Effectiveness of Aid for Trade
Lessons from the Philippines

Regional Workshop on Promoting Intraregional Trade, Investment and Connectivity through Bankable Aid for Trade Projects: Addressing Developmental Needs with Effective Aid for Trade
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The Philippines

- Low middle income economy; GNI per capita US$2,210 (2011)
- 10th and 13th largest AfT beneficiary in terms of disbursements and commitments, resp., in 2009
- Strong commitment to economic liberalism
  - Weighted average applied tariff: 4.77% (2010)
  - Two-thirds of tariff lines with MFN rates of 0 to 5%
- Dependent on aid: S-I gap, forex gap, fiscal gap
  - Declining aid inflow: 12% of GCF was aid-funded in 1990
  - OFW remittances larger than ODA inflows, but ODA still larger than net FDI.
Ranks 65th out of 144 countries in 2012 GCI
- Malaysia (25), Thailand (38), Indonesia (46), Vietnam (75)
- Transitioning from stage 1 (factor-driven) and stage 2 (efficiency-driven)

Ranks 136th out of 183 countries in 2012 Ease of Doing Business Index
- Nepal (107), Sudan (135), Cambodia (138)

BACKGROUND
Constraints to Trade: WEF’s Business Survey 2012

- **Most important problematic factors for importing:**
  - Burdensome import procedures (1)
  - Corruption at the border (2)

- **Most important problematic factors for exporting:**
  - Access to imported inputs at competitive prices (1)
  - High cost or delays caused by domestic transportation (5)

- **Most problematic factors for doing business**
  - Corruption (1)
  - Inefficient government bureaucracy (2)
  - Inadequate supply of infrastructure (3)
TRTA and Capacity Building Programs

- **EU TRTA Programs**
  - Assist Filipino exporters to sell their products into the EU market
  - Improve Customs administration
  - Build local capacity to implement WTO agreements (SPS and TBT)

- **USAID Technical Capacity Building Programs**
  - **AGILE** (Accelerating Growth, Investments and Liberalization with Equity), 1998-2004
    - Drafting and advocacy of legislative reforms to align laws with Philippine WTO commitments
TRTA and Capacity Building Programs

- **USAID Technical Capacity Building Programs**
  - **EMERGE** (Economic Modernization through Efficient Reforms and Governance), 2004-2008
    - Expand trade and investments
    - Improve regulation on infrastructure services, specifically on telecommunications and transportation
  - **LINC-EG** (Local Implementation of National Competitiveness for Economic Governance), 2008-2012
    - Streamline business permits and licensing regulations of LGUs
Evaluation of AfT on the Ground

- Do the nature, design and delivery of AfT initiatives meet the elements for effectiveness suggested by the Paris Declaration and AfT Task Force?

- How far did the initiatives achieve their set objectives and targets?

- Did the expected benefits bear into fruition? If not, what factors worked against the realization of expected impacts?

- Can the design and delivery of aid be improved to overcome the factors that negate aid effectiveness?
Management of ODA/AfT

- **1980s debt crisis:** ODA accounted for almost half of country’s debt
  - unproductive and low priority areas or lost to corruption

- **The ODA Act of 1996**
  - Accept only ODA aligned to previously identified national priority projects, which are urgent and necessary
  - 3 agencies to monitor status and usage of ODA
    - **NEDA** – conduct annual reviews, identify implementation problems, track cost overruns, report to Congress
    - **Commission on Audit** – examine finances of closed and on-going projects
    - **Congressional Oversight Committee**
Management of ODA/AfT

- The ODA Act of 1996
  - Tight scrutiny of ODA loans
  - Safeguards to avoid anomalous usage of funds
    - A consultant involved in the design and feasibility check of the project cannot be involved in the implementation.
    - Government agency is required to execute the project.
      - Implications on private sector (NGOs) participation
    - Qualified Filipino consultants, suppliers and manufacturers should be given preference.
  - Elaborate structure of monitoring and evaluation
    - Inter-agency; often cause of delay
    - NEDA at the helm
      - subordinates the role of DTI for AfT
Issues on AfT Effectiveness

- Funds Trajectory
  - AfT not additional resource (incremental funding)
    - Base period: 2000-05; Current period: 2006-2011
    - AfT declined; non-AfT increased in commitments
    - AfT increased; non-AfT declined in disbursements

- Predictability
  - Commitments exceeding disbursements, except 2003-08
  - Due to inability of Phil government to meet the terms and conditions of aid agreement
  - NOT caused by failure of donor to hold up to its commitment
Issues on AfT Effectiveness

- **Funds Trajectory**
  - Grants vs. loans
    - 2 out of 3 AfT initiatives in 2011 were grants
    - Loans represent 88% of total AfT value
    - ODA Act of 1996
      - All ODA loans must have a weighted grant element of not less than 40% at any given time, with 7% interest rate cap.
  - Commitment fees
    - AfT loans accounted for 89% of total commitment fees paid on ODA loans in 2011.
    - Cost of financing vs. implementation delays
Issues on AfT Effectiveness

- **Ownership**
  - Relevance of AfT to development priorities
    - Medium term Philippine Development Plan (with results matrices)
    - Medium term Philippine Investment Plan
    - Major implementing agencies have their own master plans
  - National level coordination and stakeholder involvement
    - All projects using ODA must go through evaluation and approval of high-level inter-agency committees.
    - **Philippine Development Forum** – co-chaired by WB; annual dialogue of donors, government agencies, business groups, NGOs, Congress and academe
Issues on AfT Effectiveness

- **Ownership**
  - **Mainstreaming**
    - Technical assistance and policy advocacy work
      - VOIP, RO-RO
    - Legislative reforms
      - Translated Philippine obligations into domestic laws
      - *e.g.*, Retail Trade Liberalization Act, Customs Valuation Law
    - Accession to international treaty
      - *e.g.*, Philippine accession to Revised Kyoto Convention
    - Key to mainstreaming: **Political buy-in**
Ownership

Sustainability

- Reform champion in the beneficiary agency
- Strong public demand
- Written into law
- Use of Technology
Issues on AfT Effectiveness

Alignment

Alignment with National Development Strategies and Priorities

- Donors formulate Country Assistance Program
- Overarching goals in MTPDP: poverty alleviation and inclusive growth
- As a result, trade development is not explicitly listed as priority area in CAPs, except EU’s CAP.
- The initiatives provide indirect support to trade.
  - *e.g.*, Power Sector Development Program; assistance to agrarian reform beneficiaries
Issues on AfT Effectiveness

- **Donor Coordination**
  - Annual ODA Portfolio Review
    - Participated in by donors and implementing agencies
    - Cross-cutting implementation problems
    - Commitments to address problems and tracking of actions actually taken to resolve the problems
  
- Harmonized Philippine Bidding Document
  - Common policies and procedures
  - Inspire use of national procurement system

- Joint Analytic Work (JAW) : ADB, JICA, WB
  - Causes of start-up delays and bottlenecks in funds flow
  - Factors for success and sustainability of projects
Issues on AfT Effectiveness

- **Donor Coordination**
  - Mutual Enforcement of Debarment Decisions
    - Sanctions imposed by one MDB binds other signatory MDBs
    - Useful in collusion and bid-rigging in infrastructure projects
Issues on AfT Effectiveness

- **Other Measures**
  - Implementing agencies’ scorecard of development partners
  - Mainstreaming Disaster Risk Reduction and Climate Change Adaptation
    - 18.7% of AfT initiatives have climate change adaptation and mitigation components
  - Engagement of Civil Society Organizations
    - Mobilize NGOs as citizen watchdog: formation of Road Watch (*Bantay Lansangan*)
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<th>Project Success</th>
<th>Project Sustainability</th>
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<tr>
<td><strong>ADB</strong></td>
<td><strong>49%</strong> of projects have been successful/highly successful below Vietnam (93%), Thailand (88%), Cambodia (83%), Laos (79%)</td>
<td>Only <strong>58%</strong> of projects are rated sustainable</td>
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<td><strong>JICA</strong></td>
<td><strong>61%</strong> of projects have been successful/highly successful below Thailand (96%) and Indonesia (82%)</td>
<td><strong>67%</strong> of projects rated “without major problems”</td>
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<td><strong>WB</strong></td>
<td><strong>72%</strong> of projects had satisfactory ratings below the average for East Asia (82%).</td>
<td><strong>70%</strong> are likely sustain outcomes achieved</td>
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Source: ODA Portfolio Review 2011.
Case Study of AfT to Customs

- In 1996, BOC automated its system using ASYCUDA, with support from the World Bank.

- In 2002, WEF chose BOC as case model for process and infrastructure modernization.
  - JICA: time measurement study, post-entry audit, customs intelligence
  - EU: value reference and risk management systems
  - USAID: Integrity Action Plan, National Single Window, competency-based human resource management system, drafting of new customs law
• Cargo release times in 2003 and 2010 are not statistically different despite major changes in the Customs IT system.

• Despite automation, variations in release times are extremely wide
  • Half of cargos are released in no more than 4.75 days from arrival at the port; the other half could take as long as 30 days to release

• Deviations of actual from prescribed processes are prevalent

• Weak controls in cargo processing

• Ineffective risk management system
CASE STUDY: AfT to Customs

Selected vs. Nonselected Entries

- 1997: 20% Selected, 80% Non-selected
- 1998: 30% Selected, 70% Non-selected
- 1999: 40% Selected, 60% Non-selected
- 2000: 50% Selected, 50% Non-selected
- 2001: 60% Selected, 40% Non-selected
- 2002: 70% Selected, 30% Non-selected
- 2003: 80% Selected, 20% Non-selected
- 2010: 90% Selected, 10% Non-selected

Selected | Non-selected
CASE STUDY: AfT to Customs

Roots of the Problems

- Organizational resistance to change
  - Of 66 action items in the Integrity Action Plan, only 14 were implemented.
  - Thrash efforts to streamline customs procedures, automate processes, improve transparency, and improve selectivity of inspections

- Frequent changes in leadership
  - Six commissioners in a span of eight years

- Insufficient powers of the Commissioner to institute organizational changes

- Revenue targets vs. trade facilitation

- Continuous flow of aid despite dismal results of past interventions
Lessons Learned

• Elements for effectiveness, while necessary, are **not sufficient** for aid to deliver the benefits expected from it.

• Changes instigated by aid are easy to overturn in the absence of a **reform champion** in the recipient organization.

• AfT design and implementation should take due account of **political economy of reforms**.

• Should aid be continued to organizations that have not judiciously utilized it in the past?
  • AfT should be viewed as a **trade and reform enabler**.