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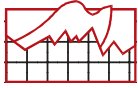
Repudiation of Marcos's illegitimate debts:  
**A Pro-People Measure to  
Address the Fiscal Crisis**

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# Repudiation of Marcos's illegitimate debts: A Pro-People Measure to Address the Fiscal Crisis

The current fiscal crisis challenges our policy makers to bring more meaning to the country's observance this year of the 32<sup>nd</sup> anniversary of the Martial Law declaration. Aside from the countless victims of human rights violations during this dark period of our recent history, the Marcos dictatorship also had another notorious 'legacy' – the debt burden.

Even as the Arroyo administration urges the people to have their share of the burden through new taxes and other oppressive measures, Filipinos continue to shoulder the burden of servicing the debts of the late strongman Ferdinand Marcos, including his so-called illegitimate debts.

When Marcos assumed presidency in 1966, the foreign debt of the Philippines stood below \$1 billion. When he fled Malacañang in February 1986 during the first People Power, the country had a foreign debt of \$28 billion. [1] Following our loan schedule, Filipino taxpayers will pay for the foreign debts of Marcos until 2025 – 59 years after he assumed office and 39 years after he was kicked out.

The borrowing binge of Marcos set off the debt crisis that succeeding administrations have had to endure. And lest we forget, it was also Marcos who issued Presidential Decree (PD) 1177 or the Budget Reform Decree of 1977 that automatically appropriates for debt servicing regardless of how much is left of the country's resources to fund basic social services. Former President Corazon Aquino (1986-1992) affirmed this policy through Executive Order (EO) 292 or the

Administrative Code of 1987. The automatic debt appropriation remains in place until today, which explains why we have so much for creditors and so little for the poor.

This paper studies the 'illegitimate' debts that the Marcos dictatorship incurred and explores the possibility of repudiating these debts to help contain the fiscal crisis.

## *Martial Law and fiscal crisis*

As of the latest Bangko Sentral ng Pilipinas (BSP) data, the country's foreign debt is now pegged at \$56.7 billion. Among the last five administrations, the Marcos regime amassed the largest foreign debt at more than \$25 billion during its 20-year rule (1966-1985) or an annual accumulation of almost \$1.3 billion. (See **Table 1**)

The largest increases in the country's foreign debt happened during the Martial Law period. Between 1973 and 1982, the indebtedness of the Philippines grew by 27% per year. From 1976 to 1982, BSP data show that the foreign debt was swelling by an annual average of \$2.8 billion. In 1982, due to automatic debt service,

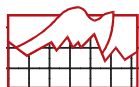


Table 1  
Estimates of foreign debt accumulation by administration  
In million dollars

Indicator	Administration				
	Marcos 1966-85	Aquino 1986-91	Ramos 1992-97	Estrada 1998-00	Arroyo 2001-04 <sup>a</sup>
Foreign debt at end of term	26,252	29,956	45,433	52,060	56,718
Accumulation during entire term	25,653 <sup>b</sup>	3,704	15,477	6,627	4,658
Annual accumulation	1,283	617	2,580	2,209	1,165

a – As of March 2004  
b – Estimates peg total external debt at \$599 million in 1965

**Source of basic data:** Bangko Sentral ng Pilipinas

payments reached \$3.5 billion, almost the same level of total foreign borrowing for that year and larger than the total foreign debt before Martial Law was declared.

The debt level became unmanageable, forcing the Marcos government to declare a moratorium on debt payments in 1983. The Philippines never recovered from its fiscal woes ever since, in spite of painful restructuring under the tutelage of the International Monetary Fund (IMF) in exchange for the moratorium and additional funding. With drastically shrinking revenues due to the implementation of globalization policies especially in the 1990s, the debt and budget problems exploded into a full-blown fiscal crisis we are confronted with today.

### *Corruption and debt burden*

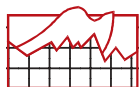
Worse, many of the debts of Marcos did not go to infrastructure development projects or social programs of government. Based on one estimate, Marcos pocketed around 33% of the country's total borrowings during his term. [2] This amount translates to more than \$8 billion.

According to the findings of the Presidential Commission on Good Government (PCGG), Marcos's loot reached between \$5 billion to \$10 billion. Later, former Solicitor General Frank Chavez claimed that Marcos and his family have \$13.4 billion deposited in Swiss banks. [3] Comparing the two estimates, a significant portion of Marcos's ill-gotten wealth may have come from foreign loans.

The country continues to shoulder the burden of these debts. Based on the data of the Bureau of Treasury – Debt Monitoring Analysis Division, the outstanding balance of Marcos's foreign debts, 18 years after he was ousted, stood at almost \$1.2 billion or more than P67 billion (at an exchange rate of \$1:P56). The country is projected to pay more than \$183 million in principal of these debts this year, and another \$45.3 million in interest and other charges. (See **Table 2**)

### *Most expensive white elephant*

The single largest foreign debt (and most expensive white elephant) of the country was also contracted by Marcos – the \$2.3 billion Bataan Nuclear Power Plant

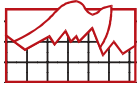


**Table 2.**  
**Outstanding balance of Marcos's foreign debts, As of end-2003**  
**In US dollars**

Indicator	Amount	2004 servicing (projection)	
		Principal	Interest
National government direct loans	1,088,676,475.46	156,029,849.20	41,029,116.75
Agencies	654,639,595.99	101,334,357.68	27,635,949.83
Multilateral	258,134,908.40	50,243,947.22	15,633,538.15
Asian Development Bank	185,930,352.21	29,070,980.00	14,551,087.88
IBRD	18,978,597.91	18,894,703.22	687,527.31
IDA	53,225,958.28	2,278,264.00	394,922.96
Bilateral	396,504,687.59	51,090,410.46	12,002,411.68
Belgium	464,242.69	232,121.34	3,094.95
Denmark	2,388,104.96	742,928.72	a
Germany	14,082,944.76	1,749,073.62	272,134.74
Japan	280,045,923.60	41,313,489.82	8,327,124.78
Canada	1,556,801.67	74,133.41	a
PL 480	18,459,884.74	1,538,323.72	553,796.54
US	74,015,260.19	3,557,853.47	2,443,814.71
Relent	434,036,879.47	54,695,491.52	13,393,166.92
Multilateral	26,912,990.28	2,880,093.88	772,919.93
Asian Development Bank	6,652,944.65	2,003,100.00	622,613.95
IDA	20,260,045.63	876,993.88	150,305.98
Bilateral	407,123,889.19	51,815,397.64	12,620,246.99
Belgium	10,793,642.48	1,392,728.06	a
Denmark	5,476,182.38	1,024,671.44	a
Germany	5,683,216.13	706,012.93	110,134.26
Japan	354,989,449.92	44,626,882.90	10,890,162.57
US	29,701,857.46	1,875,847.68	877,091.61
Others	479,542.38	193,955.26	a
Guaranteed loans	66,661,713.22	26,976,130.16	4,249,689.59
Multilateral	50,190,989.94	24,171,747.14	3,920,027.71
Asian Development Bank	36,900,989.94	17,501,747.14	3,178,230.41
IBRD	13,290,000.00	6,670,000.00	741,797.30
Bilateral	16,470,723.28	2,804,383.02	329,661.88
France	1,141,546.43	761,030.95	33,295.11
Germany	15,329,176.85	2,043,352.06	296,366.77
GRAND TOTAL	1,155,338,188.68	183,005,979.36	45,278,806.34

a – interest free

*Source:* Bureau of Treasury – Debt Monitoring Analysis Division



(BNPP). This lone project comprised 9% of the total foreign debt of the country when it was completed in 1984. Subsequent investigations showed that the BNPP was overpriced by \$600 million, and that Marcos and his crony Herminio Desini, who facilitated the project, were bribed with \$80 million by the project contractor US-based Westinghouse Corporation.

The BNPP was mothballed by the Aquino administration after it found out that the plant sits on a major fault line. It never got to produce a single kilowatt of electricity, but all the Aquino government can do was to accept a \$188-million settlement with Westinghouse.

Thus, Filipino taxpayers were left with a huge debt to settle. Starting this year until 2018, the country still has to pay around \$118.3 million to the banks that financed the BNPP which include the US Export-Import Bank, Union Bank of Switzerland (among the Swiss banks where Marcos allegedly put his ill-gotten wealth), Bank of Tokyo, and Mitsui & Co.

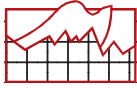
*Private debt, public burden*

The BNPP is only one of the numerous public loans contracted during the Marcos regime that benefited the private interests of Marcos and his cronies. Among the conditionalities of the Marcos regime's 1984 standby arrangement with the IMF was that the national government would assume private loans to ensure their repayment. Many of these private loans belonged to the cronies of Marcos. In fact, 10 of Marcos's close pals already accounted for \$3.3 billion of these government-assumed loans. (See **Table 3**)

A huge portion of government assumed loans went to the National Power Corporation (Napocor) and enriched Desini who facilitated these anomalous loans. In a 1989 study, it was estimated that government-assumed loans of Napocor, which involved Desini, reached \$795 million. The country may still be paying for these debts considering that the outstanding balance of Napocor's debt contracted by the Marcos government is still pegged at \$260 million as of end-2003.

Table 3 Ten largest government-assumed loans of Marcos cronies In million dollars		
Crony	Company	Amount
Herminio Desini	National Power Corp.	795
Cojuangcos	PLDT	654
Benjamin Romualdez	Manila Electric Co.	370
Rodolfo Cuenca	CDCP	323
Roman Cruz	Philippine Airlines	321
Roberto Benedicto	NASUTRA/PHILSUCOM	265
Jose de Venecia	Landoil	165
Alfredo Montelibano	Planters Products	159
Roberto Ongpin	NIDC	157
Geronimo Velasco	Philippine National Oil Co	123
Total		3,332

*Source:* National Economic Protectionism Association



### *Illegitimate debts*

The debt problem is now among the most important issues confronting not only the Philippines but also many Third World countries. Worldwide, there is a growing campaign to cancel debts that are considered illegitimate to reduce the indebtedness of poor countries.

Various international initiatives and movements campaigning for debt cancellation have tried to define what are illegitimate debts. Broadly, illegitimate debts fall on any or all of the following categories:

1. Debts incurred by a despotic power not for the needs or interests of the state but to strengthen its despotic regime or to repress the population that fights against it. It also includes loans made by members of government or persons or groups associated with government for personal rather than state purposes. Such debts are also called 'odious debts.'
2. Debts incurred under onerous terms such as usurious interest rates and private loans converted to public debt in order to bail out lenders.
3. Debts used for projects or programs that did not happen or did not benefit the people as originally intended, or harmed the community or its environment.
4. Debts incurred through wrong policy advice or debts with conditionalities that harmed the people of the borrowing countries.
5. Debts that cannot be serviced without causing harm to people or communities. [3]

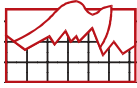
### *Proposals*

Clearly, many of Marcos's debts are illegitimate – they harmed the Filipino people while enriching Marcos and his cronies. Worse, we are forced to bear the responsibility of repaying these debts at the cost of being denied our right to access basic social services.

Instead of implementing new and higher taxes and other anti-people measures to deal with the fiscal crisis, we strongly encourage the Arroyo administration to instead pursue measures that would uphold the general welfare and public interest. One such measure is to reform its debt management policies and reduce government debt. It can start by reviewing the debts incurred by the Marcos dictatorship to determine which debts are illegitimate and therefore not the obligation of the current government and the people.

*The Arroyo government may consider the following:*

1. Establish a Marcos Debt Review Task Force composed of the Department of Finance (DoF), the Presidential Commission on Good Government (PCGG), Department of Justice (DoJ), concerned members of Congress, and representatives from concerned non-government organizations (NGOs).
2. At the minimum, the Task Force should determine how much of the outstanding balance of Marcos's foreign debts of \$1.2 billion are considered illegitimate and recommend the immediate suspension of servicing these loans.
3. At the maximum, the Task Force should determine how much of these illegitimate debts have already been repaid. The Arroyo administration should then negotiate with concerned creditors and seek appropriate reduction in current outstanding balance on grounds that past loans serviced by government are illegitimate and therefore payments should be refunded (e.g. through reduction in present debts).
4. The Task Force should investigate all past and present government officials, institutions, companies, and other entities or individuals involved in fraudulent loan transactions during the Marcos dictatorship and prosecute those who are found guilty.



The hardest part, of course, is negotiating with creditors and this is where the political will of the Arroyo administration will be put to a test. But the concept of illegitimate debt and its cancellation is now a campaign that creditors and First World governments are forced to recognize due to international pressure.

The British House of Commons International Development Committee in 1998 wrote that 'the bulk of Rwanda's external debt was incurred by a genocidal regime... some of the loans were used to purchase weapons... the current administration, and ultimately, the people of Rwanda, should not have to repay these odious debts... We further recommend the UK government urge all bilateral creditors, in particular France, to cancel the debt incurred by the previous regime.' [3]

In the US last April 2004, Representative Maxine Waters of California announced that she will introduce Justice and Understanding by IMF Loan Elimination and Equity Act (or the Jubilee Act) to cancel debts that poor countries owe to the IMF. The IMF has already recognized the unpayability and insolvency of some of the debts of poor countries. It is also now looking into the issue of 'illegitimacy' of debt.

Reviewing Marcos's debts should form part of overall efforts to reform the country's debt management, which indispensably includes repealing PD 1177 of Marcos and EO 292 of Aquino. At a time of fiscal crisis, it is more necessary to impose a cap on borrowings and payments (instead of automatic debt servicing) so government can have more flexibility in managing the people's money and protecting the people's welfare.

These efforts require the country's policy makers to reorient their appreciation of debts and its role in economic and social development. A pro-people debt management should make debts serve our needs and interests, and not put unnecessary burden on the people.

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