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The Philippine Aid Plan:
Promoting Development or Mendicancy?

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Dear Peter,

"To Filipinos, the aid program must be stressed as providing our one big chance to get away from being the basket case of Southeast Asia.....However, a word of caution. In our enthusiasm to launch the program, let us not perpetuate the aid syndrome and make it a permanent feature of the Filipino way of life."

> Roberto Villanueva, Chairman of the Coordinating Council of the Philippine Assistance Program, addressing the Philippine Chamber of Commerce and Industry, February 2.

"The main objective of PAP is to mobilize the goodwill of foreign governments for the Philippines and their interest in providing assistance to help sustain economic recovery in the Philippines essential to enhancing the progress of its restored democracy."

> Progress Report on PAP, December 1988, Philippine Department of Foreign Affairs.

"With the political momentum behind [PAP], it will take off whether the crew is on board or not."

> A veteran Western aid official.

"I don't know why the Philippine government takes so much time to complete the paperwork."

> A Japanese diplomat on his first posting to Southeast Asia.

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Perhaps the word "launch" is too dramatic to describe the tedious progress of the Philippine Aid Plan that is meant to help sustain the Philippines' economic recovery. "Gestation" better fits the 15-month development of a creature that has yet to be born, and may be of indeterminate size, species, gender, and disposition. The impressive noises and rhetoric issuing from Manila, which have yielded few apparent results, remind me of what FDR reputedly said about a venerable and ponderous American institution: "Dealing with State is like watching an elephant become pregnant: everything is done on a very high level, there's a lot of commotion, and it takes 22 months for anything to happen." I haven't had to wait 22 months, but the frustrations of trying to write about a would-be elephant (white or otherwise) are reflected in the critical tone of this newsletter.

In November of 1987, Congressmen Richard Lugar, Alan Cranston, Stephen Solarz, and Jack Kemp wrote to President Reagan that "the Philippines is now at a critical juncture, with the future of democracy...hanging in the balance." Barely three months earlier, the Administration of President Corazon Aquino had just weathered its fifth and most serious coup attempt. The Congressmen proposed creating a "Mini-Marshall Plan" that, supported by the U.S., Japan, and other major donors, would pump billions into the economy to ensure continued economic recovery and political stability. In the months since, the Mini-Marshall Plan has been renamed by Washington the Multilateral Aid Initiative; and by Manila, the Poly-Sectoral Aid Plan, and, most recently, the Philippine Aid Plan, or PAP.

The PAP is expected to be delivered in June or July at a pledging session of the major donors held most likely in Tokyo. The World Bank will probably head a loose consortium of the three other major donors: the U.S., Japan, and the Asian Development Bank. (These four account for 95% of all development assistance to the Philippines.) The U.S. has taken the lead, promising $200 million for FY1990, contingent upon Congressional approval. All told, some 17 nations may participate in the PAP. The aid plan will be at the center of U.S.-Philippine relations throughout this year and, although all sides deny it, is inextricably tied to the tenure of the U.S. military bases. This newsletter focuses on two areas. It highlights problems associated with the aid plan. It also describes how Manila seeks to use $248 million in U.S. Economic Support Funds to resurrect an employment program that was terminated because of mismanagement. An excellent and more balanced overview of the PAP is "Aid to the Philippines: The Challenges Ahead," by Susan Wong, Intitute on Church and Social Issues, January 1989.

The Philippine government hopes that the PAP will pump an additional $5 to $10 billion in foreign loans, grants, and private investment into the economy over the next five years. To sustain the present 6½% annual growth in GNP, the National Economic and Development Authority (NEDA) calculates that the government must spend an additional $8 to $10 billion during this period that it simply doesn't have. Existing foreign loans and grants plus additional funds under the PAP are expected to bridge this "financing gap." Although government officials now say that the "financing gap" may be only $3 to $4 billion because of existing foreign aid, the $10 billion figure has stuck in the public's mind. Early, optimistic government plans for using the funds from the PAP have estimated the total package at about $10 billion.

Yet, it's still not clear whether the PAP, in itself, will result in a large increase in foreign aid. A Western diplomat says bluntly: "I don't expect to see a real increase in terms of ODA [Official Development Assistance]." He predicts that the two big multilateral donors, the World Bank and the Asian Development Bank, will increase their loans, "but they would have done that anyway." For the bilateral donors, "they will take some [aid] and repackage it as Philippine Aid Plan [money]."

Although Manila views increasing foreign aid as essential to continued econmic recovery, in the 15 months since the PAP was first conceived, the Philippine governement has done remarkably little other than passively wait for the aid spigots to be opened further. Last January, Senator Lugar visited Manila, in part, to highlight two problems related to the PAP. At his departure press conference Lugar stated that the Philippine government had to come up with "a credible plan." The Senator, one of Aquino's staunchest supporters on Capitol Hill, emphasized that "what will not work...is a suggestion that somehow other nations in the world will send the money to the Philippines, simply to make up the deficit, or to pick up where there are shortfalls." Earlier, in July 1988 Foreign Secretary Raul Manglapus had unveiled a list of proposed government projects for funding by the PAP that ran into the billions of dollars. I haven't seen the detailed plans, but if they are anything like the government's monthly "progress reports" on the PAP, what a Western diplomat says may well be true: "One of the problems is that what the GOP [Government of the Philippines] tends to view as planning is usually a statement of objectives...and not much description of how they plan to get there."

The second problem pointed up by Senator Lugar and others is the massive backlog of foreign aid already in the pipeline to the Philippines. Estimates vary on the size of the pipeline of loans and grants--from $751 million, according to NEDA, to about $4 billion, according to USAID. For any recipient country, an aid pipeline is normal since it includes loans and grants that are scheduled to be disbursed over a number of years. But a Western diplomat emphasizes that for a developing country, the amount of aid in the Philippine pipeline is "not normal." He claims that of the total $4 billion pipeline, the Philippine government has been unable to utilize about $1.7 to $1.8 billion in loans and grants that are "available for expenditure." The Japanese, with a pipeline of over $1.3 billion are more upset than the Americans who have a modest-sized $395 million pipeline. An unusually exasperated Japanese diplomat says that reducing the pipeline "is sort of a prerequisite to starting" the aid plan. The Aquino government has taken some generously praised steps to speed up the disbursement of aid. But, as will be shown later, the pipeline is growing.

Getting a grip on these two problems hasn't been made any easier for Manila by its high-level reshuffling of personnel who will oversee the aid program. In the past 15 months, three people have more or less been charged with heading up the PAP and foreign aid in general. In late 1987, President Aquino appointed Finance Secretary Vincente Jayme to oversee a Project Facilitation Committee to unclog the aid pipeline. He also was widely viewed as informally preparing the groundwork for the PAP. But, according to a Western diplomat, Jayme was "not the type of guy to knock heads together" and stop the bureaucratic infighting between the departments of Finance, Foreign Affairs, Public Works and Highways, NEDA, and other government agencies. Later, the President's Executive Secretary, Catalino Macaraig led a Presidential Task Force on the PAP. He brought bureaucratic clout but not sufficient economic expertise. But with the appointment of Roberto Villanueva earlier this month as Chairman of the newly-formed Coordinating Council, the PAP is finally beginning to take shape.

A highly-respected industrialist, Villanueva heads the Philippine-U.S. Business Council and is now the President's "special representative" for dealing with all donor nations. His appointment has been hailed as "a positive step forward" by an Asian diplomat and just about everyone else. Villanueva has made it clear that with his appointment the PAP will emphasize private sector involvement and investment. Gone is the thinly-disguised beggar mentality of the Department of Foreign Affairs that the nations of the world that stood by as Ferdinand Marcos plundered the Philippines now have a moral obligation to help reconstruct the economy. Villanueva has stated that the PAP will focus on growth and encouraging foreign investors to share in the returns. Instead of presenting long wish lists of projects, Villanueva has proposed the creation of four or five model projects that will show quick results to draw further aid and investment.

More importantly, Villanueva is reported to have a strong mandate from the President to get the job done. But a mandate without a Cabinet portfolio is useless unless he has sustained support from the Presidential Palace that lasts, not for a dozen weeks, but a dozen months. A Japanese diplomat points out that while Villanueva is "very able, I'm afraid that he doesn't have the supporting machinery." (i.e. his own Cabinet or agency fiefdom and a large support staff.) Asked how Villanueva will fare in the jostling between Cabinet secretaries, a Western diplomat predicts that he will do well. But then he mentions that in the Chairman's first official duty, Villanueva "couldn't do a luncheon." The diplomat is referring to the behind-the-scenes difficulties that Villanueva encountered in getting status-conscious Cabinet members to attend a luncheon with the visiting head of USAID, Ambassador Alan Woods and his Japanese counterpart, Mr. Koichiro Matsura, Director General of the Overseas Economic Cooperation Fund, last February 3. Villanueva eventually succeeded in roping in all the proper department heads for the luncheon. But he will need an exceptional amount of support from the President to remove the two main stumbling blocks for the PAP: the backlog in foreign aid and the inter-agency disputes over government projects and economic reforms.

The Aid Backlog

The size and growth of the pipeline of foreign aid to the Philippines has been well reported for months. Personnel at the Department of Foreign Affairs now ask foreign reporters not to emphasize the pipeline problem. And President Aquino recently suggested that local reporters go easy on stories about the aid pipeline lest they jeopardize the aid plan. Depending upon who's counting, the pipeline is of various sizes. According to NEDA, under its new accounting procedures, the "backlog" in loans as of September 1988 stood at $751 million, down from $886 million as of December 1987. A Western aid official gives the following estimate of the total pipeline of committed but not yet disbursed loans as of September 1988:

Japan	$1,300 million
World Bank	1,000
Asian Dev. Bank	700
Other	350
Grant Aid	450
Total	$3,800 million in loans and grants

As mentioned earlier, of the above amount roughly $1.7 to $1.8 billion is "available for expenditure." This is the portion of the pipeline that troubles the donors. The remaining amount, which is apparently less worrisome, represents money that has been promised to the Philippines and will become available once Manila works out projects and programs for the aid. Although these figures are open to dispute, the major donors seem to go by these figures instead of the ones provided by NEDA. For example, after punching out his numbers on a calculator, a Japanese diplomat says that $1.3 billion is a slight underestimate for the Japanese pipeline as of last September. He goes on to say that in the past five months Japan's pipeline has increased significantly with a new 15th yen loan for 88.56 billion yen (about $708 million) signed last December 23.

However, a more accurate measurement of government performance than the size of the total pipeline is the ratio between the loans available and the rate of spending. NEDA claims that the availment rate for loans has improved from 70.6% in December 1987, to 77% as of September 1988. An official from the Department of Foreign Affairs, who is responsible for helping to drum up more foreign aid, is quick to cite the improvements claimed by NEDA. He states that the availment rate is now similar to that of other developing countries. But if you plow through the NEDA figures, it turns out that the 77% availment rate is a "revised availment rate" calculated after taking into account loan cancellations and the extension of loan schedules. The original availment rate is 52.3%. It's not clear how much of the increase in the availment rate reflects real improvements or how much it reflects changes in accounting procedures. What is clear, is that the Philippines disbursed only $220 million in loans over the first three quarters of 1988. It's also clear that the government's line agencies that handle projects--the Departments of Public Works and Highways, Agriculture, Environment and Natural Resources, etc.--are already stretched in dealing with the money currently available. A well-placed official from NEDA says: "I don't know if the line agencies can handle more money." The aid pipeline can only grow.

Perhaps the best example of a clogged aid pipeline is that of Japan's Overseas Economic Cooperation Fund. Japan is the biggest of the four major donors, has the largest pipeline, and is the most upset about it.

Since the advent of the Aquino Administration, Japan has increased its aid by over 80%, providing roughly $1,785 million in loans and $270 million in grants for fiscal years 1987 and 1988. The Japanese fiscal year runs one year behind the U.S. fiscal year and begins in April. Japanese aid for the coming 1989 fiscal year has yet to be determined. Japan's loans have a concessionary 2.7% interest rate and a repayment period of up to 30 years including a 10 year grace period.

A Japanese diplomat claims that much of the aid pipeline is the result of excessively slow paperwork by the Philippine government. To illustrate this, he pulls out a chart on a 80,200 million yen loan ($640 million) signed on January 27, 1988 after several months of consultations between the two governments. The loan is for 15 projects, ranging from roads, to irrigation and flood control programs, to telephone hookups. On the average, the projects are to be completed in five years. As of November 1988, eleven months after the loan signing, the Philippine government has signed construction contracts for only one of 15 projects. Approximately 175 million yen ($1.4 million) has been spent. Reviewing the plans, the diplomat says, "We are rather sympathetic with the Philippine government. But one year is too much time." He blames the lack of progress on the Philippine government's procedure of hiring consultants to review a construction contract before signing it. He claims that there is "no time limit to the consultancy period." Not surprisingly, consultancies drag on. Yet the blame may not lie entirely at Manila's doorstep. According to the diplomat, for this loan agreement with the Philippines there is no schedule for loan disbursement, no goalposts for monitoring progress, and no time limits except that of final project completion. If the Japanese seem to be throwing yen at the Philippine government with relatively little monitoring, it's because they have a staff of only nine people to look after over $900 million a year.

Aside from general bureaucractic slowness, other factors have also been blamed for the backlog in aid. Foremost among these is that any new government, beset by coup attempts and other distractions, would have difficulties in handling the surge in aid monies since 1986. The wholesale reshuffling of high-level personnel has dissipated direction from on top. (The often-quoted figure is 22 Cabinet members in the government's first 22 months.) Project implementation has also been held up by turf battles between NEDA, which must approve projects, and the various line agencies, particularly Public Works and Highways, that actually carry them out and hire contractors. In addition, foreign loans generally require that the cash-short Philippine government put up 25% in counterpart funds. And, as Philippine officials point out, the government has instituted stricter, and slower, monitoring mechanisms to prevent corruption on the scale that was the norm under Marcos.

Wrangling over Reforms

While slow paperwork clogs the pipeline of Japanese and multilateral aid, wrangling over economic reforms and other issues has held up U.S. economic aid. Of the $395 million pipeline in U.S. economic aid, which is now all grants rather than loans, $248 million is tied up in a dispute over what the recently-signed U.S. military bases agreement actually means. (See the annex for a breakdown of the pipeline in USAID funds.) Aside from this aid, the Bush Administration has requested that Congress appropriate an additional $200 million for the PAP in FY1990.

The dispute over the disbursement of $248 million in U.S. Economic Support Funds (ESF), which are part of the military bases compensation package, turns on the enduring "rent" vs. "aid" argument between Washington and Manila. Washington calls the bases compensation aid, the disbursement of which must be contingent upon economic reforms. Manila considers the ESF monies rent for the bases. As Philippine officials often say, "A tenant doesn't tell his landlord how to spend the rent money." One official sums up the two positions thus: "We have to link budget support to an economic reform program....But, Ms. [Solita] Monsod [the head of NEDA] says, 'Hell no. Just sign the check.'"

The two parties are currently discussing the "rapid disbursement" of $248 million from FY1988 and FY1989. Washington says that it will disburse the $248 million when the Philippine government begins to implement its own policies on economic reforms. An official from the Philippine Department of Foreign Affairs agrees in part, stating: "the U.S. says that there are no new conditions as long as we implement what has already been agreed upon with the World Bank and the IMF [International Monetary Fund.]" However, the official declines to say whether the two sides are in complete agreement over the pace of these reforms.

Among the economic reforms urged by the World Bank and the major donor nations are: further trade liberalization and the lifting of import duties, administrative reforms to decentralize economic decision making, a "competitive" exchange rate (i.e. a devaluation of the peso), reduction of the government's deficit, and further progress on the privatization or selling off of government corporations purchased under the Marcos administration. Many of these reforms are intended to help the rural sector and boost agricultural exports. They are also unpopular with the politically powerful urban middle and upper classes.

The public debate over economic policies is reflected in the positions taken by various sectors of the government. NEDA, and most recently Foreign Affairs, have criticized these measures and called for a more nationalist economic policy that would include selective foreign debt repudiation. The more conservative Department of Finance and the Central Bank have generally agreed with the economic prescription recommended by the donor nations. For months, NEDA has been frozen out of policy making and there are rumors that Monsod may resign.

Manila is still bogged down in negotiations with the IMF and it's other foreign creditors over the pace and exent of these reforms. But, in the words of one Western aid official, the donor countries have made it clear that to launch the PAP, Manila will have to get "the IMF's seal of good housekeeping." As a Japanese diplomat says, "we simply require them to conform with the basic guidelines" agreed upon back in 1987.

Running parallel to this rent vs. aid dispute is a deeper disagreement over what the text of Military Bases Agreement (MBA) actually means. The final text of the MBA, signed by Foreign Secretary Manglapus and George Shultz, reads: "The United States will propose rapid disbursement of a substantial portion of $248 million in ESF...,which may be appropriated for the Philippines to assure continued progress in implementation of agreed on Philippine economic and administrative reforms. These cash transfers would enhance significantly the financial ability of the Government of the Philippines to undertake a voluntary, market-oriented debt reduction program in 1990, or earlier if desirable and feasible." At issue is whether the vague language permits Manila to use ESF monies to directly purchase U.S. Treasury bonds as part of an intricate scheme to reduce the Philippine foreign debt.

Manila claims that under the agreement it may do so. In a complex arrangement, Manila would use ESF monies to directly purchase $100 million worth of U.S. Treasury Department zero coupon bonds. These bonds, which pay no interest and are sold at a discount, would then be used to buy back about $560 million of the Philippines' $28 billion foreign debt. But it seems that the motivation of the Philippine negotiators who pushed for this scheme was not to retire a significant portion of the Philippine debt: the scheme would retire only 2% of the foreign debt. Rather, their aim was to come up with what seemed like an impressive amount of money from Washington. By counting the $560 million in retired debt as the additional "soft component" of the bases compensation, Philippine negotiators could say they won Manila's minimum demand of $1.2 billion a year from the U.S.

The U.S. position is that while the Philippine government may use the foreign exchange earnings generated by U.S. ESF monies to purchase U.S. Treasury zero cupon bonds, it cannot use ESF monies to directly purchase U.S. Treasury bonds. In response, an official from the Philippine Department of Foreign Affairs claims that under the MBA "it doesn't matter whether it's [ESF money] used directly or indirectly."

That much is public knowledge. But, according to an informed source, there was a last minute change in the text of the MBA that may have added to the present confusion.

Originally, the language in the MBA, which both sides had agreed upon, would have permitted the direct purchase of U.S. Treasury bonds with ESF monies. But in the final, hectic week before the signing of the agreement on October 17, "the U.S. Treasury Department got wind of the deal...and said, 'No way.'" The text was changed to the nuanced language that, in Washington's view, permits only indirect funding. This last minute change that Secretary Manglapus agreed to may not have been transmitted fully back to Manila. Shortly before the change in the text, the two key financial experts on the Philippine negotiating team had returned to Manila. One of them even announced that the two sides had agreed to a direct buy-back arrangement. But Foreign Secretary Manglapus, who after signing the agreement in Washington faced a severe storm of public criticism for "selling out" to the U.S., may not have reported back in full on this last minute concession. Although I have confirmed some parts of this story, it ought to be consigned to the realm of enlightened speculation rather than hard fact. What is a fact, however, is that no sooner had the ink dried on the Military Bases Agreement, than both sides claimed that the other was operating under a "misconception."

As things stand now, Secretary Manglapus heads up a newly-formed inter-agency task force to resolve the impass with Washington and negotiate over the rapid disbursement of ESF monies. The birth of this task force in mid-January was preceded by a minor bureaucratic skirmish that, although it did not make it into the newspapers, speaks volumes about the infighting that Mr. Villanueva will face.

The Department of Foreign Affairs threaded through the bureaucracy, up past Executive Secretary Macaraig, around the Cabinet, and onto President Aquino's desk Executive Order 100. She signed the order creating the inter-agency task force headed by Secretary Manglapus with high-level representatives from at least a half dozen departments and agencies. Oddly, the Department of Finance was not included. When officials at Finance learned that they had been out-maneuvered, they quickly called Executive Secretary Macaraig and asked what was going on. By the time Executive Order 100 was promulgated, the task force included a representative from the Department of Finance.

The task force is now negotiating with the U.S. Embassy over the rapid disbursement of ESF monies sitting in the aid pipeline. Manila says that the full $248 million should fund an employment program similar to NEDA's Community Employment and Development Program. The program, plagued by allegations of mismanagement and public inter-agency squabbling, was scrapped after two years in 1988.

The Community Employment and Development Program

The Community Employment and Development Program (CEDP) was launched in July 1986 when the new government was barely five months old. The program was essentially a pump priming mechanism for economic recovery in the provinces. Government spending on over 50,000 small-scale construction projects was aimed at creating one million temporary jobs for the poor and unemployed. Of secondary importance were the hundreds of school houses and thousands of miles of gravel roads and irrigation canals that were constructed. For its primary goal, the program was a success: creating 840,000 jobs, each of which lasted on the average for 40 days. For it's secondary goal, constructing valuable infrastructure, the results were mixed. Throughout its existence, the program was hobbled by protracted struggles between NEDA, which oversaw the entire program, and the ten line agencies responsible for completing the projects. It was mercifully terminated in January 1988.

The program is important, not only because a revived form will most likely be funded by ESF monies, but because it says something about how the Philippine government works. The following description is based primarily on interviews with NEDA officials closely involved with the program and an internal, 15-page NEDA report evaluating the CEDP. The report, which is highly critical of the program, has not been made public. One official provided a copy of the report on the condition that I not cite certain figures from it. It's not because there's anything sensitive in the report; it's because of embarrassment. Some of the report's detailed figures on spending, implementation, and "physical accomplishments" are still incomplete. More than one year after the program was terminated, many of the line agencies have yet to send back complete status reports on their projects.

The CEDP ran as two one-year programs in 1986 and 1987. In 1986 the government budgeted 4.2 billion pesos, for 1987 4.9 billion pesos. (The exchange rate is approximate 21 pesos to the dollar.) Later, Japanese yen loans reimbursed the Philippine government for most of the program's costs, with a yen loan worth 3.9 billion pesos for the 1986 program and a loan that will come out to 4.4 to 4.5 billion pesos to cover the 1987 program.

The NEDA headed the program, approving and monitoring the specific projects put forward by the line agencies for CEDP funding. Initially, the CEDP was a top priority for the government with NEDA Director General Monsod chairing a cabinet-level group of representatives. A NEDA official describes how the staff worked frantically and for long hours to produce weekly briefings for the President who was "very interested" in the program. Later, as the President's interest waned, these progress reports became bi-weekly, and eventually monthly.

NEDA established a set of general criteria for approving a project. The project had to be small-scale: finished in one year and costing less than two million pesos. To maximize employment, labor-intensive methods were to be used and at least 30% of the project expenses had to go into wages. (For example, gravel roads were usually not longer than 1.5 kilometers and were graded by a carabao-pulled scraper.) Workers had to be hired locally, and wages could not be higher than the existing minimum wage to avoid undermining the private sector. Finally, the line agencies were to hire private contractors, or if none were available, do the construction themselves.

A NEDA survey of 11,000 workers hired under the CEDP showed that, in general, these criteria were met. The program did put cash in the pockets of the poor. The overwhelming majority of the respondents (85%) had monthly family incomes below the poverty line, over half of the respondents were unemployed, and most lived in the villages where the projects were built. Whether the program created infrastructure of lasting value or helped sustain development is another matter.

The NEDA report finds that "in spite of the problems that have beset the Program, it is safe to say that the CEDP has achieved what it set out to do: create employment." Although 840,000 jobs were created, it should be emphasized that the average job lasted for 40 days. Regarding the projects themselves, as of February 1988, 77.7% of all projects were completed, 19.1% were still ongoing, and 3.2% were not yet started. However, as the report implies, these impressive statistics need scrutiny.

According to the report, the CEDP got off to a slow start not only because the government was new and the insurgency was potent, but because of more troubling reasons. The report notes that initially, "the formulation and implementation of guidelines by line agencies...took up a considerable amount of time." Even one year after these guideline were formulated, the report cites "the inability of the agencies [in 1987] to identify projects which meet the criteria for inclusion in [the] CEDP."

But the sharpest criticism is reserved for the line agencies in delaying the disbursement of funds from their central offices down to the regional and field offices. Because of these delays in paying for a project once it was completed, local officials often wouldn't begin work until they saw money in a nearby bank. The report notes: "proof of actual cash deposit in the bank became, in many cases, a precondition for project implementation." Overall, the line agencies were allocated

9.06 billion pesos of which they disbursed only 5.18 billion or about 57%.

Perhaps more detrimental than the pervasive inefficiency of the various government departments were local politicians using the projects to dispense patronage. The report claims that "Political inteference in the form of requests [by politicians] for realignment of projects and selective awarding of contracts to favored contractors have also contributed significantly to the slow pace of implementation." The report further alleges that "the selection process [for projects] was not strictly followed in that numerous realignments were made in order to accomodate requests from politicians. In effect, an unofficial criterion added was political palatability and impact."

By their very nature, monitoring these projects was difficult. A NEDA official says that "with small-scale projects, it's really very hard to monitor them." He cites the common practice of "ghost projects" in which a local official or contractor simply pocketed funds for, say, building a gravel road. If higher ups received a complaint, "by the time the government inspectors visit, they have finished the project" with a road grader or other heavy equipment. Since local government officials often did not make effective project monitors, NEDA encouraged and relied upon monitoring by some 35 NGOs, Church, and citizen's groups. According to the report, active NGOs provided "effective checks against graft and foot-dragging on the part of some project implementors." Unfortunately, NGOs were active in only a half dozen of the Philippines' 73 provinces. For their efforts, several individuals who volunteered as monitors received Presidential citations as well as death threats.

To be sure, much good came from the CEDP. Many of the guidelines that NEDA laid out for CEDP projects are now supposed to be standard operating procedures for government agencies: open and public bidding on contracts, the encouragement of monitoring by NGOs, labor-intensive projects, and the posting of a list of public works projects in every municipal hall. On this last point, I haven't seen such listings in any of the several rural municipal halls I've been in recently. Then, I haven't been looking with the diligence of a public-spirited citizen.

Currently, Manila is pushing to use the full $248 million in ESF monies to resurrect a CEDP-style program. Observers believe that the Philippines will probably get about half of that amount. To see whether it is a good idea to give money to such a program, USAID has hired the firm Sycip, Gorres, and Velayo to conduct an audit of the CEDP. The audit, by one of the Philippine's largest and most prestigious accounting firms, apparently gave the CEDP a clean bill of health. It seems that projects had a satisfactory completion rate of about 80%. Sounds good. But then, a friend at SGV says she's surprised that her firm had been hired to audit a government program. She points out that after Aquino came to power SGV lost many of its accounts for auditing government-owned corporations. During the Marcos years, SGV consistently gave clean bills of health to government corporations that were being milked by Marcos and his cronies.

Birth of a Panacea

The PAP will be delivered at the pledging session of the major donors probably sometime in June or July. Manila would prefer that the session be held in Tokyo to underscore its hopes that Japan will contribute significantly more than the $200 million promised by the U.S. Also, Manila would like to downplay Washington's parentage of the plan. Some Western diplomats, however, maintain that it makes more sense to hold the pledging session in Paris during a World Bank-led meeting on the Philippine debt.

Four to five months before the plan's scheduled delivery, the nature of the beast still remains something of a mystery. Although Villanueva has emphasized that international and local entrepreneurs will play a leading role in the program, it is still not clear how their investments will dovetail with foreign aid. Nor is it clear that the 17 different donor countries will work towards coordinating their aid for greater impact. A Western aid official says that the PAP "is not a new mechanism" in which the donor countries will closely coordinate their aid. Instead, the aid plan "provides a banner under which the donors will continue to do their own activities."

Of all the vital aspects of the PAP, the one that is most in doubt is the one on which Manila focuses most of its attention: size. As mentioned before, the plan isn't going to be a $10 billion baby. Because of the surge in foreign aid to the Philippines after Aquino took office in 1986, it is unlikely that there will be further significant increases in Official Development Aid, PAP or no PAP. The U.S. commitment of $200 million for FY1990 was viewed here with some disappointment since previous reports claimed that the U.S. was considering $300 million. Similarly, Japan's share, which has been rumored at $300 million, is likely to be a disappointment. A Japanese diplomat claims that "definitely, there will be a large increase" in Japanese aid. But he skirts away from giving a ball park figure, saying "we can't make projections on the size." Recently, Tokyo announced that instead of its heralded 7.8% increase in foreign aid, levels will rise by only 1.6%. That works out to an increase of $280 million. It is doubtful that the Philippines will get all of this.

Throughout the 15 months of high-level commotion over the birth of the aid plan, its most interesting feature has been rarely mentioned by public officials. And then, it is whispered only when necessary. All parties have stated officially that the PAP is in no way connected to the tenure of the U.S. military bases. But everyone believes otherwise. Local reporters play the game of trying to trip up U.S. or Philippine officials into saying so. Manila is loathe to admit that it is taking aid with strings attached; Washington doesn't want to be seen as being beneficent just because of the bases.

The other donor nations have pushed quietly for the retention of the bases, but they have also avoided getting into the messy wrangling over the bases. (See ERG-15) During a rough part of the bases negotiations, U.S. Ambassador Nicholas Platt stated in oblique fashion that the aid plan and the bases were interrelated. And last October, when the negotiations came down to the wire, U.S. officials blamed Manila's tough, protracted negotiating style for holding up progress on the plan and "sour[ing] the atmosphere" for getting U.S. Congressional support.

Some observers are concerned that Manila's understandable fixation on the number of dollars that are supposed to flow in may obscure the need for broad economic reforms. The aid plan is Manila's panacea. With the expected surge in yen and dollars, the government hopes that it can avoid, or at least postpone, making tough decisions on the distribution of wealth. For example, instead of using some muscle to get its stalled land reform program going, the government seems to be counting on over $1.5 billion in foreign aid to buy off the landed opposition. A western aid official claims that the PAP "does represent some real dangers to the extent that it releases them [government officials] from doing a good job" in continuing economic reforms. His primary concern is that the present economic growth might not spread out to the bulk of the population, the rural sector.

Manila's past experience with rural development programs, such as the CEDP, and its present efforts to prepare for the Philippine Aid Plan bring to mind the expression about Ningas Cogon, or the burning of the Cogon grass. The thick grass bursts readily into bright, crackling flames that soon die down into useless, powdery ashes. So too, government efforts often flare up and attract attention, only to die out.

Sincerely,

Erik Guyot

Erik Guyot

Received in Hanover 3/30/89

Pipeline of U.S. economic aid to the Philippines

ESF OBLIGATIONS
FY 1980 - 1989
(000)

Project No./Title	FY 1980	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	TOTALS	Cum Exp. 12/31/88	Pipeline 12/31/88
0342 Elementary Schools	18,000	--	--	--	--	--	--	--		--	18,000	17,971	29
0343 Project Design	2,000	3,000	2,000	--	--	2,000	--	3,000		--	12,000	7,984	4,016
0348 Clark Access/Feeder Rds	--	5,000	--	--	--	--	(500)	--		--	4,500	4,069	431
0361 Municipal Dev. Fund	--	22,000	13,000	20,000	--		(19,000)	--		--	36,000	28,358	7,642
0365 Markets	--	--	4,000	8,000	--	9,000	(11,800)	--		--	9,200	6,593	2,607
0374 Regional Dev. Fund	--	--	20,000	15,000	50,000	36,500	(34,575)	30,000		--	116,925	84,259	32,666 +
0375 Rural Energy Dev.	--	--	11,000	7,000	--	--	(14,500)	--		--	3,500	1,726	1,774
0383 Rural Prod. Support	--	--	--	--	--	47,500	--	--		--	47,500	47,500	0
0400 Dev. Projs Support	--	--	--	--	--	45,000	--	--		--	45,000	45,000	0
0404 Budget Support Program	--	--	--	--	--	--	219,625 80,375	--		--	300,000	300,000	0
0407 Budget Support Prog II	--	--	--	--	--	--	--	150,000		--	150,000	150,000	0
0420 Rural Infrastructure Fund	--	--	--	--	--	--	--	51,190		--	51,190	2,810	48,380 +
0421 Civic Action Program	--	--	--	--	--	--	--	--	15,000	--	15,000	15,000	0
0431 Agrarian Reform Support	--	--	--	--	--	--	--	--	50,000	--	50,000	0	50,000 +
TO BE ALLOCATED	--	--	--	--	--	--	--	--	* 124,000	124,000	248,000	0	248,000
TOTALS	20,000	30,000	50,000	50,000	50,000	140,000	219,625	234,190	189,000	124,000	1,106,815	711,270	395,545

*(Presently under negotiation)

+ Major backlogged projects.

NOTES
1. Negative amounts shown in parenthesis by project under FY 1986 represent deobligations totalling 80.375 million which was reobligated the same year to 0404 - Budget Support Program.
2. Funds for 0421 - Civic Action Program - were transferred to the Department of Defense. Funds were appropriated in FY 1987, but were obligated in FY 1988.
3. Agrarian Reform Support Program - 0431 - to be obligated in FY 1989.