Breaking the Momentum of Indebtedness

Policy Recommendations Debt for the 2008 National Government Budget and Beyond

September 2007

Freedom from Debt Coalition

The best institution that can solve the debt problem is the legislature, which **needs to assert its power of the purse**. Constitutionally, the Congress has well-defined powers regarding debt, budget, and appropriations, as stipulated in Article VI, Section 24 which states, " All appropriation, revenue or tariff bill, bills authorizing increase of public debt… shall originate exclusively in the House of Representatives, but the Senate may propose or concur amendments."

Unfortunately, Congress wasn't able to exercise this power to its fullest extent due to certain impediments, the greatest of which is the Automatic Appropriations Law (AAL), which is contained in Sec. 31 (B) of Presidential Decree 1177 in Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987. A huge chunk of the budget is already automatically appropriated, giving the Congress very little flexibility in setting the budget.

The bad thing about this is that the largest of these automatically appropriated funds goes to debt servicing for interest payment and principal amortization. In the recent years, debt service allocations dwarfed allocations for social spending, which include spending for education, health, agriculture, and the environment. This is despite the constitution provision (Article XIV, Section 5.5) stating that education should receive the highest budgetary allocation.

Worse, debt payments even for loans which went through irregular processes and which are found to finance anomalous projects, and projects which were never beneficial and, in the worst of situations, even detrimental to the public, are automatically appropriated. Because of this law, legislators had become complacent in the monitoring of payments for loan-financed projects, paving way for the proliferation of illegitimate debts.

In the proposed 2008 budget alone, we will be allocating P 295.75 billion in interest payments and P328.34 billion for principal amortization, for a total P 624.09-billion debt service appropriation. The breakdown is as follows:

Debt Service in Proposed 2008 National Government Budget			
in billion pesos	**Regular**	**Assumed**	**Total**
Domestic	396.14	2.43	398.57
Foreign (US$1=P46/P48)	181.29/189.17	41.31/43.10	222.59/232.27
Total	577.43/585.31	43.74/45.53	621.16/630.84

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Some of the Foreign Assisted Projects (FAP) funded by foreign loans were found to be illegitimate. These debts automatically receive payment every year despite the fact that the projects they are funding are corruption and anomaly-ridden and ill-transacted. Some P 1.31 billion of the budget allocated for Foreign Regular Liabilities this year is earmarked for payments such illegitimate debts.

Thus, the Freedom from Debt Coalition recommends that the Congress act on the following proposals:

I. On the Proposed 2008 National Government Budget

1. Strike out all budget allocations as payment for loans financing anomalous projects from the 2008 National Government Budget, pending thorough investigations of the projects involved. The following are examples:

<table>
<tr><th colspan="6">Payments for Illegitimate Debts in the 2008 NG Budget</th></tr>
<tr><th>Project Name</th><th>Loan no.</th><th>Owed to</th><th>Repayment Facts</th><th>Payment this Year (using $1=46.35)</th><th>Location (BESF F.Y. 2008, Table D.6.)</th></tr>
<tr><td rowspan="2">Small Coconut Farms Development Project (SCFDP)

<u>Amount</u>: $ 121.80 million</td><td>3204-0 PH</td><td rowspan="2">International Bank for Reconstruction and Development (IBRD)</td><td rowspan="2">$ 124.04 million

<u>Maturity</u>: July 2010</td><td rowspan="2">$ 11.32 million or P 524.86 million</td><td>IBRD Loans, p. 344</td></tr>
<tr><td>3204-A PH</td><td>IBRD Loans, p. 344</td></tr>
<tr><td>Austria Medical Waste Project

<u>Amount</u>: P 503.65 or ATS 199.96</td><td>29451000 - Bank Austria 212.060</td><td>Bank Austria Aktiengesellschaft (Bank Austria AG)</td><td>P 598.89 million

<u>Maturity</u>: March 2014</td><td>$ 2.02 million or P 93.697 million</td><td>Other Loans, p. 348</td></tr>
<tr><td>Second Social Expenditure Management Program (SEMP2)

<u>Amount</u>: $ 100 million ($ 40 million for textbooks)</td><td>7118-PH</td><td>International Bank for Reconstruction and Development (IBRD)</td><td><u>Maturity</u>: March 2014</td><td>$ 8.32 million or P 385.81 million</td><td>IBRD Loans p. 344</td></tr>
</table>

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Secondary Education Development and Improvement Project (SEDIP)	1654-PHI	Asian Development Bank (ADB)	<u>Maturity</u>: April 2019		ADB Loans p. 343
<u>Amount</u>: ¥ 7.21 million from JBIC, $ 53 million ($21.584 million for textbooks) from ADB	PH-P200 (JBIC), 1654-PHI (ADB)	Japan Bank for International Cooperation (JBIC)	<u>Maturity</u>: December 2029 (PH-P200), October 2025 (1654-PHI)		JBIC Loans p. 347
Philippine Merchant Marine Academy (PMMA) Loan	Loan no. 4306551/199866609, Loan I.D. 27159000	Kreditanstalt fur Wiederaufbau (KFW) – Germany-based	<u>Maturity</u>: June 2042	$ 1.2 million or P 55.596 million	Other Loans, p. 345
<u>Amount</u>: P 858 million	Loan no. 3961971, Loan I.D. 27159001				Other Loans, p. 345
Telepono sa Barangay (TSB) Project	Loan Account. EDC 880 PHI 7535, Loan I.D. 29450000	Export Development Corporation (Phase I)	<u>Maturity</u>: October 2010	$ 5.3 million or P 245.79 million	Other Loans, p. 348
	Loan Account: CR COMML DE FRANCE, Loan I.D. 29463000	Credit Comm'l de France (Phase II)	<u>Maturity</u>: February 2011		Other Loans, p. 348
Total				**$ 28.17 million or P 1.31 billion**	

We also call for striking-out of allocations for the remaining unsecuritized loans during the Marcos tutelage. Most of these remaining loans can be found in <u>Table B.23 of the BESF, Foreign Debt Service for Liabilities Assumed by the National Government</u>.

2. To prevent artificial under-spending just for the sake of improving the fiscal status, there should be a specific stipulation on the General Appropriations Act for 2008 that no amount in the General Appropriations Act that are intended to fund programs, projects or activities on education and health can be subject to impoundment[1] by any of the instrumentalities of the Executive Branch, unless the President so requests in writing and is granted permission by both Houses of Congress.

[1] Impoundment is the refusal of the President to spend the money that had been appropriated by the Philippine Congress.

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3. As stipulated in Article XIV, Section 5(5), the Congress must exercise their duty to fulfill the spirit of the constitution by providing the highest budgetary allocation for education in the 2008 General Appropriations Act (GAA).

4. In light of anomalous contracts such as the ZTE-NBN project and the Cyber Education Project (CEP), the following must be scrutinized in 2008 GAA:

    a. The National Government Borrowing Program as contained in the National Government Financing Program, Section D. of the Budget of Expenditures and Sources of Financing (BESF) for Fiscal Year 2008.

    b. Financing for Foreign Assisted Projects (Tables B.14 and 15) – Approving the whole budget book including this section is already an implicit approval of the loan which will finance the projects.

    c. Procedures followed on current borrowings and loan agreements this year, as guided by Article VII, Section 20 and Article XII, Section 21 of the constitution and Republic Act 4860 or the Foreign Borrowings Act.

Constitutional Provisions on the Debt

Article VII. Section 20. The President may contract or guarantee foreign loans on behalf of the Republic of the Philippines with the prior concurrence of the Monetary Board, and subject to such limitations as may be provided by law. The Monetary Board shall, within thirty days from the end of every quarter of the calendar year, submit to the Congress a complete report of its decision on applications for loans to be contracted or guaranteed by the Government or government-owned and controlled corporations which would have the effect of increasing the foreign debt, and containing other matters as may be provided by law.

Article XII. Section 21. Foreign loans may only be incurred in accordance with law and the regulation of the monetary authority. Information on foreign loans obtained or guaranteed by the Government shall be made available to the public.

II. To empower the Congress, bring back the power of the purse to this branch of government, and address the country's problem of indebtedness, FDC also proposes the following legislative actions:

1. Sec. 31 (B) of Presidential Decree 1177 in Sec. 26 (B), Book 6 of the Revised Administrative Code of 1987, which ensures the automatic appropriation of payments for principal and interest on public debt, must be repealed.

2. A Congressional Commission on Debt Audit that will a) investigate all public sector debts and contingent liabilities and b) review all government policies regarding borrowings and payments of debts, must be created. Debts found to be illegitimate (fraudulent, behest, onerous, etc.) must be repudiated, with appropriate sanctions to be applied against erring parties, whether government or private entities.

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3. There should be legislation imposing tighter regulation of government borrowings and awarding of sovereign guarantees and performance undertakings to arrest the growing debt problem. This legislation should include:

    a. Congressional scrutiny and approval of loans designated for specific projects and programs.

    b. Imposing a ceiling (borrowings cap) on government borrowings undertaken through government bonds, treasury bills, and other similar instruments used to raise revenues for the general fund.

    c. Congressional oversight on the issuance of sovereign guarantees and performance undertakings. Review and incorporate appropriate revisions to the Build-Operate-Transfer (BOT) Law.

III. FDC also proposes other necessary proposals to address the debt issue such as:

1. Immediately review and rationalize all laws pertaining and/or concerning public debt, borrowings, payments and contingent liabilities with the end view of restoring the Congressional power of the purse and promoting transparency and accountability.

2. Review government's growing contingent liabilities particularly the executive department's policy of extending sovereign guarantees to private enterprises. The same goes with behest loans.

3. Review future loans from foreign Export Credit Agencies (ECA) transacted through bilateral agreements and negotiations. Official Development Assistance (ODA) should also be looked into, especially the loan components. This is in the light of contentious RP-China agreements and the Japan Philippines Economic Partnership Agreements (JPEPA).

4. Review our government's tax and non-tax revenue systems specifically on the privatization and treasury policy to generate more revenues.

5. The presence of more illegitimate debts in succeeding government budgets must be scrutinized, understood and acted upon by Congress.

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