania, USSR, Vietnam, Laos, German Democratic Republic and People's Republic of China.

Code 935 Special Free World: any area or country in the Free World, including the cooperating country itself.

Code 941 Selected Free World: any independent country in the Free World, except the cooperating country itself and some European and other countries, such as: Andorra, Austria, Afghanistan, Libya, Yemen Arab Republic, etc.

USAID loans normally specify that the source and origin of goods and services be Code 941 (Selected Free World) and the cooperating country. USAID grants normally specify that the source and origin of goods and services be Code 000 (the United States), while grants to the Relatively Less Developed Countries (RLDs) specify Code 941 (Selected Free World) and the cooperating country as the authorized source and origin for goods and services. Although procurement under USAID allows the procurement of goods and services from the U.S. and its allied countries, an inventory of USAID projects in the Philippines suggests that procurement of goods and services has come solely from the U.S.

In the case of Japan, procurement of goods and services is generally untied; however, procurement of consultant services, financed out of OECF proceeds, is limited to Japan and less developed countries. Because of the advanced technology and experience of Japan compared with those of the less developed countries, Japanese firms invariably corner consultant services contracts.

In the preparation of projects, consulting and engineering services provided by the Japanese use specifications based on the Japanese International Standards (JIS), which tend to favor Japanese firms, manufacturers and general contractors in the bidding for capital goods (de Dios 1986, p. 45). Past experience shows that virtually all capital goods contracts have been awarded to Japanese firms. There were instances, but very rare, when South Korea, Taiwan and Singapore won the international bidding for procurement of goods under OECF loans.

Though it is not only true in the case of the Japanese, it has been observed that Japanese firms are very active in "lobbying" for projects within the country, in a way creating a demand for the goods and services they offer. In a number of instances, it has been reported that some Japanese firms go to the extent of promising grant or loan assistance from their government, provided their projects are endorsed by the Philippine Government. It has also been observed that the award of supply contracts for grant assistance does not seem to be subject to competitive bidding among Japanese firms. In one particular proposed grant assistance in which the authors have some knowledge of, the Japanese supplier had already been identified at the time that the preliminary proposal was being discussed. In fact, a representative of said supplier was a participant in the discussion of the proposed project.

H. Flowback of Aid to Donor Country Per Dollar of Assistance

An attempt is made to measure how much per dollar of assistance to the Philippines flows back to the donor country in the form of procurement of goods and services. Data for the U.S. were obtained from USAID's statement of disbursements, which also contains whatever stipulation or conditions there might have been for tying the aid. Actual values for Japanese bilateral projects were provided by the recipient agencies; the flowback estimates are limited to OECF loans. Computations are based on completed projects in 1981-1985. The results are as follows:

(1) For every dollar of assistance extended by the U.S., about US\$0.33 represents the amount that flows back to the U.S. Of this component, 22.3 percent is devoted to consultancy services, and 77.7 percent to capital goods. Between grants and loans, the latter exhibit a lower amount of flowback to the U.S. (US\$0.27 per dollar of assistance). ^{4/}

(2) For Japan, examination of the loan agreements covering the projects completed in 1981-1985 gives the impression that, except for one project (River Dredging II), practically all of OECF loan proceeds flow back to Japan, all agreements indicating zero local currency cost. In actual practice, however, civil works contracts are normally awarded to Filipino firms notwithstanding the fact that the award of civil works contracts are subject to international competitive bidding. While these firms are paid by the Philippine Government in pesos, the latter is subsequently reimbursed by OECF in yen. Moreover, portions of consultancy contracts generally awarded to Japanese firms are subcontracted to Filipino firms in some instances. Accordingly, depending on the nature of project expenditures, the percentage of loan amount that reverts back to Japan varies. For projects involving civil works, the amount that flows back ranges from US\$0.13 to US\$0.37. For projects involving purely equipment procurement, the amount is from about US\$0.35 to US\$1.00. For projects involving both, the comparable figure is US\$0.75 - US\$0.95.

I. Policy Conditionalities

So far, there has been no policy conditionalities attached to Japanese ODA to the Philippines. In recent official consultations with Japanese missions to the Philippines, it has been indicated that this approach is not likely to change in the foreseeable future. In the case of the U.S., no policy

^{4/}

The inclusion of 1986 will further improve the ratio for the U.S., inasmuch as ODA in the form of ESF all received in that year all went into budgetary support.

conditionalities were imposed on the Philippine Government's availment of ODA until 1985, when policy conditionalities were required of a loan to finance rice importation under PL 480 Title I. The conditionalities involved specifically the elimination of the monopoly of the National Food Authority (NFA) in the importation of wheat, and that of the Fertilizer and Pesticide Authority in the importation of various fertilizers.

The question of policy conditionalities is a sensitive political issue in the Philippines. There are those who feel that the imposition of policy conditionalities is a good way of "persuading" the government to adopt needed structural reforms. There are also those who believe that policy conditionalities would not be objectionable, provided that they are the things that the government would have done on its own anyway. At the other extreme, there are those who resent any policy conditionality, regardless of whether these are for or against the national interest, for reasons of national sovereignty. Oftentimes, the debate on policy issues become muddled, because the real issue of whether a policy is good or bad for the country is clouded by the cries against foreign intervention in the country. This is particularly true of the discussions involving tariff reform and import liberalization, where pressure from some aid donors for more substantive changes can cause a slowing down of the reform process or even a policy reversal, as lobby groups exploit the nationalist bandwagon. It is, therefore, highly preferable, from the viewpoint of a recipient country that no policy strings are attached to ODA. Aside from avoiding the kind of political issues they generate, ODA untied to any policy conditionality is more easily negotiated, more readily committed and more quickly disbursed.

J. Summary Assessment

For convenience, Table 5 summarizes the results of the comparative assessment of Japanese and U.S. ODA to the Philippines. In terms of quantity of assistance, it is clear that by the 1970s, Japan had overtaken the U.S. as the top bilateral source of ODA flows to the Philippines. In 1980-1986, Japanese ODA to the Philippines totalled US\$1.8 billion as compared to the U.S. ODA of US\$1.0 billion.

In terms of quality of ODA, however, the U.S. has the edge with respect to its grant-loan composition, interest rate and loan term structure and the proportion of assistance that does not revert back to the donor country in the form of purchases of goods and services. On the sectoral allocation of aid, as well as its general orientation, there is no basis in saying that one is better than the other, because there is some complementarity involved in the allocation of assistance. In fact, there seems to be initiatives on both the U.S. and Japan to diversify the ODA that they provide: more "hard" assistance for the U.S. and more "soft" assistance for Japan. In the case of the latter, a

Table 5
 U.S. AND JAPANESE ASSISTANCE TO THE PHILIPPINES
 COMPARATIVE SUMMARY

	U.S.	JAPAN
SHARE IN TOTAL ODA (1952-1986)	17%	20%
ODA COMPOSITION		
* as a percentage of total loans	4%	22%
* as a percentage of total grants	62%	11%
* grant/loan composition	80%	18-20% grants/80-82% loans
LOAN TERM STRUCTURE		
* interest rate	2% p.a. for the first 10 years and 3% thereafter	3.0%-3.5% p.a.
* repayment period	40 years, inclusive of grace period	27-30 years, inclusive of grace period
* grace period	10 years	10 years
SECTORAL ALLOCATION		
	(1) agriculture (58.0%)	(1) energy (35.2%)
	(2) social services (24.3%)	(2) transport and public works (31.1%)
	(3) power and energy (10.8%)	(3) industry (12.1%)
	(4) transportation	(4) water resources (10.8%)
		(5) agriculture (7.8%)
		(6) communications (3.0%)
PLANNING AND PROGRAMMING		
* aid policy formulation	U.S. Congress based on the reports submitted by the Survey Mission	Consensus among Japanese ministries: Ministry of Foreign Affairs, Ministry of Trade and Industry, Ministry of Finance and the Economic Planning Agency

Table 5 (cont'd.)

	U.S.	JAPAN
* project identification	U.S. initiates which projects to undertake	The Philippine Government identifies the projects based on its development plans
* preparation of feasibility studies	U.S.	Philippine Government, but it is heavily dependent on Japanese technical assistance
PROCUREMENT		
* Loan Assistance	Tied to U.S. geographic code 941: Selected Free World and cooperating country	Generally untied; however, procurement of technical consultancy is tied to Japan and the LDCs
* Grant Assistance	Tied to U.S. geographic code 000 (U.S.)	Tied to Japan
FLOWBACK OF AID TO DONOR COUNTRY PER DOLLAR OF ASSISTANCE	\$0.33	\$0.75-\$0.95 a/
* amount that flows back to the donor country	Subject to policy conditionalities	Not tied to policy conditionalities
POLICY CONDITIONALITIES		
a/	For projects involving both civil works and equipment procurement.	

"Country Study for Development Assistance to the Republic of the Philippines" recommended that "in the future, there should be a significant increase in software-oriented assistance." ^{5/}

With respect to ODA planning and programming, Japan's system is superior in the sense that it is the recipient country who identifies projects for consideration of the donor government. In the case of the U.S., project identification and selection is undertaken by USAID. Though the latter does consult Philippine Government agencies (particularly the NEDA) in the process, it does not detract from the fact that it is the U.S. rather than the Philippine Government which takes the initiative in the identification of projects. Finally, as regards policy conditionalities, Japanese ODA is not tied to such conditionalities, while U.S. ODA is. Certainly, aid that is not tied to policy conditionalities is preferable because among other reasons, it avoids the sort of political issues that policy conditionality generates.

IV. SOME THOUGHTS ON THE FUTURE ROLE OF JAPANESE AND U.S. ODA TO THE PHILIPPINES

Although this paper did not attempt to quantify the contribution of Japanese and U.S. ODA to Philippine economic development, it can be safely said that ODA from these two countries has indeed contributed positively to Philippine development. Japanese and U.S. ODA have supplemented domestic savings, making additional resources available for the establishment and strengthening of the institutional and physical infrastructure support necessary for the achievement of Philippine development goals. ^{6/} Needless to say, this does not detract from the fact that there are many imperfections in the aid giving and receiving process. As White aptly puts it: "In the history of aid, there are numerous cases of aid foolishly given, and even more foolishly accepted, the effect of which has been harmful. Every specialist in this field has his own collection of 'horror stories'." ^{7/} Among such horror stories, one can cite underutilized training facilities, oversized buildings, inappropriate technology, incompatible array of equipment, and many others. But one can certainly make a list of "success stories" like school buildings, roads, health clinics,

^{5/} A. Takahashi, "Country Study for Development Assistance to the Republic of the Philippines" (April 17, 1987), p. 4.

^{6/} In 1980-1986, Japanese and U.S. ODA accounted for about one-fifth of foreign savings.

^{7/} J. White, *The Politics of Foreign Aid*, St. Martin's Press, Inc., New York, N.Y., 1974, p. 22.

water supply systems particularly in the rural areas, irrigation facilities, power generation plants, major highways and bridges, ports and airports, and others.

It is believed that Japanese and U.S. ODA to the Philippines will continue to play an important role in Philippine development efforts in the foreseeable future, considering the challenges posed by the need to alleviate mass poverty, reduce unemployment and underemployment and improve general living conditions, all of which have been made much more difficult by the economic decline of the last three years and the need to service a substantial external debt burden. ^{8/}

To be sure, there are indications of the continuing importance of Japanese and U.S. ODA to the Philippines. For Japan, the NEDA Staff estimates that given a current annual level of assistance of ¥60-80 billion (US\$0.5 billion) Japanese assistance may reach ¥400 billion (US\$2.7 billion) in FY 1988-FY1992 (April 1988-March 1992). In the case of the U.S., an indicative amount of US\$1.0 billion has been reported for FY 1988-FY1992 (September 1988-October 1992). ^{9/}

Notwithstanding these indicative figures, there is some room for improvement in the levels of Japanese and U.S. ODA to the Philippines. Table 6 presents, by rank, the amount of U.S. and Japanese assistance extended to ASEAN countries, namely: Indonesia, Malaysia, Philippines, Thailand, Singapore and Brunei. The table shows that the largest recipient of both U.S. and Japanese assistance so far is Indonesia. The Philippines ranks a far second for assistance coming from the U.S. and a far third for assistance coming from Japan.

The terms and conditions as well as procedures involving Japanese and U.S. ODA to the Philippines can also stand improvement. In the case of the U.S., procedures which would allow the recipient country to have a more substantive participation in project identification and development could be adopted. Moreover, ways should be found in order to reduce the red tape in the disbursement of U.S. ODA. For Japan, the following can be considered: (1) the extension by Japan of

^{8/} GNP contracted by 6.8 percent and 3.2 percent in 1984 and 1985, respectively. As a result, real per capita income in 1985 was just roughly equivalent to its level in 1975. Poverty incidence was estimated to be 60 percent of all families. The unemployment rate was around 11 percent; the underemployment rate exceeded 30 percent. Debt service payments in 1986 accounted for 32.0 percent of exports of goods and services.

^{9/} FY 1988 Annual Budget Submission, "Long range plan by Appropriation Account," USAID, Washington, D.C.

Table 6
 U.S. AND JAPANESE ASSISTANCE TO ASEAN NATIONS
 1961-1985
 (In US\$M)

Rank	U.S. a/	Amount	Rank	Japan	Amount
1	Indonesia	3,101.00	1	Indonesia	4,299.00
2	Philippines	1,712.00	2	Thailand	2,469.57
3	Thailand	853.40	3	Philippines	1,937.54
4	Malaysia	71.40	4	Malaysia	1,333.64
5	Singapore	-	5	Singapore	3.50
6	Brunei	-	6	Brunei	-

a/ For U.S. FY 1962- FY 1985.

Sources of Data: USAID, US Overseas Loans and Grants, July 1, 1945-September 30, 1985, 1985.
 OECF, Japan's Contribution to Economic Development in the Republic of the Philippines, April 1984.
 Japan's Official Development Assistance, 1984 and 1985 Annual Reports.

softer loan terms (lower interest rate and longer repayment period); (2) the progressive increase in the share of grants of Japanese ODA from the current 18-20 percent to at least 50 percent; (3) the complete untying of consultancy services under OECF loans; (4) increase in local cost financing beyond the ceiling of 30 percent; (5) extension of more program or sector loans; and (6) conduct of competitive bidding among Japanese firms in the case of projects involving grant assistance. Aside from these, other modalities of financing could probably be pursued. One such modality is co-financing with other bilateral agencies and multilateral institutions.

How about effectiveness of Japanese and U.S. ODA? This is an important but tricky subject and is related to the issue of aid evaluation. The main question is whether or not the implementation of donor-supported development programs has made any difference at all to the targetted program beneficiaries. A report prepared by the Swedish International Development Authority (SIDA) on aid evaluation concluded that little emphasis has been placed on this question in the past by both donor and recipient countries. ^{10/} USAID supported a major activity in the Philippines in 1978 along this line, but the Philippine Government and USAID have not adequately followed-up the effort towards its institutionalization. No such initiative has come from Japan.

There are at least two (not mutually exclusive) ways in which this gap in aid planning and policymaking in the Philippines (and elsewhere) can be addressed. First, the U.S. and Japan can consider providing assistance to the Philippine Government towards strengthening the evaluation capacities of the appropriate government agencies. Second, they can also consider integrating or piggy-backing evaluation components into programs and projects that they finance. USAID has done the latter to some extent, particularly in the case of the Bicol River Basin Project.

This paper would not be complete if it concluded by simply saying what the donors should do to improve the impact of their assistance to the Philippines. Although the donors can improve the quantity and quality of their assistance, the ultimate impact of such assistance will still depend on how effectively and efficiently the recipient country is able to use the assistance. The ball ends up with the Philippine Government which must continuously strengthen its capability in investment programming, program implementation, monitoring and evaluation and, as a whole, its absorptive capacity for aid utilization.

^{10/} L. Johansson and M. Paves, Aid Evaluation as a Form of Development Cooperation - What Can Donors Do? A report submitted by SIDA to the DAC/OECD Expert Group on Aid Evaluation (SIDA: Stockholm, Sweden), April 1984.

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