



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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- 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)
- In 2000, Phil. exports, US\$42B vs. Vietnam, US\$17B; in 2011, Phil. exports, US\$65B vs. Vietnam, US\$100B.

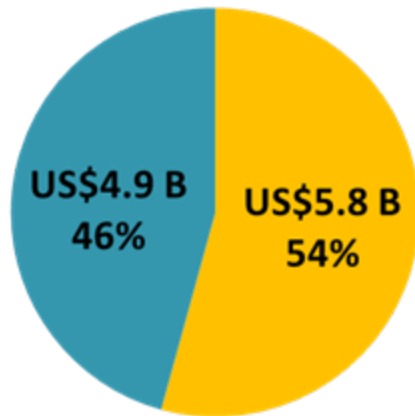
Constraints to Trade: WEF's Business Survey 2012

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

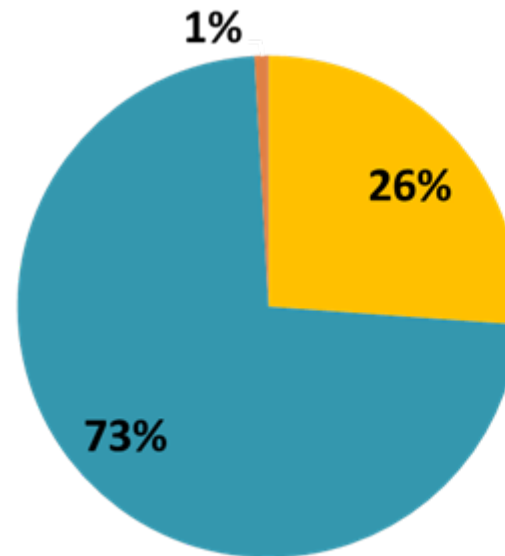
- **Most important problematic factors for exporting:**
 - Access to imported inputs at competitive prices (1)
 - High cost or delays caused by domestic transportation (5)

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

AfT Profile 2011

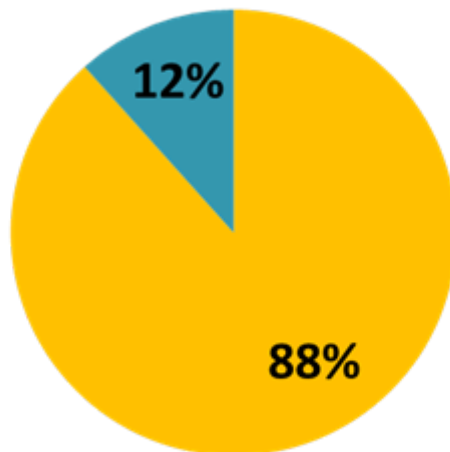


■ AfT ■ Non-AfT



■ Building Productive Capacity
■ Economic Infrastructure
■ Trade Policy and Regulation

■ LOANS
■ GRANTS



Source: NEDA

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



- **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



■ 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



■ 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



■ 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



■ 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



■ 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



■ **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



■ 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*)



	Project Success	Project Sustainability
ADB	49% of projects have been successful/highly successful below Vietnam (93%), Thailand (88%), Cambodia (83%), Laos (79%)	Only 58% of projects are rated sustainable
JICA	61% of projects have been successful/highly successful below Thailand (96%) and Indonesia (82%)	67% of projects rated “without major problems”
WB	72% of projects had satisfactory ratings below the average for East Asia (82%).	70% are likely sustain outcomes achieved

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

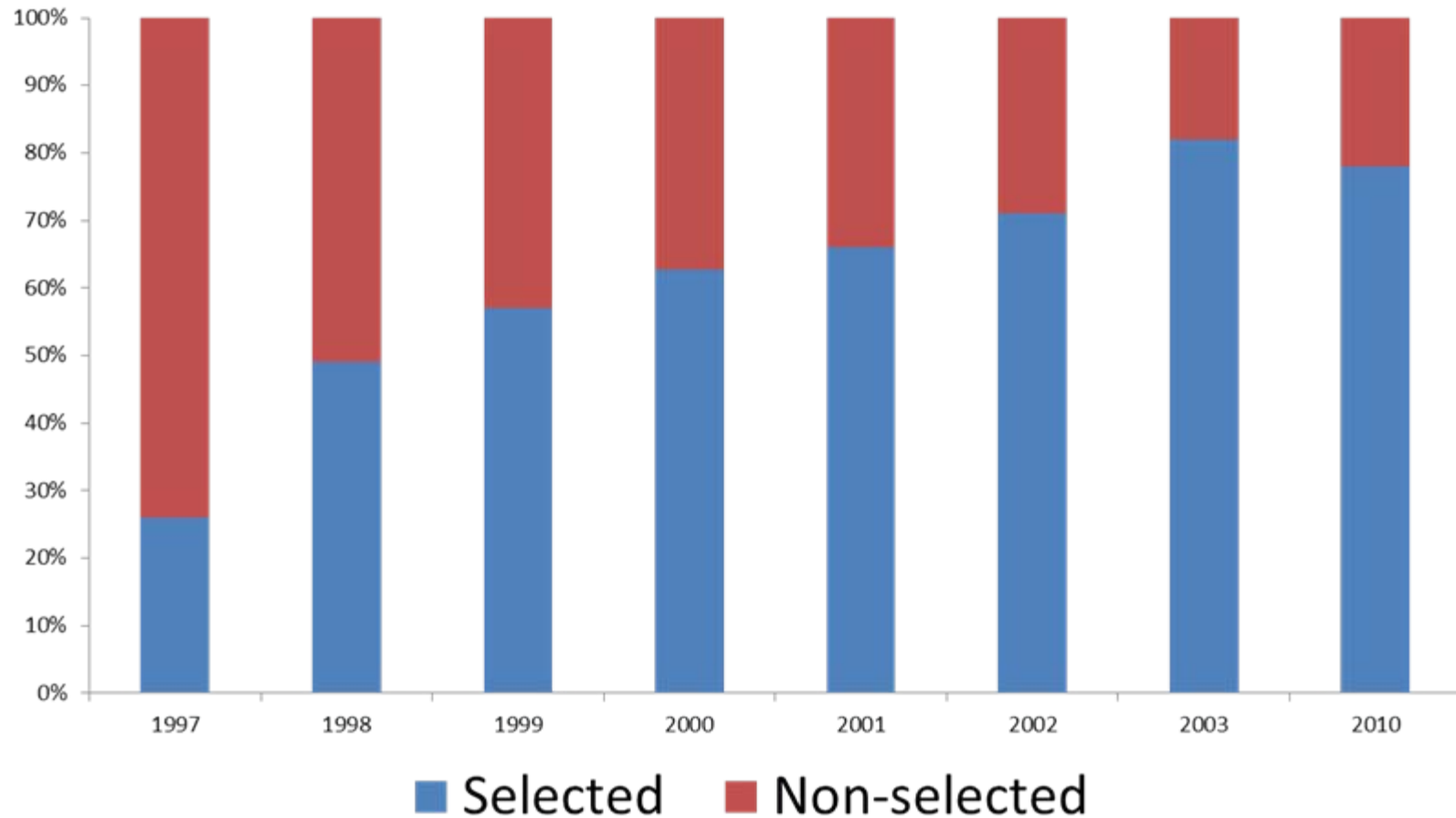
CASE STUDY: Aft to Customs

Problems persist



- 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

Selected vs. Nonselected Entries



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**.