



# ZTEwwwwwwwwww!

A Primer on the Anomalous National Broadband Network Project  
And other disgusting Illegitimate Deals and Debts



**Freedom from Debt Coalition**

## What is the ZTE NBN deal?

It is a \$ 329 million loan from the China Export and Import Bank to finance the infrastructure project between the Philippine Government and the China-based Zhong Xing Telecommunication Equipment Company Limited (ZTE). The said project aims to develop a telecommunications infrastructure that will deliver voice, data, and internet services to all government offices and municipalities nationwide.

However, the said project encountered serious accusations of fraud, bribery and other anomalies forcing the Arroyo Government to suspend it "indefinitely" last September 22, 2007. But due to the public's continued and strong outcry over the project, Mrs. Arroyo was forced to cancel the ZTE deal last October 2, 2007.



## Why is it Illegitimate?

All the necessary elements to make this deal illegitimate are present.

For one, there is no existing financial analysis and plan for the said project. The implementing agency is blind to any feasibility studies and has not initiated any detailed engineering studies, plans, specifications and design for the said broadband project. This entire aspect was tasked to ZTE alone. Secondly, it suffers from a crisis of transparency. It is alleged that there is a lack of competitive bidding which led to the overpricing of the project so as to include the cost of the so-called commissions into the project cost.

Thirdly, the loan project comes with one-sided conditionalities. The loan granted by the China Export Import Bank was tied to the purchase of services and technology also from China (read: ZTE).

Lastly, it suffers from a crisis of relevance. The question is, do we really need it in the first place?

The government already owns two broadband networks—the Philippine Administrative Network Project (PANP) supposedly to modernize our government's news and information network and the Philippine Research, Education and Government Information Network (PREGINET) tasked to interconnect academic institutions, government offices and research and development centers in the country.

Again we ask: do the already debt-burdened people really need to take another unnecessary if not illegitimate debt for a project we do not need in the first place?

As of the moment, the National Government debt is P 3.7 trillion wherein every Filipino is shouldering P 42,819 each for debts that are widely perceived to be illegitimate.

## What are illegitimate debts?

Illegitimate debts are those that involve any or a combination of the following --

- Fraud and deception
- Lack of compliance with democratic processes or legal requirements
- Grossly disadvantageous terms and/or onerous and harmful conditions
- Financing of failed projects, or projects with damaging effects on people, on the environment, or on the economy
- Purchasing overpriced, unnecessary goods or services
- Support of policies that result in the violation of human rights,
- Accumulation due to unjust economic relations
- Aggressive and unscrupulous pushing by lenders to promote their vested interests at the expense of the borrowers or the people who will pay the debts
- Transactions by illegitimate regimes

We believe the majority of the public debts we are paying for are illegitimate.

Examples of illegitimate deals and debts are:

- \$ 406 million Cyber Education Project
- P 503.65 million Austrian Medical Waste Project
- \$ 100 million World Bank Textbook Loan Project
- \$ 503 million North Luzon Railways Project
- \$ 884 million South Luzon Railways Project
- \$ 165 million Telepono sa Barangay Project
- P858 million Philippine Merchant Marine Academy Modernization Program
- \$ 121.8 million World Bank Small Coconut Farmers Development Program



## What makes these illegitimate deals and debts possible?

- In truth, the ZTE-NBN deal reveals the deeply imbedded flaws of the system that has led to the accumulation of illegitimate debt such as what we would have contracted had the ZTE-NBN Project pushed through.
- Government projects are not primarily determined by our people's needs and national priorities, but are corrupted by the profit-making agenda of government officials, foreign lenders and private multinationals and, even big local corporations.
- The Executive powers to approve, contract and implement projects and loans are non-transparent and unregulated. We all know that the ZTE-NBN deal is neither the first nor the last. These powers, beginning with the Office of the President, must be curtailed, redefined and subject to rigorous checks.
- The bidding process is more dysfunctional than all the players care to admit. Many government officials and their close relatives get involved in vying for government contracts. This must be stopped.
- The practice of "commissions" is widespread, well entrenched, and involves several layers for every project.
- Lenders are driven by their own agenda often at the expense of our national interest and the welfare of our people. Many loans come with conditionalities. In the ZTE-NBN case – it was tied to the purchase of services and technology from the same country, and even from specific companies. Lenders promote and perpetuate corruption by practicing bribery and integrating the cost of the so-called commissions into the project cost. In many cases, lenders pass on overpriced, unnecessary and/or flawed products.



## Who pays?

Without doubt, there are more ZTE-type deals which continue to evade public scrutiny. These corrupt deals which eventually become illegitimate debts drain our national coffers and rob us of our rightful resources to fund much needed social services like education, health and housing.

Proof of this is the dismal state of our educational system due to lack of government-funding. As of now:

- 1 in 10 Filipinos has never gone to school (6.8 million)
- 1 in 6 Filipinos is not functionally literate (9.6 million)
- 4.1 million are illiterate
- 11.6 million youth are out-of-school

More than half (51 percent) of Filipinos had at most elementary education  
Out of 1000 Grade 1 pupils, only 688 will finish their elementary education  
and only 7 will acquire the required competency skills.

(source: Department of Education 2006)

Kung mayroong bumubukol, hindi lamang ang mga komisyon at kickback ng ating mga tiwaling opisyal at gobyerno, kundi ang mas malaki, malala at patuloy na sumsidhing krisis ng kahirapan dulot ng ilehitimong utang ng bayan.

What is the participation of the Arroyo Government in this controversy?

It was alleged that powerful people close to Mrs. Arroyo brokered the deal in favor of the ZTE Corp. Original whistle-blower Jose "Joey" De Venecia III, son of Rep. Jose De Venecia Jr. exposed the huge overpricing and kickbacks involved in the deal in a Senate inquiry which started last year. Joey De Venecia is the owner of Amsterdam Holdings, Inc. (AHI), which lost the bid for the NBN project to ZTE.



First Gentleman Jose Miguel Arroyo was named by the young De Venecia as the individual who personally bullied the latter and his company into abandoning their proposal for the national broadband network project in order to give way to China's ZTE Corp. It was alleged that FG Mike Arroyo pointed a finger at Joey De Venecia and told him to "back off" from the deal.

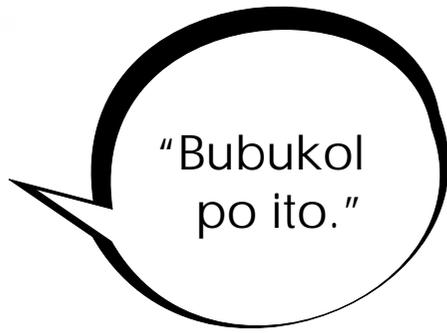
FG Mike Arroyo immediately went abroad at the height of the controversy, raising suspicion that he is consciously avoiding the scandal.

"May 200 ka dito."

Former Commission on Election Chairman Benjamin Abalos, a close ally and friend of Mrs. Arroyo was said to have brokered the deal in favor of ZTE. Abalos reportedly went to China several times in 2007, allegedly enjoying "sexcapades" in plush hotels hosted by ZTE officials. Abalos admitted going to China last year—during the height of the electoral campaign. He also admitted his close association with some ZTE officials.



In a Senate inquiry last year, former National Economic and Development Authority Director General Romulo Neri, accused Abalos of offering him a P 200 million bribe just to endorse the ZTE contract. Neri purportedly refused the offer and laughed off the bribe. However, he reversed his earlier recommendations questioning the deal.



Former Philippine Forest CEO Rodolfo "Jun" Lozada, the second whistle-blower who was reportedly abducted by Malacañang's security group accused Abalos of "protecting" his \$130 million kickback. The money was reportedly given by ZTE officials to Abalos in order to secure the NBN deal with the Philippine Government. It was alleged that the ZTE-NBN deal was Malacañang's "gift" to Abalos because of the "important role" he played during the highly questionable 2004 Presidential elections.

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# What can you do?

The first step is to understand. The next step is to take action. Join the campaign for truth and accountability and our fight against illegitimate debt!

- Reproduce this primer so others will understand the ZTE-NBN deal and the debt problem;
  - Organize forums, debates, round-table discussions and assemblies that will promote critical discourse and understanding on the ZTE and debt issue;
  - Organize cultural activities (pocket concerts, bar/school tours, rave parties etc.) for truth, justice and an end to illegitimate debt;
  - Set-up a petition signing initiative to register your voice;
- Support the creation of an Independent Citizens' Debt Audit Commission composed of members from the academe, progressive economists, accountants, lawyers, environmentalists and sectoral leaders that will independently audit all debts coming from the people's perspectives; and
- Write your Congressional Representatives and demand the following:
    1. A Congressional Audit of all public debt and contingent liabilities; and
    2. Repeal of the automatic debt payment provisions of the Revised Administrative Code of 1987.

Do your part. Mr. Rodolfo "Jun" Lozada already did his. The best way to honor his bravery and selflessness is by replicating it with the same act of daring. Dare to demand the truth. Dare to demand justice. Dare to end illegitimate debt!



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