

When the Telephones for the Villages (TSB— *Telepono sa Barangay*) project was introduced to their town back in 1998, the people of General Luna, Quezon Province, welcomed it with open arms.

Back then, residents of this coastal town, which for a time was almost isolated by mountain ranges and bad roads, communicated with the rest of the country either through telegraph or through an operator-assisted private phone service.

Attracted by the promise of clearer and faster communication lines with the outside world, former General Luna Vice Mayor Miguel Salvo introduced the resolution before the town council that paved the way for the installation of the phones in the area.

Wasted Projects

But, typically for a government project, it took years before the TSB finally reached General Luna. By the time the phones were installed, the country already had a new president: Gloria Macapagal Arroyo.

Three months after the public calling stations (PCOs) were installed, the government shut the system down.

By that time, new technology had already outpaced the project. Mobile phone usage had become popular, as leading telephone companies installed cellular sites even in remote towns and islands. This rendered the newly installed PCOs practically useless. Clearly, the project was not well thought out, the former vice mayor said.

The total project cost for the rollout of TSB installations in some 20,000 villages all over the country was initially pegged at US\$5 million. But with the phones costing around US\$4,500 or more for every line — more than four times the estimated price, had the project been undertaken by the private sector — the total project cost far surpassed government projections.

The project ended up saddling the national government with over US\$54 million worth of debt from the Export Development Corporation of Canada and the Credit Commercial de France. As of the end of 2007, the Philippine Government already paid the two donor agencies US\$42.7 million in interest payments. The loan is due to mature in 2011.

The TSB case is not unique. There are many other “useless projects” that Filipinos are currently amortizing to foreign debtors, according to Anna Maria Nemenzo of the Freedom from Debt Coalition (FDC). They include medical waste incinerators, which failed to pass emission standards, and an unfinished maritime safety improvement project, which left behind never-used communication equipment rotting in container vans.

Such waste is what a new procurement law, which seeks to bring down costs by making bidding processes as transparent and open as possible, is supposed to prevent. But because donor agencies have yet to agree to a uniform set of guidelines, it has yet to apply to projects funded through foreign loans.

Many donor countries still only allow their own nationals to bid for projects they fund. Despite international agreements toward the untying of aid, the 2005 Official Development Aid Review of the National Economic Development Authority (NEDA) noted that the share of tied loans in the country’s total portfolio of official development aid is still rising. In some cases, loan terms already dictate who the supplier will be.

This is particularly problematic in foreign funded projects because they often involve big ticket items, according to former Congressman Plaridel Abaya, one of the authors of the new procurement law.

High-Profile Players

On April 21, 2007, during a brief visit to China, President Arroyo witnessed the signing of five “economic agreements” between Philippine and Chinese entities, which an official government press release claimed were expected to bring in “nearly a billion dollars worth of new investments.”

One of the agreements turned out to be a contract between the Philippine Government and Chinese Zhong Xing Telecommunication Equipment (ZTE) Company Limited for a national broadband network (NBN) project, to be funded through a US\$329 million loan from China’s Export-Import Bank.

Months later, allegations that the project was overpriced and that bribery was involved in the award of the broadband deal surfaced in major Philippine dailies.

Prominent names figured in the controversy. Among them was the chairman of the Commission on Elections Benjamin Abalos, identified as the official who brokered the deal.

The president's husband, First Gentleman Mike Arroyo, also got dragged into the scandal after businessman Jose De Venecia III, the son of then-House Speaker Jose De Venecia, claimed that Arroyo had told him to "back off" from the project, after being offered a US\$70 million bribe by Abalos.

The young De Venecia's company, Amsterdam Holdings Inc. (AHI), was one of the contenders for the project.

In late September, former NEDA Director General Romulo Neri revealed to the Senate that Abalos offered him 200 million pesos (US\$4.2 million) to approve the ZTE contract, a charge that Abalos promptly denied. The NEDA performs the crucial role of reviewing the viability of key government projects, particularly those funded through foreign loans.

In his testimony, Neri stopped short of linking the president to the controversy, refusing to confirm reports that the president instructed him to approve the project anyway, even if he refused the bribe. To stop the Senate from forcing him to answer their queries, Neri filed a case before the Supreme Court arguing that executive privilege governs his conversations with the president.

In February 2008, Philippine Forest Corp. President Rodolfo Noel Lozada Jr., an IT expert who was allegedly privy to negotiations over the broadband contract, linked Abalos and First Gentleman Arroyo to the broadband deal with ZTE Corporation and claimed during the Senate investigation that the project was overpriced by about US\$130 million.

During the hearings, administration officials insisted that the choice of ZTE as supplier was part of the terms of the Chinese loan. "Beggars can't be choosers," Lorenzo Formoso, assistant secretary of the Department of Transportation and Communication (DOTC), said. The government, he argued, cannot possibly dictate the terms on the loan.

Surveys conducted during the period indicated that the public found Lozada, the key witness to the alleged bribery, credible. The president's approval ratings plummeted following the investigations.

The controversy triggered inquiries into other donor-funded projects. In early 2008, the Philippine Center for Investigative Journalism, following a six-month review of donor funded projects, reported that seven out of 10 such projects “failed to deliver their touted benefits and results.” It cited a Commission on Audit report that stated at least 38 out of 47 projects were plagued with irregularities.

Widespread criticism prompted President Arroyo to cancel the NBN deal with the ZTE Corporation and to review other China-funded projects. It also forced the Comelec chairman to resign his post.

Little Accountability

But little has happened beyond that. An impeachment case was filed against the president for her part in the controversy, but failed to unseat her. A May 2008 Supreme Court ruling favoring Neri’s petition invoking executive privilege doused the hopes of the president’s critics to solidly link her to the alleged bribery.

Despite the numerous public investigations into controversies involving donor funded projects, Congress has yet to act upon proposals seeking to tighten oversight over such projects, according to Akbayan party Representative Risa Hontiveros-Baraquel.

Filipinos continue to pay for “white elephants” left behind by unused donor funded projects — untenable for a country where millions go hungry and where many children cannot go to school, stresses FDC’s Nemenzo.

Back in General Luna, the TSB phones have become no more than annoying encumbrances to locals. In neighboring towns, people have already disassembled the PCOs and sold off the spare parts. Much of the system has been rendered useless and beyond repair due to tropical cyclones, forest fires and human neglect.

With hindsight, the people of General Luna would have benefited more from a lighthouse, Salvo said.

