60th anniversary of the IMF-World Bank:

No time for a party!
Time to drop the debt!

October-November 2004

FDC bulletin

Dealing with the fiscal crisis:
The Hour is Late

President Gloria Macapagal-Arroyo's declaration of recovery falls flat in the face of a fiscal crisis that is already felt by the majority of impoverished Filipinos, in various ways, among them, rising prices, shrinking wages, the lack of a range of services from education and health to community development and disaster relief and rehabilitation programs.

The Arroyo government seems satisfied with a set of austerity and revenue measures for its agencies to enforce and for Congress to enact, leaving her constituents with little reason to be hopeful of better lives in the near future.

Just tiding us over for the next crisis

Even if the new taxes are passed by Congress, only P83 billion worth of government

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THE FISCAL CRISIS...
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revenues will be realized at best. This is not enough to cover the present deficit, let alone tide the country over until the next crisis, which is merely what the government seems to be concerned about. Yet not one of these tax measures promises to make it out of Congress in time. If that is so, this is P83 billion more that the administration will again have to borrow, driving the debt stock even higher.

Worse, the Arroyo Administration's other efforts to resolve the fiscal crisis are exposing the citizens to new risks that threaten their health and food security, not to mention the country's patrimony and the cultural heritage of indigenous peoples.

It's the Debt

What the government continues to ignore is the paramount role of the burgeoning national debt vis-à-vis the current fiscal crisis. This is bewildering as the country's debt figures have become quite too glaring to ignore.

The total Public Sector debt stood at a staggering P5.9 trillion as of end-2003. This translates to debts of approximately P70, 000 for every living Filipino today.

It would also mean, from the way the Philippine government makes debt payments, that creditors get paid P1.2 million every minute. Without any new law contravening the Automatic Appropriations Act, debt payments come first before any public expenditure. For the coming fiscal year 2005, debt payments will eat up 95 percent of government tax revenues.

Ninety-five centavos of every peso government collects as tax go to debt payments. Left with only 5 centavos per peso of revenue to spend for its operations, the government borrows some more, thus aggravating the matter. This year, the government plans to borrow an additional P538 billion, and next year, another P558 billion.

A Wide Range of Options

Possible debt solutions have been proposed by various sectors, ranging from the usual restructuring mechanisms, to debt moratorium, conversion and swap programs, and even debt repudiation. Even government officials, from both the executive and the legislative branches, have expressed their readiness to explore renegotiations and debt caps.

Debt renegotiation and restructuring could somewhat ease the financial pressure in the immediate setting, but would only push back debt payments into the future, most probably at higher interest rates.

A more drastic measure would be to declare a partial debt moratorium (through debt caps) or a total debt moratorium - the suspension of all debt payments for a certain period. The implications of a moratorium are significant. The proposed national budget for 2005, net of debt service, only amounts to P600 billion. Roughly the same figure will go to servicing principal and interest payments. If one supposes a moratorium, and freeing up P600 billion, the remaining amount can be used to finance one more government. Government does not even have to go through with its plan to borrow P558 billion for 2005.

A less controversial undertaking could be a debt swap that converts debt into specific development programs. This, however, usually requires a payment upfront in exchange for the conditional condonation, which would actually add to the immediate financial needs of the government.

The most sweeping approach would be debt repudiation, an act based on moral grounds. In cases of clearly fraudulent and illegitimate loans such as those contracted under the Marcos dictatorship for the Bataan Nuclear Power Plant, debt repudiation must be considered among the country's options.

Sharing the Burden

Government has been enjoining

the people to share in the burden of addressing the fiscal crisis, as if people are not already heavily stooping from the burden of its fiscal policies. But the message that government is in truth sending to its creditors and big business, from behind this sanctimonious line of burden-sharing, is that it's "business as usual".

Amidst the current crisis, information about the personal wealth of government officials, military top brass and other persons in positions of political authority and privilege are coming to light. Military "conversion" means no more than the fraudulent pocketing of borrowed funds. Exorbitant perks of government officials redound simply to stealing taxpayers' money.

Further adding to the burden are government's specific actions (and inaction) with regards other issues. Napocor's standing contracts with independent power producers who enjoy guaranteed revenues for their more expensive electricity as well as the absorption of normal business risk, is draining public revenues and adding to the country's indebtedness, not to mention the people's suffering. Bailing out favored business interests, such as those of the Lopez-owned Manila Electric Company and the Maynilad Water Services Inc., despite contract violations and their own inefficiencies further contribute to the country's financial woes. Government's assumption of private sector debts absolves big business of its self-inflicted problems while passing on the financial consequences to the people. Prioritizing debt payments takes away from scarce resources for much needed social services.

Act Now!

Felt deeply in the gut, the urgency and enormity of the country's fiscal problems cannot be swept under the rug despite President Arroyo's efforts to downplay it. It requires a comprehensive solution that includes, among others, major changes in government structures, policies, and processes regarding borrowings, the extension of public guarantees and contingent liabilities, debt management and servicing.

As decisive steps in addressing the debt and fiscal crises, the Freedom from Debt Coalition demands the following:

- Immediate passage of House Joint Resolution No. 2 and Senate Joint Resolution No. 1 on the Creation of Debt Commission to investigate and audit all public sector debt and contingent liabilities
- Repeal of the Automatic Appropriations Law on Debt Servicing
- A stop in payments of specific illegitimate and onerous debts such as those of the Bataan Nuclear Power Plant
- Cancellation/ Annulment of onerous and debt-creating agreements and contracts such as those of the Independent Power Producers

These steps pave the way for more comprehensive measures to be undertaken and for the crisis to be solved at its core. ■

THE IMF-WB: Marking 60 Years of Misery for Countries of the South

The International Monetary Fund (IMF) and the World Bank (WB) marked their 60th birthday this year, striking a discordant note among south countries whose impoverishment and deprivation have in large part been caused by the policies of these two powerful institutions.

Loans and Conditionalities: Setting the Debt Trap

The IMF and the WB act like global loan sharks, exerting enormous leverage over the economies of more than 60 poor countries including the Philippines through loan conditionalities.

Countries are required to reduce expenditures by slashing budgets for basic services such as education and health, eliminating subsidies on food and transportation, and privatizing national assets. Such belt-tightening measures supposedly ensure capacities for continuing to service their debts (euphemistically termed debt sustainability) but in fact, reduce countries' abilities to build strong domestic economies, ultimately stunt their industrial and economic development, render them progressively dependent on loans to finance programs, exacerbate poverty, and draws them even deeper into a vicious cycle of indebtedness.

2004 is the 60th Birthday of the World Bank and IMF...but...

It's No Time for a Party!

It's Time to Drop the Debt!

Jubilee USA Network

Producing for the global market at the expense of domestic needs

The IMF-WB force poor countries to prioritize commodity-based export production. To increase exports and lower their prices (ostensibly to make them more competitive), countries are encouraged, among others, to give tax breaks and subsidies to export industries, devalue their currencies and freeze wages.

In the end, small entrepreneurs and farmers end up as sweatshop workers in free trade zones, earning starvation wages, living in deplorable conditions, and unable to provide for their families. Nearly 80 percent of all malnourished children in the developing world live in countries where farmers have been forced to shift from food production for local consumption to the production of export crops for wealthy countries.

The cycle of poverty is perpetuated, not eliminated, as the poor countries grow more and more dependent on foreign markets and the rich countries are constantly assured of cheap goods for their citizens.

Liberalization and Deregulation: Opening the Gates to Exploitation

The IMF-WB routinely pushes countries to deregulate financial systems and allow multinational corporations to exploit its workers and its environment. Countries are required to eliminate assistance to domestic industries while providing incentives to multinational corporations. Public assets such as forestland and public utilities are sold off to foreign investors at rock-bottom prices.

The removal of regulations that might limit speculation has greatly increased investment in developing countries' financial markets, with more than $1.5 trillion of speculative capital crossing borders every day. Most of this capital is invested in short term portfolio accounts putting countries at the mercy of financial speculators.

Eventually, many local businesses are eaten up by big multinational corporations, and the country's economy becomes increasingly dependent on foreign capital.

The IFC and Privatization: Closing the Doors of Escape

The International Finance Corporation (IFC) -- the World Bank's private sector investment arm - has been vigorously engaged in the privatization of services and utilities, especially water and power services. While the World Bank extends loans to borrowing governments and directly finances its privatization projects, the IFC designs privatization strategies and provides financing to private companies, usually in partnership with foreign corporations. The WB-IFC not only provides funding but also advises, trains and provides technical assistance to governments and the private sector for the implementation of privatization.

Privatization's promises of cheaper rates and more efficient services have been belied by the experiences of many countries throughout the world where scenarios sharply contrasting with its claims have come to pass - the deterioration of services and continuously rising prices. Governments are surrendering their mandate to provide the most basic of social services. Under the banner of full cost recovery, public goods like water and water services are increasingly being made available only to those with the capacity to pay.

Globalization: Consolidating the Empire

With globalization has come greater integration of countries and economies, according to the order deemed fit by the

IMF-WB - an order where capital and goods move freely across nations' borders, an order where nations' resources and people are laid bare to plunder and exploitation, an order where nations' economies are at the mercy of the rich and the powerful. It is an order where the United States and its rich allies exercise free rein over the markets of the world. And it is an order where the poor are condemned to perpetual poverty and continued oppression.

As South peoples continue to strengthen their organizations and movements the world over, they are also speaking with an increasingly united and louder voice: enough of debt and destruction under the IMF-WB. Sixty years is more than enough. ■

Another bailout in the works for bankrupt Maynilad?

The experience of water privatization in Metro Manila alone -- singled out by international financial institutions as a model to follow -- speaks volumes about the promises of cheaper water rates, financial relief for the government, elimination of corruption in management and improved water and sanitation services for consumers.

Seven years under the water concessionaires Maynilad Water Services Inc. (MWSI) and Manila Water Company Inc. (MWCI) have resulted in a 400 percent increase in water rates for the West Zone and 700 percent for the East Zone. But while rates have consistently gone up, Maynilad and Manila Water have postponed service expansion targets, embarked on a series of new borrowings for the government's Metropolitan Waterworks and Sewerage System (MWSS), violated consumer laws, and colluded with private and government officials to elude the consequences of bad business management decisions.

These and more are the staggering result of the government's stubborn adherence to its policy of privatizing the country's water utilities - a policy that allows the government to shirk its constitutionally mandated responsibility of ensuring that the people have access to safe, affordable and sufficient supply of drinking water.

Bending over backwards for Maynilad

It should be remembered that Maynilad placed the government at a disadvantage when it arbitrarily stopped payments of its concession fees to MWSS in 2001 resulting in huge debts for the government-owned company. Moreover, Maynilad blatantly overcharged its customers through its continued collection beyond the mandated period of the P4.21/m^3 Accelerated Extraordinary Price Adjustment (AEPA) and the P4.07/m^3 Foreign Currency Differential Adjustment (FCDA), amounting to more than P2B. Maynilad's collection of these added charges has been ordered stopped, but in vain, by the MWSS Regulatory Office in 2003.

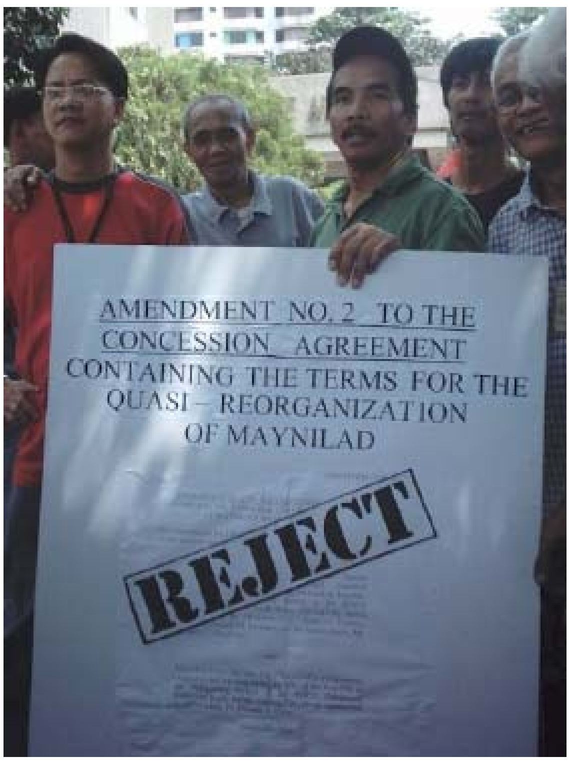
Yet instead of penalizing the errant concessionaire, the government agreed to a settlement which would have converted the P8 billion unpaid fees into a 61 percent government majority share in the bankrupt and heavily indebted corporation. Eventually, Contract Amendment 2 was effectively shot down by a Supreme Court decision that allowed MWSS to draw on Maynilad's performance bond.

Yet now, amazingly, a new bailout scheme for Maynilad, ostensibly called a "rehabilitation plan", has been hatched by a government hell-bent on rescuing this delinquent but much-favored business interest.

Maynilad's New Bailout Scheme

Maynilad's revised rehabilitation plan, just like two previous aborted versions, is demonstrably a government bailout of the mismanaged company from its self-inflicted bankruptcy. The revised plan will allow MWSS to receive upfront only 80 percent of the P8.538 billion that Maynilad owes the government as of end 2003. This will be done through a full draw on Maynilad's performance bond amounting to $120 million or P6.672 billion. Aside from that, only fractions of concession fees due and demandable for 2004 up to 2007 will be paid on time - 50 percent in 2004, 65 percent in 2005, 70 percent in 2006 and 70 percent in 2007. The balances will be restructured at 9 percent yearly interest rate on a staggered basis from 2008 to 2010.

The plan also intends to convert at least $60 million of Maynilad's debts into equity for its bank-creditors. This will allow Maynilad's French partner Suez-Ondeo and foreign creditors an 84 percent equity in the company - a clear violation of the constitutional provision that companies operating public utilities should have a Filipino-foreign ownership ratio of 60:40. There are reports that MWSS proposes hurdling this legal impediment by using $60 million of what it will collect from Maynilad's performance bond to buy 71 percent equity in the bankrupt company (even more than the 61 percent in the aborted bailout scheme)! MWSS itself admits that this move will create a negative balance of P130.63 million for the agency in 2006.



More Debts for the Government

Maynilad's non-payment of its long overdue concession fees, now amounting to more than P10B, has already forced MWSS to incur more debts - $21 million in 2001, $260 million in 2003 and $150 million in 2004. With Maynilad's rehabilitation plan, it is likely that MWSS will again resort to more borrowings, at a time when the nation is in the midst of a fiscal crisis, as the concessionaire intends a staggered payment of its accrued and accruing concession fees. Concession fees are the agency's source of funds for the payment of its old debts and for the operations of the MWSS and the Regulatory Office. Acquiring majority ownership of a debt-ridden company would also mean becoming liable to its creditors.

Even Higher Water Rates for Consumers

In Maynilad's West Zone, water rates have ballooned from P4.96/m^3 in 1997 to the present P19.92/m^3. It is again poised to be raised further to P26.98/m^3 once Maynilad's rehabilitation plan is approved. Come 2005, Maynilad will charge to consumers the cost of its mismanagement and inefficiency - an additional P7.00/ m^3 of water consumption. Worse, consumers will not be reimbursed of Maynilad's FCDA and AEPA over-collections. Moreover, urban poor communities are bound to even suffer more as the company intends to prioritize "opportunity areas" once its rehabilitation goes underway.

Water rates are supposed to be determined according to performance of service obligations, not as a means to bailout a major administration supporter or to preserve an ailing water privatization policy.

Terminate Maynilad's Contract Now

FDC demands the immediate pullout of Benpres Holdings and its French partner, Suez-Ondeo, from the West Zone water concession. Instead of a corporate rehabilitation, their contract must be terminated immediately. FDC reiterates that the best way forward for the government through the MWSS, is to declare

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The Manila Water Windfall

Manila Water, although somewhat lacking Maynilad's temerity, quietly raked in huge profits by constantly raising its rates that has now reached 700 percent of the original levels when it took over operation in the East Zone. The Commission on Audit's report on Manila Water's 1999 operations testifies to the company's enjoyment of a 40.92 percent profit despite existing laws limiting public utilities' turnover to 12 percent. This means that the East Zone concessionaire's earnings for 1999 alone were 28.92 percent higher than the margin allowed by law. In pesos this excess profit translates to about P281 million!

Yet in the middle of this unresolved issue of already excessive earnings, the government through the MWSS has approved another P2.18/m^3 increase in the company's water rate to be implemented in 2005.

THE FAILURE...
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an early contract termination due to Maynilad's fault.

The company's move to rehabilitate itself is one of the grounds for Concessionaire Event of Termination, as stated in the Concession Agreement. MWSS knows that this is economically better than what is being proposed in the revised plan. An early contract termination will necessitate MWSS to pay Maynilad only P4.5 billion (75 percent of depreciated value of its assets) - a small amount compared to what it will lose when it blindly concurs to the rehabilitation plan. An early contract termination will mean that MWSS would own 100 percent of the west zone concession without assuming Maynilad's liabilities.

FDC demands that the public must not be forced to bear the brunt of Maynilad's corporate mismanagement and greed. Maynilad's new rehabilitation plan must be opposed and its concession agreement terminated at once.

Stop Water Privatization Now

FDC wonders why the government fails, even refuses, to uphold national interest in the water distribution sector. Worse, this fault is being downplayed and justified with the tired excuse of preserving the national

privatization policy and avoiding disruption of water services to Maynilad consumers.

Yet why does the government tolerate the gross disadvantages of water privatization just to preserve water privatization itself which has brought those disadvantages in the first place? Clearly, the failure of an undertaking hailed by the ADB and the World Bank as a model to follow would be sending a clear message to other countries: privatization does not hold the answers to problems of inefficiency and corruption, and that it only discriminates against those who cannot afford to pay the price of water.

Private sector companies are organized to make profit, not to fulfill socially responsible objectives such as achieving universal access to water and sanitation services, especially for the poor. Water provision should stem out of the recognition that access to this life-giving element is a human right. Giving preference to the profit motives of private companies before the basic needs of the people is betraying a public trust. ■

Water Privatization Deals: Leaks outside Metro Manila

The experience of Metro Manila is by no means unique. Everywhere in the Philippines the same sad story of water privatization recurs again and again. In the Subic Freeport and adjoining Olongapo City, residents have continually protested rising water tariffs. Taiwanese investors in the Freeport threatened to pull out because of the astronomical rates. After eight years of operation, Subic Water has failed to meet the projected targets in capital expenditures and non-revenue water. Inside the Clark Special Economic Zone, business locators also complain of the high water costs of Clark Water Corporation and are scouting for alternative water sources.

In Cebu, the employees union of the Metro Cebu Water District (MCWD) are challenging the take-or-pay contract of the P1.82B Carmen Bulk Water Supply Project whose draft agreement is replete with lopsided provisions in favor of the private company. In the remote mountain town of Butong, Ronda in Cebu island, residents pay a staggering P150/m^3 of water and they have to pay first before they can avail from a solar-powered, prepaid water supply system installed by US-based WorldWater (Philippines), Inc.

In Baguio, attempts to bid out a $70 million bulk water supply project to the private sector have failed twice. Losing bidder Benguet Corporation, originally a mining company, is intent on acquiring the project and converting its idle open mining pit into a water reservoir even if it has been disqualified for insufficient and non-sustainable source and questionable quality of raw water.

Escalating power rates meet renewed opposition

"If the government is so inutile in stopping further increases in power rates and other basic necessities, if it is unable to protect the people from predatory tactics of vested interest, then this government no longer has the right to govern," thus charged FDC President Ana Maria R. Nemenzo during another "Power Off!" national protest action campaign that generated support from households and communities in various parts of the country.

Continual Power Rate Increases

The Energy Regulatory Commission (ERC) provisionally approved in September the National Power Corporation's (Napocor) rate increase petition to a P1.23/kWh hike in the Luzon grid, P0.22/kWh in the Visayas, and P0.27/kWh in Mindanao. The P0.98/kWh average provisional increase in Napocor's generation rates was implemented in October in most areas and November in Meralco and other areas serviced by private distribution utilities.

But the public's burden does not end there. Napocor officials indicated that they still intend to raise power rates in the next two years to wipe out the company's losses. In two years, Napocor's rates will increase from an average of P3.42/kWh in 2004 to between P5.26 - P6.36/kWh by the end of 2006.

The Napocor Quagmire

The government and mainstream economists have been saying that a rate hike is necessary to stem Napocor's huge losses. What they are conspicuously quiet about is how Napocor contracted these losses in the first place.

"The company's record since 1998 is instructive: losses have climbed from P4 billion in 1998, to P13 billion in 2000, to P34 billion in 2002. And while the government has yet to publicly release Napocor's financial statement for 2003, it is said that its losses breached P100 billion in 2003," wrote Maitet Diokno-Pascual in August 2004. By FDC's computations Napocor's audited financial statement reveal that its total debts and Napocor's liabilities stood at P1.3 trillion at end-2003, equivalent to over almost

40 percent of the National Government debt of P3.3 trillion for the same period. This year, Napocor's losses promise to even outdo that already staggering figure.

The IPP/PPA Duplicity

A large portion of Napocor's losses are actually the result of flawed and irresponsible government policies and decisions in the power industry, such as signing the expensive and onerous contracts with the Independent Power producers (IPPs). Between 2000 and 2002, Napocor was paying its IPPs capacity fees amounting to an average of P28 billion each year. This amount was being passed on to consumers in the form of the infamous Purchased Power Adjustment (PPA).

In May 2002, in response to the public outcry over the PPA charges, President Gloria Macapagal-Arroyo imposed a cap on it. She reduced Napocor's PPA from P1.25/kWh down to 40 centavos/kWh, thus reducing Napocor's revenues by 85 centavos/kWh. Apparently, the president was banking on planned effort by her administration to renegotiate the IPP contracts. Unfortunately, all the Arroyo government could get was a marginal savings of 9 centavos/kWh in nominal terms, which raises more questions upon closer scrutiny.

In the end, the consumers will have to pay for Arroyo's vaunted PPA reduction just the same, now made even larger by interest and inflation.

The Meralco Deal

"In 2003, in exchange for by agreeing to a P20-billion "settlement" that would be collected from consumers again, the Arroyo government allowed legitimized Meralco's wrongful act of to reneging on its contract with Napocor," noted Pascual. Meralco has a 10-year contract to purchase 3,600 megawatts of electricity from Napocor since 1994. in 2002, Meralco reneged on this contract and unilaterally reduced its offtake from Napocor because Meralco management over-contracted power from its own IPPs - Quezon Power, Sta. Rita and San Lorenzo. The combined contracted level of 5,540 MW from the three IPPs is a lot higher than the current Meralco requirement of 4,500 MW.

The power sale supply contract provides that Meralco can reduce its offtake from Napocor in any economic slowdown, which indeed there is, but provided that it does not reduce its offtake from Napocor and give it to its IPPs. Yet this appears to be precisely the outcome of the deal with President Arroyo. Meralco's franchise is equivalent to about 70 percent of the national market for electricity. With the go signal from the President, Napocor lost its biggest client, on whom it was relying for a significant chunk of its earnings. And whatever the President gained from this deal, she now wants the consumers to pay for it.

Groundswell of Discontent

Electricity consumers, who are outraged by the escalating power rates caused by the blatant duplicity of private interests and the government itself, held the People's Assembly against Power Rates Increase on October 26 at the Immaculate Heart of Mary Church in Quezon City. It was attended by around 200 community leaders all over Metro Manila and its neighboring provinces as well as leaders of different organizations under FDC, ALTERNATIBA, and the KURYENTE Alliance.

The assembly gathered people's organizations, political blocs and formations, NGOs, and individuals fighting Napocor and Meralco's rates increase and seeking changes in government policies in the power industry. It held presentations and discussions of the issues confronting electricity consumers and pledged to hold a Power Off protest action on November 10.

National Day of Protest

The Power Off, the highlight and culminating action dubbed as the national day of protest, was successfully carried out on

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AGAINST ESCALATING...
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November 10 when people from all walks of life held various forms of mass actions to dramatize their fight against the oppressive power rates increases. A motorcade along Ayala Avenue commenced the series of mass actions. Workers from the Bukluran ng Manggagawang Pilipino and motorists held road blockades that paralyzed traffic in various points of Metro Manila as well as in some provinces. Priests, nuns, and students marched from St. Joseph College to join urban poor residents for the protest actions. Fr. Robert Reyes carried a torch as he ran from Timog Avenue to Project 4, Quezon City.

The nationwide protest reached its peak in the *Power Off* itself which was participated in by numerous communities as well as parishes in different areas inside and outside of Metro Manila. Residents simultaneously switched off their electricity at 7:30 pm and conducted noise barrages. Participation in the provinces was widespread. About 90 percent of households in Lapu-Lapu, Mandaue, and Talisay in Cebu turned off their lights. In several cities, particularly Bacolod City, General Santos City, Cagayan de Oro City and Davao City, the Power Off was even led by local government officials and held in city centers such as city halls, plazas, and boulevards. Catholic churches took the lead in other areas such as South Cotabato, where whole communities and even a whole barangay went into darkness.

Going After the Real Culprits

The government cannot take the easy way out again by passing on to consumers the cost and consequences of its failures, mistakes and even treachery. "Unless this government addresses the real culprits for Napocor's huge financial losses, President Macapagal-Arroyo will be hard put to justify power rate increases to the people," FDC Secretary General Lidy Nacpil said.

Instead of increasing its rates, Napocor should endeavor to find ways of addressing its financial hemorrhage. One obvious way is to cancel the onerous IPP contracts. Another is to stop coddling private big business at the expense of the people. ■

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Freedom from Debt Coalition.

Address contributions to
Freedom from Debt Coalition,
#34 Matiyaga Street
Barangay Central, Quezon City,
1100 Philippines
Or call (632) 921-1985 and
(632) 924-6399 [Telefax]

E-mail addresses:
fdcadmin@skyinet.net
mae@freedomfromdebtcoalition.org
mail@freedomfromdebtcoalition.org

Website:
www.freedomfromdebtcoalition.org