Financing the Philippine MDGs: Debt for Development

By Jessica Reyes Cantos*

The provision of goods and services that will advance the country's MDG score requires special resources other than what is usually allotted in the annual budget. In the absence of budget reform, early estimates by Manasan (2002) puts the additional budgetary requirement for basic social services at P221 billion (US$4.5 billion) between 2002-2008 to keep pace with the targets. The national budget, used here as an indication of government's capacity to undertake development programs, failed miserably in responding to the task. Two points are worth noting:

Weak Government Budget. The national government budget in general has been contracting since the Asian crisis in 1997, and the fall was carried over to the new millennium. In absolute figures, the public purse appears to have grown, from P682 billion in 2000 to P907 billion in 2005. During this period, the budget grew by an average of 7.85 percent annually. This would have been tolerable if not for the reality of inflation and population growth. Inflation in the same period posted a 5.3 percent average, thus effectively reducing the growth in the budget to 2.55 percent, the latter figure reflecting real growth. Moreover, if population were accounted for, so that we are looking into budget per capita growth during the period, the 2.55 percent will have to be reduced to 0.25 percent with population growing at 2.3 percent on average.

Thus shown, the national budget barely grew in the first five years of the 21st century. Already at very poor levels (P7,500 per Filipino), clearly the government did nothing to effect changes in the expense system, particularly in increasing budgetary capacity. But how could it, when tax collections was also at its worst in the years cited, sinking to a mere 11.5 percent tax effort last year. Needless to say, if the current budget situation cannot even bear the cost of providing minimum basic service, then so much for upgrading or keeping with the country's MDG promises.

Crowding out by the debt service. There is more to the budget than mere size. Allocation patterns have also been revealing, showing skewed priorities. Despite propoor pronouncements, the budget for basic social services has been receiving less relative to other item. The education sector fetched 17 percent of the budget in 2000, yet rolled down to 14 percent this year (2005). Similarly, the budget for health services, patently deficient at 2 percent in 2000, had worsened to 1 percent of the 2005 budget. The same story goes for all other allocations in public good, services, infrastructures and all.

A spending squeeze is in force, from the effect of the deficits first; consequently, by the increasing amounts allocated to debt servicing. Already at 21 percent in 2000, interest payments continued to swell and eventually crowded out social and economic concerns. For the current year, debt service took 33 percent of the national budget.

At this point, the customary government response to the problems raised above is to increase the budget pie, that is, collection efforts would have to be enhanced and additional levies collected. But this approach can only do so much, especially when still tied to the deficit. At best, additional revenues will only plug the deficit come 2010, but provide no new money for additional or new programs. Likewise, the threat of ever-increasing debt payments due primarily to exchange rate fluctuations puts at constant risk any gain achieved. In fulfilling the MDG promise, again behind in schedules as it is, the best-case scenario come 2010 is government would have raised the bar of service to minimum-decent levels. But then the extent of the demand would surely have widened by that time.

Official Development Assistance (ODA) is half-in, half-out of the ambit of the MDG financing-cum-national budget problem. From a supply point of view, and as expressed by donors in the recently held Philippine Development Forum, the window of opportunity has narrowed. And literally, on the aid for the country: multilateral and bilateral agencies will soon be withdrawing on the level of support that is now available, while those who will continue to stay have things other than the MDG in mind. Just the same, ODA is available and remains an important source of MDG finance.

Current aid level stands at around P500 per Filipino (US$9). The figure could be more if not for

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the fact that the ability to tap in is contingent on the government's ability to raise a counterpart fund. Thus, on government commitments included in the 2005 budget, there are P26 billion in loan and grants requiring P10 billion counterfunding, most of which will go to infrastructure development (civil works); and the rest as operational and technical expenses. It is not clear whether the government's use of ODA is strategic in the sense that it fills the development finance gap left by the budget constraint. What is apparent is the fact that donors have a lot to say in determining the nature and outcome of the projects. In view of the latter, ODA can work for the attainment of MDGs if donors themselves are convinced that money should be directed to human development investments.

The country, as with the whole developing world, also awaits the realization of a promise to tap the current trading regime into facilitating the progress of MDGs. Still, the international economic institutions that came to propose the idea have yet to explain how trade liberalization and greater economic integration will contribute to the fight. Consider the Doha Development Agenda, whose program is to put the "development" dimension into the present multilateral trading system. Yet the new round of talks stay much the same, conquered and dominated by developed countries. Moreover, the World Trade Organization (WTO) continues to ignore the evidence that unbalanced and unfair trade, instead of reducing poverty, had served to induce it. The Philippines has doubled its trade volume, from 48 percent of the GDP in 1990 to 85 percent of GDP in 2003, but all the same had been incurring deficits; that is, trade has been unfavorable to the country ever since. Many sectors in the economy – the agriculture, manufacturing and other business have been taken out, and jobs lost to foreign competition.

Foreign direct investments (FDI), also seen as a "source" of finance for the MDGs, suffers as much ambiguity as the trade proposal. Its power rests on the welfare effects of FDI in general, and with this leads to one conclusion, that is, to allow and attract the most foreign inflows into the economy. Against Asian neighbors, however, the country is out-bidded and out-staged. China, India, Malaysia, Thailand and Indonesia have been extending invitations to the same investors. Worse, their efforts are successful. The country is seeing the lowest levels of FDIs since liberalization in the early 90s, and this continues to slide.

Leap of Faith and Fate. Regular budgets, grants and aid notwithstanding, the Philippine government will be neglecting its pledge if the country fails to reach the MDG standards. Philippine reports are to note, very appreciative of their own "efforts", and optimistic of the trends captured by official statistics. Poverty levels have gone down, and other indicators had improved. Interestingly, these observations contradict the absence of actual social programs, allocations, or their delivery. Likened to a test, it seems that the government passed without doing anything.

Alternative indicators abound, however, and direct testimonies yield a contrary situation. For example, hunger is prevalent in the countryside; poverty levels reach to half the population in many regions; quality of schooling is heavily compromised, etc. Here, it is worth reiterating that budget allocations and even ODA redirections had been remiss of the social and developmental needs of Filipinos.

It should dawn on government that it has to make budgetary amendments now to resolve a budding social crisis. Priorities must be revised, and scarce resources realigned. One way would be to reduce the military budget that continues to retain significant amounts away from productive activities and services (P45 billion in 2005). The other is to reduce significantly the amount for debt service. This alternative deserves resolution since it is at the core of the budgetary problem.

Reducing the debt stock and debt payments by means of restructuring, and other forms of relief (from simple rescheduling terms and payments to cancellation) is very possible. In the present context, the motivation is provided by the need to accomplish the MDGs; and ending the debt problem is paramount. Creditors and international financial institutions recognize the debt- and-death conjuncture, and debtor countries like the Philippines should take advantage of it.

A debt bargain could finance the MDGs sufficiently, and get rid of the debt problem, partial or in full, most conveniently. The Philippines will pay P645 billion in debt just for this year. This amount is more than adequate to put basic social services delivery going, and the whole MDG program on track till 2015. What is stopping the government and creditor institutions then?

To summarize, financing the MDGs is a must and sourcing it is a huge problem. The country is fiscally in the red. The people have been taxed enough, traditional and "alternative" sources are not forthcoming, and debt service is too much. But debt itself could be a major source if used for MDGs. Bottom line: creditors should give way to people's needs, and debt should not stand in the way of development.