

# Philippines, an urgent call: Repeal of the Automatic Appropriations Law for Debt Servicing; Audit All Public Debts!

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Dear Partners

Good day! The Freedom from Debt Coalition (FDC) launched an online petition to urge President Rodrigo Duterte and the members of the 17<sup>th</sup> Congress to repeal the Law on Automatic Appropriations for Debt Servicing and to conduct an Official Comprehensive Audit of all public debts.

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## Repeal of the Automatic Appropriations Law for Debt Servicing; Audit All Public Debts!

Filipino taxpayers' money and all public funds should be spent for people's needs and welfare such that provisioning for essential public services and immediate post-disaster rehabilitation for victims of calamities are assured and in place.

However, the Philippines could be the only country in the world that has an Automatic Appropriations Law (AAL) that compels the government to set aside a substantial portion of its annual budget for debt servicing before allocations are made for vital social and economic services. The law provision for Automatic Debt Servicing is contained in Section 26B, Book VI of Executive Order 292 or the 1987 Revised Administrative Code and was copied en toto from Section 31(B) of Presidential Decree 1177 or the Budget Reform Decree of 1977 of the late dictator, Ferdinand Marcos.

AAL mandates automatic appropriations for interest payment and principal amortization of government debts, including assumed behest loans of Marcos cronies and private liabilities arising from sovereign guarantees to entice investments. This has facilitated the payment of fraudulent and onerous loans that never benefited the people.

For 2016, out of the P214.5 B (\$ 4.67 B) scheduled debt servicing for the national government's foreign liabilities, PhP 3.78 billion (US\$ 82.26 million) will go to interest and principal payments of

five questionable loan-funded projects: the Power Sector Development Program, Sixth Road (Tullahan), Pampanga Development Flood Control, Bohol Irrigation II, and Angat Water Supply Optimization. Many more such tainted loans could be revealed if all loans contracted by the government are closely scrutinized through a comprehensive audit.

From 1986 to 2015, or over a course of 30 years, the continued implementation of AAL has resulted in an average of 27.21 percent of annual public revenues automatically earmarked for interest payments, while principal amortization has eaten up an average of 67.61 of government's borrowings. This is one of the major reasons why the government has failed to meet its obligation or social debt to the Filipino people. Social debt in the education sector alone, measured against UNESCO's recommended budget allocation standard of 6% of GNI, already amounts to P7.2 trillion as of 2016.

AAL severely compromises the Congressional "power of the purse" since it significantly reduces the budget left for Congressional reallocation and Congress is prohibited by the Constitution from increasing the budgetary ceiling. The level of borrowings is also effectively dictated by the amount of principal amortization to debts which are to be "rolled over" since it is not part of the budget but instead deducted from new "financing" of the government. The government borrows not just to finance the budget deficit but also to cover its amortization.

In 2017, President Duterte's first full year in office, PD 1177 and EO 292 will mark their 40<sup>th</sup> and 30<sup>th</sup> year of enactment, respectively. The impact of four decades of prioritizing debt payments over ensuring sufficient budgetary allocation for essential social and economic services has been borne by generations of Filipinos for far too long. Poverty and inequality has worsened with the Philippines registering with the second highest income inequality ratio among ASEAN countries based on the Gini coefficient index as of 2013. Social Weather Stations, a respected Philippine social research institution, reports that 50 percent of Filipinos (11.2 million families) rated themselves as poor as of December 2015 while the joblessness average for 2015 was 21.9 percent.

Provisioning for human life in all its fullness, integrity and dignity should be at the core of President Duterte's debt management policies and strategies and not merely to assure lenders of the government's capacity and intent to pay. AAL prioritizes debt payments over and above the people's development needs. It also ensures payments without a review of how the loan transactions were made, how the funds were used, who borrowed and benefited from them, and whether these loans should really be considered as debts of the Filipino people.

To this end, we call for:

- The Repeal of the Law on Automatic Appropriation for Debt Servicing;
- An Official Comprehensive Audit of Philippines Debts including the policies, conditionalities and institutions that impose unfair and unjust terms, tight economic controls, and increase the debt burden of Filipino taxpayers;
- Immediate Moratorium on Repayments for Questionable Loans pending the results of the Official Audit in order to stop further bleeding of public coffers for servicing of debts challenged as fraudulent, wasteful and/or useless.

*This petition will be submitted to:*

President Rodrigo Roa Duterte  
17<sup>th</sup> Congress of the Philippines

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View online : [To sign this petition:](#)

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**P.S.**

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<https://www.change.org/p/president-rodrigo-roa-duterte-repeal-of-the-automatic-appropriations-law-f-or-debt-servicing-audit-all-public-debts>