# 12-Point Fiscal Agenda

## for the Next Administration and the 15$^{th}$ Congress

***The Freedom from Debt Coalition (FDC)*** *sees that the most effective solution to the current fiscal quagmire is not the application of palliative and stop-gap policies (e.g. the increase of R-VAT to 12-15%, SMS taxes, etc.), but rather the implementation by the next administration, in cooperation with the 15$^{th}$ Congress, of the twelve (12) policies below:*

1. Strike out the Automatic Debt Servicing Provision or Section 26(B), Book VI of Executive Order 292 or the 1987 Revised Administrative Code.
2. Conduct an Official Debt Audit.
3. Repudiate blatantly illegitimate debt cases.
4. Rescind onerous contracts entered by the national government.
5. Repeal the outmoded Republic Act 4860 or the Foreign Borrowings Act of 1966.
6. Pass an Alternative Official Development Assistance (ODA) Act.
7. Regulating borrowings by the Local Government Units (LGUs) by amending Sections 295 to 303, Book II, Title IV of Republic Act 7160 or the Local Government Code of the Philippines.
8. Scrap the R-VAT law or Republic Act 9337 and explore passing a law rationalizing fiscal incentives and removing other tax incentives to corporations.
9. Issue an Executive Order (EO) declaring moratorium on privatization of state assets pending a review of the privatization policy.
10. Pass a law Automatically Appropriating Funds to Education pegged at 6% of the GNP as prescribed by the UNESCO.
11. Pass a law Automatically Appropriating Funds to Health in order to ensure that total health expenditure is pegged at no less than 5% of the GDP as the standard recommended by the WHO.
12. Pass a law Automatically Appropriating 5% of the General Appropriations Act (GAA) to mass housing and settlement projects for the poor.

## On Debt Payments: *Stopping the Fiscal Hemorrhage*

***Situation:*** *For all post-EDSA governments, from 1986 to 2008, debt service for interest payments alone already averaged around 25.72% of the national government budget. This is not to mention payments for principal amortization which are excluded from the budget and automatically deducted from new borrowings. This is despite the fact that there are debts known to be illegitimate that are being continually paid, like the Austrian Medical Waste Incinerator and SEMP2 "Textbook scam" projects.*

1. **Strike out the Automatic Debt Servicing Provision**. Section 26(B), Book VI of Executive Order 292 or the 1987 Revised Administrative Code - which mandates automatic appropriations for interest payment and principal amortization of government obligations - was copied en toto by Section 31(B) of Presidential Decree 1177 of the Marcos Dictatorship.

2. **Conduct an Official Debt Audit**. The 13th House of Representatives passed House Joint Resolution no. 1 calling for a Congressional Debt Audit at the height of the fiscal crisis, but this was shelved by the finance committee. In the 14th Congress, the bill was re-filed as HJR no. 4. Pending the completion of such an audit, suspend payments on obligations challenged as illegitimate.

3. **Repudiate blatantly illegitimate debt cases**. This can start with the list of 13 cases of illegitimate debts the Senate and House of Representatives already identified in the Special Provisions on Interest Payments in the Bicameral Conference Report of House Bill 2454, the then proposed 2008 General Appropriations Bill.

4. **Rescind onerous contracts entered by the national government** such as Independent Power Producers (IPP) contracts that continue to bleed our public coffers.

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## On Financing

***Situation***: *The power to unilaterally contract loans allows the presidency to raise as much money as (s)he can through borrowings, using the future revenue-generation capacity as collateral. Thus, the borrowing spree of post-EDSA governments continued after Marcos, peaking at Arroyo's term as president. From 2001 to 2006, Mrs. Arroyo borrowed a total of P2.83 trillion, exceeding the total P1.51 trillion combined borrowings of the Aquino, Ramos and Estrada administrations spanning fourteen years. Moreover, the quality of these debts is also a cause of worry, especially with the recent noise on the anomalous $329 million National Broadband Network (NBN) project supposed to be financed by the Chinese Export-Import Bank.*

5. **Repeal the outmoded Republic Act 4860 or the Foreign Borrowings Act of 1966** and replacing it with a better foreign borrowings law which ends fiscal dictatorship by a) regulating Presidential powers to incur obligations, b) strengthening Congressional role in controlling the debt stock, c) increasing accountability and people's participation in the process, d) updating debt cap figures, e) allowing for repudiation and cancellation of illegitimate debts, and f) mandating as a policy that

foreign borrowings must not in any way stifle national development or impose supply or policy conditionalities.

6. **Pass an Alternative Official Development Assistance (ODA) Act** that a) reduces, instead of increases, obligations arising from ODAs, b) increases public participation, accountability and oversight measures, and c) mandates the participatory drafting of a National ODA Plan in order to strictly regulate the flow of ODA and other concessional loans.

7. **Regulating borrowings by the Local Government Units (LGUs) by amending Sections 295 to 303, Book II, Title IV of Republic Act 7160 or the Local Government Code of the Philippines** in order to ensure more stringent regulation by the Development Budget Coordinating Committee and Congress and grassroots participation in the decision-making and implementation of financed projects.

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## On Revenues: *Shifting the Burden to the Able*

***Situation***: *Despite having regressive taxation schemes such as R-VAT, and its reputation as "the biggest seller" of government assets among the post-Edsa I administrations, tripling Ramos' P29.91 billion in 1994 with her P90.62 billion in 2007, revenue effort under the Arroyo administration remains poor. The Arroyo administration's average Revenue-to-GDP score, pegged at 15.51% from 2001 to 2008, is less than Corazon Aquino's 15.53% (1986-1991), Fidel Ramos' 18.8% (1992-1997), and Joseph Estrada's 16.3% (1998-2000).*

8. **Scrap the R-VAT law or Republic Act 9337** as a step towards shifting to a more progressive tax regime. The government shall explore passing a law rationalizing fiscal incentives and removing other tax incentives to corporations. In the immediate, suspend VAT collection by removing R-VAT targets in the 2011 Budget of Expenditures and Sources of Financing (BESF). The government must also raise tariff rates at its levels before the entry to the WTO.

9. **Issue an Executive Order (EO) declaring moratorium on privatization of state assets** pending a review of the privatization policy. Draft a national plan on increasing capacity of Government Owned and Controlled Corporations (GOCCs) to generate revenue and efficiently deliver affordable services to the public.

## On Spending: *Paying government's Social Debt*

***Situation***: *From 1986 to 1996 and 1999 to 2008, interest payment allocation exceeded education spending, despite the provision in the Philippine Constitution, Article XIV, Section 5.5, stating that education is supposed to receive the highest budgetary allocation. Spending for social and economic services continue to deteriorate under the Arroyo administration, with the sectoral share of economic services and social services dropping from 24.2% to 20.6% and 32.2% to 29.8% respectively from Estrada to the first half of the Arroyo administration.*

10. **Pass a law Automatically Appropriating Funds to Education pegged at 6% of the GNP** as prescribed for developing countries by the United Nations Educational, Scientific and Cultural Organization (UNESCO). The proposal was embodied in House Bill 5423 filed in the 14th Congress.
11. **Pass a law Automatically Appropriating Funds to Health in order to ensure that total health expenditure is pegged at no less than 5% of the GDP** as the standard recommended by the World Health Organization (WHO) for developing countries. In addition, government expenditure on health should not be below well the level recommended by the Commission on Macroeconomics for Health (CMH) for low and medium-income countries, which is 1% of the GNP for health by 2007 and an additional 2% by 2015.
12. **Pass a law Automatically Appropriating 5% of the General Appropriations Act (GAA) to mass housing and settlement projects for the poor.**