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Official Development Assistance to The Philippines: Donor Mapping and Analysis

Policy Paper

Foreign, Commonwealth and Development Office (FCDO)

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List of abbreviations

ADB	Asian Development Bank
AFD	French Development Agency
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BII	British International Investment
BIP	British Investment Partnerships
BRI	Belt and Road Initiative
CoEs	Centres of Expertise
DAC	Development Assistance Committee
FCDO	Foreign, Commonwealth and Development Office
FDI	foreign direct investment
GCIP	Green Cities and Infrastructure Programme
IA	Implementing Agency
IEMOP	Independent Electricity Market Operator of the Philippines
IRR	Integrated Review Refresh
MDB	Multilateral Development Bank
NEDA	National Economic and Development Authority
NGO	non-governmental organisations
ODA	Official Development Assistance
ODF	Official Development Finance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PDP	Philippine Development Plan
PIDG	Private Infrastructure Development Group
RE	Renewable Energy
TA	Technical Assistance
UK	United Kingdom
UKEF	UK Export Finance

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Background

The objectives of the assignment are to map out the broad picture of ODA in the Philippines by bilateral and multilateral development partners and contribute to policy analysis for FCDO with a view to shaping its British Investment Partnerships (BIP) country strategy. The analysis places a strong emphasis on looking "behind the data" to identity gaps and potential areas and entry points for specific UK intervention, including opportunities for joint development work with like-minded partners, such as the G7 and Australia.

The UK and the Philippines have a long-lasting relationship built on mutual respect and a commitment to peace and prosperity in the Indo-Pacific region. The ambitions of the UK-Philippines relations are evidenced in the Enhanced Partnership which was launched in 2021 and aims to strengthen collaboration in key areas including development, trade, investment, climate change and the environment.

The Philippine Development Plan (PDP), 2023-2028, is the country's blueprint for development over the next six years. It reflects the Philippine Government's strategies, policies, programmes, and legislative priorities in alignment with President Marcos Jr administration's 8-point Socioeconomic Agenda, which comprises food security, improved transportation, affordable and clean energy, healthcare, social services, education, bureaucratic efficiency, and sound fiscal management.

The PDP's overall goal is to strengthen job creation and accelerate poverty reduction by steering the economy towards a high-growth path and begin the economic and social transformation for a prosperous, inclusive and resilient society. It aims to strengthen the economic sectors for more higher-quality jobs and produce globally competitive products, modernise the agricultural sector, revitalise industries, and reinvigorate services. More collaboration between local and national governments and facilitating stronger partnerships with the private sector are encouraged. These provisions are well-aligned with the UK's strategic priorities.

The UK's development offer

The UK is not a big ODA provider in the Philippines. However, the Philippines is critically important to the UK in the context of the Indo-Pacific Tilt as set out in the 2023 Integrated Review Refresh (IR23) and White Paper on International Development. As a result, there has been a noticeable, though moderate, increase of the UK's ODA portfolio in the country over recent years. In addition, through the BIP, the UK has expanded its development finance beyond ODA. The use of strategic guarantees, export finance, and other instruments alongside ODA offers the prospect of mobilising additional investment opportunities to countries such as the Philippines. These can help realise development benefits with secondary benefits supporting UK's strategic priorities.

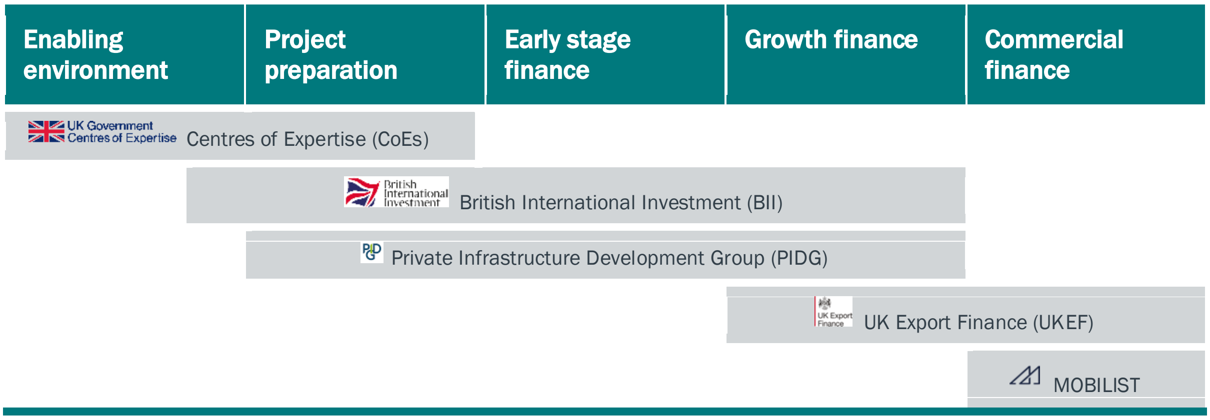

Figure 1: BIP brings together the UK's economic development offer which consists of tailored packages of finance, technical assistance and technology transfer to partner countries.

Definition of ODA in the Philippines

The Philippines has adopted the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) definition of ODA, albeit with a narrower interpretation of the term. ODA, as defined in the ODA Act of 1996, pertains to the flow of aid in the form of loans and/or grants that are administered with the aim of "promoting sustainable social and economic development and welfare of the Philippines," by foreign state governments with which the Philippines has diplomatic, trade, or bilateral agreements, and international and multilateral lending organisations.

The Philippine's definition only covers development partner assistance where the Philippine Government is the implementing/executing agency, and/or a direct beneficiary. Grants channelled through civil society organisations (CSOs), non-government organisations (NGOs), academe, and the private sector are not reported as ODA. This exclusion leads to a significant underestimation of ODA reported by the Philippine Government, particularly from bilateral development partners that primarily channel their ODA contributions through non-governmental channels.

Recent attempts to amend the ODA law, intended to resolve these shortcomings, have not yet succeeded. However, such amendments would not fundamentally alter the types of financial instruments, delivery channels, or co-operation modalities available for development partners, as they are already able to propose different approaches, provided these are in accordance with the established Philippine Government procedures of the National Economic and Development Authority (NEDA), which plays a significant role in ODA oversight, allocation, use, and monitoring.

ODA trends

Active ODA commitments by development partner

At the end of 2022, the amount of active ODA commitments to the Philippines was US$ 32.4 billion. Of this, 93% or US$ 30.2 billion was for 106 loans and only 7% or US$ 2.2 billion were grants (320 grants). These ODA loans and grants were provided by 20 bilateral and multilateral development partners and implemented by 84 partner agencies. About 58% was contributed by multilateral development partners, while bilateral partners shared about 42%.

The UK is one of the smallest contributors in terms of active commitments, ranking 18th out of 20. This position underscores the importance of the UK adopting a strategic approach to ensure its contributions are influential. On the development side, this necessitates a focus on high-impact interventions or identifying and addressing niche priorities that hold significant visibility and importance.

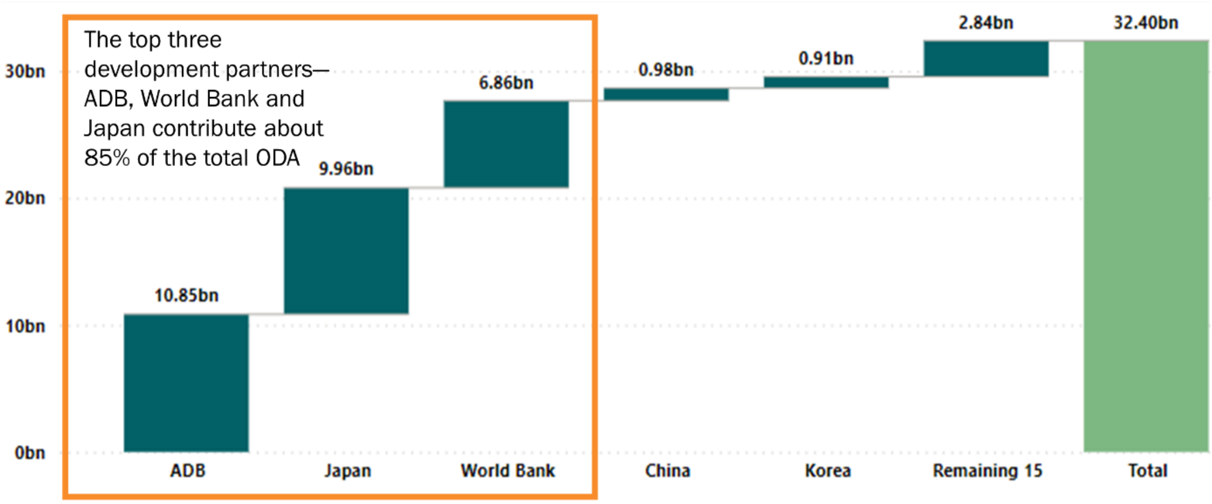

Figure 2: Active ODA commitments by development partner. Source: Own calculations with data from NEDA.

Factors hindering ODA disbursement in the Philippines and the potential role of the UK in improving project preparation, design and procurement

Several factors influence disbursement performance. According to NEDA and interviews with bilateral and multilateral development partners, the low disbursement rates, may be attributed to insufficient preparation and readiness of projects, capacity constraints within concerned Implementing Agencies (IAs), bottlenecks in securing local government permits and right-of-way (ROW), delays or suspension of procurement, the non-approval of proposed budgets, and inadequate budget allocation for loan proceeds in the General Appropriations Act (GAA). Among these issues, the UK is particularly well equipped to assist in enhancing project preparation and readiness through its BIP toolkit.

Disbursements by development partner

In the Philippines, project commitments have consistently been higher than actual disbursements. Disbursements corresponded to 64% of total commitments, a figure that aligns with the regional average. Multilateral development partner disbursement ratio averaged 75% while that of bilateral development partners 50%. For the G7 countries' the disbursement ratio was 67% while UK's 118%. In the case of the UK, the variance between commitments and spending is primarily attributed to standard grants allocated to scholarship programmes, which have a disbursement exceeding commitments.

Of the top development partners in the Philippines, the highest ratio of disbursements to new commitments was South Korea, at 86%, while China was the lowest at just 8%. China presents a unique case, as Chinese ODA is complicated by geopolitical tensions and controversies, which have also led to the Philippines withdrawing from certain projects under China's Belt and Road Initiative (BRI).

Disbursements by sector

The Government and Civil Society are the largest sectors in terms actual disbursements and also demonstrate the highest disbursement ratio (94%). The Education, Agriculture, Forestry and Fishing, Banking and Financial Services, and Humanitarian Aid sectors also exhibit high disbursement ratios exceeding 90%. Conversely, the Transport and Storage sector, which is the largest category of ODA commitments, substantially underperforms in disbursement (27%). The primary focus in the Transport and Storage sector is rail infrastructure, which has encountered challenges, particularly in securing ROW which has contributed to delays experienced in project execution.

Patterns of bilateral and multilateral donor interventions

The Philippines is characterised by a high degree of development partner concentration. ADB, the World Bank and Japan collectively account for over 79% of ODA disbursed in the Philippines between 2018 and 2021. However, when multilateral development partners are excluded, the distribution becomes more balanced, with several bilateral development partners offering substantial support across different sectors (Figure 1 below).

Non-DAC Donors in Focus: Chinese Official Development Flows Diverge from the ODA Definition and Take On Different Forms

Chinese official flows diverge from the ODA definition and take on different forms, including "hidden debt" created through special purpose vehicles (SPVs), foreign direct investment (FDI), and flexible capital. In 2016, President Xi promised then Philippine President Rodrigo Duterte US$24 billion in investment, credit and loan pledges. During the Duterte administration, Chinese policy banks, central state-owned enterprises, and major private firms were encouraged to invest or operate in the Philippines. In other words, Duterte's administration led to the surge of different types of Chinese capital, which have had political and developmental implications above and beyond large-scale infrastructure projects. Since taking office in 2022, President Ferdinand Marcos Jr has shifted the Philippines' diplomatic direction. His administration has taken a firmer position on the South China Sea disputes and has terminated loan agreements with China for projects worth almost US$5 billion.

The USA, for example, has a varied portfolio with major contributions in Water & Sanitation, Humanitarian Aid, Health, Government and Civil Society, and Communications. France, Australia, and Germany also make notable contributions in various sectors. The UK stands out as the largest donor in the Energy sector[1] and maintains a strong presence in Agriculture, Forestry, and Fishing.

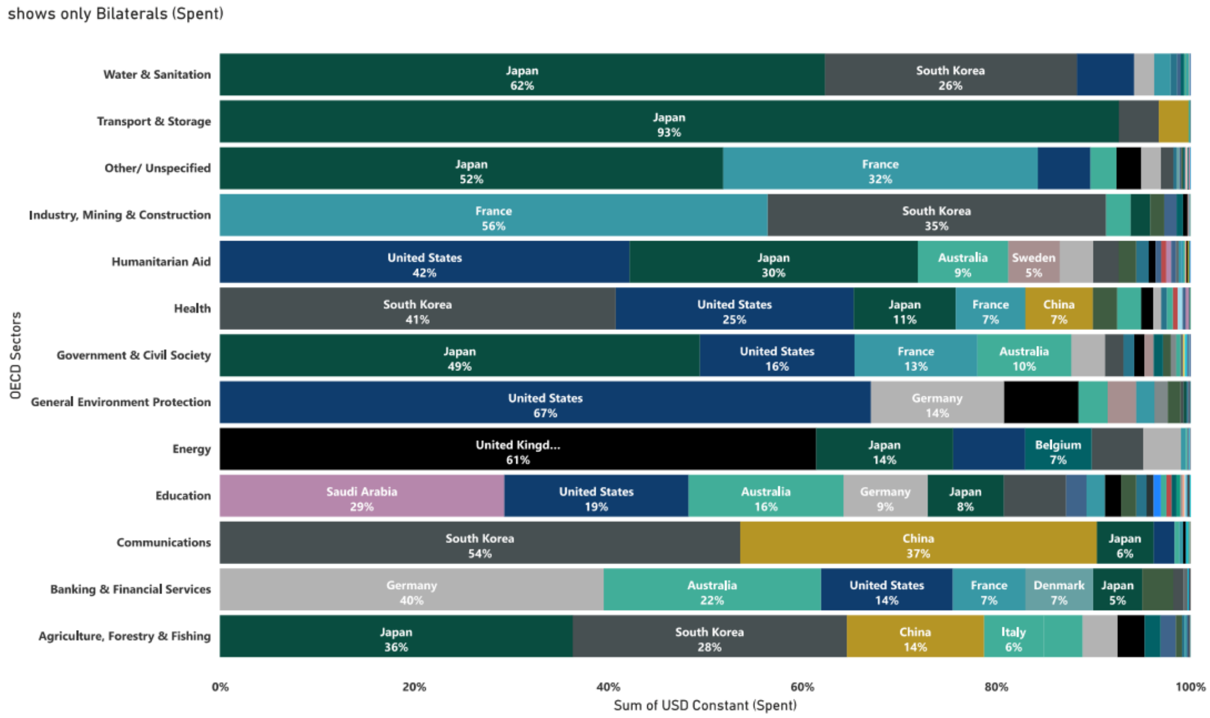

Figure 3: Development partner concentration by sector. Source: Own calculations with data from Lowy Institute Southeast Asia Aid Map, 2023.

Development finance for climate

Access to ODA is a crucial element of Philippine's efforts in incorporating climate change into programmes and projects. According to NEDA, at the end of 2022 there were 56 projects (22 loans and 34 grants) contributing to climate change adaptation and mitigation and disaster risk reduction (DRR) with total active commitments at approximately US$ 2.9 billion.

The volume of climate development finance disbursed in the Philippines has been growing. However, the increases consist mostly of projects where climate change mitigation or adaptation is explicitly stated but it is not the fundamental driver or motivation for undertaking them. Projects where climate change mitigation or adaptation is explicitly stated as fundamental in their design or motivation have seen only a marginal increase (see Figure 3).

OOF loans are the major form of climate development finance, making up 59% of all climate-related disbursements. The ADB and Japan are by far the biggest providers of climate development finance in the Philippines. ADB, which describes itself as Asia and Pacific's Climate Bank, spent US$ $3.0 billion to climate-related projects (37% of total spend) while Japan spent US$ 2.4 billion (about half of total spend). The World Bank follows with about US$ 800 million (equivalent to about 36% of total ODF).

Regarding other bilateral development partners, more than 60% of Australia's ODF is designated as climate-related. Similarly, ODF from France, Spain, the UK, and Germany incorporate objectives aimed at climate change mitigation or adaptation (Figure 4).

[1] Within the Energy sector, the UK has made a considerable investment of approximately US$32 million through the MOBILIST programme to the ThomasLloyd Energy Impact Trust (TLEI), an investment vehicle focused on sustainable energy infrastructure projects across Asia and including the Philippines.

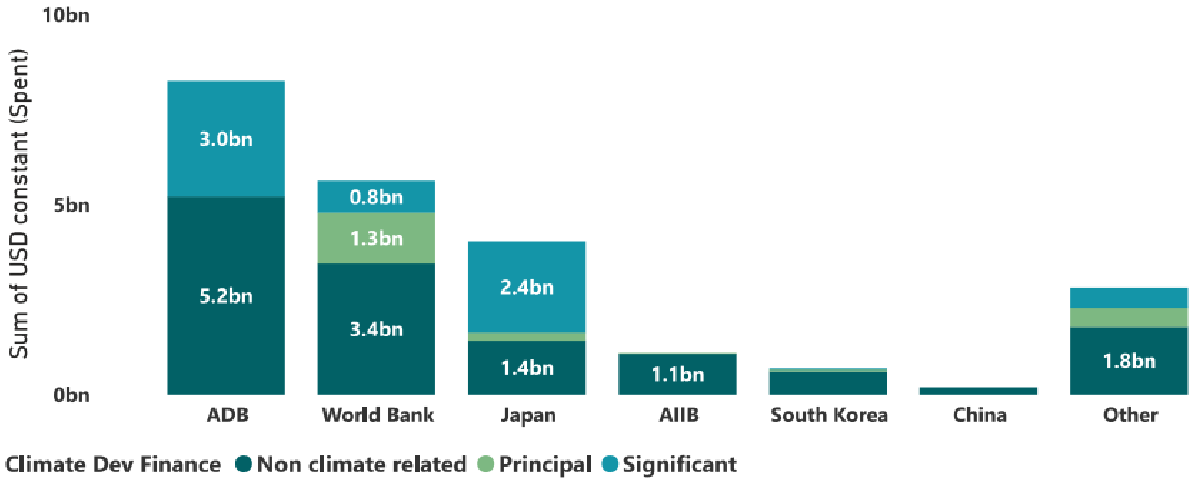

Figure 4: Cumulative climate development finance by development partner, 2018-21. Source: Own calculations with data from Lowy Institute Southeast Asia Aid Map, 2023.

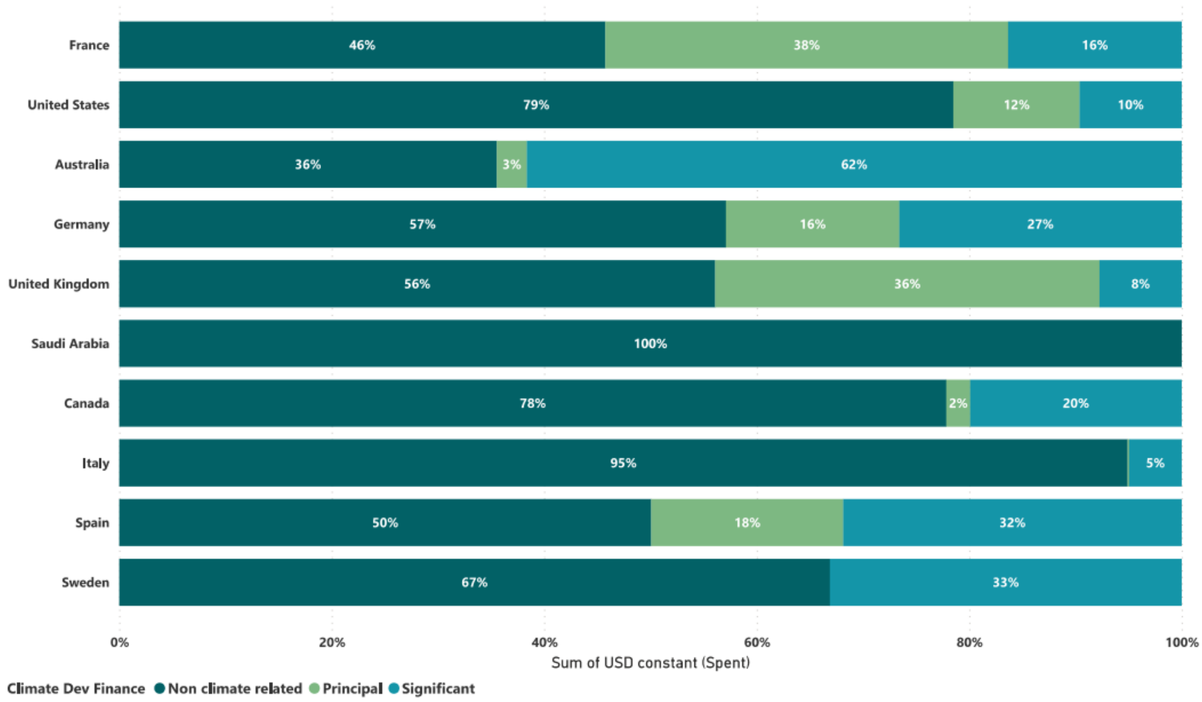

Figure 5: Cumulative climate development finance by bilateral development partners, 2018-21. Source: Own calculations with data from Lowy Institute Southeast Asia Aid Map, 2023.

Types of financial instruments and co-operation modalities

Various financial instruments, delivery channels, and cooperation modalities are employed by bilateral and multilateral development partners. In general, there are two instruments of bilateral and multilateral assistance: loans (OOF) and grants (ODA). However, it is important to note the nuanced variations within each category. This variation underscores the diverse strategies and preferences among development partners in providing support to the Philippines.

OOF (semi and non-concessional loans, export credits) accounts for about half of the total development flows. This reflects the relative maturity and greater debt-carrying capacity of the Philippine's economy. Infrastructure is the largest single category of OOF, encompassing projects in transport, energy, communications, and water and sanitation. The Health, Government and Civil Society, Education, and General Environmental Protection sectors are the primary recipients of grants.

Multilateral Development Partners: Predominantly OOF	Bilateral Development Partners: A Blend of ODA and OOF
Policy based loans & budget support Government-executed project financing Programme-for-Results (PforR) Multitranche financing facilities Commercial cofinancing for non-sovereign projects Technical assistance	Contributions to multilateral partners (including multi-donor / single-donor trust funds and UN agencies) Grants channelled through NGO/civil society/private sector Sovereign and non-sovereign loans Soft loans EXIM financing Technical assistance

Enhanced Development Support in BARMM: A Focus on Grants and Peace-Building Initiatives

The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) is one of the poorest regions in the Philippines. BARMM accounts for the fourth largest share of region-specific ODA, amounting to over US$ 800 million. About one-third of this, or US$ 259.09 million, is provided in the form of grants. This grant component is significantly higher than the national average of 7%. As of December 2022, there were 44 grants from 18 development partners, marking the highest grant assistance received by any region. These grants focus on a variety of interventions including livelihood restoration, education, normalization and peace-building efforts, institutions building, and infrastructure.

Future of ODA in the Philippines

As the Philippines approaches middle-income status, a gradual reduction of ODA is anticipated. Sweden and Finland have already graduated the Philippines from traditional development assistance programmes, opting for loans or EXIM financing. At the same time, non-traditional development cooperation has become more significant, contributing to official development flows. This includes notable non-DAC donors such as China, Saudi Arabia, Türkiye, and United Arab Emirates (UAE), under which the majority of development assistance is allocated bilaterally, although their participation in multilateral institutions has expanded over time. This includes not only the World Bank and regional multilateral development banks (MDBs), such as the ADB, but also new banks including the Asian Infrastructure Investment Bank (AIIB).

The Philippine Government acknowledges that the graduation to middle-income status will have significant implications for the country's fiscal situation and access to concessional loans. To address this challenge, the Philippine Government is exploring alternative ways of financing projects and attracting investments. NEDA has proposed four strategic measures:

- Explore and expand alternative financing mechanisms through domestic resource mobilisation, private sector participation, and PPPs.
- Strengthen the capacity and stability of domestic financial institutions, such as banks and capital markets by enhancing regulatory frameworks and implementing financial sector reforms.
- Improved debt management practices to ensure debt sustainability.
- Uphold good governance practices and transparency in financial management to enhance the country's credibility in accessing financing.

This emerging landscape indicates a move towards more diversified and targeted forms of development assistance. Within this evolving landscape, the UK's BIP is well-suited to the needs of the Philippine Government. It offers a supportive and complementary approach to the efforts of other multilateral and bilateral development partners, thereby maximising the impact of UK's ODA spend.

Entry points for UK policy engagement and programmatic investment

Based on our analysis, we recommend the following strategies for the UK to enhance the impact of its initiatives in the Philippines:

- **Leveraging UK Expertise:** FCDO has comparative advantage and expertise in the climate, nature, environment and infrastructure sectors. It can draw on in-depth sectoral and political knowledge, strong policy and influencing expertise, and co-ordinate learning. Critically, FCDO is able to fill gaps where the lending institutions have limited TA budgets and thus complement the development banks investments, providing untied assistance. A prime example of leveraging this expertise is through BIP, which provided TA to support the formulation of the Philippine National Adaptation Plan (NAP). The NAP provides a strong market signal for priority investment sectors in the coming years and offers a strategic framework to guide the work of development partners operating in the Philippines. In addition, under the CoE for Green Cities and Infrastructure (GCI), the UK is providing support on integrated water resources management and Transit-Oriented-Development (TOD). Another noteworthy initiative is the ASEAN Low Carbon Energy Programme, focusing on green finance and energy efficiency—areas where the UK exhibits notable strength. These flagship programmes underscore the UK's ability to contribute significantly to the Philippines' development landscape, particularly in adopting inclusive and green practices.
- **Enhancing Impact through Multilateral Development Partner Channels:** Through the United Kingdom–ASEAN Catalytic Green Finance Facility (UK-ACGF) the UK is funding the Baguio Resilient City Tourism Project which will improve sanitation conditions in Baguio City. The UK is also funding the Urban Resilience Trust Fund (URTF), a multi-donor trust fund administered by ADB, which supports integrated resilience planning and investments in resilient infrastructure. Continuing to work through multilateral channels will give FCDO a greater probability of securing "quick wins" which in turn will drive more positive engagement with the Philippine Government and development partners in the future.
- **Expanding FCDO's Development Influence in Mindanao (including BARMM) through Strategic Engagement and Leveraging Expertise:** Currently, the FCDO has limited programming in Mindanao, yet FCDO possesses significant experience in working within Fragile and Conflict-Affected States (FCAS). There is a compelling case for considering an expansion of FCDO activities into Mindanao (including BARMM). Such an expansion would not only address the needs of some of the most vulnerable and underserved communities in the country but also align with the FCDO's expertise in navigating complex environments. An iterative approach, backed by a well-crafted strategy for entering and operating in these areas, could greatly enhance the impact of the UK's development efforts. This move could also synergise with the work of like-minded development partners, sending a signal of the UK's commitment to inclusive and green development. Initiatives under the BIP, such as the CoEs, BII and PIDG, offer valuable insights and models for effective engagement in FCAS settings.
- **Harnessing Current Momentum for Enhancing Development Partner Coordination and Policy Influencing:** FCDO is positioned to capitalise on the existing momentum by facilitating proactive donor coordination and engaging in national policy discussions. This effort aims to amplify awareness around UK priority issues and champion modifications to the prevailing ODA legislation, setting the stage for meaningful change and enhanced collaboration.

Sector interests

A deep dive analysis involving primary and secondary data covering agriculture, energy, water, and mining sectors was carried out. These sectors are not the only priorities for the UK but were identified by FCDO as requiring further investigation. The purpose of the sectoral analysis was to establish a foundational understanding of each sector, identify gaps and constraints that hinder sector performance, and provide insights and high level recommendations for UK intervention.

Table 1 below summarises our findings and recommendations. We identify Agriculture and Water as the sectors with the greatest potential for ODA engagement. The Energy sector also presents significant opportunities for leveraging previous engagements through the BIP toolkit. For the Mining sector, we recommend an approach that employs non-ODA instruments, similar to strategies used by other like-minded development partners in the Philippines.

Table 1: Assessment of Potential Sector Interventions

Sector focus	Problem Statement & Intervention Logic	Entry points for policy engagement and programmatic investment	Opportunities for joint development with like-minded partners	BIP instrument	Selection criteria significance rating			
					Recognised national/local priority	Links to climate goals / ICF	Contributions to GEDSI	Political risk
Food security	Agricultural production losses due to extreme shocks and climate change Inadequate transport and logistics restrict the expansion of agricultural value chains and cause supply-side inefficiencies Significant post-harvest losses mainly due to poor handling and management practices	• Access to financing for private sector to improve logistics, manufacturing, postharvest facilities to transform value added and access to markets • R&D and technological innovations on low-cost technologies for irrigation, big data analysis and satellite and modelling data on crop planting and anticipatory action for insurance, prevention and control of zoonotic diseases	Canada, Australia	CoEs, BII, PIDG	Strong	Strong	Strong	Limited
Integrated water resources management	Sector fragmentation hinders the implementation of Integrated Water Resource Management (IWRM) and river basin approach to water resource planning.	• Assisting the national government in formulating and implementing water resources policy and regulations, set within the framework of building resilience and responding to climate change • Advising on blended finance, green and blue bonds flotation and other financial instruments to fund the capital intensive development including bulk water supply and storage, city-wide sewer and sanitation systems, septage treatment plants, for example	World Bank, USA	CoEs and investments, loans, and/or guarantees through BII, PIDG	Strong	Strong	Strong	Limited
Transition into more sustainable and resilient	A challenge to grow generation capacity at the pace of demand growth, particularly in	• Support in improving regulatory frameworks (competition, tariff determination and fair rate of return, efficient services, and	ADB, GIZ, USA	CoEs and guarantees, early-stage risk capital, commercial	Strong	Strong	Medium	Medium

Sector focus	Problem Statement & Intervention Logic	Entry points for policy engagement and programmatic investment	Opportunities for joint development with like-minded partners	BIP instrument	Selection criteria significance rating			
					Recognised national/local priority	Links to climate goals / ICF	Contributions to GEDSI	Political risk
energy systems	certain parts of the country such us Mindanao Weak demarcation and accountability across sector institutions	ESG) and incentivisation to favour RE • Safeguard consumer interests and wider community benefits • Whole Systems Approach (WSA) in guiding a coal phase-out – with timed action plan • RE expansion, and overall carbon and green transition in the Philippine context • Mobilising private finance for RE development and green transition in off-shore wind, hydro, and solar power generation		finance, for example, through BII, PIDG, UK Export Finance, or MOBILIST				
Sustainable and responsible development of critical minerals	High risk sector: • Exploration or mining operations in protected areas or ancestral domains, where potential damage from these projects, particularly to endangered species and food security, could be irreversible. • Human rights violations and social exclusion of indigenous peoples and local communities. • Concerns that Chinese investments may distort the market by subverting economic governance and exclude international interests from participation.	• Advice on how to develop critical mineral resources in a way that aligns with sustainability, transparency, human rights and environmental goals, and supports development priorities • Review of standards for the mining industry—harnessing capabilities of cutting-edge technologies, such as remote sensing and AI to enhance industry regulation and law enforcement	USA, Australia, New Zealand, EU	UKEF products to support eligible critical mineral projects that present opportunities for export of UK goods and services	Strong	Medium	Limited	High