# THE DEBT-INDUCED ECONOMIC CRISIS

*Debt Conditionalities behind the Oil, Power, Food, and Agrarian Reform Quagmires*

**By the Freedom from Debt Coalition**

The Freedom from Debt Coalition (FDC) believes that the policy of relying on foreign financing that rendered our country vulnerable to damaging conditionalities. In fact, FDC believes that the oil, power, food, and agrarian reform crises we are experiencing now are direct results of these conditionalities. These conditionalities were attached from loans meant to rescue the government from fiscal quagmires which lenders took advantage of to make the government swallow painful, industry-wide "reforms" acquiescent with the paradigm of neo-liberal globalization – that of liberalization, deregulation, and privatization.

It's high time to know the high price we paid for the money dangled to us by our foreign lenders.

## *Oil Crisis*

**Spinning out of control**

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| ***Loan*** | ***The 1994 IMF Extended Arrangement (Exit Program)*** |
| ***Lender*** | ***The International Monetary Fund (IMF)*** |
| ***Amount*** | ***$650 million*** |
| ***Conditionality*** | ***The Oil Deregulation Law (Republic Act 8180 and 8479)*** |

**Effects:** Acquiescent to the IMF conditionality, the Philippine Congress passed on April 1996 the Republic Act No. 8180, also known as the "Downstream Oil Industry Deregulation of 1996. However, the Supreme Court nullified RA 8180 in its entirety, the issue being the anti-competitive provisions. The Ramos administration crafted a new oil deregulation law correcting the constitutionality problems, the RA 8479.

Nevertheless, RA 8479 is the same instrument towards full decontrol of the oil industry. As the country really has no control over the global market prices of imported oil, the Filipino consumer lost all protections from the irrational increases in the world market prices of oil, which recently rose from around $50 per barrel at the end of 2005 to June 2008's $135 per barrel.

The average price per liter from 1972 to 1995 of premium gasoline and Diesel was pegged at P5.99 and P3.98. On April 1996 when RA 8180 was passed, the price per liter jumped to P9.50 for premium gasoline, P7.03 for diesel. A decade later shows a picture much much worse. As of January 2007, premium gasoline was priced at P37.33 per liter while diesel is 32.62 per liter.

## *Power Crisis*

**Electrocuting Consumers through Debt and Private Control**

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| ***Loan*** | ***The Power Sector Restructuring Program (PSRP) / The Power Sector Development Program (PSDP)*** |
| ***Lender*** | ***Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC)*** |
| ***Amount*** | ***$600 million ($300 from JBIC and $300 from ADB), another $450 million from ADB*** |
| ***Conditionality*** | ***The Electric Power Industry Reform Act (EPIRA) of 2001 (Republic Act of 9136)*** |

**Effects:** To rescue the National Power Corporation (NAPOCOR), the ADB in 1998 approved a US$300-million loan for the PSRP. Another $300 million was approved by JBIC as counterpart. PSRP actually gave a big push for the enactment of the Electric Power Industry Reform Act (EPIRA) that will privatize the debt-ridden NPC and restructure the power industry.

The deteriorating financial position of PSALM (Power Sector Assets and Liabilities Management Corp.), the agency created by EPIRA to privatize the power

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industry, led ADB to lend another US $450 millionunder the PSDP, which is basically a loan to pay past loans.

After seven years, EPIRA has brought about a transition from government monopoly to an enhanced private monopoly—worse, a hundred percent increase in power rates. EPIRA, for example, allows MERALCO to purchase at most half of its electricity requirements from its sister companies or IPPs. EPIRA removed cross-subsidies which it believes distort the “real” price of electricity. Under EPIRA, we ended up having the second highest electricity rates in Asia.

# *Food Crisis*

**Hungry and Indebted**

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| ***Loan*** | ***The Grain Sector Development Project (GSDP)*** |
| ***Lender*** | ***Asian Development Bank (ADB)*** |
| ***Amount*** | ***$175 million*** |
| ***Conditionality*** | ***Agricultural Liberalization, the Decrease of NFA Subsidy leading to NFA Privatization*** |

**Effects:** The GSDP Policy Loan sought to redefine the role of the state-owned NFA, liberalize grain trading and encourage greater private investment in the sector. It was intended to change the fundamentals of grain sector performance – procurement pricing, import liberalization, private sector participation in importation, and grains markets regulation.

In the end, the conditionalities only managed to open up the domestic crop market to foreign competitors, thereby eradicating local producers which prices cannot compete with the prices of large foreign producers enjoying huge subsidies from their home states. The current administration is now planning to privatize NFA, indebted due to the rice importation policy of the government.

The result of conditionalities and debt-dependence brought about by agricultural loans like the GSDP only contributed to reduce the Philippine agriculture from being an exporter in the early 1970s to an importer, getting our rice mainly from our South-East Asian neighbors like Vietnam. The policy conditionalities simply pushed us to import more and more, jumping from 192,020 metric tons in 1984 to 2.1 million metric tons in 2008.

# *Land Reform Crisis*

**Digging Deeper into Debt and Land Inequality**

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| ***Loan*** | ***The Community-Managed Agrarian Reform and Poverty Reduction Project (CMARPRP)*** |
| ***Lender*** | ***Japan Social Development Fund (JSDF) – World Bank*** |
| ***Conditionality*** | ***Market-Assisted Land Reform (MALR) via Voluntary Land Transfer – Direct Payment Scheme (VLT/DPS)*** |

***Effects:*** During the time of DAR Secretary Horacio Morales, the World Bank issued a critique of the government AR policy entitled "Philippines, Promoting Equitable Rural Growth". The report stated that the Philippine agrarian reform program is “less than satisfactory”, citing as major weaknesses of the program the huge funding requirement for landowner compensation and high of compulsory land-acquisition.

To solve these predicaments, it proposed a Market-Assisted Land Reform (MALR) approach. The paradigm is characterized by a “willing seller - willing buyer” framework, or encouraging land transfer through manipulating the supply-demand on the rural land market. On the supply side, higher land taxes will discourage land retention. On the demand side, the farmers will be given credit to purchase these lands. A direct translation of this framework is the CMARPRP funded by JSDF, a World Bank affiliate. CMARPRP “promotes the strategy for effecting land transfer to agrarian reform beneficiaries based on farmer-landowner negotiations (Voluntary Land Transfer – Direct Payment Scheme [VLT/DPS]) and community-state partnership in the planning, provision and management of productive investments and critical support services.”

CMARPRP ignored the core social and political principles embodied in the CARP. It emasculates the government’s inherent expropriatory powers. Moreover, the market approach failed to facilitate genuine land transfer. Due to intense poverty, credit will likely be used for basic consumption and other subsistence expenses. As for the landowners, the high cost of maintaining the land would drive them further to hasten land conversion, and, having the land itself as leverage, sell the land at higher prices to farmers.

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