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Aid Intentions, Imperatives and Incentives:
A Case of Too Much Yet Less Effective Aid

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List of Acronyms

ADB	Asian Development Bank
BESF	Budget of Expenditure and Sources of Financing
DA	Department of Agriculture
DAC	Development Assistance Committee
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DFID	Department for International Development
DFIMDP	Diversified Farm Income and Market Development Program
DOTC	Department of Transportation and Communication
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
GAA	General Appropriations Act
GOP	Government of the Philippines
GSDP	Grains Sector Development Program
ICC	Investment Coordination Committee
JBIC	Japan Bank for International Cooperation
LGU	Local Government Unit
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NFA	National Food Authority
NIA	National Irrigation Administration
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
O&M	Operations and Maintenance
PhP	Philippine Peso
PIDS	Philippine Institute of Development Studies
PMS	Project Monitoring Staff
SIDA	Swedish International Development Cooperation
US$	United States Dollars

Abstract

The research is a case study on the issue of limited budget appropriation encountered in the implementation of ODA project loans in the Philippines. It demonstrates how expansionist tendencies in foreign aid manifest in the management of aid by the recipient Philippine Government. Particularly, too much ODA project loans are being approved resulting in limited budget appropriation during implementation. This behaviour is fuelled by imperatives and incentives generated by the good intentions surrounding foreign aid. By focusing on limited budget appropriation as a manifestation of expansionist tendencies, such behaviour is characterized as undesirable as well. Limited budget appropriation is a substantial cause of delay which in turn undermines aid effectiveness. The strength and resilience of these imperatives and incentives enable them to creep into the budget strategy certification process which is intended to address the problem of limited budget appropriation. The conditionalities attached to program loans, on the other hand, embody the intentions and imperatives on the part of donor agencies to influence the development priorities and strategies of recipient governments.

Relevance to Development Studies

Development is pursued in a number of ways, such as industrialization, stimulating the market, international trade, building human capital, democratization and local empowerment. Foreign aid, however, has two distinct features that directly relate it to the mainstream ideas of development. First, it validates the desirability of development by identifying which countries are able and willing to help, and which countries are in need of help. Second, it is the most direct means of external actors to influence how development should be defined and attained.

Keywords

Foreign aid, project loan, organizational behaviour, budget, incremental budgeting, aid effectiveness, delay, program loan

Chapter 1
Introduction

1.1 Background

Samaritans are not always regarded as *good*. Religious, civilizing and modernizing missions generated suspicion and resentment in the past. Today, missions are pursued in the name of development. The most direct route is probably through foreign aid or development assistance, often with diagnoses from donor *missions*. Some do not see this external help and the manner it is extended as *helpful* (Bauer 1991, Easterly 2006, Ellerman 2004). Those who are more sympathetic on foreign aid could not entirely fend off doubts. Consider the question asked by the title in Riddell (2007): "Does foreign aid *really* work?" I emphasize the word "really" as it usually connotes some degree of hesitation. Aid effectiveness, which took centre stage during the Paris Declaration in March 2005, implies ineffective aid. In certain cases, even increased foreign aid and the resulting large projects are regarded as a result of inappropriate behaviour on the part of donor agencies (Bridger and Winpenny 1991, Easterly 2003, Tendler 1975). In Sampson (1981), the behaviour of donor agencies and private bankers in having their funds committed are narrated side by side obscuring the fundamental distinction between them, if any. Hence, the terms "money-moving" and "expansionist tendencies" are used in Tendler (1975) to refer to such behaviour. This behaviour, however, cannot be readily portrayed in such derogatory manner. The Brandt Report in 1980 and the Monterrey Consensus on Financing for Development in 2002 epitomize international calls precisely for increasing development assistance. The significance of foreign aid is often measured in terms of its level or volume. As Bauer laments (1991: 359), "who can be against aid to the less fortunate?" So can we possibly determine or somehow sense that these expansionist tendencies are contrary to their avowed intentions? This paper is an attempt to muddle through aid intentions, imperatives and incentives. Particularly, it focuses on the issue of limited budget appropriation encountered in the implementation of Official Development Assistance (ODA) project loans[1] in the Philippines as a case study.

I wanted to focus on a specific cross-cutting issue rather than on particular projects as these are already evaluated regularly by government and donor agencies throughout the course of and after implementation. I choose to study the issue of limited budget appropriation for both theoretical and technical reasons. First, the analysis of the issue of limited budget appropriation can reveal the expansionist tendencies of development assistance not only on the part of donor agencies but also that of the recipient government. Exploring the behaviour towards foreign aid becomes possible due to the layered processes involved in the ODA project loan approval and annual budgeting in the Philippines. ODA project loans, hereafter referred to as project loans, are approved by the executive branch of the Government of the Philippines (GOP) with annual loan availment or disbursement target for the entire implementation period. The executive branch has the authority to negotiate and contract project loans with donor agencies. A loan on its own, however, does not ensure that the project would be provided adequate budget appropriation during implementation. From the GOP's view, a project loan is merely a source of financing like tax or revenue, not an authority to spend public funds. Thus, before a loan amount can be spent by an implementing agency, the Congress must first appropriate budget for project expenditure under an annual enacted budget or the General Appropriations Act (GAA). Gaps between the annual loan availment schedule and the budget appropriation could indicate some insights on the tendencies of donor agencies and the GOP towards foreign aid. As for the more practical reasons, limited budget appropriation is probably the most persistently blamed cause of delay, particularly for project loans in the Philippines. Due to such persistence, the problem has been obscured as it became regarded by project planners, implementers and evaluators accustomed to it as a natural condition or environment that project loans, just like any other government activity, are bound to encounter. While budget is not sufficient to ensure project success, it is however necessary as the first condition that has to be met. Even assuming competent capacity and favourable environment in implementation, the project will not move without the budget. Furthermore, other causes of delay, identified distinctly from limited budget, are at times actually caused by limited budget. These causes include delayed procurement, protracted land acquisition and resettlement, and poor contractor performance.

1.2 Research Objectives and Questions

The goal is to contribute to a better understanding of the organizational behaviour towards foreign aid. Particularly, the objective is to illustrate how money-moving behaviour of donor agencies manifests in the recipient government's aid management as well as to characterize such behaviour. The paper is thus more descriptive and explanatory than prescriptive. Nonetheless, it briefly identifies and assesses existing reform measures intended to address the issue. At the very least, the findings are aimed at prompting proponents, donors and evaluators to reflect on their roles and perspectives in the approval process.

To characterize the tendencies in development assistance as expansionist, it is necessary to illustrate how limited budget appropriation undermines aid effectiveness. Thus, the research asks these preliminary questions in Chapter 2: To what extent delay can be attributed to limited budget appropriation and how does delay undermine aid effectiveness? Approval of project loans beyond budget capacity lends credence to the expansionist tendencies of donor agencies and exposes the GOP's own behaviour as a response. This is operationalized in the following questions in Chapter 3: Do the actors in the approval process of project loans ignore the eventual possibility of limited budget appropriation, and what are the factors inducing such behaviour? Reform measures are briefly discussed in Chapter 4: Identify and assess existing reforms in aid management to address the problem? In Chapter 5, I reflected on the results of the research in terms of the intentions, imperatives and incentives surrounding foreign aid in general.

1.3 Analytical Framework

Amongst the less sympathetic literature, the intentions surrounding foreign aid and donor agency behaviour are analyzed in terms of political economy and post-development thinking. The usual culprits in accounts from political economy include imperialism and ideology backed by political and commercial interests (Peet 2003, Randel et al. 2002, Wall 1973). In post-development literature, the mainstream discourse on development is deconstructed to reveal depoliticization, technocracy, Northern expertise and social engineering (Escobar 1995, Ferguson 1994). In more subtle explanations, foreign aid is analyzed in terms of organizational behaviour, particularly the imperatives and incentives faced by the actors involved (Easterly 2002, Ostrom et al. 2001, Tendler 1975). To have a more tangible grasp over the issue, limited budget appropriation is analysed in this paper in terms of Judith Tendler's (1975) account of the *expansionist tendencies* in development assistance. The exposition in her book *Inside Foreign Aid* joins the company of Niskanen's (1971) budget-maximization among government bureaucrats and Wildavsky's (1964) incrementalism in budgetary processes as three of the most enduring studies on organizational behaviour. Tendler (1975) argues that the money-moving behaviour among donor agencies is motivated by organizational factors and environment in foreign aid that render the level of resources committed to recipient governments as the standard by which organizational success is measured. While the book may have been written more than a quarter of a century ago, the *expansionist tendencies* appear to endure the internal reforms, if any, from donor agencies undertaken up to the present. In more recent publications across varied perspectives, *expansionist tendencies* or money-moving behaviour is widely recognized and almost axiomatic (Bridger and Winpenny 1991: 5, Easterly 2003: 34, Ferguson 1994: 323). In this paper, the description of the organizational behaviour towards foreign aid is explained in terms of the roles and perspectives of the actors involved.

However, donor agencies can justify and have often justified[2] such *expansionist tendencies* "by identifying the aid requirements needed to achieve a target rate of economic growth, calculating the difference between existing aid and the requirements, and then advocating a commensurate aid increase" (Easterly 2002: 44). On the part of the recipient government, in this case the GOP, the *expansionist tendencies* can be justified by regarding project loans as cheap source of financing and a venue for technology transfer in terms of best practice and management expertise. Put simply, the all-purpose justification is that the behaviour regarded as money-moving or expansionist is not detrimental but instead necessary. This is also the reason why I purposely excluded grant aid in the research as the number of justifications for its increase is infinite while the analytical framework of this paper cannot be employed as grant aid is not appropriated for under the GAA. This case study on the problem of limited budget appropriation can illustrate the *expansionist tendencies* in development assistance. Such behaviour can be illustrated by the approval of project loans beyond the budget capacity of the GOP. While project loans are indeed cheap, the recipient government must regulate how much project loan should be contracted as these are ultimately paid for, and in this sense, are similar with any other kind of public expenditure. Furthermore, while the usual justifications of volume vis-à-vis need could have been intended initially, the imperatives and incentives faced by donor agencies and the GOP in terms of the roles and perspectives of the actors involved might be the decisive force driving such behaviour. The latter possibility can be illustrated for two reasons. First, the approval of project loans beyond the budget capacity of the GOP oftentimes results in delay which could undermine aid effectiveness as discussed in Chapter 2. Second, fiscal discipline is a policy that both donor agencies and the GOP adhere to. Increasing the budget to accommodate the appropriation requirements of all approved project loans would be to deviate from the national fiscal policy.

For some of the actors, the project loan amounts constitute the policy while budget appropriations represent the practice, rather than the other way around. The implementation schedule of project loans becomes the target and the budget appropriations as the actual performance. Drawing this line makes some sense as project loans are themselves sovereign commitment by the recipient government to donor agencies. The project loan schedule orients implementing agencies in terms of what Hirschman (1967) calls "temporal latitude or discipline". More importantly, the declared objectives of these project loans have already raised expectations and hopes among partners and beneficiaries. During the State of the Nation Address in July 2004, however, the President of the Republic of the Philippines proclaimed to the nation that "our most urgent problem is the budget deficit". By that time, the government has been operating on a fiscal deficit for two decades except for the years 1994-1997 when privatisation proceeds led to surpluses (NEDA 2004a: 93). Such proclamation was translated into a national fiscal policy of balancing the budget and became an integral part of both the Medium Term Philippine Development Plan (2004-2010) and the President's Ten Point Agenda. This fiscal policy is endorsed by the results of numerous studies on the relationship between aid and growth. These studies are surveyed in *Assessing Aid*, a World Bank report published in 1998 which concludes that foreign aid works in a good policy environment. One of the studies cited is the Burnside and Dollar paper where the measurement proxy for sound economic management is based on budget surplus, market openness, inflation rate and some institutional quality (World Bank 1998: 32-33). Under the infamous *Washington Consensus*, fiscal discipline is also one of donor-sponsored prescriptions. Fiscal discipline, therefore, is both a national policy and a donor-recognized ingredient for aid effectiveness. I neither advocate nor intend to assess fiscal discipline as a prescriptive policy as this is a separate study in itself. It suffices that an established national policy recognized by the donor circle sets the standard by which the behaviour of the actors in the approval process is gauged with.

This can be simplified in the following analogy. Project loans are like food or medicine, which are helpful but only to a certain amount. That threshold is the human body's capacity for food intake or the medical prescription. Luckily, the threshold amount in my case study can also be observed: budget capacity and donor-prescribed national fiscal policy. Food intake beyond the body's capacity is gluttony. Similarly, project loans beyond the budget absorptive capacity of the recipient government are a result of *expansionist tendencies*. Hence, I trace the problem of limited budget appropriation back to the loan approval process to determine whether the actors ignore the possibility of limited budget, and what are the factors inducing such behaviour.

The act of ignoring, however, presupposes foresight or, at the very least, appreciation of the looming possibility of encountering the problem. The act of ignoring could mean either the actors could not possibly anticipate the problem ex ante, or that they do see the looming possibility of limited budget but do not consider it a problem. The act of ignoring in the latter sense is highly unlikely as limited budget appropriation has never been failed to be cited as a key implementation issue in the annual portfolio reviews being conducted by the GOP's socio-economic planning agency, the National Economic and Development Authority (NEDA). The issue has been etched into a reporting template. A more plausible story is that the actors could not be expected to anticipate the problem at the time of project loan approval. I draw this from my reading of the discourse among the actors *naturalizing* the issue on limited budget appropriation into an environment that is beyond appreciation. To rule out this possibility, it must be shown that the problem of limited budget appropriation is within foresight or appreciation. Thus, the research employs another seminal theory on organizational behaviour, i.e., incremental budgeting. Aaron Wildavsky (1964), drawing out the politics underlying the United States budgetary process, argues that budgeting is done by accepting the previous budget levels as satisfactory basis for deciding the subsequent budget levels, confining the debate largely over incremental changes. If budgeting in the Philippines is largely incremental, then future budget levels available for project loans being considered for approval can be appreciated ex ante. While the budgetary process studied in Wildavsky (1964) is that of the United States, subsequent literature on financial administration also portray budgeting in developing countries as incremental (Caiden 1996: 6, Caiden and Wildavsky 1980: 101-125). As suggested in subsequent literature (Bailey and O'connor 1975, Berry 1990), however, incremental budgeting has amassed several conceptual definitions[3] and operationalization since Wildavsky (1964) thus further researches employing the concept must be explicit as to which specific characteristics of incremental budgeting are under consideration. For the purposes of this research, one of the conceptual definitions identified in Berry (1990: 171) is selected: "smallness of the ultimate change". I choose to focus on the incremental result of the process as this squarely meets the need to show that future budget levels can somehow be foreseen or appreciated ex ante. Again, I neither advocate nor intend to assess the normative aspect of incremental budgeting. Incremental budgeting is employed as a positive tool.

1.4 Methodology and Data Sources

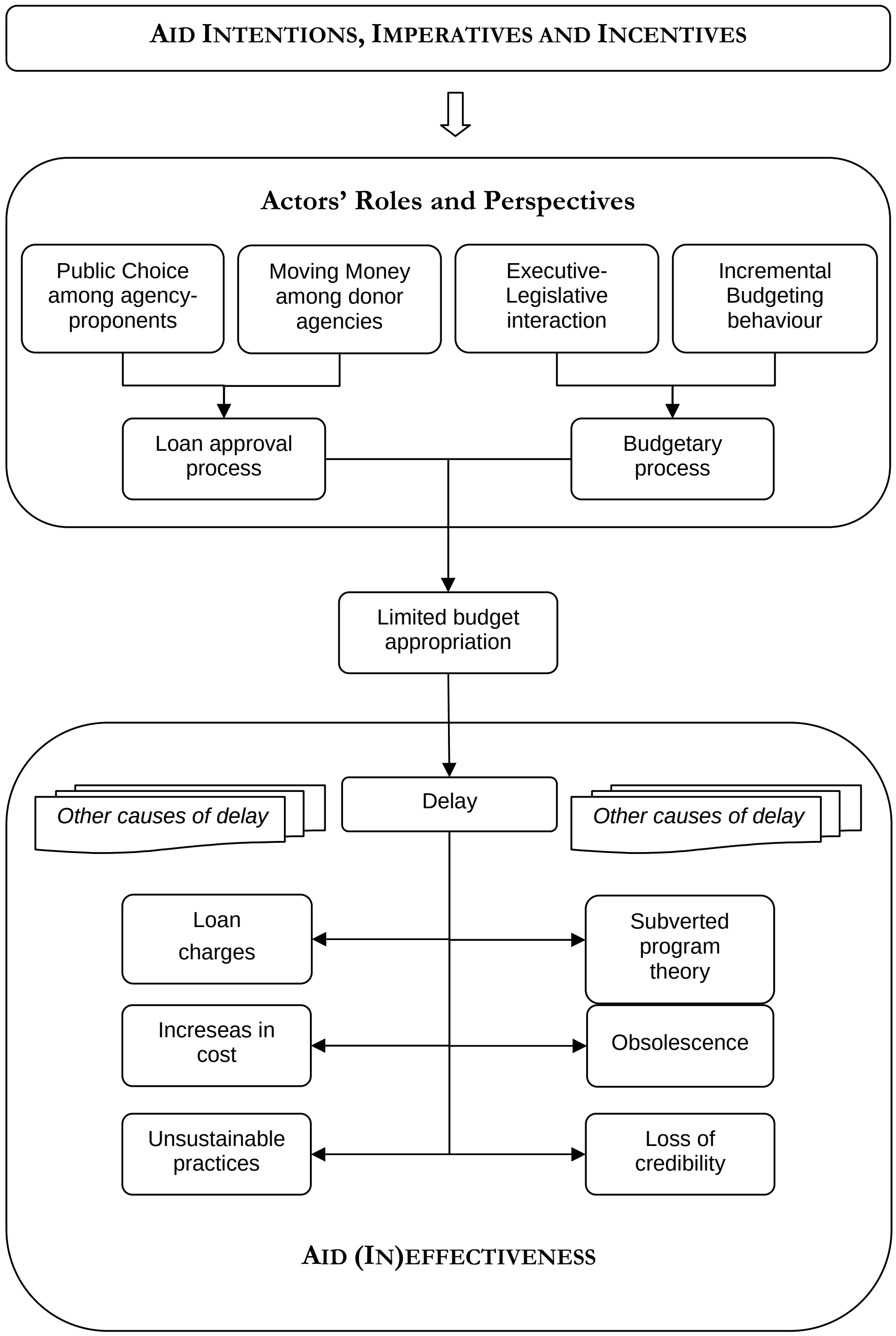
Quantitative and qualitative methods are employed to answer the descriptive and explanatory questions, respectively. Questions on how delay undermines aid effectiveness and the factors inducing expansionist behaviour are dealt with through key informant interviews and qualitative review of professional literature. Interviews were conducted in July 2008 with staff from several government agencies. Agencies include those which oversee the processes of project approval and budgeting, namely NEDA and the Department of Budget and Management (DBM), respectively. Interviews were also conducted with staff from three implementing agencies, namely the Department of Agriculture (DA), the Department of Education (DepEd) and the National Irrigation Administration (NIA) representing the rural development, social and infrastructure sectors, respectively.

The questions on whether limited budget appropriation is ignored and to what extent delay can be attributed to limited budget appropriation are gauged through the analysis of quantitative data. For the latter question, the budget appropriations, physical accomplishments and loan target for each implementing agency are compared. If an implementing agency spends (almost) all of its appropriation but still lags behind loan target, then the cause is not so much implementation capacity or environment but limited budget.

In assessing whether the problem is ignored, three steps are involved. First, frequency distributions of difference scores are used to assess incremental results in the budgeting process. Difference scores refer to the changes in the budget for a particular year compared to the previous year within a particular period. Next, I did an ex post projection of budget appropriations based on the result of the analysis of incremental budgeting. Lastly, a projected loan backlog is computed as the difference of the loan availment target and the projected budget appropriation and compared it with the actual backlog. I chose the period from 2001-2007 corresponding to the years the current administration is in office. I also purposely selected eight[4] implementing agencies with the highest level of ODA project loan commitment, namely DA, the Department of Agrarian Reform (DAR), the Department of Environment and Natural Resources (DENR), DepEd, the Department of Social Welfare and Development (DSWD), the Department of Public Works and Highways (DPWH), the Department of Transportation and Communication (DOTC) and NIA. By chance, a good mix of agencies in terms of sectoral distribution resulted from the selection: three agencies for rural sector, two for social sector and three for infrastructure sector. In total, 125 project loans implemented by these agencies are included in this part of the research, out of the 149 ODA loans signed from 1996-2007.

The sources of data include interview notes, donor and government evaluation reports, ODA review documents annually submitted by the eight agencies, the NEDA Project Monitoring Staff (PMS) loan database, annual GAAs and Budget of Expenditure and Sources of Financing (BESF) documents. The research also draws insights from academic journals and books. Lastly, my four years of experience as a project monitor and evaluator of project loans with the NEDA inform much of the thinking and some of the stories shared in the research. Indeed, I started to seriously ponder on this kind of behaviour as a result of one of my evaluation reports on a proposed project loan in May 2006. The proposal was approved despite showing that the implementing agency would more likely be unable to provide sufficient budget appropriation considering the requirements from other projects in its portfolio and the usual increases allowed in budget. The questions in my mind at the time inspired the research. My relative inexperience, on the other hand, enabled me to step back from and have an *outsider's* view of the institutional discourse on the issue.

Figure 1
Analytical Framework



Source*:* Own construction

Chapter 2
Limited Budget

The research seeks to demonstrate that the problem of limited budget appropriation not only exposes the behaviour in development assistance but also characterizes it as expansionist. *Expansionist* is a derogatory term. Thus, it must be shown that limited budget appropriation is not only considered as deviation from design but causes problems in development assistance. This chapter illustrates how limited budget appropriation, as a cause of delay, undermines aid effectiveness[5]. First, the extent to which delay can be attributed to the problem of limited budget appropriation is assessed. Then the chapter explores how delay undermines aid effectiveness.

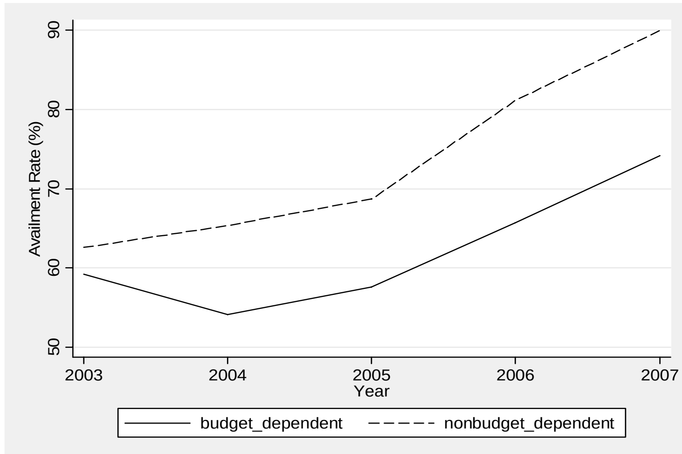
Delay arises because a project, in contrast with policies and regular activities, is "designed to achieve specific objectives within specified resources and implementation schedules" (DAC 2002: 30). Thus, a project incurs delay when it is extended or not completed within the original schedule. Delay, however, has a negative connotation only in relation to the implementation schedule in the design. In other words, delay assumes that the implementation schedule as designed would be the effective and efficient way of carrying out the project. But there are cases where the implementation schedule is determined, in hindsight, to be inappropriately short. Avoiding delay in this sense would mean hasty project approval and implementation. Consequently, implementing agencies encounter pressure to disburse the loan within a shorter period of time. This pressure is also encountered when a project is already delayed and set to pursue a catch-up plan. Inappropriately short implementation period is actually a manifestation of the expansionist tendencies in development assistance. Two relatively smaller project loans implemented in shorter periods are, in terms of the level of loan commitment, equivalent to a project loan twice as large and implemented twice as long.

2.1 Extent of Delay Attributable to Limited Budget

The problem of limited budget appropriation is just one among many other causes of delay. Based on a survey of the annual ODA portfolio reviews undertaken by the NEDA covering the years 2001 to 2007, the key implementation issues that never failed to be cited are budget, procurement, Local Government Unit (LGU) capacity, and right-of-way acquisition and resettlement (NEDA 2002, 2003, 2004b, 2005, 2006, 2007, 2008). This part of the research attempts to make some sense of how much of the delay can be attributed to the problem of limited budget appropriation.

One way of illustrating the extent to which delay can be attributed to limited budget appropriation is to compare the performance between budget dependent and non-budget dependent loans. Non-budget dependent loans by their nature do not encounter the problem of limited budget appropriation. Thus, we would expect budget dependent loans to encounter substantially more delays if delay can indeed be substantially attributed to limited budget appropriation. The comparison, in terms of the rate of actual loan disbursement over the loan availment schedule, is shown in Figure 2.

Figure 2
Availment Rates of Budget Dependent and Non-Budget Dependent Loans



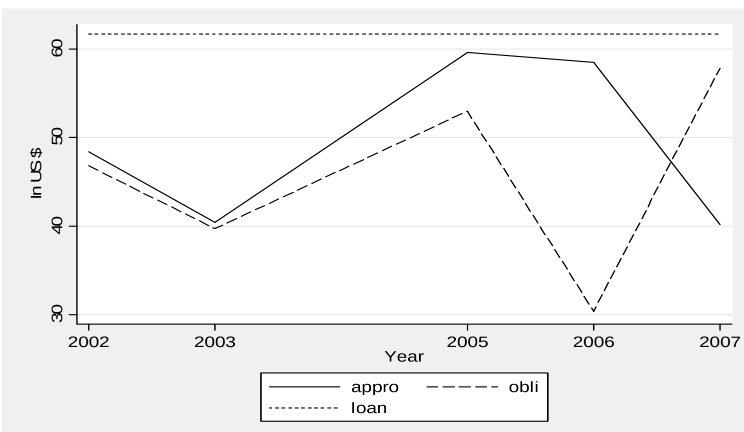
Source*:* NEDA-PMS loan database

The graph shows that the loan disbursement performance of budget dependent loans conspicuously and consistently lags behind that of non-budget dependent loans. This is an indication that delay is substantially attributable to limited budget appropriation. However, it can be argued that the gap can be explained by factors, other than budget dependency, affecting the capacity and environment which vary between budget dependent and non-budget dependent loans. One such factor is that non-budget dependent project loans are implemented by government-owned and controlled corporations and financial institutions. These agencies, on average, have better paid and probably more qualified staff. Hence, the illustrations that follow deal exclusively with budget dependent agencies.

Limited budget appropriation means that the implementing agency does not have authority to spend the full loan amount scheduled for availment for that given year. In terms of project implementation, the agency would not be able to fund the inputs and activities scheduled to be undertaken, hence the delay. It is a common practice, however, that private contractors and suppliers are involved in project implementation, where some inputs are supplied and some activities are undertaken by them during the year before the bills are paid by the government. When an agency encounters the problem of limited budget appropriation, these bills will not be paid in full. This means that projects, at times, achieve physical accomplishments whose financial requirement exceeds the budget appropriation for a given year. Under such circumstances, it can be deduced that delay arises not because of other problems of project implementation but solely due to limited budget appropriation. The inference is justified by the fact that the project was able to provide the inputs and implement the activities but budget appropriation is merely insufficient to push implementation farther.

Thus, this mismatch between physical accomplishment and budget appropriation is exploited by the research to be able to make some sense of how much of the delay can be attributed to limited budget appropriation. A proxy for physical accomplishment that can be quantified uniformly, i.e., in US dollars[6], and thus comparable to budget appropriation is the obligations incurred by implementing agencies. The obligations incurred by for a given year is then compared with the budget appropriation and the loan target for the same year. If the obligations incurred by an agency exceed its budget appropriation, the problem is more of limited budget appropriation than any other cause. If budget appropriation exceeds the obligations incurred but falls short against the scheduled loan availment, the problem is a mixture of limited budget appropriation and other causes. Limited budget appropriation can be ruled out only in cases where the budget appropriation exceeds or at least tallies with the obligations incurred as well as the scheduled loan availment. For instance, Figure 3 shows the comparison of the budget appropriation, obligations incurred, and the average loan availment schedule of the DAR for the calendar years 2002, 2003, 2005, 2006 and 2007.[7] Unfortunately, the data on obligations for calendar years 2001 and 2004 were not available for all the sample agencies.

Figure 3
DAR Appropriations, Obligations and Loan Target

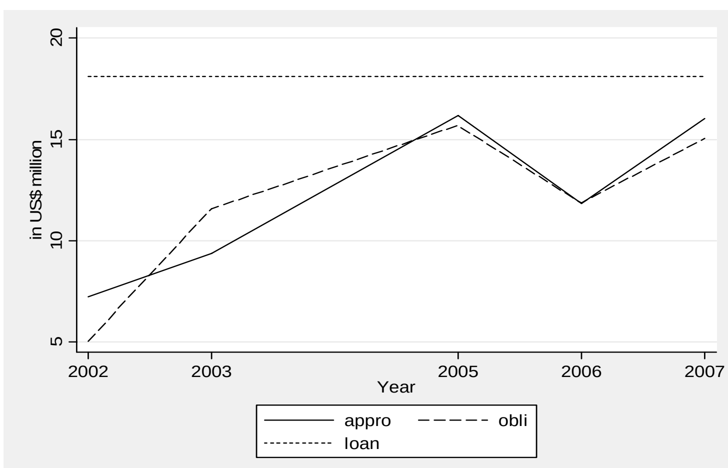


Source*:* Own construction based on data from NEDA ODA Review raw document

The graph shows that for the years 2002, 2003 and 2007, the delay in DAR project loans can be attributed to limited budget appropriation more than any other cause. This is indicated by the fact that during these years, the obligations incurred by DAR either almost tallied with or exceeded the budget appropriation. The progress of implementation is deliberately held back, or would have stretched farther had it not been for the insufficient appropriation. For instance, procurement processes for a given year have to be rescheduled based on the available budget appropriation such that some contracts have to be deferred by implementing agencies in cases of limited appropriation. Compared with the average loan availment target, DAR appropriations fell short by around US$ 10 million in 2002, and around US$ 20 million in both 2003 and 2007. On the other hand, DAR was provided sufficient budget appropriations in 2005 and 2006 but still lagged behind in implementation due to other causes of delay.

In the case of project loans implemented by the DSWD, the problem of limited budget appropriation is more remarkable. As shown in Figure 4, DSWD was able to obligate almost all of its budget appropriation for all the included years and even exceeded the budget appropriation in 2003. Despite such indication of physical accomplishment, the project loans of DSWD are still below the average loan availment schedule. This suggests that the delay in DSWD project loans can be attributed to limited budget appropriation more than any other cause.

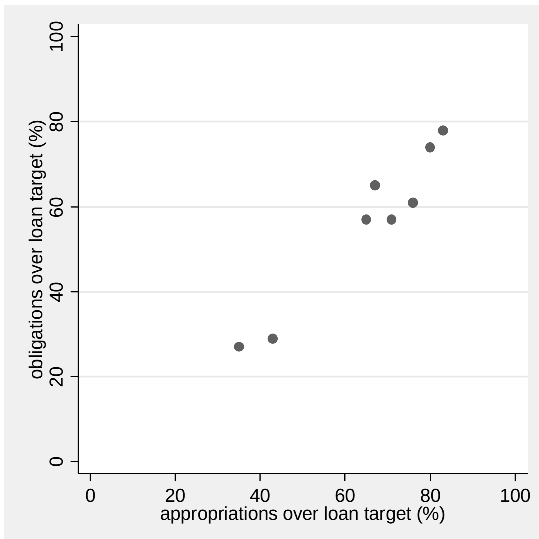
Figure 4
DSWD Appropriations, Obligations and Loan Target



Source*:* Own construction based on data from NEDA ODA Review raw documents

In order to make some sense of the extent of delay attributable to limited budget appropriation among the eight selected agencies, the total of the annual appropriations, obligations and loan availment schedules for each agency are computed. The percentage of total appropriations over total loan target is then compared with the percentage of total obligations over total loan target for each of the eight agencies. A record of no delay in implementation is indicated by a percentage of 100 for total obligations over total loan target. Note that obligations serve as a proxy to physical accomplishment. Limited budget appropriation as a cause of delay can be ruled out only in case the percentage of total appropriations over total loan target is 100. If the two percentages tallies or approaches the same ratios, limited budget appropriation can be considered as the most critical problem causing the delay. Figure 5 plots the percentage of obligations over loan target against the percentage of appropriations over loan target.

Figure 5
Appropriations over Loan Target and Obligations over Loan Target



Source*:* Own construction based on data from NEDA ODA Review raw documents

First, the plot indicates that all of the eight agencies encountered substantial delays. None of them was able to obligate at least 80% of the loan target. Four agencies were able to obligate around 60% of the target while the bottom two were only able to obligate around 30%. Second, all of the eight agencies encountered the problem of limited budget appropriation as well. For instance, only one agency was provided budget appropriations beyond 80% of the loan target. This means that even assuming the agencies did not encounter any other cause of delay, the available budget appropriations would still limit implementation progress. Even under better capacity and favourable environment, two agencies could only implement up to around 40% of the target while four agencies could only accomplish around 70% to 80% of the target, considering the limitation on budget appropriation. More importantly, the plot shows that total obligations almost match total appropriations for the eight agencies. This means that implementing agencies were able to obligate most of the available appropriations. Though obligations are lower than appropriations in all agencies, the differences are rather small. This suggests that capacity and environment are important but limited budget appropriation is the more significant cause of delay in project loan implementation.

2.2 Impact of Delay on Aid Effectiveness

Delay in project implementation would likewise result in delay in the provision of intended benefits to the beneficiaries. Intuitively, one may ask whether delay is really that significant as long as benefits get through to beneficiaries in due course. However, a closer look at the consequences would show that delay, not only postpones, but undermines aid effectiveness. In an Asian Development Bank (ADB) annual report undertaken by its Operations Evaluation Department (OED), the results of a regression analysis carried out with 827 ADB-assisted projects approved from 1970-1997 show that implementation delay decreases the probability of project success (2006: 33-39). In Mosley and Eeckhout (2000: 134), the recurring incidence of implementation delay is identified as one of the three reasons why project aid is regarded as unsustainable, paving the way for program aid as the better aid modality. This part illustrates concretely how delay undermines aid effectiveness.

2.2.1 Loan Charges

A negative consequence of delay which can be easily quantified for all ODA loans in the Philippines is commitment charge. A commitment fee is charged for a portion of the loan amount as agreed in the loan agreement that is not disbursed on schedule. From 2001-2007, a total of US$ 54.50 million was paid by the GOP for its ODA loan portfolio to some donor agencies as commitment fee (NEDA 2002, 2003, 2004b, 2005, 2006, 2007, 2008). Based on cost estimates of an ongoing irrigation sector project in the Philippines, the amount is more than enough to fund the civil works construction of 10 irrigation projects covering 12,000 hectares of service area. This is probably the most discussed negative consequence of delay among development practitioners from government and donor agencies in the Philippines largely because the data is readily available. Others may consider it trivial considering the concessionality of ODA loans and the overall size of the loan portfolio. Unfortunately, there are other negative consequences of delay that are less obvious but more alarming.

2.2.2 Cost Increases

Apart from the additional charge on the loan, NEDA (2008) observes that delay usually entails an increase in the actual cost of implementing a project. Prolonged implementation period results in longer administrative and operations expenditure, including the deployment of consultancy services. Other examples of cost increases due to delay include inflationary effect on fuel and construction materials, as well as standby claims from contractors of infrastructure projects. Projects with extensions incur increases in costs, specifically under the project management component. The Infrastructure for Rural Productivity Enhancement Sector Project, for example, was extended for two years in August 2007. Under the project management component, however, an increase of around US$ 7.85 million was incurred, which is 114% of the original component cost estimate. The Southern Philippines Irrigation Sector Project, on the other hand, was extended in May 2006. Likewise, the project incurred a cost increase in the project management component in the amount of around US$ 10.32 million, which is 136% of the original component cost estimate. These project management costs could have been used to increase the outputs under the infrastructure and capacity building components, which are the reasons for managing the projects in the first place.

2.2.3 Unsustainable Practices

The infamous project behaviour to quickly disburse as much loan amount may also arise due to (avoidance of or catching up on) delay. Hasty disbursement could end up being wasted. One story that instantly comes to mind is a project with a livelihood component for rural beneficiaries. The project decided to provide rural families with chickens for backyard raising as additional source of livelihood. Providing chickens requires little except for purchase money and willing recipients. The livelihood strategy was certainly convenient if the only purpose is to quickly disburse a portion of the loan. The chickens, expectedly, did not last longer than a few meals, instead of providing a genuine source of livelihood. The chicken story may seem petty in terms of the amount involved. Hence, the next is a story about ships. The Acquisition of Patrol Vessels Project involved the importation of 14 vessels from Spain worth around US$ 36 million to safeguard marine resources. On the part of the government, the project was simple and plain as the construction as well as delivery of the vessels was entirely contracted with a foreign company in the business of building these ships. Like the chicken story, the implementation modality of the project loan was quick-disbursing. After delivery, it turned out that the annual cost of operating and maintaining the vessels would almost eat up the entire annual operating and maintenance (O&M) budget of the agency originally responsible for O&M. After a year of the last delivery, six of the vessels were not even deployed while the rest were deployed thinly.

2.2.4 Subverted Program Theory

Program theories are also muddled when projects are delayed. Weiss (1998: 55) defines program theory as the "explanation of the causal links that tie program inputs to expected program outputs [or outcomes]". For instance, rural infrastructure projects typically have community participation components. The cause-effect idea behind the strategy is that enlisting the participation of the community is supposed to ensure that construction of *white elephant-*structures is avoided, political patronage in project identification is reduced, and the likelihood of sustainability is increased. Because of the pressure to disburse associated with delay, however, the program theory is subverted. There are instances where the causal link is messed up in actual implementation. Farm-to-market roads, communal irrigation and water supply projects are started and completed ahead of the social priming activities and participatory approaches. In other cases, community participation is conducted in areas other than those where the infrastructure projects are constructed. The reason for such project behaviour points to the fact that participatory approaches are activities that should be undertaken before the construction activities under the infrastructure component involving larger amounts of loan disbursement. The research does not argue that the program theory would have worked had it been followed according to the intended sequence. With the program theory taken in stride, however, the activities become nothing more than a set of random actions.

2.2.5 Obsolescence and Missed Opportunities

Timing is particularly critical in the implementation of certain types of projects. Delay could render project inputs, outputs and objectives obsolete. For instance, the irrigation canals of the Malitubog-Maridagao Irrigation Project I were constructed ten years prior to the start of operations. By the time the project started operating, the canals already required rehabilitation due to siltation, and a decade of wear and tear. Some opportunities for improving project effectiveness would also be missed in cases of delay. There are projects where the utilization of the outputs is affected by factors beyond the control of the project. One obvious factor is nature. A well-known example is that an irrigation project not completed before the rainy season misses the opportunity of impounding enough water for its operations, and the farmer-beneficiaries would have to wait for another year.[8]

2.2.6 Loss of Credibility

Plans to implement a development project raise high expectations among the targeted beneficiaries. But delays may result in the loss of credibility of the project among partners and stakeholders as well. For example, unpaid claims for construction works physically accomplished by private contractors often pile up during implementation and have tarnished the image of infrastructure projects undertaken by the government in the Philippines. At one point in 2005, two infrastructure agencies implementing projects assisted by loans from the Japan Bank for International Cooperation (JBIC) incurred unpaid billings in the amount of around US$ 40 million (NEDA 2006). With such reputation, it can be supposed that only those private contractors which can financially accommodate delayed payments take the risk of dealing with these projects. Private contractors that are equally capable to undertake these contracts veer away from these projects. Accordingly, such loss of credibility results in a decline of the competitiveness of the procurement process. Such additional risk and accommodation on the part of the private contractor might also lure the extraction of an equivalent premium, such as lower quality of and corruption in project implementation.

2.3 Uncertainties in Development Processes

At this point, it must be recognized that even if desirable, delay cannot be totally avoided considering the nature of the development process as being complex and almost entirely uncertain. Since 1967 when Hirschman published his classic book *Development Projects Observed*, uncertainties became widely recognized as an inherent element in project implementation. Unforeseeable events, in some cases, even end up in providential results for development projects. Hirschman (1967) opens with a story, for instance, of the operation of a paper mill project in Pakistan that was threatened by the unexpected flowering of the bamboo trees leading to their death but at the same time provided the impetus to diversify and develop more reliable raw material base for the mill. These instances seem to recur in most of the projects studied in Hirschman (1967) which constituted the principle of the "hiding hand" that providentially hides the difficulties ahead allowing development projects to at least take off and eventually provide opportunities for innovation and creativity. Almost half a decade later, the world of development workers was divided in Easterly (2006) between "planners" who practice traditional approaches of top-down planning and "searchers" who do things in a smaller scale constantly testing their ideas for change. Attempts at preventing delay can be regarded as a *planner's* preoccupation.

Recognizing these uncertainties, however, should neither excuse every failure encountered in the past nor cripple us into searching for every detail of the project every step of the way. With decades of experience in implementing and evaluating development projects, lessons ought to have been learned at least for certain aspects within appreciation and foresight. These lessons should inform better planning for some aspects of project implementation. One such aspect is to commit only to as much ODA loan as the government is capable of absorbing. No amount of providence will ever help a searcher to find benefit in acquiring ODA loan commitment which a government cannot and does not intend to fully utilize on time. The resulting uncertainty will only create a false and distorting sense of urgency in implementation and lead to tangible and direct impact on aid effectiveness. Moreover, there are "steps" that cannot be easily retrieved. Committing to a project loan is one of them as it gathers diverse and compelling interests such as those of the donor, implementing agency, LGUs, partners from the private sector and beneficiaries. Otherwise, delay could actually be beneficial as it allows the government to rethink the project. In the case of the Philippines, however, project loans that are delayed are almost always extended.

Chapter 3
Too Much Project Loans

In Chapter 2, the problem of limited budget appropriation is shown to cause substantial delay, which in turn generates imperatives and incentives distorting project loan implementation. This characterizes the behaviour which causes limited budget appropriation as undesirable. This chapter, on the other hand, attempts to demonstrate that limited budget appropriation is caused by, or can be viewed as a manifestation of, the expansionist tendencies in development assistance. To borrow Hirschman's (1967: 56) words, the problem in budget could be "a mere reflection of other problems".

3.1 Ignoring the Problem

The act of ignoring the eventuality of limited budget appropriation at the time of approval presupposes foresight or appreciation of the looming possibility of encountering the problem during implementation. While experience should be sufficient to prompt the actors to think twice and hard before approving project loans, it is evident from the persistence of the problem that after the second thoughts, project loans are approved in bigger amounts and in shorter implementation periods more often than not.

The actors in the approval process can be categorized into three groups, namely proponents, evaluators and financiers. Project proposals are officially endorsed by proponent agencies that will eventually implement the projects should these be approved. These agencies have their own planning units primarily responsible for packaging proposals. Evaluation of these proposals are deliberated in an interagency body called the Investment Coordination Committee (ICC) composed of the Secretaries of Finance, Socio-economic Planning, Budget and Management, Agriculture, Trade and Industry, the Central Bank governor and the Executive Secretary. The NEDA serves as the technical secretariat which reviews and presents the proposals to the ICC. Although the donor agencies or fund sources have their own loan approval processes, they also play a major role in the approval process of the government. Implementing agencies oftentimes do not (or perceived not to) have enough expertise and resources in dealing with the technical aspects of project proposals. Thus, proponent agencies solicit the help of donor agencies through technical assistance grants. The practice is widely recognized as one of the ways how donors become associated with and eventually end up funding project loans (Bridger and Winpenny 1991, Tendler 1975).

To assess whether the problem of limited budget appropriation is being ignored, three steps are involved. First, frequency distributions of changes in the budget for a particular year compared to the previous year are used to assess incremental results in the budgeting process. Second, projected levels of budget appropriations for project loan portfolios of the eight agencies for 2001-2007 are derived based on the results of the analysis of incremental budgeting. Lastly, a projected loan backlog is computed for each agency using the projected budget appropriations, and compared it with the actual loan backlog.

Incremental budgeting is employed to demonstrate that limited budget appropriation is within foresight or appreciation. Incremental budgeting belongs to a major shift in public policy literature which departs from rational decision-making models. The shift is based on empirical accounts of policymaking, e.g., Simon's satisficing model and Lindblom's theory on incremental change. For instance, Lindblom (1959) formalizes the practice in a democratic setting of "muddling through", or the slow and cautious evolution of policies in terms of incremental changes undertaken in succession and informed by past policy experience. Incremental budgeting fits the theory on incremental change rather neatly. Aaron Wildavsky (1964), the leading commentator on incremental budgeting, in his account of the political dynamics underpinning the budgetary process in the United States, argues that to be able to deal with the immense complexity of the decisions and the interests of the participants involved, budgeting is simplified, satisficing, incremental and experiential. Incremental budgeting is done by accepting budget levels of the preceding years as satisfactory basis in formulating succeeding budgets, confining the debate mainly over incremental changes (Wildavsky 1964: 13-16).

Budgeting in the Philippines is widely perceived to be mainly incremental. This makes sense if Wildavsky's (1964: 131) depiction that "the budget is but an expression" of the political system is accepted. The Philippine political system and budgetary process are largely akin to those of the United States. In addition, it is not hard to imagine that fiscal discipline is more manageable in the case of incremental budgeting. While a number of laudable public expenditure reform initiatives were discussed, the most recent budget call released by the DBM (2008) for fiscal year 2009 appears inclined at incremental budgeting as the budget ceiling for each Department, albeit indicative and subject to adjustment, is set to be their respective appropriation levels in the fiscal year 2008. The simplest illustration of budgeting in the Philippines as simplified, satisficing, incremental and experiential is a provision under the 1987 Constitution that if Congress fails to enact a budget, the previous year's budget "shall be deemed re-enacted" [Article VI, 25(7)]. For this decade alone, the national government operated on re-enacted budgets thrice in 2001, 2004 and 2006.

The idea is that if budgeting is indeed essentially incremental, the amount of project loans that an agency can(not) absorb within their future appropriations can be appreciated. To have an idea of whether actual changes in budgets have been incremental in the Philippines, the frequency distribution of budget changes for the seven[9] selected agencies over a period of seven years is presented in Table 1. The variations are measured in percentage of increases or decreases of the budget compared with the previous year's level. Budget changes included in the distribution include 42 cases consisting of 6 two-year periods from seven agencies.

Table 1
Distribution of Variation (+/-) over the Previous Year at Department Level

	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71%+
Number of variations	17	12	7	2	1	1	1	1
Percent over total	40%	29%	17%	5%	2%	2%	2%	2%

Source*:* Own construction based on data from GAAs and BESF documents

It is fairly evident from Table 1 that most of the changes have been within the 30% range (+/-). More particularly, 17 or 40% of the variations fall within the 10% range while twenty-nine or 69% of the variations fall within the 20% range. Only six variations out of the total 42 cases are beyond the 30% range. Three of these outlier-variations came from just one agency, the Department of Agrarian Reform, whose budget levels deeply plunged since 2005. This can be explained by the fact that the agency is created and funded by the Comprehensive Agrarian Reform Program which is scheduled to lapse in the end of 2008 and has not yet been extended by law to date. Thus, three out of the six outlier-variations cannot be said to reflect the usual trend in budgeting. Note also that 8 out of the 9 cases of increases beyond 20% happened in 2006 to 2008. This can be explained by increases in revenue forecasts with the enactment and eventual enforcement of Republic Act 9337, also known as the Value Added Tax Reform Act, which raised taxes and lifted or limited exemptions. For instance, the estimated additional revenue from the law amounts to more than US$ 1.5 billion in 2006 assuming a 70% collection efficiency (PIDS 2006). This amounts to 9% of the total expenditure of the national government for that year. Therefore, much of the 9 cases of increases beyond 20% could be foreseen and should not be regarded as radical changes. These data indicate that budgeting at the Department level echoes the perception of incrementalism.

However, incremental budgeting at the Department level does not necessarily reflect incremental changes in the budgets of the bureau-level offices and the project loan portfolio being implemented by a Department. Officially, a Department Head has the discretion in allocating the agency ceiling among its bureaus, regional offices, attached agencies and projects (DBM 2008). As Wildavsky (1964: 32-35) observes, however, apportioning the Department level budget is often a difficult task as the bureaus and offices are expected to compete for shares among themselves. Project loans of a Department are in certain cases implemented by various bureaus and offices. Bureaus, offices and projects haggle among themselves for shares, which limits the discretion to reallocate shares from one bureau to another. If each bureau protects its own turf, then incremental budgeting might ensue. In contrast with the expectation that appropriation will continue once a regular project is included in an agency's budget base (Wildavsky 1964: 17), however, a project loan by design and agreement is time-bound. Project loans therefore do not formally establish a budget base but compete among themselves and with locally-funded projects for available appropriation. According to those involved in project planning, however, the level of appropriation provided to the project loan portfolio somehow establishes an expected proportion of future agency budget appropriation, similar to what Wildavsky (1964: 17) coined as "fair share". The frequency distribution of budget changes for the project loan portfolios of the eight selected implementing agencies over a period of seven years is similarly shown in Table 2.

Table 2
Distribution of Variation in Budget over the Previous Year at Loan Portfolio Level

	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71%+
Number of variations	13	8	8	6	6	2	1	4
Percent over total	27%	17%	17%	13%	13%	4%	2%	8%

Source: Own construction based on data from BESF documents

In the case of portfolio-level budget changes, there are more significant variations. While majority (60%) of the case-variations still falls within the 30% range (+/-), nineteen out of the total 48 cases or 40% of the total cases fall beyond 30%. The 48 cases consist of eight agencies over 6 two-year periods. The rather "non-incremental" result in budgeting at the portfolio level can be explained by the gap-filling role of project loans. Project aid modality, in general, connotes clear, specific and tangible objectives primarily intended to fill the needs of or gaps in developing countries in terms of resources, skills and systems (Riddell 2007: 180). In contrast with regular bureaus and programs within a Department, project loans are strictly time-bound and contractual by design. Project loans also require varying amounts of annual appropriation, depending on the progress of implementation.[10] It must be pointed out, however, that while 19 of the actual case-variations in Table 2 are beyond 30%, these cases are actually composed of nine decreases beyond 30% and ten increases beyond 30%. This could indicate that an increase in a particular agency or two-year period is cancelled out by a decrease in another agency or period, depending on budgetary requirements of agency portfolios. Thus, a more incremental result at the portfolio-level can be seen in the total GOP project loan portfolio for all eight agencies as shown in Table 3.

Table 3
Budget Changes over Previous Year in GOP Portfolio for the Eight Agencies

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
GOP Portfolio	-10%	5%	8%	17%	13%	-14%

Source: Own construction based on data from BESF documents

It can be argued that it is arbitrary to consider up to 30% variation as incremental. Similar empirical studies on incremental budgeting have considered varied ranges as incremental (Bailey and O'connor 1975: 64-65, Berry 1990: 184), the highest being up to 30%. The research, however, is not intended to determine whether portfolio-level budgeting is incremental or not *per se*. What is important is to have an idea on the extent and characteristics of budget variation, whether considered "incremental" or not. This is useful to set some criteria for the projections utilized in the succeeding illustrations.

The second step is to make a projection of budget appropriations for the loan portfolios of the eight agencies for 2001-2007 based on the characteristics of budget variation in Table 2. The projected increases are pegged at 30% every year, except for 2001, 2004 and 2007 where the actual budget appropriations are used. In the projection, I allowed no decreases in budget. Thirty percent is used because majority of the actual case-variations fall within this range. Note that some of these variations are below 30% while some more are actually decreases. Also, while 19 of the actual case-variations are beyond 30%, these cases are actually composed of nine decreases beyond 30% and ten increases beyond 30%. The actual appropriations are used for 2001 to set the base for subsequent 30% increases. For 2004 and 2007, the actual appropriations are used to keep the projections within the bounds of reality. If the increases are continuous from 2001, the projected appropriations for the project loans would eat up half of the total agency budget in the case of five agencies. In the case of another agency, the projected loan appropriations would eat up the entire agency budget. The projections are shown in Table 4. On the surface, the projections resemble budgeting that might be argued as too generous to be of practical use. This is precisely intended by the research to give the actors the *benefit of doubt* to compensate them for not enjoying the benefit of hindsight.

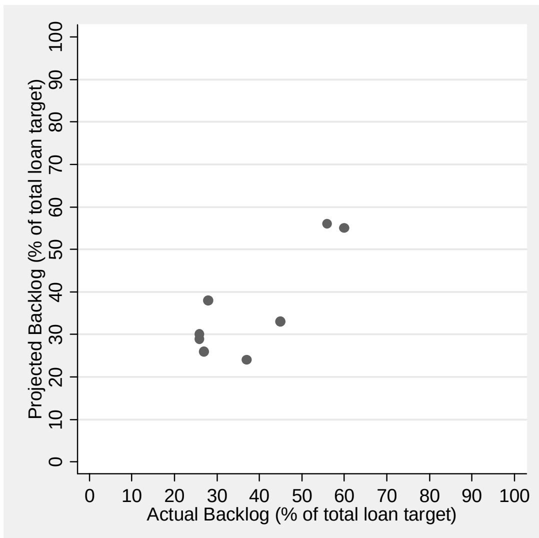
Table 4
Projected Budget Appropriations for Project Loans

	2001 (actual)	2002 (2001x1.3)	2003 (2002x1.3)	2004 (actual)	2005 (2004x1.3)	2006 (2005x1.3)	2007 [actual]
DA	11	14	17	9	12	17	12
DAR	25	32	40	40	53	74	42
DENR	14	18	23	3	4	6	7
DepEd	23	30	37	26	34	47	16
DSWD	5	7	8	10	13	19	16
NIA	43	56	69	21	28	39	82
DOTC	40	52	64	48	64	89	91
DPWH	181	233	289	211	279	389	343

Source: Own construction based on data from BESF documents/rounded off in nearest US$ million

The last step is to compute the projected loan availment backlog or delay of the eight agencies using the projected budget in Table 4. I further assume that all of the budget appropriation as projected would be utilized to isolate limited budget appropriation from other causes of delay. Projected backlog is simply the difference between the loan amount scheduled to be disbursed and the projected budget appropriation. Actual backlog, on the other hand, is the difference between the loan amount scheduled for disbursement and the loan amount actually disbursed. The idea is that with the projected budget, implementation capacity and environment on the high side, the projected loan backlog should be quite small. However, if the real problem is too much project loans rather than limited budget appropriation, the projected loan backlog would still be high. The projected backlogs of the eight agencies, compared with the actual backlogs, as percentages of total loan target are plotted in Figure 6.

Figure 6
Projected and Actual Backlog as Percent of Total Loan Targets



Source: Own construction based on data from NEDA PMS ODA database and BESF documents

The projected backlogs of two agencies (DENR and DOTC) are above 50% of their respective total loan target while those of three agencies (DA, DSWD and DPWH) are at least 30% and the remaining three backlogs (DAR, DepEd and NIA) are more than 20% of their respective total loan target. The sum of all the projected backlog or delay amounts to US$ 1,870 million or 35% of the total loan originally scheduled to be disbursed for the 125 project loans from 2001-2007. Even assuming no other problem in implementation, the eight agencies in aggregate would only be able to utilize 65% of the original loan availment schedule. This suggests that too much project loans are being approved despite the looming possibility of limited budget appropriation. Surprisingly, the projected and actual backlogs somehow converge into an imaginary diagonal line cutting the graph into two. This indicates that the resulting projections are, on average, comparable to the actual budget levels. In fact, the difference between the total projected backlogs of the eight agencies and the total actual backlogs is only US$ 3 million. This can be accounted for by the fact that the projections did not assume any radical revenue measure such as the VAT Reform Act which could have been readily forecasted and considered.

This part might be construed as presenting itself as being able to predict how much future backlog will accumulate during project implementation. This is far from my intention. Predicting available budget for project loans requires more sophisticated statistical analysis[11] taking into account government revenue, inflation and other macro-economic and political determinants of fiscal spending. Also, the period included in the research is too short to determine characteristics of budget variation with confidence. The comparison between the estimated and actual backlog simply aims to demonstrate that the problem of limited budget appropriation is within the foresight or, at least, appreciation of the actors during the approval process. With this appreciation, the actors could have known that the amounts of project loans being approved far exceed the future budget absorptive capacity of the government given the history of deficit spending and the national policy of fiscal discipline.

3.2 Factors Inducing ODA Maximizing Behaviour

This part explores the factors inducing the behaviour described in Chapter 3.1 in terms of the roles and perspectives of the actors involved. It seems odd to hear assurances from proponent agencies during the proposal stage that proposed project loans can be provided sufficient appropriations as much as complaints of limited budget during implementation from the same agencies. The bizarre behaviour extends to donor agencies that put much emphasis on the levels of aid commitment and disbursement and in the same breath require developing countries to reduce budget deficits.

3.2.1 Imperatives of Moving ODA

The research deems fit to begin with the money moving behaviour of donor agencies not only because much of it is amply explored in the literature but more importantly, this is where the behaviour in the approval process usually gains momentum. As described in Chapter 3.1, donor agencies play a substantial role in the approval process of the government because of their assistance to proponent agencies in formulating project proposals. According to Tendler (1975), the active role of donor agencies in assisting project identification and preparation stems from the slow commitment of donor resources, coined as the "abundance problem". Such abundance problem generates an organizational environment where approval of projects becomes the primary standard by which success is measured (Tendler 1975). The "abundance" problem becomes compelling if donor governments comply with the UN target of ODA levels equivalent to 0.7% of GNP while maintaining rigid budgetary processes. In a recent publication, Easterly (2003: 34) notes that Tendler's account "remains true today" as donor agencies continue to define themselves in terms of the volume of aid commitment. Donor agencies themselves are increasingly recognizing such behaviour. World Bank (1998: 23), for instance, observes that "disbursements (of loans and grants)…tended to become a critical output measure for development institutions. Agencies saw themselves as being primarily in the business of dishing out money…" Based on the Annual Evaluation Report (2006: 39) conducted by the ADB-OED, the Bank's "formal and informal internal incentives and performance management systems reward project approval rather than project quality, project implementation, and the achievement of development results." A study commissioned by the Swedish International Development Cooperation (SIDA) similarly reports that the incentives produced under the agency's budget process create pressure among the staff to commit allocated resources as quick and as big as possible (Ostrom et al. 2001: 132-135).

This part of the research describes how the expansionist tendencies and strategies of donor agencies are confronted and responded to by the actors in the recipient government. In the Philippines, these strategies are translated into and perceived by the actors in the proponent agencies in a variety of imperatives such as work output, management directive, lost opportunity, political decision, available funding as well as emergency response. In some implementing agencies, for instance, there are special units responsible for packaging project proposals exclusively for ODA loans as a response to the perception that project formulation is largely donor-driven as recipient governments lack resources to generate technically feasible project proposals in time for the donor agencies' programming cycles. These units are therefore predisposed by the mandate of their office to formulate project proposals as their primary and perhaps the only measure of work output. In some instances, the modus operandi of donor agencies begins with getting the top management of an implementing agency "on board". The top management, as the recruited "champion" of the laudable reforms and promised benefits associated with the project concept, would subsequently direct the agency unit responsible to package project proposal and avail of the loan. In other instances, donor staff through informal channels like email messages and consultation meetings present a loan facility as being available for the country only for a particular programming cycle. On the part of the proponent agencies, a sense of urgency is felt and failure to meet the deadline would mean fault for losing the opportunity of availing the concessional loan. There are also cases where top executive officials pay official visit to bilateral donor-governments and "go home with an instruction to package a project proposal". The weight of responsibility is greater in these cases as they are perceived to constitute political decisions made at the highest levels of authority. An illustration of how donor staffs do not lose time in committing donor resources is when they urge the government to reprogram the unutilized project loan amount for other activities even months prior to the loan closing date. This is regarded by implementing agencies as another opportunity that opens up for them to source available funding for their other activities. Another popular venue for donor agencies to commit large resources within a short period of time is in cases of emergency and disasters. During the recent rice and food crisis in the Philippines, for example, several donor agencies offered their respective facilities to the government for funding the emergency response.

The research does not raise doubts on the quality of the project loans being proposed or the appropriateness of the funding source because this is beyond the scope of the research. The quality of the project loans, however, becomes irrelevant if all of these feasible projects are proposed and approved then end up in delay eventually because the government cannot provide sufficient budget appropriations for all of them. Rather than assisting recipient governments to regulate the flow of ODA resources only to the best among the projects, donor agencies with their tendencies in moving money stimulate the actors in the recipient government from obtaining project loans beyond its absorptive capacity.

3.2.2 Incentives of Choosing ODA

At first glance, the phenomenon of approving too much project loans can be accounted for by public choice theories. Public choice is regarded in the literature as the application of economic assumptions to the field of political science (Mueller 1989, Udehn 1996). The basic proposition of public choice is that man, whether behaving in the field of economics or politics, is utility maximizing. William Niskanen, the foremost figure in applying public choice to the study of bureaucracy, proposed in his Bureaucracy and Representative Government (1971: 38) that utility among bureaucrats is a function of "salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau". Niskanen (1971) argues that all of these variables are to some extent positively related to increases in the budget leading to a budget maximization assumption.

Public choice, however, cannot sufficiently account for the phenomenon illustrated in the research. Project loans are sources of financing but do not automatically guarantee annual budget appropriations as illustrated in Figure 6. Approval of project loans is thus not tantamount to increasing the budget for an agency as the case contemplated in budget maximization. A different utility function stimulates ODA maximizing behaviour. The factors inducing ODA maximizing behaviour can be found from the experience of agencies in implementing project loans. A project manager of a project loan who previously managed a locally-funded project observes that the two are of different worlds. The world of project loans is fabricated to ensure the best possible implementation capacity and environment. Thus, good intentions surrounding development assistance generates incentives for choosing ODA. These incentives can be summed up into abundance of funds, flexibilities in implementation, perception of better quality, insulation from local politics, security in implementation and external advocacy support.

Tendler (1975) observes that because of the money-moving behaviour, there is a conception from within donor agencies of abundance of funds to be moved around while there is contrary impression from outside of scarcity of ODA resources to be allocated among competing needs and a vast number of developing countries. Such sense of abundant funds is actually felt by agencies implementing the project loans as well. The impression primarily results from a comparison with experience from locally-funded projects. In the case of project loans, for instance, vehicles and equipment like computers and overhead projectors have a specific loan allocation whereas the locally-funded project "even had difficulty buying bond papers". During project meetings, the difference between a locally-funded project and a project loan is in terms of "crackers and burgers", respectively. Perks like travel opportunities are also more often in the case of project loans. During official travels, hotel accommodation is provided in the case of project loans. The experience in locally-funded projects is accommodation in staff houses or regional offices but for those who were really unlucky, they "had to sleep on the office tables". Those who are not familiar with such culture of abundance regard project loans as being "loose on spending". Abundant funds may seem counterintuitive considering the persistence of limited budget appropriation illustrated in the research. Apart from being fuelled by the comparison of experience in locally-funded projects, the problem of limited budget appropriation which results in delay actually reinforces the feeling of abundant funds. A project loan that is encountering delay or a project with a large loan commitment implemented in a short duration would generate a conception that the undisbursed portion of the loan is a huge lump that will not move unless pushed with great effort. When resources are seen in this way, a distorted sense of abundance of funds could be felt by implementing agencies leading to imperatives and incentives in ineffective loan disbursement as illustrated in Chapter 2.

The abundance of funds is coupled with flexibilities in project implementation, although projects regardless of funding are governed by the same government rules and regulations. Take, for instance, the example of vehicle procurement. Existing government regulations impose a clearance from the DBM prior to the purchase of vehicles, based on inventory of serviceable vehicles and deployment schedule. The latitude in the case of project loans is provided by the presence of consultancy firms and other private contractors tapped to undertake certain project activities. Vehicles and other equipment, as well as additional staff, necessary for project implementation are in some instances procured and charged under the contracts of these firms.

With the abundance of funds and flexibilities in project implementation, project loans are usually perceived to be of better quality than locally-funded projects. As remarked by a former project manager, "you work not only with the best people but with the best equipment and supplies". Prestige also comes from the involvement of consultants, experts and staff from donor agencies. Project loans, for instance, can hire "experts" as resource persons in trainings whereas in the case of locally-funded projects, "you would have to ask Mrs. Conching, a small eatery owner, to talk about financial management". The participation of beneficiaries and stakeholders in workshops is better assured in the case of ODA project loans because their accommodation and travel expenses are sometimes shouldered by the project. Monitoring by the oversight agencies of the government, apart from supervision by staff from donor agencies, are also more frequent in the case of project loans.

Project loans are also insulated against "interventions from local politics", which are fairly common among locally-funded projects. The major factor identified is the involvement of donor agencies, which is an "unfamiliar territory" for local politicians. A former project manager recounted thus, "I can easily tell them that the processes here are under scrutiny by the donor agency". Nonetheless, LGUs still avail of activities and outputs under project loans but have to follow the procedures. In a way, "the experience instils discipline among local politicians".

The abundance of funds, flexibilities in project implementation, perception of better quality and insulation from local politics are also related to the last two factors, namely security in implementation and external advocacy support. The security in project implementation is generally accorded by the loan agreement, which constitute as a sovereign commitment by the national government to carry out the project in its completion. Most of the expenditure items like vehicles, equipment, staff resources and other project management activities uncommon among locally-funded projects have specific allocations under the loan agreement. This commitment lends itself to donor agencies as a basis for their support and advocacy for the activities of the project loans. Take the example of vehicle procurement once again. A senior staff responsible for reviewing requests for vehicles had this to say "often, requests for vehicles from locally-funded projects are turned down even at the mother agency level because there is little chance of being allowed by the DBM." On the other hand, the request of the Help for Catubig Agricultural Advancement Project for vehicles was approved, albeit after having undergone the tedious process and with constant "follow-up" from the donor agency.

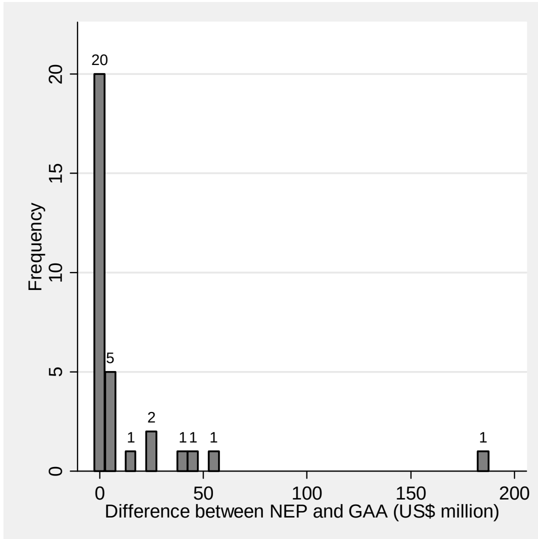
3.2.3 Imperatives of Approving ODA

The engagement of proponent and donor agencies towards ODA shapes the behaviour of the government bodies responsible for reviewing and approving the project loans as well. As early as possible in the formulation stage of a project loan proposal, technical staff from these government bodies are invited to formulation meetings to take them "on board". While consultation with the technical staff is important as additional input to formulation in terms of the current policies and priorities of the national government, these meetings also serve as a venue to orient or familiarize the staff with the objectives and benefits of the project. Upon the official submission of the project proposal, this becomes a work output in progress on the part of the technical staff. Henceforth, staff from proponent and donor agencies will be constantly "following up" the status of the proposal. Even in cases where the proponent agency still has to comply with some technical requirements of the review, staff from donor agencies would check informally on the status of the proposal and whether the proposal can be presented in the next ICC meeting. For the three biggest donors in the Philippine portfolio, i.e., JBIC, ADB and World Bank, regular programming meetings are conducted to monitor the status of the project loans in the "pipeline". Project proposals are not presented to the ICC until the technical staff is ready to recommend approval. These converge into an impression among the technical staff of the proposals they are reviewing as essentially "pending" or unaccomplished tasks. This sense becomes acute if the technical staff is regarded as the cause of the "delay" or the long interval in having the proposal presented and approved. The term delay should be qualified because the pace in presenting and approving project proposals should depend on the viability of the project being proposed. There is, for instance, a widely held perception that the government approval process of project loans is awfully long and there are initiatives in taking measures to shorten the process. Approval of proposals from projects loan normally generates a feeling of relief among the technical staff with hearty handshakes from officials of the proponent agencies.

3.3 Executive-Legislative Coordination

The research thus far leaves out any discussion on the significance of the legislative branch of the government in the budgetary processes involved. The importance of Congress is underscored by an established constitutional principle bestowing the "power of the purse" to the legislature. The coordination between the two branches of government is particularly crucial in a presidential form of government where the President, unlike in a parliament, is not elected by the members of Congress. The President may even belong to a different party or coalition from those holding majority of the seats. In the case of the Philippines, however, the President usually musters enough number of members, through coalition-building and party-switching, to take the majority. For the purposes of the research, the significance of executive-legislative interaction can be verified by comparing the budget proposal from the Executive as documented in the National Expenditure Program (NEP) with the actual GAA signed into law by Congress. The comparison is important to rule out the possibility that the gap between the volume of project loans and the level of budget appropriations is due, in substantial degree, to differences between the executive and the legislative branches of government. Figure 7 shows the comparison between the project loan appropriation proposals and the corresponding appropriations approved by Congress in 2003, 2005, 2007 and 2008 for the eight selected agencies for a total of 32 cases. The years 2004 and 2006 were not included because the Congress failed to enact GAAs during these years. The NEP is available electronically from the DBM website starting only from 2003.

Figure 7
Executive Proposals and Legislative Budget Approvals



Source: Own construction based on data from GAAs and NEP documents

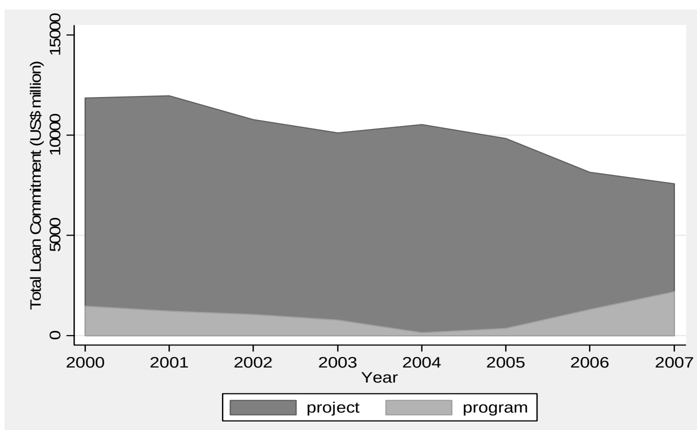
Nineteen out of the 32 cases of proposals were approved without cuts, while one proposal was reduced by US$ 1 million. Five other proposals were reduced by at most US$ 7 million. All four cases with budget cuts of more than US$ 40 million belong to DPWH, the largest among the agencies in terms of loan portfolio. For the years included, the average annual loan appropriation of DPWH is more than US$ 12 billion. The three budget cuts of DPWH constitute less than 18% of its approved budgets. Thus, I do not consider the differences as substantial, except for one budget cut amounting to US$ 185 million for DPWH in 2008. In fact, the isolated case cannot be considered categorically as a budget cut. Under the unprogrammed appropriation of the 2008 GAA, another US$ 193 million is allocated for DPWH project loans. The release of this appropriation is conditional only upon a perfected loan agreement. If all of these budget cuts, including the US$ 185 million, were to be assumed as actual loan disbursements, the actual backlog of 35% computed in Chapter 3.1 would be reduced only by 4 percentage points. Thus, even if the Congress approves NEP into law every year, the problem of limited budget appropriation would still be encountered. This indicates that the gap between project loans and budget appropriations is not due, in substantial degree, to lack of executive-legislative interaction[12]. Taken in positive light, there might actually be a strong coordination between the two branches in this particular case.

Chapter 4
Reforms in Aid Management

This chapter briefly discusses two existing reforms in aid management aimed at addressing the problem of expansionist tendencies or limited budget appropriation, namely program aid and budget strategy. Often, assessing reforms not only points us to possible improvements but also exposes the deep-rooted underpinnings of the problem that the solution seeks to address. The two measures represent the major strategy from both the giving and the receiving side of foreign aid.

At the outset, it must be recognized that there has been some improvement in the ODA loan portfolio management in the Philippines. Figure 8 shows the decreasing trend in the total loan commitment and increase in program loans both in terms of absolute level and share in the total loan portfolio since 2004. The decreasing trend in the total loan commitment can be attributed to improvements in the approval process in terms of diligence and rigor. However, opportunities for improving aid management are still vast considering the findings in Chapter 3. Increases in the share and level of program loans do not necessarily result in improved aid management as well, as illustrated in following discussion.

Figure 8
Historical Level and Distribution of Project and Program Loans



Source: NEDA (2008) Annual ODA Portfolio Review

4.1 Program Loans

Program aid is a reform measure in terms of the modality of giving aid. As early as in Tendler (1975), program loans were already recommended as better modality than project loans. Today, it is recognized that project aid modality is steadily giving way to program-based approaches (Dijkstra 2004: 89, Mosley and Eeckhout 2000: 133-136, Riddell 2007: 195-196). Some see program modality as an attempt to manage the slowness of committing and disbursing aid (Mosley and Eeckhout 2000: 134-136, Ostrom et al. 2001: 105, Tendler

1975: 96) while others justify it for more *subtle* reasons. Under the Paris Declaration, for instance, the High Level Forum on Aid Effectiveness (2005: 6) explicitly recommended an increase of the share of program aid out of the total aid commitment as an indicator of harmonised actions from donor agencies in terms of common arrangements and simplified procedures. These common arrangements and simplified procedures are more specified in reports from the Department for International Development (DFID) and the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC) primarily pointing to budget allocation or financial management systems (Arakawa and Wakabayashi 2006: 40). Both sets of rationales can be accommodated by discussing program aid as a measure to prevent limited budget appropriation. By nature of the lending instrument, program loans do not encounter the problem of limited budget appropriation. Program loans need not specify various technical elements in project aid and do not encounter as many impediments in aid commitment and disbursement, presumably. By funding the regular budget of the recipient government rather than specifying project activities, common arrangements and simplified procedures are achieved, presumably as well.

However, the presumptions led to frustrations in some instances. Though not earmarked for specific activities, program loans usually contain policy conditionalities requiring legislative actions that are often politically sensitive. A revealing illustration is the Grains Sector Development Program (GSDP) implemented from 2000 to 2003 and assisted by a program loan[13] amounting to US$ 100 million from the ADB to be released in three tranches, contingent on the fulfilment of policy conditionalities. The primary goals of GSDP included increase of grains sector productivity and income, and food security. The implicit economic rationale of the program is trade liberalization and market orientation, as can be deduced from the policy conditionalities. The conditionalities can be summarized into three areas: liberalized grains pricing and import policies, improved buffer stock management, privatisation of the marketing monopoly functions of the National Food Authority (NFA), and better food subsidy program (ADB 2007: 3). The first tranche amounting to US$ 30 million was released upon loan effectivity. The second and third tranches, however, were never released due to non-compliance to some policy conditionalities. These conditionalities are related to the pricing of domestic procurement by the government, private sector participation in rice importation, and lifting of quantitative restrictions on rice importation. The program loan was cancelled in April 2003.

Policy conditionalities attached to program loans embody the strong imperatives on the part of aid institutions to control or influence development strategies of the recipient government. It is true that the recipient government in contracting the program loan prima facie commits to the policy conditionalities involved. However, the mere fact that aid disbursements are contingent on policy reform indicates which side really owns the policy agenda. Thus, ownership issues are often raised in program aid modality. OECD-DAC, for instance, warns that in providing program aid, "donors should support a partner country's overall development policies and priorities" and that program aid should "not attempt to leverage policy actions where such commitment does not exist" (Arakawa and Wakabayashi 2006: 40). Under the Paris Declaration, donors committed to "draw conditions, whenever possible, from a partner's national development strategy" (High Level Forum on Aid Effectiveness 2005: 4). However, program loans are often utilized to leverage policy reform. This is evident in the completion report prepared by ADB in December 2007 for the GSDP. The report, for instance, assessed that possibly "as a result of the Program the political climate now is rather more amenable to NFA restructuring than previously" (ADB 2007: 18). This means that the political climate was even less committed to undertake reform upon approval of the program loan. The report, released in December 2007, was even careless to recommend buying reform:

> "In the case of policy loans that are inherently risky… and the correspondingly high level of commitment required from government, the size of the loans should be commensurately large enough to sustain the government's motivation" (ADB 2007: 19).

Though intended to establish common arrangements and simplified procedures as well, other layers of processes are paradoxically added in some program loans. An example is the Diversified Farm Income and Market Development Project (DFIMDP) assisted by a World Bank cash support loan[14] worth US$ 60 million, and being implemented from 2004 to 2009. The primary goal is to increase agricultural productivity, competitiveness and income through the reorientation of the Department of Agriculture into providing more market-oriented activities and less input subsidies. The loan is intended as budget support to the regular activities of DA provided the activities are market-oriented. The implicit conditionality, thus, is the reorientation of DA into market-oriented activities. To ensure that such conditionality is complied with, disbursement of the loan is on a per activity basis instead of in tranches which is the usual mode in program loans. This resulted in requiring similar but separate ledgers, books and other reports from the implementing agency. According to those in the forefront of implementing DFIMDP, the processes involved are even more tedious than either the usual project or program loans. In some instances, DA units and agencies went ahead with implementing market-oriented activities using regular funds when encountering constraints in tapping the cash support loan. As of December 2007, only 30% of the loan availment target was disbursed despite the estimated amount of market-oriented activities in the total DA budget for the year alone could theoretically utilize the entire loan amount. Such experience of tedious processes involved in the delivery of foreign aid is illustrated in Easterly (2002: 40) by enumerating the numerous steps and reports a recipient government must take before receiving foreign aid. The usual rationale of common arrangements and simplified procedures in program aid modality was lost in the midst of the imperatives on the part of the donor to ensure satisfactory pace and quality in program implementation. Taken in this light, DFIMDP can be seen as an attempt not only to ensure adoption of policy conditionalities but even actual policy implementation.

The two illustrative cases are not isolated. For instance, ADB-OED (2008: 3) recognizes "prevailing difficulties experienced with other policy-based loans in the Philippines". Certainly, there is no dearth of case studies on failed policy conditionalities in other countries (Dijkstra 2004). If program modality is to address the problems encountered in project aid, conditionalities should be limited to the recipient countries' own development priorities and strategies. Conditionalities should not be necessary at all if the goals of program loans are ought to be owned by the recipient government. In the case of GSDP, there was a disagreement between the GOP and ADB regarding the interpretation of one of the conditionalities attached to the program loan. Particularly, the GOP wanted more flexibility on the computation of how much the government should buy rice produce from qualified beneficiaries, to which ADB objected. To set conditionalities is to constrain a recipient government from exercising its sovereign right to interpret, allow some flexibility to or amend their own policies. Taken in this light, setting conditionalities per se is the antithesis of ownership or, in political terms, sovereignty. As Tendler (1975: 109) succinctly puts it: "What is uncertainty to the donor organization is sovereignty to the borrower country." While Tendler (1975) is referring to project loans at the time, the observation is later echoed in the more critical literature on policy conditionalities attached to program loans (Dijkstra 2004, Singh 2004, Sobhan 2004). Though the problems encountered in both project and program modalities manifest themselves in different ways, these can actually be seen as being caused by the same resilient imperatives surrounding foreign aid.

4.2 Budget Strategy

More directly addressing the problem of limited budget appropriation is an ICC policy of requiring a DBM-certified budget strategy from implementing agencies proposing project loans, hereafter referred to as simply budget strategy. The purpose of the policy, formally established in November 2003, is precisely to check whether or not proponent agencies can absorb the proposed project loans within their future budget ceilings.[15] This measure is in the nature of public expenditure management and fiscal programming focusing on the receiving side of foreign aid. The review done by the NEDA technical staff primarily focuses on the technical and economic aspects while the determination of whether the proponent agency can absorb the project loan amount within its budget ceiling is done by the DBM. The actual review, however, is not presented in the ICC deliberations but submitted by the proponent agency as a certification.

The *counter-strategy* in some implementing agencies has been to "play with the figures" in order to show that the incoming budgetary requirements of the proposed loan can be accommodated in the agency ceiling. This entails reducing appropriations of ongoing project loans to accommodate the requirements from the proposed loan, at least on paper. During implementation, project loans that are about to complete, especially those that were already extended once, are prioritized in allocating the agency budget. This means that the remaining budget appropriation for the other ongoing project loans within the same agency portfolio is insufficient compared to the requirement. Such practice can be viewed as attempts from implementing agencies to manage the expansionist tendencies in foreign aid and the resulting imperatives and incentives in obtaining project loans discussed in Chapter 3.2.

Strictly, the ICC policy requires the implementing agency to obtain a certification from DBM on its budget strategy prior to submitting a project loan proposal to ICC. In practice, however, ICC may approve a project loan proposal with the DBM certification as a condition (Curry and Alonzo 2008: 12). The practice could have arisen due to the usual experience of prolonged project approval process. For instance, a set of recent proposals surveyed in Curry and Alonzo (2008: 12) showed that the average duration between the first submission of proposals to ICC approval was 475 days. Thus, ICC approval conditioned on DBM certification of budget strategy may be seen as the prudent course of action if it is the only deficient requirement. Seen in this light, the certification of the budget strategy may become an imperative on the part of the DBM responsible for undertaking the review. Indeed, fingers are at times readily pointed to the DBM certification process as if perceived to be the cause of delay in project approval.

A practical measure to neutralise possible imperatives in certifying budget strategies is to subject the DBM review to ICC deliberations. This way, the responsibility of (not) certifying is shared by a collegial body not bound to any particular Department. The ICC as an institution actually draws its strength from the principle of collegiality and shared responsibility. This leads me to another recommendation reflecting on how budget strategy is categorized among other dimensions of project evaluation. To subject the DBM review to ICC deliberations means to view the budget strategy measure not merely as "a requirement" that must be complied with but an aspect of viability or a risk factor that has to be assessed by the ICC together with financial, economic and technical aspects. As remarked by a staff from a proponent agency, the budget strategy became "merely *one of those requirements* rather than a management tool". This remark finds resonance in a study commissioned by the Philippine-Australia Partnership for Economic Governance Reforms intended to support project evaluation by the NEDA and DBM. In the study, the certification of the budget strategy has been lumped with other certification *requirements* such as endorsement by the Regional Development Council, corporate financial position, and the Environment Compliance Certificate (Curry and Alonzo 2008: 12). I neither fault the study for categorizing it as a certification because indeed it is, nor consider the other certification as less important. However, the weight of the budget strategy as a determinant of viability or a critical risk factor is lost in the categorization. As discussed in Chapter 2, a project loan will not even move without the budget. Even if it does move slowly, the delay and uncertainty would only generate a false and distorting sense of urgency in project implementation.

Chapter 5
Reflections

The literature on foreign aid had been more inclined to keep an eye on the imperatives and incentives faced by recipient governments in dealing with development assistance. These are couched in conceptual tools such as moral hazard, adverse selection and Samaritan's dilemma[16]. This paper, on the other hand, contributes to those that see these improper imperatives and incentives in the conduct of aid institutions and the connotation of aid itself. The research characterizes expansionist tendencies and demonstrates how such behaviour manifests itself in the management of aid by the recipient Philippine Government. Particularly, the findings in Chapter 3 indicate that too much project loans are being approved resulting in limited budget appropriation during implementation. This behaviour is fuelled by imperatives and incentives generated by the "good" intentions surrounding foreign aid. In this sense, *adverse selection* on the part of the recipient government is actually facilitated by the money-moving behaviour of donor agencies. By focusing on limited budget appropriation as a manifestation of expansionist tendencies, Chapter 2 is able to characterize such behaviour as undesirable as well. Limited budget appropriation is a substantial cause of delay which in turn undermines aid effectiveness. In Chapter 4, the strength and resilience of these imperatives and incentives enable them to creep into the budget strategy certification process which is intended to address the problem of limited budget appropriation. The conditionalities attached to program loans, on the other hand, embody the intentions and imperatives on the part of donor agencies to influence the development priorities and strategies of recipient governments.

To draw the line that divides grand intentions from being *messianic* is to muddle through. Consider a quote from Robert McNamara, credited for transforming the World Bank into a development agency: "…financial power… illuminates the great truth that all power is given to us to be used, not to be wrapped in a napkin against risk" (Sampson 1981: 268). Paying tribute to him in March 2003, then World Bank President Wolfensohn observed that between the years 1968-1981 when McNamara was President, the Bank's lending *expanded* from US$ 1 billion to US$ 12 billion a year (World Bank Group Archives 2003). On the other hand, a colleague from a developing country considered him as being too paternalist: "He thinks that development is the rich man's burden; that it's his duty to give enlightenment and analysis to the poor countries" (Sampson 1981: 278). Had the research been discussed in terms of international political economy, the imperatives driving donor agencies to control and reduce uncertainties in the recipient countries' environment would have "look[ed] like, or even turn[ed] into, the imperialistic behaviour of a developed country" (Tendler 1975: 109). Because of well-intended power over the path and pace of development in recipient countries, donor agencies face a different *Samaritan's dilemma* of both showcasing success and concealing failure. Donor agencies through "cherry picking" developing countries with probable chances of economic recovery, popularly known as aid selectivity, put their names on the line and thus become reluctant to engage with more tangible actions against corruption and other governance issues as "cherries should not go rotten" (Harrison 2001: 672-675). On the other hand, Amsden (1994: 627) begins the summary of her comments on the World Bank report on the East Asian Miracle, thus: "Like Narcissus, the World Bank sees its own reflection in East Asia's success." Furthermore, donor agencies with intentions backed by large amounts of aid money and unrivalled expertise face a different sort of *moral hazard* justifying any mistake, loss, or failure on their part. Bauer (1991: 359) paraphrasing Thomas Sowell argues that the characterization of official transfers as "aid" enables its proponents "to be on the side of the angels at a low cost". Consider this quote from the ADB (2007: 18) completion report on the GSDP program loan:

> "The GSDP was always going to be risky, but the potential economic and social rewards were substantial. It was worth attempting."

This quote resonates strongly with a passage from de Sousa Santos (2006: 32), where such kind of moral hazard can be read into the critique to modernity and progress:

> "Western-based expectations have been grandiose in the abstract, falsely infinite and universal. As such they have justified death, destruction and disaster in the name of redemption ever to come."

Progress and modernity is actually full of grand intentions. As early as in Rostow (1960: 6), the "preconditions of take-off" was predicated on "external intrusion by more advanced societies" disrupting traditional societies and cultures. Rostow is later on recognized as among the first to consider foreign aid as an external catalyst for progress (Easterly 2002: 44, Pronk 2004: 1) Even doubts on the idea of development can be grasped in these terms. Arturo Escobar, for instance, posited that Harry Truman's 1949 speech invented the categories of developed and underdeveloped countries, which "made experts from the former responsible for the salvation of the latter" (Corbridge 2007: 184). Others consider Truman's speech as the inauguration of foreign aid (Pronk 2004: 1). Foreign aid can be seen as completely enmeshed with the prevailing ideas of development. First, it validates development categories by identifying which countries are able and willing to help, and which countries are in need of help. Second, it is the most direct mechanism available to foreign actors in determining how development should be attained.

These are the reasons why I consider the Paris Declaration as a shift, though small or even trivial for some, but in the right direction. Certainly, its principles of ownership, alignment and harmonization are not enough to tame strong and resilient aid intentions, imperatives and incentives. The indicators for these principles merely *indicate* how technical and cautious the collective frame of mind had been in drafting the declaration. Yet it can be seen as a result of the appreciation of the more fundamental problems in foreign aid slowly permeating the consciousness of aid practitioners. My organization has at times invoked the Paris Declaration in our work as a justification for deflecting some of the less timid donor strategies. At most, the declaration serves as a reminder for aid practitioners to be mindful of these imperatives and incentives. My own research itself is aimed at prompting the actors in the approval process to reflect on their roles and perspectives. Allow me to end the paper with a quote introducing one of the episodes of *Heroes*, a television fantasy series now on its third season entitled *Villains*. These "heroes" are individuals who were gifted with extra-human powers and took it upon themselves to "save the world". As the season progresses, the viewers could no longer discern who among them are protagonists and antagonists.

> It's all happening so fast. My life is a speeding train and I'm not sure where it's headed. One thing is certain, I've been given a second chance, touched by God and I've got to believe that he has a purpose for my life. So why am I filled with self-doubt? Plagued by demons, real and imaginary? Frightened by the challenges ahead, and haunted by the ghosts of my past? Does God know what I am? Do I? Am I an angel, or a monster? A hero, or a villain? And why can't I see the difference?

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Annex I
Obligations and Appropriations (in PhP Million)

Agency	2002	2003	2005	2006	2007
Aggregate Appropriations					
DAR	2497.383	2190.883	3284.412	2998.658	1852.660
DA	707.360	318.844	700.000	1305.310	1119.690
DENR	886.170	301.840	366.101	315.507	341.300
DepEd	873.190	2234.670	1600.440	1503.300	735.660
DSWD	373.192	507.680	891.758	607.538	740.000
DPWH	6956.814	13980.243	15168.108	21356.583	14349.42
DOTC	2378.847	3419.089	1240.200	1420.580	6723.410
NIA	2926.716	1500.667	1873.253	2592.702	3372.220
Aggregate Obligations					
DAR	2415.024	2152.390	2917.168	1559.840	2666.110
DA	401.579	376.500	754.392	1301.280	1074.980
DENR	560.068	165.530	139.320	465.338	340.330
DepEd	884.110	1450.550	1780.675	692.920	1236.200
DSWD	260.470	627.610	864.548	608.760	694.731
DPWH	8849.21	9514.045	no data	16219.873	11056.080
DOTC	1686.256	no data	806.014	1302.380	4189.400
NIA	1779.714	948.927	1598.914	2643.882	2871.617
Illustrative Breakdown of DAR Appropriation by Projects					
ARISP I	0				
RASCP	0				
ARCDP	195.410				
ARCP	805.184	97.496	866.388	114.464	0
ARISP II	1054.740	1234.804	900.000	308.957	35.652
MINSSAD	329.242	150.000	542.470	631.140	593.869
WMCIP	112.807	65.649	87.956	87.995	0
SPOTS		250.000	570.000	0	0
ARCDP II		292.934	290.200	854.530	234.579
NMCIRMP		100.000	115.354	239.252	190.242
SPOTS II				762.360	718.290
ARISP III					80.030
Illustrative Breakdown of DAR Obligation by Projects					
ARISP I	35.641				
RASCP	0.665				
ARCDP	149.502	31.460			
ARCP	1014.600	103.587	685.643	73.658	91.345
ARISP II	1101.720	1292.110	798.074	373.992	72.541
MINSSAD	0.089	394.340	486.463	572.921	712.898
WMCIP	112.807	65.226	990.000	87.956	0
SPOTS		238.396	570.000	0	0
ARCDP II		1.489	41.090	129.463	956.740
NMCIRMP		25.792	143.972	247.061	114.293
SPOTS II				74.789	718.290
ARISP III					0

Annex II
Loan Target (2001-2007, in US$ Million)

DA

1. MRDP 27.500
2. CHARM OCR 8.120
3. CHARM SF 9.500
4. CHARM IFAD 8.488
5. InfRES 73.500
6. GenSan 23.236
7. MRDP II 3.000

DAR

8. ARCP 88.700
9. ARISP 8.830
10. RuralFarm 1.310
11. ARISP II 131.420
12. WMCIP 14.790
13. ARCDP 23.200
14. MINSSAD 55.500
15. ARCDP II 46.000
16. NMCIRMP 12.370
17. SPOTS 25.188
18. SPOTS II 24.18

DENR

19. Upland 1.4
20. MMAQ IC 68.3
21. FSP SF 0.800
22. FSP OCR 1.800
23. FSP JBIC 59.900
24. SMICZMP 27.900
25. LAMP 4.790
26. LAMP II 6.150
27. ICRMP 2.366

DepEd

28. NonFormal 5.700
29. SEDIP 50.300
30. SEDIP JBIC 59.980
31. TEEP JBIC 87.81
32. TEEP 83.100

DSWD

33. ECDP OCR 14.400
34. ECDP SF 8.400
35. ECDP WB 16.900
36. Kalahi 87.000

DPWH

37. 6thRoad 135.500
38. 2Mandaue 1.820
39. PJFriend 16.300
40. RehabARP III 3.310
41. ArterialLink 19.880
42. CebuReclame 28.960
43. CebuCoastal 92.720
44. Rural II 100.400
45. ArterialLink II 21.270
46. PJFriend II 43.310
47. PJMindanao 57.370
48. 2ndMM 20.900
49. MMinterchange 50.300
50. ArterialLink III 113.350
51. ArterialLink IV 136.140
52. Cordillera 51.790
53. PJMindanao II 65.790
54. RehabARP IV 44.850
55. 2ndMagsaysay 28.870
56. Min2ndRoad 19.790
57. NRIMP 143.500
58. Pampanga 19.280
59. Agno 55.750
60. Pinatubo 13.390
61. MMFlood 76.650
62. LowAgusan II 64.940
63. IloIlo 1.550
64. Agno2A 49.080
65. Pinatubo II 79.360
66. Pasig-Marikina 9.320
67. Kamanava 77.440
68. RuralWater 15.800
69. RuralWater SF 14.900
70. Arterial V 62.620
71. MMinterchange V 46.975
72. Rural III 46.800
73. Agno2B 21.040
74. Laoag 47.580
75. 6thRoadOPEC 6.845
76. CentralMin 15.750
77. AustrianBridge 33.370
78. MMUrban 55.800
79. Arterial VI 48.430
80. IloIlo II 42.580
81. UrgentBridges 133.180
82. NationalUK 36.450
83. TulayBrgy 142.890
84. TulaySZOPAD 194.500
85. ArterialBypass 20.170
86. TulayKaunlaran 77.480
87. Gapan-Olongapo 6.021
88. MinSaudi 7.800
89. TulayMagsasaka 32.461
90. Pasig-Marikina II 7.220

DOTC

91. RegTel 2.170
92. NatTelROT 21.300
93. GlobMaritime 10.100
94. NatTel III 1.570
95. AirportDevA 16.400
96. AirportDevB 31.300
97. 3rdAirportA 88.300
98. 3rdAirportB 29.000
99. AirNavigation 46.980
100. SelectAirports 50.690
101. Laguindingan 25.000
102. MariSafetyB 6.050
103. FeederPorts 44.560
104. MariSafetyC 41.720
105. New Iloilo 130.300
106. SelAirTB 108.731
107. NewComm 151.350
108. ImpMarine 79.288
109. Vessel 68.400
110. SpainMaritime 14.070
111. Maritime IV 19.230

NIA

112. Operations 1.300
113. Kabulnan 6.700
114. MalitubogMaridagao 21.060
115. Pampanga 31.390
116. Bago 22.130
117. SISIPa 10.000
118. Banaoang 35.000
119. WRDP 36.000
120. LADP 16.890
121. CenLuzon 113.400
122. Bohol 53.250
123. SPISP 58.100
124. HCAAP 33.110
125. SISIPb 6.700

Annex III
Actual Loan Disbursement (2001-2007, in US$ Million)

DA

1. MRDP 18.021
2. CHARM OCR 5.016
3. CHARM SF 6.400
4. CHARM IFAD 3.029
5. InfRES 16.662
6. GenSan 24.979
7. MRDP II 1.000

DAR

8. ARCP 68.145
9. ARISP 1.685
10. RuralFarm 0.456
11. ARISP II 85.370
12. WMCIP 11.990
13. ARCDP 22.942
14. MINSSAD 42.130
15. ARCDP II 33.970
16. NMCIRMP 9.090
17. SPOTS 25.875
18. SPOTS II 18.739

DENR

19. Upland 0.0500
20. MMAQ IC 25.140
21. FSP SF 0.000
22. FSP OCR 0.000
23. FSP JBIC 26.470
24. SMICZMP 18.464
25. LAMP 3.378
26. LAMP II 2.64
27. ICRMP 0.018

DepEd

28. NonFormal 2.992
29. SEDIP 25.182
30. SEDIP JBIC 35.240
31. TEEP JBIC 73.011
32. TEEP 71.571

DSWD

33. ECDP OCR 12.128
34. ECDP SF 7.096
35. ECDP WB 15.200
36. Kalahi 57.089

DPWH

37. 6thRoad 117.078
38. 2Mandaue 2.731
39. PJFriend 12.161
40. RehabARP III 2.492
41. ArterialLink 24.692
42. CebuReclame 10.370
43. CebuCoastal 87.767
44. Rural II 93.729
45. ArterialLink II 10.352
46. PJFriend II 34.471
47. PJMindanao 54.258
48. 2ndMM 16.660
49. MMinterchange 47.540
50. ArterialLink III 93.069
51. ArterialLink IV 128.680
52. Cordillera 45.430
53. PJMindanao II 65.470
54. RehabARP IV 32.080
55. 2ndMagsaysay 30.530
56. Min2ndRoad 19.790
57. NRIMP 131.720
58. Pampanga 12.658
59. Agno 61.880
60. Pinatubo 16.219
61. MMFlood 67.040
62. LowAgusan II 56.340
63. IloIlo 0.000
64. Agno2A 40.170
65. Pinatubo II 64.286
66. Pasig-Marikina 7.170
67. Kamanava 49.510
68. RuralWater 6.780
69. RuralWater SF 6.605
70. Arterial V 36.510
71. MMinterchange V 2.435
72. Rural III 5.810
73. Agno2B 20.100
74. Laoag 46.000
75. 6thRoadOPEC 4.222
76. CentralMin 2.040
77. AustrianBridge 0.376
78. MMUrban 35.564
79. Arterial VI 20.530
80. IloIlo II 23.740
81. UrgentBridges 33.310
82. NationalUK 36.450
83. TulayBrgy 0.000
84. TulaySZOPAD 194.500
85. ArterialBypass 0.890
86. TulayKaunlaran 61.623
87. Gapan-Olongapo 0.000
88. MinSaudi 0.000
89. TulayMagsasaka 57.080
90. Pasig-Marikina II 0.000

DOTC

91. RegTel 1.457
92. NatTelROT 17.380
93. GlobMaritime 6.000
94. NatTel III 1.290
95. AirportDevA 15.146
96. AirportDevB 23.189
97. 3rdAirportA 7.458
98. 3rdAirportB 6.700
99. AirNavigation 43.850
100. SelectAirports 20.868
101. Laguindingan 1.29
102. MariSafetyB 5.407
103. FeederPorts 27.450
104. MariSafetyC 2.163
105. New Iloilo 95.820
106. SelAirTB 41.840
107. NewComm 0.000
108. ImpMarine 0.000
109. Vessel 66.700
110. SpainMaritime 14.070
111. Maritime IV 0.000

NIA

112. Operations 1.300
113. Kabulnan 4.721
114. MalitubogMaridagao 16.640
115. Pampanga 23.604
116. Bago 12.530
117. SISIPa 8.261
118. Banaoang 14.437
119. WRDP 24.195
120. LADP 14.463
121. CenLuzon 69.420
122. Bohol 40.030
123. SPISP 30.894
124. HCAAP 13.900
125. SISIPb 5.461

Notes

[1] The ODA loans contracted by the GOP from 1996 to 2007 contain a weighted average grant element of 53.31% (NEDA 2008).

[2] For an enumeration of studies undertaken to justify aid increases and calls for doubling of aid in 1951, 1960, 1973, 1990 and 2002, see Easterly, W. (2002) 'The Cartel of Good Intentions', *Foreign Policy*(131): 40-49.

[3] For a discussion of six conceptual definitions of incremental budgeting, see Berry, W.D. (1990) 'The Confusing Case of Budgetary Incrementalism: Too Many Meanings for a Single Concept', *The Journal of Politics* 52(1): 167-196.

[4] Initially, 10 implementing agencies with the highest level of ODA project loan commitment that are budget-dependent, i.e., those that require national government budget appropriations, were selected. However, two of these agencies were later dropped as one of them obtains budget appropriations for its project loans from various sources, while the other started implementing project loans only in June 2006.

[5] The concept of aid effectiveness is loosely used in the research as both referring to the extent of achieving objectives (effectiveness *proper*) as well as the benefits per utilized input (efficiency). This makes sense in the case of portfolio-wide assessment. The inefficient use of resources in one project could theoretically increase the effectiveness of another.

[6] The exchange rate used in the entire research is as follows:

	2001	2002	2003	2004	2005	2006	2007
1 US$ = PhP	50.99	51.60	54.20	56.04	55.08	51.31	46.15

Source: Bangko Sentral ng Pilipinas/www.bsp.gov.ph

[7] The annual budget appropriations and obligations of each of the eight agencies are provided in Annexes I and II. These data are culled from the documents submitted by implementing agencies annually for the conduct of ODA Portfolio Review by the NEDA. The loan target is based on the loan availment schedule from the NEDA Project Monitoring Staff loan database. However, data on obligations are not available for the years 2001 and 2004. Hence, the total loan target for seven years is multiplied by a factor of $^5/_7$ to approximate a comparison with the available data on appropriations and obligations. This is the reason loan targets in Figures 3 and 4 are uniform. In the cases of DPWH and DOTC, a factor of $^4/_7$ is used as they lack data on obligations for one year each. Similar data and computations are used in Figure 5.

[8] See Hirschman (1967: 95-98) for more vivid examples of how delay in construction, with the forces of nature, impairs the effectiveness of development projects.

[9] Only seven implementing agencies are included because the agency-level budget of one agency (i.e., NIA) is aggregated under DA, its mother department. No NIA-DA disaggregation is provided in BESF documents except for foreign-assisted projects. There is disaggregation in GAAs but only for the years 2003, 2005, 2007 and 2008.

[10] There are also instances where project loans are set to start and/or complete simultaneously, such as those contracted in loan packages with the JBIC and China.

[11] See Dezhbakhsh et al. (2003) for an assessment of the widely used regression method for testing incremental budgeting and an introduction of a new approach allowing for explanatory analysis of budget incrementalism in terms of political and economic factors.

[12] It is also possible that the failure of the Congress to enact the budget for fiscal years 2004 and 2006 is an indication of weak executive-legislative interaction. However, the available comparison between NEPs and GAAs in Figure 7 indicates that interests other than project loan appropriations are involved.

[13] The program is also assisted by a project loan worth US$ 75 million but for the purposes of the research, I am going to focus only on the program loan.

[14] DFIMDP has both program and project modality features. The loan is primarily budget support intended to fund the regular budget of the DA provided the activities are market-oriented. However, some activities are specified á la project-type but account only for a small portion of the program loan. The research focuses only on the program modality aspects.

[15] By requiring a budget strategy, the GOP recognizes limited budget appropriation as a problem. This rules out the possibility set out in Chapter 1 that the act of ignoring limited budget appropriation is due to not considering it as a problem.

[16] For an elaborate discussion on these conceptual tools, see Ostrom, E., C. Gibson, S. Shivakumar and K. Andersson (2001) 'Aid, Incentives, and Sustainability: An Institutional Analysis of Development Cooperation'. Stockholm: Swedish International Development Cooperation.