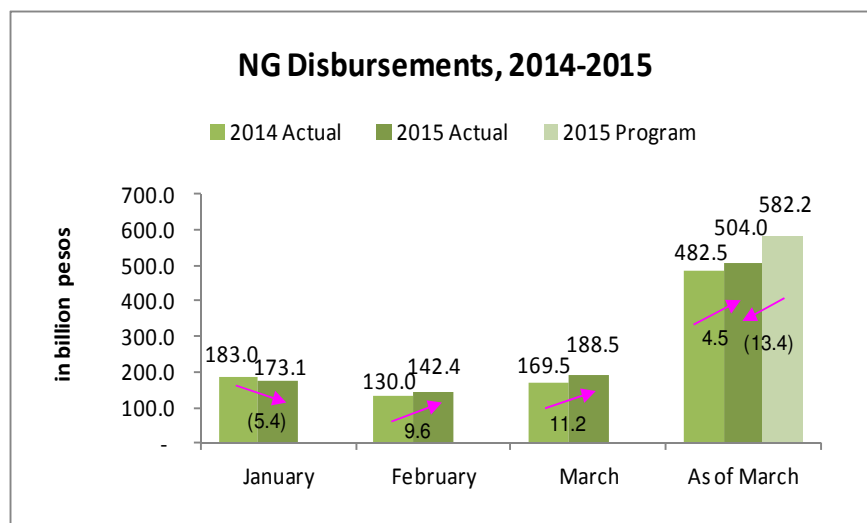


ASSESSMENT OF NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE AS OF MARCH 2015



National government spending for the first quarter (Q1) of this year registered at P504.0 billion, higher than the comparable 2014 disbursement level of P482.5 billion by P21.5 billion or 4.5 percent. Net of interest payments, Q1 disbursements grew by a faster rate of 6.3 percent year-on-year.

It is worth noting that the cumulative rate of expansion reflects the acceleration in spending since the month of January. As shown in the graph, growth has been speeding up from a 5.4 percent contraction in January, to a 9.6 percent expansion in February, and to a considerable spending improvement in March by 11.2 percent. More importantly, this accelerating trend can also be seen in the productive spending under Maintenance and Other Operating Expenditures (MOOE) and Capital Outlays (CO). Hence, after it jointly registered a reduction in January by 11.1 percent, productive spending rebounded to 11.8 percent and 11.1 percent growth in February and March, respectively. This behavior is envisioned to be sustained in the coming months with the continuing implementation of expenditure measures. Administrative Order (AO) No. 46¹ issued last March 30, 2015 lists down the immediate measures which the government will implement to address key institutional weaknesses which were highlighted in the 2014 year-end disbursement report²: weak planning and program/project design, procurement setbacks, and program/project implementation bottlenecks.

In terms of composition, Table 1 on the next page shows that cash disbursements resulting from current year NCAs (or NCA disbursements), account for two-thirds of NG spending, and exhibited an even greater expansion year-on-year of P28.9 billion or 9.4 percent. This can be attributed to increased spending under MOOE by OP, DepEd, DILG, and DSWD, and the higher Internal Revenue Allotment (IRA) which coincides with the increase in revenues based on the Local Government Code. This was however, partly subdued by the reduction in disbursements by DA and DND for the period, particularly for national irrigation projects and the AFP Modernization Program, respectively.

On the other hand, non-cash disbursements such as interest payments (IP), net lending, tax expenditure subsidies, encashment of check floats from 2014, among others, amounted to P168.5 billion, less than the 2014 level of P175.9 billion by P7.4 billion or 4.2 percent. This was due largely to the lower magnitude of prior year's checks encashed in the current year. It

¹ Copy of AO No. 46 can be accessed through this URL - <http://www.gov.ph/2015/03/30/administrative-order-no-46-s-2015/>

² The 2014 Year-End Disbursement Assessment Report can be viewed at <http://www.dbm.gov.ph/wp-content/uploads/DBCC/2014/ASSESSMENT%20OF%20DISBURSEMENTS%20AS%20OF%20DECEMBER%202014%20V.4.pdf>

may be recalled that about P52.8 billion of FY 2013 outstanding checks were negotiated through the banks as of the first quarter last year, many of which were fund releases towards the end of 2013 for relief, rehabilitation and reconstruction of Yolanda-affected areas, while the encashment of FY 2014 outstanding checks as of March 2015 is P42.7 billion.

Table 1
Comparison of Actual Disbursements vs. NCA, 2014-2015
in billion pesos, unless otherwise indicated

Particulars	As of February				March				As of March						
	2014 Actual	2015 Actual	2014 vs. 2015		2014 Actual	2015 Actual	2014 vs. 2015		2014 Actual	2015				2014 vs. 2015	
			Inc./(Dec.)				Inc./(Dec.)			Program	Actual	Deviation		Inc./(Dec.)	
			Amount	%			Amount	%				Amount	%	Amount	%
NCA	179.1	194.1	15.1	8.4	127.5	141.4	13.9	10.9	306.6	419.0	335.6	(83.4)	(19.9)	28.9	9.4
% of Effective NCA	75.9	79.7			91.5	104.6			81.7		88.6				
Non-NCA	134.0	121.4	(12.5)	(9.4)	41.9	47.1	5.1	12.2	175.9	163.3	168.5	5.2	3.2	(7.4)	(4.2)
Total	313.0	315.6	2.5	0.8	169.5	188.5	19.0	11.2	482.5	582.2	504.0	(78.2)	(13.4)	21.5	4.5

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

Memo Items:

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

As of March 2014	375.3	As of March 2015	378.8
As of Feb. 2014	235.9	As of Feb. 2015	243.6
March 2014	139.4	March 2015	135.2

Allotment Releases

As of March 2014	1,552.2	representing 68% of the P2.287 trillion obligation program (including P22.5 billion Supplemental Budget)
As of March 2015	2,128.4	representing 82% of the P2.606 trillion obligation program

Source: DBM - Budget Technical Bureau (BTB)

Compared to the Q1 disbursement program, NG has recorded an underspending of P78.2 billion or 13.4 percent, mainly because of NCA disbursements of various departments/agencies falling considerably below program (by almost 20 percent). Based on consolidated bank reports, the following departments have posted lower actual disbursements (i.e., negotiated checks and working fund) compared to their Monthly Disbursement Programs (MDPs) and actual budgetary releases including those from Special Purpose Funds (SPFs) - COMELEC, DOH, DSWD, DepEd, DPWH, DILG, DND, ARMM, DOST and DA. Based on the reports submitted by the departments on their reasons for underspending, institutional weaknesses resulting to poorly prepared projects, procurement difficulties and implementation bottlenecks, which were identified to have challenged the disbursement performance in 2014, continue to be the main culprit for the poor spending outturn in the first quarter of this year. Further details will be discussed in the Performance vs. Program assessment section.

Allotment Releases

The GAA-as-a-Release-Documents (GAARD) policy and the faster disaggregation of lump-sum funds paved the way to faster allotment releases this year compared to previous years. As of end-March 2015, of the total obligation program of P2,606.0 billion, the allotments made available to the departments/agencies which enabled them to enter into commitments or obligations amounted to P2,128.4 billion or 82 percent of the program. The magnitude of allotments issued in the first quarter this year is 37.1 percent higher than last year's level. Likewise, this rate of allotment release significantly improved from the 68 percent released as of the first quarter last year and 71 percent in Q1, 2013.

In specific terms, faster budget execution has enabled the release of 90.0 percent of agency-specific budgets in the FY 2015 GAA; 92.6 percent of Automatic Appropriations, which was mostly for IP, IRA and Retirement and Life Insurance Premium (RLIP); and 16.6 percent of SPFs, which cover releases from the Pension and Gratuity Fund (PGF), budgetary support for GOCCs, International Commitments Fund (ICF), and the Local Government Support Fund (LGSF). Allotment releases in Q1 also include those charged against the carryover

appropriations under the P22.5 billion Supplemental Budget (R.A. No. 10652), which was enacted on December 23, 2014 to fund urgent and important projects of the government.

Year-on-Year Performance

As earlier discussed, the disbursement level for Q1 this year is 4.5 percent higher compared to the year-ago level. This spending performance is largely attributed to the following expenditure items:

- Maintenance spending for the first quarter outpaced last year's performance by a considerable margin of 19.2 percent to P86.1 billion. This was essentially brought about by the higher requirements for social services with the initial funding allocation of P17.0 billion for the WB and ADB-funded project, the KALAHI-CIDSS: National Community Driven Development Project, which aims to

Table 2: Disbursements by Expense Class, 2014 vs. 2015
in billion pesos, unless otherwise indicated

Particulars	1st Quarter		Increase/Decrease	
	2014	2015	Amount	%
Current Oper. Exp.	383.4	413.5	30.1	7.9
PS	138.4	138.4	(0.0)	(0.0)
MOOE	72.2	86.1	13.9	19.2
Subsidy	1.2	3.7	2.5	200.9
Allotment to LGUs	68.3	78.0	9.7	14.1
IP	103.1	100.6	(2.5)	(2.4)
TEF	0.1	6.7	6.7	11,120.0
Capital Outlays	94.3	88.3	(5.9)	(6.3)
Infra & Other CO	77.0	68.5	(8.5)	(11.0)
Equity	0.1	0.1	0.0	5.8
Cap. Transfers to LGUs	17.1	19.7	2.6	15.0
CARP-LO	-	-	-	
Net Lending	4.9	2.2	(2.7)	(54.8)
TOTAL	482.5	504.0	21.5	4.5

empower communities in 19,352 barangays in 826 municipalities across 58 provinces in accessing services and participating in local planning, budgeting and project implementation; as well as the increased provisions for major social protection programs of DSWD such as the Sustainable Livelihood Program (from P2.4 billion in 2014 to P4.9 billion in 2015), Social Pension for Indigent Filipino Senior Citizens (from P3.1 billion to P4.8 billion), and various programs/projects of LGUs. In addition, the first quarter disbursement of the OP in the amount of P1.6 billion to cover the Philippine hosting of the 2015 Asia-Pacific Economic Cooperation meeting, and the release of P2 billion for Bottom-up Budgeting (BuB) projects under the LGSF, also contributed to the rise in MOOE.

Likewise, the notable improvement in the NCA utilization rates of the OP (from 36.0 percent in 2014 to 75.0 percent in 2015), DENR (from 49.3 percent to 71.8 percent), DepEd (from 89.3 percent to 91.2 percent), DILG (from 82.2 percent to 91.2 percent), and DSWD (from 59.9 percent to 72.7 percent), amplified the impact of the increased budgetary provisions for these departments.

- Allotment and capital transfers to LGUs, corresponding to 80 percent and 20 percent of the IRA, respectively, grew by P12.2 billion or 14.3 percent due to higher shares of LGUs from a larger tax base.
- Tax expenditure subsidies were recorded at P6.7 billion, more than a hundred times higher than the 2014 amount due primarily to the release of P4.9 billion to cover the unsettled duties on NFA's rice importation in 2014. This amount represents the customs duties for the shipment of 500,000 metric tons of rice, for which billings from the BOC were received in February 2015.

However, the expansion in the above-cited accounts was partly tempered by the reduction in the following expenditure items:

- As previously mentioned, the year-on-year decline in CO by P8.5 billion or 11.0 percent to P68.5 billion was partly the effect of last year's substantial release to DND in the first quarter to cover the due and demandable accounts payable under the AFP Modernization Program in the amount of P9.6 billion. For this year, while the allotment in the amount of P9.3 billion was released in Q1 for the F/SA/LIFT aircraft acquisition project under the Revised AFP Modernization Program, the expected cash requirement for the project based on the MDP is slated in the second semester. In the same manner, a large amount of accounts payable (about P5.3 billion) were settled for the irrigation projects of the DA-NIA in the first quarter of 2014, whereas the payments made this year have only been about P0.5 billion.

There was significant improvement in the NCA utilization rate of DPWH (from 59.5 percent in 2014 to 86.5 percent in 2015) and DOTC (from 74.8 percent in 2014 to 80.5 percent in 2015), but this was not enough to offset the contraction in both DA and DND spending.

- Spending for Personnel Services (PS) was almost static compared to last year in view of the impact of last year's payment of deficiencies in GSIS premiums of government employees in the DepEd, and retirement/separation incentives and benefits for rationalized personnel under the offices of DAR, DA and DENR, both of which offset the gains in the year-on-year increase in compensation requirements for positions in the DepEd, Judiciary and DILG which were created and filled in the latter months of the previous year. Also, total payments for retirement gratuity and terminal leave (RG/TL) claims declined from almost P8.0 billion in Q1 2014 to P5.6 billion this year as the number of retirees nearly halved this year from 14,877 to 7,843.
- Net lending to GOCCs also contracted by P2.7 billion or 54.8 percent sans the impact of the P2.5 billion worth of advances made by the NLRC for its loan with the China EximBank in 2013.

Performance vs. Programmed Levels

With the exception of IP and tax subsidies, substantial shortfall were posted for the major expenditure classes. Still, this below-programmed spending this year was not as much as what transpired in the first quarter of 2014, where the balance amounted to P91.8 billion or 16.0 percent.

- Spending in PS was below program by P23.6 billion or 14.6 percent, primarily due to the unreleased allocations from lump-sum items under the Miscellaneous Personnel Benefits Fund (P9.8 billion), particularly for the filling-up of unfilled positions, and other PS deficiencies; as well as unutilized program for retirement benefits (P7.3 billion). The DILG also attributed the lower-than-expected spending for PS to outstanding checks in the amount of P2.9 billion intended for RG/TL payments, and remittances to GSIS, PAG-IBIG, PhilHealth, and lending institutions, which have yet to be encashed. In addition, the DND also posted unspent balances corresponding to releases for RG/TL towards the end of Q1 which are still valid for disbursement until the end of the succeeding month, and for pension funds which were not utilized since the expected requirement for the resumption of monthly pension did not materialize due to late filing of pensioners or delays in the validation process.

- MOOE fell short of expectations by as much as P25.0 billion or 22.5 percent due in part to the huge volume of outstanding checks for DSWD (P5.9 billion) which represent payroll grants and payments to LGUs and service providers under the Pantawid Pamilyang Pilipino Program (4Ps), also known as the Conditional Cash Transfer (CCT) Program, that were processed and

Table 3: Disbursements by Expense Class, Program vs. Actual
in billion pesos, unless otherwise indicated

Particulars	1st Quarter		Deviation	
	Program	Actual	Amount	%
Current Oper. Exp.	462.2	413.5	(48.7)	(10.5)
PS	162.0	138.4	(23.6)	(14.6)
MOOE	111.1	86.1	(25.0)	(22.5)
Subsidy	9.3	3.7	(5.6)	(60.4)
Allotment to LGUs	78.0	78.0	-	-
IP	100.6	100.6	0.0	0.0
TEF	1.2	6.7	5.5	457.1
Capital Outlays	115.1	88.3	(26.7)	(23.2)
Infra & Other CO	94.3	68.5	(25.7)	(27.3)
Equity	1.0	0.1	(0.8)	(84.8)
Cap. Transfers to LGUs	19.8	19.7	(0.2)	(0.9)
CARP-LO	-	-	-	-
Net Lending	5.0	2.2	(2.7)	(55.3)
TOTAL	582.2	504.0	(78.2)	(13.4)

deposited on or before the last working day of March but were claimed only during the first week of April. Apart from this, no payroll was generated for the beneficiaries of the Modified CCT due to lack of conduits for the payouts in the Geographically Isolated and Disadvantaged Areas (GIDA). The DSWD also noted that based on the spending pattern for 4Ps, the payout of grant is every two (2) months, hence the first quarter report only reflected the January and February payouts which were obligated in March. We can expect that the next payout for March and April were taken up in May, and so on.

In addition, the DOH cited as reasons for the underutilization in MOOE, the ongoing review of specific medicines being procured and assessment of its impact on out-of-pocket expenditure. In response, the DOH plans to shift focus of the provision of medicines to cancer drugs and maintenance medicines for hypertension and diabetes, and the DOH expects to obligate the funds for these purposes by the third quarter.

Other reasons for underspending, especially for DA and DILG, involve the difficulties encountered by LGUs in the liquidation of downloaded funds for the implementation of BuB and PAMANA projects. To address this, we are providing trainings on public financial management (e.g., preparation of fund liquidation requirements) to LGUs and exploring the possibility of using the modality of direct release or direct downloading of funds to LGUs.

- Budgetary support to GOCCs was lower than program by P6.5 billion or 62.7 percent primarily on account of unreleased subsidies for NFA (P2.0 billion), NEA (P1.4 billion), SHFC (P0.9 billion), PTNI (P0.5 billion) and NHA (P0.5 billion), pending submission of Special Budget Requests (SBRs) and documentary requirements. However, based on updated data, requests for most of the unused allocation in Q1 have been received in the latter part of Q1 and may be released in the next quarter.
- Capital spending slid below program by P25.7 billion or by 27.3 percent. Nearly half of this underperformance is accounted for by more than P11 billion of undisbursed amount under the COMELEC Budget corresponding to the fund allocation for the Automated Election System (AES) components due to the Supreme Court decision declaring the contract with Smartmatic for the repair and maintenance of PCOS machines null and void, and the delays encountered in the procurement of the other AES components. As a result, the COMELEC is currently following a revised calendar for the preparatory activities for the

National and Local Elections (NLE), and has appointed two (2) additional Special Bids and Awards Committees (SBACs) for the purchase of optical mark reader machines and for the repair and upgrade of the PCOS machines, to fast-track the implementation of the AES.

Likewise, procurement problems persist among agencies which hamper project implementation and hence, disbursements of funds. Agencies continue to report failures or delays in bidding as in the case of big-ticket items or projects of the DOTC, DPWH, DOH (particularly for the Health Facilities Enhancement Program), DOST-PAGASA (radar buildings), and DOF (construction of buildings and purchase of equipments). Weak staff capacities and lack of manpower support to the BAC for some agencies which resulted to the delays in finalizing project specifications are among the procurement difficulties reported by agencies to have contributed to the lower-than-planned spending for Q1. As of May, these issues are now being addressed by DBM with the creation of positions as requested by big procuring agencies. Moreover, in the case of DOH, their catch-up plan includes decentralization of procurement with the revival of multiple BACs to handle HFEP procurement activities.

Moreover, the DPWH partly attributed its underspending to implementation bottlenecks. For instance, they cited the lack of manpower to complement the magnitude of funds being implemented, controlled and monitored; difficulty in securing permits from partner LGUs, DENR and MMDA; non-obligation of bidded projects due to requests for modification, unresolved ROW problems and presence of informal settlers in project sites which affect the progress of works. Some contractors and suppliers also do not provide for progress billings and are sometimes late in complying with the required documentations leading to delays in the payments for finished projects. Some of the strategies identified by the DPWH to fast-track project implementation and thereby curb underspending include simplified bidding process, strict monitoring of contractors performance, implementation of the Electronic Project Life Cycle (ePLC) which monitors progress of projects, and skills enhancement of technical manpower, among others.

Outlook for the Rest of the Year

Table 4: Status of 2015 Allotment Releases in billion pesos, unless otherwise indicated				
Particulars	Program	Releases as of March*	Balance	
			Amount	%
Original Program	2,606.0	2,128.4	477.6	18.3
* Inclusive of releases charged against 2014 Continuing Appropriations, 2014 Supplemental Budget, and Automatic Appropriations				
Source of basic data: BTS				

Of the P2,606.0 billion total obligation program for the year, only P477.6 billion remains to be released for the rest of the year. An amount of P64.0 billion or 13.4 percent represents automatically-appropriated items such as net lending and tax expenditure subsidies, while bulk of the program balance (or 86.6

percent) is under agency-specific budgets and SPFs—marked “For Later Release” or FLRs—could not yet be released until the necessary conditions provided in the FY 2015 GAA have been met (i.e., lump sum funds have to be disaggregated into specific programs and projects, and documentary requirements such as network plans, geo-tagged photos, implementation guidelines, etc. have to be submitted). A huge portion of this corresponds to unreleased appropriations from lump sum items as follows: 1) MPBF - P112.7 billion; 2) PGF - P96.8 billion; 3) budgetary support for GOCCs including allocation for the National Health Insurance Program - P85.6 billion; and 4) special shares of LGUs in the proceeds of national taxes - P27.9 billion, among others.

As mandated by AO No. 46, each agency must create a full-time delivery unit (FDU), led by an Undersecretary and with supporting personnel, who shall monitor program and project implementation for their agency. This delivery unit shall ensure the execution and delivery of services according to their agency's implementation plan; and by the end of the first quarter, identify programs and projects with historical trends of low disbursement rates, or those with anticipated delays. As an update, the DBM has issued Circular Letter No. 2015-8 dated June 8, 2015 prescribing specific guidelines to implement the measures in AO No. 46, particularly the functions, composition, and reporting of the FDUs. Said issuance also named the undersecretaries in charge of the delivery units.

Apart from those measures that were embodied in AO No. 46, additional measures aimed at minimizing delays and improving the quality of projects through better agency planning and procurement practices are being explored. For instance, the Government Procurement Policy Board-Technical Support Office (GPPB-TSO) is tasked to go over the entire Implementing Rules and Regulations (IRR) of the Procurement Law (RA No. 9184), including its associated guidelines and look at provisions which can be applied with threshold amounts to simplify the procurement process, or can be revised without compromising principles of competition, fairness, transparency, accountability and economy embodied in the procurement legal framework.

We are also seeking the assistance of NEDA and the GPPB in strengthening the planning capacities of departments/agencies, including procurement for a more fluid program/project implementation. The GPPB-TSO shall continue and strengthen the training program they give to national and local governments, and suppliers and CSOs in order to ingrain the disciplines of procurement planning, continuous market surveys and skills of precise specification-making and costing in the planning units of the agency. The GPPB-TSO is also finalizing the procurement professionalization courses for pilot run within the year with an end to professionalize the cadre of procurement practitioners in government alongside established procurement skills and competencies.

Finally, we saw the accelerating monthly trend in spending until March, even before the implementation strategies were solidified with the issuance of AO No. 46. Now, with the effect of the AO -- more importantly the designation of an Undersecretary to head the FDU; the clearer definition and conditions for use of Savings, Augmentation, Realignment and the Unprogrammed Fund; as well as measures introduced to streamline the procurement processes, the government sees these initiatives to influence the spending improvement in the coming months.