The Philippines

Introduction

Decades of debt, corruption and loans wasted on useless or fraudulent projects have left a devastating '**social debt**' in the Philippines. Generations have paid the price for the government's inability to adequately fulfil the basic needs of the population, namely healthcare, education and housing. What the Philippines spends on debt payments each year exceeds the budget for public health and education combined.

Origin of debt crisis

The Philippines gained independence from the United States at the end of the Second World War, having earlier been a colony of Spain. In 1965, President Marcos was elected and in 1972 he declared martial law after having been constitutionally barred from seeking a third term of office. The Marcos dictatorship maintained itself in power through substantial outside assistance from the US and Western countries, because he was on their side during the Cold War. One of the main forms of support was loans from governments and international institutions such as the World Bank.

Government external debt:
- $46 billion
- 20% of GDP

Private external debt:
- $22 billion
- 10% of GDP

Government external annual debt payments:
- $7.7 billion
- 24% of revenue
- 11% of exports

During his rule, Marcos is thought to have stolen up to $10 billion. At the same time, between 1970 and 1980, government external debt increased rapidly. In the early 1980s US interest rates increased and the prices of export commodities fell. Annual debt payments doubled in a few years. The Philippine economy stagnated, then entered a huge recession.

Through the course of Marcos's dictatorship, the IMF and World Bank lent the regime $5.5 billion, with a further $3.5 billion coming from foreign governments such as the United States.[63] One notorious deal was US government-backed loans for the Bataan Nuclear Power Plant, built by US company Westinghouse. Marcos, his cronies and Westinghouse all did well financially out of the plant. But it never produced *any* electricity and was built on an earthquake fault line at the foot of a volcano. Hundreds of millions of dollars were spent by the Filipino people on repaying the loans.

Popular opposition to the Marcos regime increased through the 1980s and, in 1986, he was ousted from power during the 'Edsa Revolution'. New President Aquino, in a speech to the US Congress in September 1986, announced all debts would be honoured. A subsequent law was passed prioritising all debt payments over *any* other government spending. Since 1970 the Philippines government has been lent $110 billion and has repaid $125 billion, but is still said today to owe $45 billion.[64]

Since the mid-2000s, the Philippines government has itself been lending large amounts of money, by building up its foreign currency reserves. The government effectively lends to other governments, such as the United States, through buying their government bonds. Today, the Philippines government is *owed more than it owes* in foreign debt.[65] But the debt it owes, and the payments on it, are still extremely high, accounting for over 20% of government revenue. One significant difference is that the interest rate paid by the Philippines government is much higher than the interest rate it receives from the US government. This lending has little benefit for Filipinos, who can't spend the money on genuine development projects, and represents a means of transferring wealth from the Philippines to the US.

In trying to protect itself from a volatile global economy, by saving large foreign currency reserves rather than increasing spending, the Philippines has, in effect, been practising a further kind of austerity.

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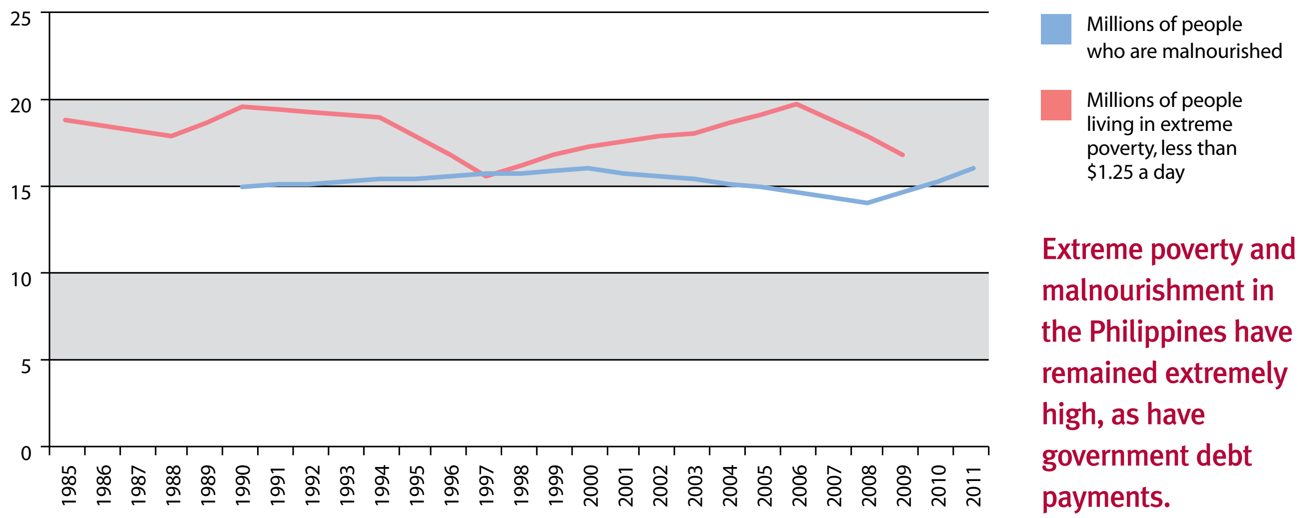

Extreme poverty and malnourishment in the Philippines have remained extremely high, as have government debt payments.

Figure C6.1: Hunger and poverty in the Philippines (millions of people)[66]

Life and debt in the Philippines

While per-person economic growth has been high, **extreme poverty** and hunger have not fallen (see figures 6.1 and 6.2) and unemployment has increased.[67] Since the global financial crisis began, the number of people malnourished has increased from 14 million to 16 million, back above the levels of hunger experienced in 1990.[68]

The Philippines own agriculture sector has been a story of riches to rags, with free market liberalisation and loan conditions killing off local producers through heavily-subsidised foreign competition, and reducing the country from being an exporter of rice in the 1970s to being an importer today, leaving people increasingly vulnerable to rising global food prices.

Education funding is woeful – at 2.2% of GNP in 2012, it falls far short of the UNESCO benchmark of 6% for developing countries, and is also below regional averages. Of 29 million Filipino children, more than six million are out of school, says the Freedom from Debt Coalition (FDC). According to the ILO, some 5.5m children, from as young as five years old, are working – many in rubbish dumps or in agriculture and mining – in jobs that are often highly dangerous.

Those that remain in school are languishing in a system that is of a quality campaigners call “remorseful”, and with a dropout rate that is staggering. Figures for 2008 show that of youngsters from the poorest 20% of society, 38% did not graduate from elementary school and only 2% graduated from college.[69] The Teachers’ Dignity Coalition says its staff in the public system have a perennial lack of basic resources, such as books and learning materials, chairs, classrooms and toilets, not to mention inadequate numbers of teachers.

Healthcare in the Philippines also remains out of reach for much of the population, thanks to a long-standing lack of investment in public services. Six out of 10 Filipinos who become sick die without ever seeing a doctor.

Government spending on public health was 0.56% of GDP in 2012, which is shamefully shy of the 5% recommended by the World Health Organization (WHO). Members of the public bear the brunt of health costs, and increasing fees and privatisation puts services out of reach for millions. For many, becoming ill is a financial disaster that cannot be contemplated, and there is a heavy reliance on self-medication or alternative medicines. Those who do go to hospital will frequently find them ill-equipped and poorly staffed. Only 62% of births are attended by healthcare professionals, a figure that drops to 48% in rural areas,

CHILDREN AT WORK

- Work for the 5.5m children includes agriculture, gold mines, deep-sea fishing, construction, markets and rubbish dumps.
- The ILO says three million of those work in hazardous conditions eg exposure to potentially harmful chemicals, toxins, dust or vapours, as well as bacteria, parasites and viruses. In ‘compression mining’ young boys descend into watery pits – using only a tube to breathe – to fill bags with ore. Long hours take their toll physically. Some are abused by their employers.
- Not all working children are out of school – indeed, 6.4% of those surveyed said they were working to pay for their own education.[70]

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Living in a dump: Payatas landfill site

"The current political economy here effectively condemns children to a cycle of poverty, based on institutional failure. NGOs try to plug this gap and provide for the basic needs of the communities and people left behind, while campaigning for systemic change.

"One of the families we work with here is made up of three young boys and their grandparents. The eldest, John Dale, is 10 years old and his brothers are nine and seven. Their mother died several years ago and their father was murdered in 2012.

"All three siblings were previously working as 'jumper boys' – kids who would climb inside the moving garbage trucks and pick out the trash on top of the pile before jumping off and sorting through it. They could earn about P50 ($1.10) a day doing this and had dropped out of school because, given the quality of education and the prospects for the kids, it was useless to them – they could earn money for the family's most basic needs immediately.

"Now we sponsor their education and cover their basic needs so they can concentrate on school and not have to worry about everything else."[71]

Roy Moore, Fairplay for all Foundation

according to the National Demographic and Health Survey 2008.

When it comes to **housing**, the government has again neglected its duty to provide its citizens with their rights to adequate shelter. There is a particular issue with security of land tenure, with an estimated 30% of the country's urban population (around three million families) having been forced to informally settle on public and private lands, says FDC. Many are living dangerously in makeshift houses, along railway lines and highly-polluted river banks. Many of these are also in areas most vulnerable to the impacts of flooding due to climate change.

Resistance and the demands of activists

The Philippines has one of the longest running active debt campaigns in the world, having established the Freedom from Debt Coalition (FDC) in 1987. Many of the activists who had been involved in the overthrow of the notorious Marcos dictatorship formed the organisation which went on to become one of the founding organisations of Jubilee South.

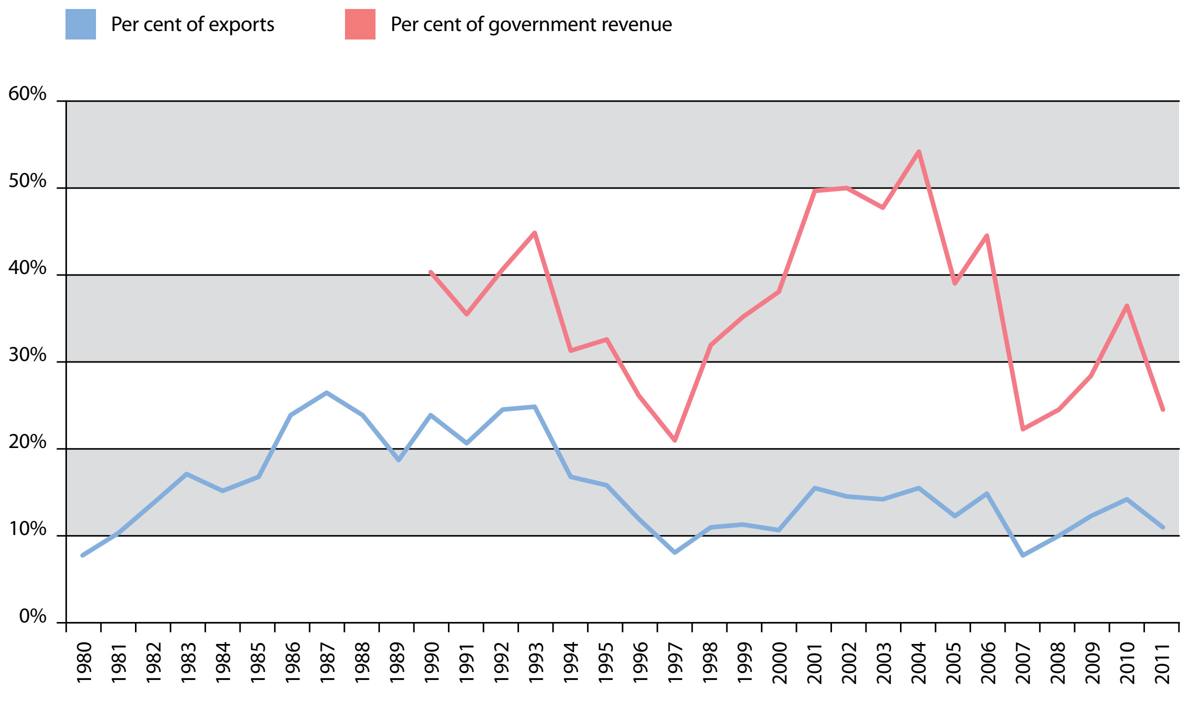

Figure 6.2: Government foreign debt payments[72]

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FDC has two core demands:

- That the people – who have to pay for the debt – should know every detail of where that debt comes from. This should be carried out via a **debt audit**.
- That **debt payments should be adjusted** to allow for higher growth and reductions in poverty. In the Philippines paying government debts is automatic by law and is placed ahead of any other spending – legislation that campaigners want to be repealed.

A debt audit would be the crucial first step towards freeing people from burdensome, unnecessary and unacceptable debts, many of which are illegitimate. To these ends, FDC wants to conduct both an Official Government Audit and a Citizen's Debt Audit.

The focus on exposing **illegitimate debt** by campaigners has led to an increase in public and political debate and activity. 2007 saw the formation of several FDC-led campaign groups – the Stop Toxic Debt! campaign group, a faith-based group that went on to become the Congress Against Immoral Debts, the People Against Illegitimate Debt, and a strengthening of the Youth Against Debt campaign.

In the 2008 national government budget deliberations, campaigners' calls were heeded and a provision agreed to suspend payments on debts *"challenged as fraudulent, wasteful or useless"*, including 11 specific cases. But the decision was vetoed by then president Gloria Arroyo, who has since been implicated in various anomalous loan projects.

Thanks to decades of action by campaigners, the mainstream conversation moved from 'how can we *afford* to pay these debts?' to '*should* we be paying these debts?'.

FDC mobilized to document, publicise and rally around a catalogue of fraudulent programmes and project loan agreements. In one case 80,000 people rallied amid uproar about a loan-funded government IT project which was riddled with a lack of transparency and beset by incompetence.

Waste not, want not – the Austrian medical waste incinerator project

In 1997 the Philippine government used a loan from the Bank of Austria to buy what turned out to be substandard medical waste incinerators for use in 26 public hospitals. This was despite a clear conflict of interest, in that the Bank of Austria owned 10% of the shares of VAMED, the manufacturer of the incinerators.

The project was rushed, ignoring safety procedures, and the issue of toxic emissions and hazardous residues was underestimated. At the same time they were being shipped to the Philippines, the EU began decommissioning those same incinerators. Due to the Philippine Clean Air Act 1999, the 26 incinerators were banned from use, and have been out of action since. Numerous tests declared them to be hazardous to health.

Ten years later a number of groups came together to call for the non-payment of the loan, which continues to blow a hole in the government's budget, and lobbying also took place in Austria. It was one of 11 illegitimate loans to which payments were to be suspended by Congress in 2008, but the decision was vetoed by President Arroyo.[73]

In 2011, the House Committee on Ways and Means, together with the Congressional Budget Planning Department (CPBD) and FDC, started a debt audit initiative that is meant to review policies on debt financing and propose ways to correct its flaws. But the committee chairman was sacked by the Aquino administration following several disagreements, including on the debt audit. With the FDC preparing a new strategy and campaign, the struggle is far from over.

References – Case study six

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65 World Bank. Global Development Finance database.

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71 *Roy Moore lives and works in the district of Payatas, in Manila, which is home to the largest open dumpsite in the Philippines. From there he runs the charity Fairplay for all Foundation, which runs a drop-in centre, an urban farm, and football teams for street children and the urban poor.*

72 Calculated from World Bank, World Development Indicators database. And IMF, World Economic Outlook database.

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