

## PRIVATISATION PINOY-STYLE

By Brendan Martin

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Privatization seemed a good idea in the Philippines after 'people power' toppled the Marcos dictatorship in 1986. Hundreds of state-owned enterprises had become little more than vehicles for corruption and patronage, cash cows to keep Imelda in shoes and her husband's cronies in whatever turned them on. Sixteen years later, with Manila's water and much of the country's electricity supply in the hands of the same rich Philippines families and foreign businesses, a new popular movement against privatization is gathering pace.

Enron is just one of the US-owned energy companies that, with the support of the Washington-based international financial institutions, have turned the Philippines electricity supply industry into a source of unearned wealth on a scale even Marcos could only have dreamt about. British and French companies also have pieces of the action following the biggest urban water privatization scheme the 'developing' world has seen — and which has led to the people of Manila paying three times more for their supply than they did five years ago.

Now the National Power Corporation (NPC), brought to its knees by World Bank-sponsored deals that have forced it to pay Independent Power Producers (IPPs) for electricity it cannot retail, is also to be sold off on the cheap. Hospitals and other local public services will not be far behind if current plans go ahead.

But current plans might not go ahead. A consortium of non-governmental organizations (NGOs) and labour unions supported by environmentalists, lawyers and academics has launched a Citizens' Review Commission on the IPPs, to investigate just how much their country has been ripped off.

Similar alliances are forming to shape alternatives to both privatization and inefficient state management in water, while a Network Opposed to Privatization has issued a 'call on all Filipinos to demand a stop to the new killing fields' and declared: 'Let us do what we must: Stop corporatization and privatization of health care, both of which are depriving people of needed health services because they cannot pay.'

Of all the rapacious schemes, none are more breathtaking than the 'Power Purchase Agreements' (PPAs) designed to enable US energy companies to build power stations without risk by guaranteeing a public market for the new capacity. Like other privatizations in the Philippines and elsewhere, they were born of a vicious cycle. Lacking the capital to meet growing energy needs, the Cory Aquino government that replaced Marcos opened the door to private construction of new electricity generating capacity. Aquino's successor as president, Ferdinand Ramos, continued the process by decree, forcing NPC to buy electricity from IPPs.

But the IPP companies — or 'sponsors' in the World Bank's Orwellian vernacular -- needed 'comfort' before going ahead with investments, and they got it through the PPAs. Backed by the government's sovereign guarantees, NPC agreed to pay for set amounts of capacity from them, regardless of whether the power could be economically retailed or was even generated.

This meant that NPC bore almost the entire risk of future demand falling short of projections, but that was not all. In addition, NPC had to pay in dollars and supply the IPPs with raw fuel, meaning that it absorbed also the exchange rate and international energy price fluctuation risks.

In short, far from the private sector enabling the public sector to raise capital, as the World Bank maintained in defence of the schemes, the exact opposite was engineered —state guarantees underwrote private investment. On that basis, 45 power stations were built, some of them in circumstances which involved environmental as well as financial degradation.

Then, in the late 1990s, with the new capacity coming on stream, the very liberalisation policies that were supposed to enable the Philippines to share in its region's rapid growth had the opposite effect. Capital flooded out of the exposed south-east Asian economies in the wake of the financial crisis, prompting in turn collapse in demand for power and massive devaluation of the Philippine peso.

The result was that NPC, previously (for all its weaknesses) one of the most competitive power utilities in Asia, has been financially ruined, and is now unable to borrow because its credit rating has fallen so far. From turning profits, its total debts now exceed US\$15bn, of which more than \$9bn is estimated to be the direct product of the IPP obligations.

The Philippines is by no means alone in this predicament. According to World Bank figures, 76 countries, mainly in Asia, Latin America, central and eastern Europe and Africa, privatised parts of their energy supply industries during the 1990s through transactions with a total value of US\$187 billion. The IPP has been the most frequent form, and its effects have been similar all over the world.

In India, for instance, before pulling the plug on its PPA with Enron, the Maharashtra State Electricity Board (MSEB) had set up a special ' escrow' account on which the crooked US firm was entitled to draw if MSEB was just five days late with a payment.

In Indonesia, Enron's comfort came courtesy of the World Bank itself, via its Multilateral Investment Guarantee Agency (MIGA), although it is the Indonesian people who will pay in the end. When the Suharto government pulled out of its IPP arrangement with Enron in 1997, the company was able to get paid instead by MIGA, which had provided political risk insurance. The price Indonesians paid was that MIGA would not then provide further insurance in that country — so blocking inward investment —until it had been reimbursed its US\$15m, which it duly was by the post-Suharto government last year.

There is something fitting in Enron having been the beneficiary of the first claim ever paid out by MIGA. Without it, the bankrupt company would have had to sing for its money and Indonesia would have been spared yet another drain on its indebted state budget. As it is, another US-owned energy company, AES, is the world leader in IPPs, while, back in the Philippines, Southern — *Fortune* magazine's choice as this year's ' most appreciated' energy utility -- tops the league.

The World Bank admits that IPPs have turned out badly, and that, even without the impact of the south-east Asian financial crisis, they have provided perverse incentives, sometimes fuelled by corruption. Its proposed solution, however, is further liberalization of energy markets and privatization of state-owned utilities.

Indeed, in 2000, the IMF mission in the Philippines wrote to members of that country's Congress threatening withdrawal from earlier conditional commitments to the government unless the legislation paving the way for NPC's privatization was passed without delay. There was a hold up after the latest corrupt president, Joseph Estrada —now on trial for his life —was ousted, but the legislation was eventually passed in June last year and Congress recently adopted detailed regulations about how it will be done.

But privatizing NPC in its present parlous state is easier demanded than done -- no investor would want its debts and IPP obligations. None will have to take them, however, because, already, Filipino

electricity consumers, rich and poor, are paying a special PPA adjustment charge on top of their normal bills.

That charge now accounts for more than half of consumers' electricity bills, according to Maitet Pascual, of the Manila-based Freedom from Debt Coalition, and will continue for the lifetime of the IPP deals, up to 29 years. As Rodolfo Vicerra, of the Congressional Planning and Budget Office, has put it: 'Electricity consumers will not get anything in return -- no new service, quality improvement, or any asset of value.'

An alternative would be to renegotiate the IPP deals, which the government of Estrada's replacement, President Gloria Macagapal Arroyo, is considering. A useful precedent in that respect, perhaps, will be the recent renegotiation of Manila's 25-year water concessions at the insistence of the privatized companies themselves.

The city's water companies held out for five years before renegotiating the terms —not bad by global water privatization standards in which rewriting the deal having won it has become the norm. In Buenos Aires, the model for the Philippines scheme —both were engineered by the World Bank's private sector arm, the International Finance Corporation —the Aguas Argentinas consortium led by Suez-Lyonnaise des Eaux demanded renegotiation less than three years into a 30-year contract. That followed rioting in some neighbourhoods where residents were having to pay 10 times more for their water than they did before the private monopoly took over.

The same French transnational also runs, in partnership with the Lopez family business, one of Manila's two privatized water concessions, Maynilad. The other, Manila Water, is owned by International Water (itself a partnership between Britain's United Utilities and Bechtel of the USA) and another favoured Filipino family, the Ayalas.

The idea of dividing the city into two in privatizing water was to simulate competition, but this is of little comfort to Maynilad's consumers, who were paying 4.96 pesos per unit in 1997 and now pay 15.46, despite recent relaxation of the company's investment obligations. Manila Water's consumers have also seen their bills treble, although from a lower initial base.

Little wonder that the Filipino people are collectively rethinking the merits of privatization. But with IMF and World Bank conditions still in force, privatization rolls on. In the Philippines, the programme started by selling off 470 industrial and financial enterprises to reduce debts and focus government finance and energies on improving basic public services. Sixteen years on, having cut rather than increased their budgets, the new aim is to privatize those very services.

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