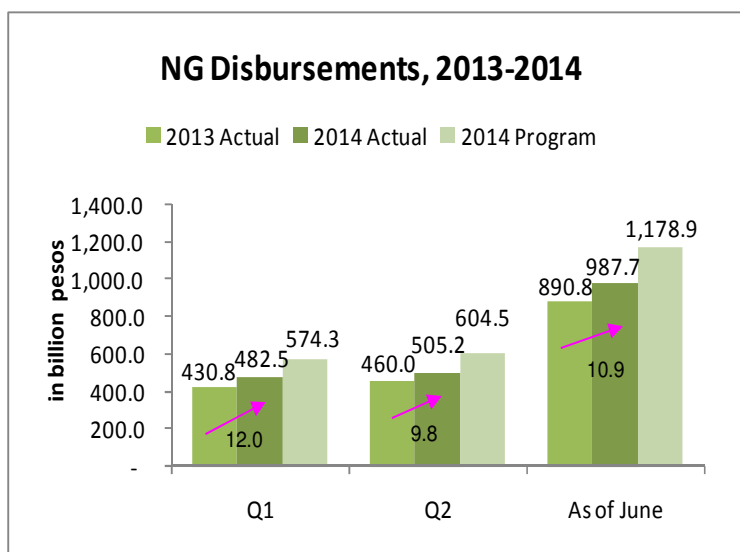


ASSESSMENT OF NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE AS OF JUNE 2014

Total national government disbursements registered at P987.7 billion for the first semester of the year, higher by P97.0 billion or 10.9 percent than the actual figure of P890.8 billion in the first semester of 2013. The rate of expansion is comparable with the 8.9 percent average growth rate from 2005 to 2013. Relative to program, the spending of the national government stayed within the P1.179 trillion target for the first semester by P191.1 billion or by 16.2 percent.



Spending in the second quarter grew at slower pace at 9.8 percent year-on-year than the 12.0 percent growth rate recorded for the first quarter. Notwithstanding this trend in the aggregate level, it will be noted in Table 1 that the second quarter expansion was entirely driven by the 12.8 growth in NCA disbursements, which pushed the cumulative growth rate in NCA disbursements to 9.8 percent as of June from just 6.0 percent as of March. In the same manner, albeit still being below target, disbursements through the use of NCAs in the second quarter was closer to the program by 9.8 percentage points than in the first quarter (25.9 percent in the first quarter vs. 16.1 percent in the second quarter). To a certain extent, this can be attributed to the improvement in NCA utilization of departments/agencies to a rate of 89.3 percent in the second quarter from the 81.7 percent in the previous quarter.

Table 1
Comparison of NCA and Non-NCA Disbursements, 2013-2014
in billion pesos, unless otherwise indicated

Particulars	Q1		Q2						As of June						
	2014 Actual	2013 Actual	2014			Inc./(Dec.)		2013 Actual	2014			Inc./(Dec.)			
	Actual	Actual	Program	Actual	Amount	%	Amount	%	Actual	Program	Actual	Amount	%	Amount	%
NCA	306.6	369.3	496.8	416.6	(80.2)	(16.1)	47.3	12.8	658.6	910.8	723.2	(187.6)	(20.6)	64.7	9.8
% of Eff. NCA	81.7	90.7	89.3						87.8	86.0					
Non-NCA	175.9	90.6	107.7	88.6	(19.1)	(17.8)	(2.1)	(2.3)	232.2	268.1	264.5	(3.6)	(1.3)	32.3	13.9
Total	482.5	460.0	604.5	505.2	(99.3)	(16.4)	45.2	9.8	890.8	1,178.9	987.7	(191.1)	(16.2)	97.0	10.9

Source of basic data: Bureau of the Treasury (BTr)

Memo Items:

Effective NCAs Issued net of Trust Liabilities, gross of Working Fund:

As of June	2nd Quarter	
2013	749.7	407.1
2014	841.4	466.3

Allotment Releases

As of June 2013	1,769.4	88% of the P2.006 trillion obligation program
As of June 2014	1,973.3	87% of the P2.264 trillion obligation program

Source: Budget Technical Service (BTS)

Allotment Releases

With the GAA-as-a-Release-Documents (GAARD) and issuance of Special Allotment Release Orders (SAROs), a total of P1.973 trillion in obligational authorities were made available to departments/agencies for the first half the year, or 87 percent of the P2.265 trillion obligation program. This amount of releases is 11.5 percent higher than the actual allotment releases made during the same period last year.

The GAARD regime also facilitated the release of 91 percent of the department-specific budgets. Among the major releases in the first semester are as follows: 1) DPWH's Infrastructure Development Program - P174.3 billion; 2) DSWD's Pantawid Pamilyang Pilipino Program - P62.6 billion; 3) DND-AFP's Territorial Defense, Security and Stability Services (mostly Personnel Services or PS) - P55.2 billion; 4) various locally-funded and foreign-assisted projects of the DOTC including subsidy to MRT3 - P32.4 billion; 5) DAR's Land Acquisition and Distribution - P13.4 billion; 6) DA's Development of the Crops Sector - P10.4 billion; 7) DepEd's creation of new teaching and non-teaching positions - P7.9 billion; 8) DOE's e-Trike Project - P2.6 billion; 9) DFA's e-Passport Project - P2.0 billion; 10) DOH's Health Facilities Enhancement Program - P9.3 billion; 11) Payapa at Masaganang Pamayanan Program lodged in various implementing agencies - P6.3 billion; and 12) DILG's Provision for Potable Water Supply - P2.8 billion.

Performance vs. Programmed Levels

Considering the reforms in place (e.g., GAARD, advance procurement, etc.), the disbursement program is relatively more frontloaded (at 51.6 percent share in the first semester) than how spending had been in the first half during the last three years, which averaged only about 45.7 percent of the full-year actual outturn. However, it turned out that actual spending lagged against program, mainly on account of the following:

- Spending for PS was lower than program by P32.8 billion or 10.1 percent, partly due to the lower-than-expected claims for retirement gratuity and terminal leave benefits and the balances of the allocation for the grant of the FY 2013 Performance-Based Bonus and other personnel benefits under the MPBF.
- Maintenance and other operating expenditures fell below expectations by P38.6 billion or 20.2 percent partly on account of the low obligation rates¹ of OP, DSWD, and DOH, in addition to the low NCA utilization (below 80 percent) of DA, DSWD, DENR, DOH, DFA, DOST, DAR and OP.

Some of the reasons cited by the DSWD to explain the below par disbursement performance for the first semester are as follows: 1) postponement of the roll-out/payment from January to June 2014 for the Expanded CCT which resulted to unutilized funds amounting to almost P3.0 billion; 2) low turnout of registration of children 15 to 18 years old led to the significant underutilization of the 2014 Budget for the Expanded CCT; 3) payment of Social Pension to beneficiaries was deferred due to ongoing special validation for non-National Household Targeting System (non-NHTS) beneficiaries in compliance to Special Provision No. 3 in the GAA; 4) for programs under the Grassroots Participatory Budgeting, the DSWD field offices are still conducting validations and preparation of necessary documents; and 5) for the Assistance to Individuals in Crisis Situations (AICS), it took some time for the field offices to set up satellite offices and hire staff for the implementation of the program.

Likewise, the DOH attributed the underspending to the delay in the procurement of commodities. They noted that the preparation for procurement of 2014 commodities actually started as early as June 2013 but slowed down due to the disasters in the latter part of last year as activities of the hospitals and regional offices were re-focused in assisting the affected areas. The new eligibility requirement for bidders - current and valid tax clearance - resulted in the failure of bids and/or re-bidding of most commodities amounting to P974 million. Also, the awarding for family planning commodities in the amount of P1 billion was put on hold due to the Supreme Court requirement for a FDA certification that said commodities are not abortifacient or do not induce abortion. There

¹ Compared to the 50% benchmark ratio of obligations to allotments received for the first semester (assuming equal pace of obligations throughout the year)

was also a delay in the obligation of the P3.2 billion financial assistance/subsidy to indigent patients due to the several revisions made on the implementing guidelines.

The unreleased balances under MOOE of the following departments and SPFs also contributed to the lower-than-programmed spending as of June: 1) DAR's Comprehensive Agrarian Reform Program - P6.0 billion; 2) e-Government Fund - P1.2 billion; 3) National Disaster Risk Reduction and Management Fund - P5.0 billion; and 4) Rehabilitation and Reconstruction Program - P2.7 billion.

- Infrastructure and other capital outlays was recorded below program by 58.7 billion or by 30.0 percent, which can be largely attributed to the lower-than-programmed spending of the DPWH by some P30.0 billion (P97.3 billion program vs. P66.9 billion actual payments). The DPWH ascribed this performance to the delayed pre-construction activities due to program modification and realignments; non-

Table 2: Disbursements by Expense Class, Program vs. Actual
in billion pesos, unless otherwise indicated

Particulars	January to June		Deviation	
	Program	Actual	Amount	%
Current Oper. Exp.	928.1	805.0	(123.1)	(13.3)
PS	325.6	292.8	(32.8)	(10.1)
MOOE	191.1	152.4	(38.6)	(20.2)
Subsidy	85.7	49.5	(36.1)	(42.2)
Allotment to LGUs	136.6	136.6	-	-
IP	171.0	159.7	(11.3)	(6.6)
TEF	18.1	13.9	(4.2)	(23.3)
Capital Outlays	239.8	176.3	(63.5)	(26.5)
Infra & Other CO	195.3	136.6	(58.7)	(30.0)
Equity	2.1	0.4	(1.6)	(79.2)
Cap. Transfers to LGUs	40.3	39.2	(1.2)	(2.9)
CARP-LO Comp.	2.1	-	(2.1)	(100.0)
Net Lending	11.0	6.5	(4.5)	(41.2)
TOTAL	1,178.9	987.7	(191.1)	(16.2)

collection by some contractors of their 15 percent mobilization cost and/or preference of contractors to claim only upon completion of the project rather than issue progress billings; right-of-way problems; failure of biddings, among others. To address these issues, the DPWH has identified immediate/ short-term action plans which involve regular meetings with contractors to fast-track projects and encourage them to collect monthly billings with focus on avoiding the lapsing of NCAs.

Some big-ticket infrastructure projects of other departments that are to be implemented by the DPWH also remain unreleased as of end-June. One of which is the Tulay ng Pangulo Para sa Kaunlarang Pang-Agraryo (P2.1 billion) on which DAR had encountered difficulties in identifying the areas for the project. Accordingly, DAR has only recently submitted the list to DPWH which will have to endorse the bridges to be constructed, as required under the Special Provisions in the GAA. Moreover, the P30.0 billion budgetary allocation for the DepEd's Basic Educational Facilities is still unreleased as of June due to the late submission of the list and location of school buildings and water and sanitation facilities by the DepEd. As represented, the delay was caused by the need to make more calamity-resilient school building designs, which will also entail adjustments in the cost.

Other contributing factors to the underspending in CO are the underutilization of NCAs by DOTC, DENR and DA, as well as the unreleased appropriations for some big-ticket CO items in the FY 2014 Budget such as DA's farm-to-market (FMR) road projects (P12 billion) and other irrigation projects (P8.4 billion), which remain intact due to the late submission of the FMR network plan with geo-tagged information on the roads, and irrigation plans as required in the GAA.

- Some P36.1 billion of underspending was recorded under subsidies to GOCCs. Contributing to more than half of this lower-than-expected performance are the unreleased funds for the NHA in the amount of P23.8 billion because of the difficulty encountered in the implementation of projects due to the lack of available land where housing units and medium-rise buildings can be built. Moreover, based on NHA's observation, contractors wait until the last quarter of the year to send their billings, hence the low disbursement in the first half.

In addition, there were also unreleased subsidies for the NFA in the amount of P4.3 billion due to delayed submission of Special Budget Request and requisite documents prior to release; for NEA in the amount of P4.0 billion as one of the conditions for the release of funds - the submission of barangay certifications with regard to the barangay and sitio electrification programs, are yet to be secured by the electric cooperatives, albeit some of the projects are ready for implementation; and for NPC in the amount of P2.6 billion since the monthly cash program was determined based on contracts already awarded, the actual releases, however, were based on progress billings. Some of these items were already or partially released in July, while the rest will be reprogrammed for release in the succeeding months.

- Savings in IP amounted to P11.3 billion or 6.6 percent, of which about 86.1 percent is accounted for by the lower-than-programmed payments for domestic borrowings. This is due to the impact of lower volume and lower interest rates on Treasury Bills and Fixed Rate Treasury Bonds. The average 364-day T-bill rate as of June at 1.8 percent was lower than the 3.0 percent program assumption. For interest payments due to external creditors, P1.6 billion in savings was due to the combined effect of fluctuations of various currencies and higher actual than assumed FX rate.
- Lastly, capital transfers to Local Government Units (LGUs) were also lower-than-program by P1.2 billion due to the unreleased balance for the special shares of LGUs in the incremental collection of Value-Added Tax (VAT) under R.A. No. 7643. The release of these appropriated shares is conditional on the reconciled certifications from the BIR and the BTr. To date, the certifications issued by the BIR corresponding to share of LGUs in VAT have been referred to BTr for validation of remittances.

Year-on-Year Performance

For the month of June, 2014

Particulars	For the month of June		Increase/Decrease	
	2013	2014	Amount	%
Current Oper. Exp.	116.0	168.1	52.1	44.9
PS	45.2	49.0	3.8	8.5
MOOE	24.8	29.8	5.0	20.2
Subsidy	7.0	46.3	39.3	563.8
Allotment to LGUs	20.2	22.8	2.6	13.0
IP	18.4	19.6	1.2	6.5
TEF	0.6	0.6	0.1	11.8
Capital Outlays	22.8	32.5	9.8	42.9
Infra & Other CO	15.0	24.4	9.4	62.7
Equity	-	0.1	0.1	
Cap. Transfers to LGUs	7.8	8.1	0.3	4.0
CARP-LO Comp.	-	-	-	
Net Lending	0.7	0.5	(0.2)	32.8
TOTAL	139.5	201.1	61.6	44.1

Government spending accelerated in June, with disbursements for the month up by 44.1 percent than a year ago, surpassing the 4.7 percent year-on-year growth in disbursements for the first five months of the year. This spike in June was brought about primarily by the nearly six-fold increase in subsidies to GOCCs from P7.0 billion in June 2013 to P46.3 billion this year. Significant releases to

GOCCs in June were to cover the following: (1) premium subsidy of 14,706,524 indigent families enrolled under the National Health Insurance Program in the amount of P35.3 billion; (2) various housing and resettlement programs of the NHA including the FYs 2013 and 2014 Housing Program for Informal Settler Families (ISF) residing in danger areas in the amount of P3.7 billion, and the Housing Project for Typhoon Pablo victims in the amount of P1.9 billion; (3) first batch of FY 2014 electrification projects nationwide of the NEA in the amount of P1.2 billion; and (4) various locally-funded projects of the PCA including programs on scale insect infestation, coconut fertilization project, accelerated coconut planting/re-planting, product diversification thru household-level/community-level processing, among others, in the total amount of P997.1 million.

Other expenditure accounts which recorded major increases in June are as follows:

- Outlays for PS increased by P3.8 billion or 8.5 percent in June from last year's comparable level on account of the releases for the retirement incentives of rationalized DAR and DENR personnel.
- Maintenance spending increased by P5.0 billion, or 20.2 percent, against the June 2013 figure, largely due to the higher cash requirements in June this year for the Pantawid Pamilyang Pilipino Program of the DSWD, and funds released for the Typhoon Haiyan Project, under the ADB Grant also of the DSWD.
- With an expansion of 62.7 percent from its year-ago level, capital spending rebounded in June after it posted a decline for two consecutive months (April and May). This performance was propped up largely by the release of P4.9 billion in funds for the Aircraft Acquisition Project under the Revised AFP Modernization Program, on top of additional NCA releases for the critical infrastructure projects of the DPWH.

For the period January - June, 2014

As a result of the encouraging outturn in June, cumulative disbursements bounced back to register a double-digit growth of almost 11 percent for the first semester, from the 4.7 percent as of May. Net of interest payments, this year-on-year expansion would be higher at 12.9 percent from the 2013 first semester figure. The main driver of this rise in spending was subsidy to GOCCs, which recorded a cumulative increase of P36.3 billion or 274.8 percent. This was followed in nominal terms by transfers to LGUs

which increased by P17.0 billion or 10.7 percent year-on-year on account of the higher mandated shares of LGUs in the Internal Revenue Allotment. The combined growth of productive spending such as MOOE and CO was also at a respectable pace of 7.7 percent, an improvement from the modest 2.8 percent recorded as of May. Net lending also contributed to a large extent in this performance as it expanded by about P10 billion due to repayments made by PSALM to the national government in 2013, as discussed in previous reports.

Table 4: Disbursements by Expense Class, 2013 vs. 2014
in billion pesos, unless otherwise indicated

Particulars	January to June		Increase/Decrease	
	2013	2014	Amount	%
Current Oper. Exp.	732.6	805.0	72.4	9.9
PS	282.9	292.8	9.9	3.5
MOOE	145.0	152.4	7.4	5.1
Subsidy	13.2	49.5	36.3	274.8
Allotment to LGUs	120.9	136.6	15.7	13.0
IP	157.1	159.7	2.6	1.7
TEF	13.5	13.9	0.4	3.2
Capital Outlays	161.6	176.3	14.7	9.1
Infra & Other CO	123.4	136.6	13.3	10.8
Equity	0.3	0.4	0.1	29.9
Cap. Transfers to LGUs	37.9	39.2	1.3	3.4
CARP-LO Comp.	-	-	-	-
Net Lending	(3.4)	6.5	9.9	287.7
TOTAL	890.8	987.7	97.0	10.9

Outlook for the Rest of the Year

Table 5: Status of 2014 Allotment Releases
in billion pesos, unless otherwise indicated

Particulars	Program	Releases as of June*	Balance	
			Amount	%
Original Program	2,264.6	1,973.3	291.3	12.9

* Inclusive of releases charged against 2013 Continuing Appropriations, 2013 Supplemental Budget, and Automatic Appropriations

Source of basic data: BTS

With half of the year elapsed, P291.3 billion or 12.9 percent of the P2.265 trillion obligation program remains available for release in the second half. Majority of this program balance (or 88.4 percent) represent unreleased funds under agency-specific budgets and Special Purpose Funds (SPFs), which require submission of special

budget requests and documentary requirements prior to release. These unreleased appropriations include the following: 1) pension and retirement benefits under the PGF -

P68.2 billion; 2) other personnel benefits funded from the MPBF - P38.6 billion; 3) Basic Educational Facilities under the DPWH Budget - P30.0 billion; 4) budgetary support to GOCCs - P28.3 billion; 5) Rehabilitation and Reconstruction Program - P15.4 billion; 6) National Disaster Risk Reduction and Management Fund - P14.6 billion; 7) DA's Farm-to-Market Roads - P12.0 billion; and 8) DAR's Comprehensive Agrarian Reform Program (including Landowners Compensation of P5.0 billion) - P11.1 billion, among others.

The tendency of departments/agencies to frontload their cash requirements in the first few months of the year for fear of not having enough disbursement authority to settle obligations when they become due, became even more evident this year as actual performance fell below their MDPs. Consequently, these unrealistic cash programs may have been partly the reason for the low utilization of NCAs as departments/agencies have apparently programmed more than what they need in the first semester. Problems have also been identified within the internal processes and procedures of agencies which also experienced slowdown in spending (e.g., failure of the budget and planning personnel to consult with the operations personnel, poor coordinated action, lack of or issuance of unclear guidelines on financial management, procurement issues, and the processing of claims for payment, etc).

In view of this, there have been discussions with the private sector and other stakeholders on concrete and innovative solutions to address these critical implementation bottlenecks. For instance, the number of Bids and Awards Committees (BACs) can be increased in big departments like DOTC, DPWH, DepEd, and DSWD where the number and complexity of the items to be procured warrants and their BAC secretariats strengthened. Another option is to designate in every major department/agency, a full-time delivery unit with a senior official in-charge, not lower than a Undersecretary, to focus on: (1) ensuring execution/delivery of services and outputs according to the program of implementation; (2) anticipating and addressing all possible delays; (3) trouble-shooting bottlenecks and delays; and, (4) working closely with the DBM in the monitoring and evaluation of project execution to facilitate remedial measures.

The government may also tap assistance from development partners to capacitate the budget personnel on a more comprehensive and better approach to cash programming, or to strengthen the capacity of infrastructure agencies and LGUs to develop viable programs and projects, detailed engineering designs and better execute implementation.

The DBM will hence be intensifying its monitoring of agency performance in the coming months which should encourage agencies to get back on track on program implementation. The ongoing efforts to clarify savings and related transactions with Congress and the focusing of the performance bonuses on the achievement of targeted deliverables should also translate into faster agency disbursements in the coming months.