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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BETTER USE COULD BE MADE OF
U.S. ASSISTANCE AND OTHER
SUPPORT TO THE PHILIPPINES B-133359

D I G E S T



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WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) made this review of U.S. assistance and other inflows of U.S. dollars to the Philippines as part of its continuing efforts to assist the Congress in its oversight of U.S. foreign assistance programs and related activities in the recipient nations.

The United States long has been involved with the affairs of the Philippines; however, increased Filipino feelings of nationalism suggest that significant changes soon may be required in the handling of United States-Philippine relations.

Direct U.S. economic and military assistance programs to the Philippines have averaged \$68 million annually in the years 1965 through 1971. However, total U.S. dollar inflows to the Philippines resulting from U.S. Government activities have averaged about \$388 million annually. This is due to less visible, but larger forms of dollar flows, such as sugar premium payments, favorable tariff agreements, and U.S. military spending.

These latter means stem from programs of the U.S. Government serving specific U.S. interests and are not, necessarily, directed to the orderly development of Philippine economy. Numerous departments and agencies of the U.S. Government administer U.S. programs in the Philippines. (See pp. 5 and 9.)

FINDINGS AND CONCLUSIONS

The United States has achieved its primary objective in the Philippines, which is military in nature. However, the objectives of its programs for economic and social growth have been plagued with serious problems. These problems will have a decided impact on future United States-Philippine relations. (See p. 11.)

The World Bank has reported that long-term growth prospects of the Philippines appear good; however, continued development depends on the correction of serious problems existing in debt servicing, income distribution, tax legislation and collection, governmental reform, and population growth. Subsequently, the Philippines suffered a major flood disaster in July 1972. The full effects from this disaster on growth prospects are not yet determined. (See p. 57.)

U.S. economic assistance programs--based on the criterion of self-help--have achieved limited success in bringing about much needed social and economic changes in the Philippines. The influence of these programs has been lessened by inadequate Philippine Government support. GAO found that:

--The Agency for International Development has continued over the years to plan technical assistance grant and direct loan programs on

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the assumption that the Philippine Government would provide adequate local currency support to carry out the provisions of the various project agreements. In a 1965 report, GAO showed that Philippine Government support was inadequate. There has been some improvement but this problem still persists. (See pp. 14, 16 and 17.)

--An agency of the Philippine Government refused to use a significant amount of funds generated from Public Law 480 Title I sales in accordance with the sales agreement. In addition, usual marketing requirements were waived wholly in 1971, and partially in 1972, and there were indications that commercial sales might have been displaced. (See pp. 27 to 29.)

--Although the primary purpose of Export-Import Bank loans is to assist U.S. exports, the economic objectives have not been accomplished on a timely basis due to inadequate support from the Philippine Government. (See pp. 32 and 33.)

--Peace Corps efforts have suffered due to inadequate Philippine means to support the program and the program has been redirected. (See pp. 33 and 34.)

GAO has recently reviewed the military assistance provided to the Philippines. The report shows, among other things, that the U.S. military assistance program is plagued with the same problems hindering success of the economic assistance programs--the Government of the Philippines has not provided adequate support. (See pp. 36 and 37.)

For other types of dollar inflows to the Philippines by the United States:

--U.S. payments of \$485 million over and above 130 percent of the world price of sugar during the past 7 years through the U.S. sugar quota system have not provided much assistance toward the development of the Philippines and its people. Furthermore, sugar profits have been used to engage in a questionable expansion of the industry. (See pp. 40 to 46.)

--The Philippine Government--not the intended World War II veterans--has been the primary beneficiary of a \$31.1 million U.S. payment for settlement of Philippine veterans' claims. (See pp. 38 and 39.)

--In many cases the U.S. Veterans Administration benefits paid to recipients in the Philippines are extremely generous in comparison to the present cost of living. (See pp. 50 to 54.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretaries of State and Agriculture should develop methods to direct at least part of the sugar premium payments to economic development and social reform programs. The Secretary of State should impress upon the Philippine Government the need for such use. (See p. 49.)

In providing direct assistance, the United States should more effectively insure that Philippine funds would be available when needed before placing U.S. resources to joint projects. For example, a portion of

the receipts from U.S. sugar trade could be used for this purpose. (See p. 35.)

In its report on military assistance, GAO proposed that the Secretaries of State and Defense reconsider the military assistance program funding levels and determine whether a portion of these funds could be better used for an expanded economic assistance program. (See p. 37.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The departments and agencies of the U.S. Government, responsible for administering these programs, did not disagree with most of the material in this report. They generally disagreed, however, with certain GAO conclusions and suggested solutions.

- The Department of State said that any attempt to use the benefits accruing to the Philippines from the sugar legislation to implement U.S. policy objectives would be tenable only if done without detracting from the main purposes of U.S. sugar policy. (See p. 68.)
- The Agency for International Development cited various assistance projects for which it stated that Philippine financial support had been adequate. It agreed that Philippine local currency support

and program implementation continue to be problems but that the seriousness of these problems had been lessened significantly in recent years. (See p. 34.)

- The Department of Defense said the use of funds for economic development in lieu of military assistance was not appropriate. (See p. 37.)
- The Veterans Administration did not disagree that benefits in the Philippines were excessive. It did, however, point out that the beneficiaries were so entitled by law and that a cutback in benefits would have a very significant socioeconomic and political impact in the Philippines. (See p. 56.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

In view of the magnitude of the indirect assistance provided to the Philippines through sugar premiums and the great interest of the United States in assisting with the economic and social development of the Philippines, steps should be taken by the United States to impress upon the Philippines the potential better use of a portion of these funds. The Congress may wish to review this matter with the Departments of State and Agriculture and the Agency for International Development.