Investing in the Right Priorities

The government's limited resources must be focused on achieving its development goals. As it improved its finances and curbed wasteful spending, the Aquino administration since 2010 had leveraged the Budget as a primary tool for inclusive growth. It heavily invested in fulfilling its Social Contract with the Filipino People: human development, economic expansion, climate change adaptation and mitigation, peace and security—all supported by a strong foundation of good governance. The government now spends P65 of every P100 in the Budget on priority social and economic services.

LINKING PLANNING AND BUDGETING

How Each Peso Meets the Country's Development Goals

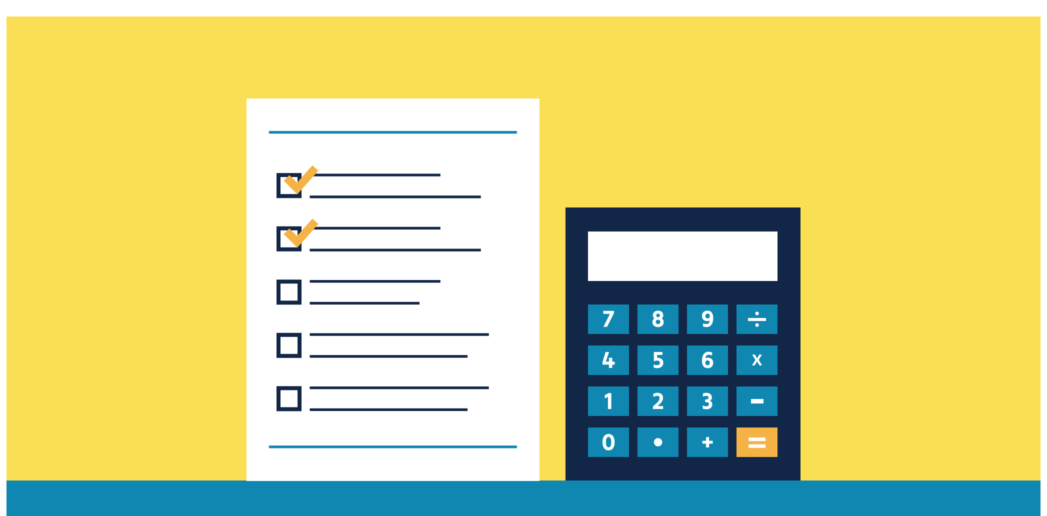
IN A NUTSHELL

- The government must focus its limited resources on effective programs that achieve the country's development goals.

- *In the past*, the government's scarce resources had been allocated inefficiently:
  - Poor program design, including abuse-prone lump-sum funds
  - Resources spread thinly on too many programs with little impact
  - Weak link between planning and budgeting, despite the introduction of the Medium-Term Expenditure Framework (MTEF)

- *Since 2010*, the administration has implemented budget reforms that focused resources on programs that achieve inclusive development, such as:
  - Zero-Based Budgeting (ZBB), to cross out or overhaul ineffective programs
  - Budget Priorities Framework (BPF), to align the Budget with the Social Contract and address the needs of the poorest and most vulnerable provinces
  - Program Convergence Budgeting, to improve coordination and spending among the agencies in order to achieve common goals
  - Consolidate these reforms and strengthen the MTEF via the Two-Tier Budgeting Approach (2TBA)

- *Moving forward*, the new administration may further strengthen the connection between planning and budgeting through the following:
  - Evolve ZBB into a regular spending review and evaluation process
  - Sustain BPF—improve medium-term investment planning, secure the Cabinet's agreement, and deepen collaboration among the oversight and implementing agencies
  - Make 2TBA the permanent framework for budget preparation, supported by robust ICT systems, and capacitated planners and budget officers



The National Budget translates the country's vision for inclusive progress into financial allocations and performance targets for the year. Such a vision is spelled out in the government's development plans, most notably the Philippine Development Plan (PDP) and other medium-term plans, which guide policy formulation and investment planning for six years. Based on these plans, the implementing agencies design the programs, activities, and projects that realize the development goals. These plans and proposed investments are considered in the process of preparing the annual Budget to be submitted to Congress for approval.

The Budget process considers allocative efficiency, in which the limited resources available are focused on achieving the country's development strategy. Allocative efficiency also grounds expenditures on the effectiveness of programs being funded. As such, the results being delivered should feed back into the planning-budgeting process, and enable the government to "shift resources from old programs to new ones and from less to more productive uses (Shick, 1998)."

The government faces these challenges in the budget process: to establish clear policies, allocate resources based on these policies, measure the results of using such resources, and use these results in creating future policies and Budgets (MfDS, 2007). If the government is able to resolve such challenges, then it can ensure the optimal use of scarce resources and, in the process, curb unnecessary and wasteful spending.

SITUATION BEFORE 2010

Scarce Resources Wasted On Ineffective Programs

In the past decade, the weak revenue effort and higher debt-to-GDP ratio severely constricted the government's allocable fiscal space, or the available resources for development *(see Fiscal Management)*. The inefficient allocation of public resources worsened the situation: funding had been incremental rather than focused on programs and projects that were aligned with development goals and showed measurable results. Many programs and projects had been poorly designed, and the implementation of which had failed to realize their objectives.

The DBM in the previous administrations introduced reforms to establish greater discipline in resource allocation: the MTEF and the Organizational Performance Indicator Framework (OPIF) *(see Linking Budgeting and Results)*.[1] Though laudable, these reforms were fully matured and weaved into the budget process.

An abundance of lump sums: A symptom of poor program design

The prevalence of controversial lump-sum funds in previous Budgets that were prone to abuse reflected the inability of the agencies to define expenditures in terms of specific programs, activities, and projects. Examples of these lump-sum funds were the Special Purpose Funds (SPFs), such as the controversial Kalayaan Barangay and Kilos Asenso Funds; and funds under the budgets of the agencies, such as the banner programs of the Department of Education (DepEd), Department of Health (DOH), and Department of Agriculture (DA) that were lodged under the Central Office and not disaggregated into specific activities, projects and locations. Senator Franklin M. Drilon (Valderama, 2008) had emphasized that the manner by which these lump-sum funds were allocated had been shrouded in opacity, with only the President or key officials of the Executive having a say on how exactly these funds would be spent. Furthermore, lump-sum funds had hampered effective budget execution *(see Fast and Efficient Budget Execution)* and constrained Congressional oversight *(see Budget Integrity and Accountability)*.

The ineffective design of programs and projects, including selecting and targeting of program beneficiaries as well as establishing quality standards for infrastructure projects, had also led to the misuse of funds. Expenditures in the agriculture sector, for instance, were frequently associated with corruption scandals: a notable example was the Fertilizer Fund Scam. In addition, in a special report on the Arroyo administration's banner agricultural programs in 2007, the Commission on Audit (COA, 2010) stated that '[t]he good intention of the GMA Rice Program to reduce poverty incidence and attain national food security is tainted with weaknesses and irregularities in implementation." Beneficiary-farmers in several regions did not receive the correct amount of seeds and fertilizers. Furthermore, almost P290 million in agricultural program funds were downloaded to non-government organizations (NGOs) of dubious origin, the COA report said. The respective offices of these NGOs were non-existent, including the benefits of their supposed activities. The COA also found that the government wasted P171 million on poorly executed farm-to-market roads (FMRs) because they needed to be re-graveled. The poor formulation of such programs—whether designed to make room for pilferage, or resulting from the weak technical ability of the bureaucracy—ultimately negated the government's goal of improving productivity and income in the countryside.

Too many programs, too little impact

In addition to poor design, the programs were too many, thereby spreading resources too thinly to create impact. The 2011-2016 PDP acknowledged this predicament, citing a study conducted by the Development Academy of the Philippines in 2009, which revealed that, at one point, twenty-one agencies were implementing various social protection initiatives (NEDA, 2011). The Asian Development Bank (ADB) also stated in a study that while the country had a wide range of social protection programs, their coverage was low and the benefits they provided were inadequate (2007). Poor targeting and the lack of built-in monitoring and evaluation mechanisms worsened the problem of insufficient funding. Moreover, social protection programs were not coordinated well, "often implemented piecemeal due to their individual mandates. This causes waste because of overlaps and redundancies in sectoral or geographical beneficiaries (ADB, 2011)."

Despite the country's long tradition in development planning, the PDP "has been described as aspirational and academic in nature for each sector and as a comprehensive 'menu' overall" and "offers little real guidance for resource allocation decisions (Blondal, 2010)." In addition, the annual budget preparation process had been known to be an arena for the agencies to secure increments in their budgets, while their actual performance was not considered. "While the budget intends to allocate funds for identified deliverables, it pays no attention to whether deliverables from the previous year(s) have been delivered or not (HDN, 2009)."

How planning problems trickle down to budgeting

Introduced in 2006,[2] the MTEF attempted to make the Budget more policy-oriented and linked with the PDP. As an international practice, the MTEFs aim to strategically widen the budgetary space for new programs by introducing future estimates in revenue and expenditures, and in the process, encourage the allocation of resources based on the governments' priorities and the medium-term sustainability of expenditures (Wilhelm & Krause, 2007). In implementing the MTEF, the government sought to a) set Forward Estimates (FEs), or three-year projections of ongoing expenditures based on inflation and other factors; and b) prepare the Paper on Budget Strategy (PBS), an internal document that guided decision-making on prioritizing the allocation of uncommitted funds.

A number of key factors, however, limited the impact of the MTEF. For one, the fiscal space had remained narrow, at an average of 18 percent of the Proposed Budget from 2003 to 2008 (Boncodin, 2008). Secondly, the FEs tended to be unreliable or even bloated because of poor forecasting, imprecise costing, and ineffective project design. The weak link between the sector-based approach to development planning and the agency-specific budgeting likewise tended to create "a spaghetti bowl effect with too much unconnected [budgeting and performance] information (AusAid, 2006)". Combined with the PDP's lack of resource constraints and the dearth of timely and reliable information on actual performance, this "spaghetti bowl" hampered effective decision-making in allocating the scarce resources as a means to yield potentially transformative social and economic outcomes.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Budget Aligned with The Administration's Social Contract

> "[Beginning] 2011, the Budget has been calibrated to target the most problematic areas. It has been focused to where it will have the greatest impact on society."
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

Since 2010, President Aquino has leveraged the Budget as the central tool to fulfill his Social Contract with the Filipino People: to reduce poverty and create equal opportunities for all through honest and effective governance.

In his first Budget Message to Congress, he emphasized that the bedrock principle of his first Budget "is that the taxes paid by the people will be spent for the people (Aquino, 2010)." Thus, his administration wielded the Budget to achieve inclusive development by investing in adequate and well-targeted social services and creating more opportunities for meaningful employment and livelihood for the people, especially the poor and marginalized (DBM, 2015).

Through DBM, the President recalibrated the Budget to show a clear preference for the poor. Thus, 64.4 percent of the Budget for 2016 was allocated for social and economic services, from 54.1 percent in 2010 and 48.2 percent in 2006, with the shares of vital subsectors, such as education, health, and public transportation, increasing the fastest among the others *(see Table 1)*. The reforms implemented since 2010—from cancelling anomalous programs and projects to aligning the annual Budget with medium-term development goals—has enabled the government to invest increasingly in programs that deliver real and measurable impact.

Table 1. **Percent Share of Sectors to Total Budget 2010-2016**

	2010	2011	2012	2013	2014	2015	2016
Economic Services	25.9	23.2	26.8	25.9	26.2	27.1	27.8
Social Services	28.2	34.5	32.4	35.6	37.2	36.6	37.3
Debt Burden	20.6	18.8	17.6	17	16.6	15.9	13.97

Source: Fiscal Statistics Handbook, BESFs 2015 and 2016

Plugging leakages through stringent program assessment

The first budgeting reform introduced by the administration, the ZBB entails the extensive review of ongoing programs and projects. Programs fraught with leakages or failing to deliver results are cancelled or redesigned, which in turn enables the government to increase funding for those found to be effective or have great potential in reducing poverty.

As President Aquino said in his first State of the Nation Address, "we will stop the wasteful use of government funds. We will eradicate projects that are wrong (2010)."

Used by the administration in the formulation of the 2011 Budget,[4] the ZBB made use of COA's audit reports and evaluation studies as basis for aborting programs that no longer met their goals. This reform also redesigned those that could be saved by revising their mechanics, including the transfer of programs to the agencies with the right mandate and capacity. In the subsequent rounds of the ZBB studies, DBM closely worked with the Philippine Institute for Development Studies (PIDS) for the latter to conduct program evaluation studies, which yielded 21 such studies from 2012 to 2014.

The implementation of the ZBB studies for the preparation of the 2011 Proposed Budget focused on the President's directive to cancel or revamp ineffective and leakage-prone programs. For one, it led to the cancellation of the Kalayaan Barangay and Kilos Asenso Funds as they were found to have questionable uses, apart from being underutilized as recipient-agencies failed to submit sufficient supporting information.

The Food for the School Program was also found to have costly leakages after revisiting the findings of COA in a 2006 assessment (Manasan and Cuenca, 2014). The program was supposed to provide rice to public school children as an incentive to attend school. However, besides short deliveries of rice, which was valued in millions of pesos, the study revealed that students in several districts received rice allocations behind schedule. Based on these findings, the administration initiated the proper targeting and identification of beneficiaries under the program. Renamed the Supplemental Feeding Program, its implementation was transferred from DepEd to the Department of Social Welfare and Development (DSWD), which was better suited to implement the program.

Other studies enabled the government to address policy issues in programs that were crucial to the country's development. One such study covered the agriculture sector. One impact evaluation study (Briones, 2013) emphasized that while the agriculture sector budget grew over time, the government failed to reduce poverty incidence in the countryside, raise rural incomes, and improve farm yields. This tepid performance could be traced to faulty design and execution of programs, in particular key infrastructure projects, such as irrigation, which had a record of wastage and ineffectiveness. In contrast, FMRs, electrification, and ports showed to have an impact in increasing farmers' yields and productivity.

The DBM acted on these findings by restructuring the agriculture sector's budget in the 2014 Proposed Budget. On infrastructure, a greater emphasis was placed on investments in FMRs: not only to provide additional funds but also to address lingering issues in the program's design, such as the lack of a road network plan. As a result, key provisions of the Budget now require DA to submit such plan before funds for FMRs are released. Additionally, the issue on the poor capacity of DA to implement such projects was also addressed as the Department of Public Works and Highways (DPWH) became involved in the design and implementation of FMRs.

In the absence of a road network plan, DBM asked DA to account for all finished FMRs by submitting geo-tagged images of such projects prior to the release of additional FMR funds. The DBM also restructured the DA budget to focus on planting High Value Crops instead of focusing solely on rice, which is very costly in terms of irrigation and farm inputs. It also directed DA to prioritize the linking of agriculture and fisheries to industry and services sectors. Such policy decisions were seen to improve the incomes of farmers and fisherfolk.[5]

The ZBB process also took cognizance of an evaluation by the World Bank (Chaudhury et al., 2013), which provided evidence that the *Pantawid Pamilyang Pilipino Program* (4Ps) improved enrolment rates in the elementary but not in the secondary school. Another study published by PIDS showed that a child who finishes high school can earn average wage of at least forty percent more than if he or she finishes only some years in elementary (Reyes et al., 2013). As a result, DSWD expanded and increased the conditional cash transfer benefits to allow working students to finish High School without worrying about augmenting their household income. The DSWD's conditional cash transfer program has covered 1.2 million children aged 15 to 18 to support their secondary education under the new K to 12 Curriculum (DBM, 2015c).

Aligning the Budget with development goals

Following the release of the PDP in 2011, the President issued Executive Order No. 43 defining the five Key Result Areas (KRAs) of the Aquino Social Contract, reorganized his Cabinet in clusters according to the five KRAs, and mandated the agencies to focus their budgets, programs, and projects on these five priority areas *(see box)*. The National Budget Call for the 2012 Proposed Budget[6] emphasized this directive.

Key Result Areas of the Aquino Social Contract

- Anti-Corruption and Transparent, Accountable, and Participatory Governance
- Poverty Reduction and Empowerment of the Poor and Vulnerable
- Rapid, Inclusive, and Sustainable Economic Growth
- Just and Lasting Peace, Security, and the Rule of Law
- Integrity of the Environment and Climate Change Adaptation and Mitigation

To integrate the KRAs in the allocation of resources, DBM introduced the Budget Priorities Framework (BPF), which indicated the sectors and programs that should be prioritized in the Proposed Budget, and defined the challenges and strategies that the agencies should consider in preparing their budget proposals. First introduced in the 2013 Budget preparation, the BPF[7] likewise spelled out the macroeconomic parameters and the fiscal program, as well as the budget ceilings of the agencies based on their FEs. The BPF complements the Budget Call, which lists down the guidelines in submitting budget proposals.

Priority Sectors of the 2016 BPF[11]

- Pursuing Good Governance. This cluster funds initiatives that simplify and modernize the delivery of frontline public services, and strengthen efforts to penalize and prevent corrupt practices.
- Creating Equal Opportunities for All. The government invests in their future by bridging the poor to opportunities for progress and self-sufficiency. Initiatives under this cluster invest in closing the human development gaps as identified in the Millennium Development Goals: reduce infant and maternal mortality, fight malnutrition, and improve access to basic education, among others.
- Sustaining the Growth Momentum. A stable and even macroeconomic environment paves the way for rapid and sustained economic growth. Programs under this cluster hinge on improving the country's infrastructure and fiscal environment to create additional jobs and ensure that development stretches to the countryside.
- Managing Disaster Risks. This cluster mitigates the impact of the new normal in weather conditions as brought about by climate change. Initiatives such as Build Back Better and the Rehabilitation and Reconstruction Program extend the needed assistance to families reeling from the devastation brought about by Super Typhoon Yolanda.
- Forging A Just and Lasting Peace. Initiatives under this cluster help create an environment where peace and the rule of law prevail. Major initiatives are the rollout of the AFP and PNP Modernization Programs, the pursuit of alternative means to end conflict, and compensation increase for justices.

Furthermore, the BPF introduced an important element to budgetary decision-making: the prioritization of resources for Focus Geographic Areas (FGAs). As early as in the 2013 BPF, the government acknowledged that economic activity had been historically limited to a few urban spaces, resulting in markedly uneven distribution of wealth and opportunity across the population; in contrast, the poor, underdeveloped provinces—many of which are prone to natural disasters—often had the least access to resources for development. The PDP Midterm Update (2013) also emphasized the need to consider the spatial dimension in development planning and resource allocation. Hence, in the 2014 BPF,[9] 44 priority provinces with large populations or magnitudes of the poor, with huge poverty incidence rates, and which are vulnerable to shocks and disasters[10] were identified. With such a needs-based framework in hand, the government veered away from the tendency of applying a one-size-fits-all structure for development-oriented interventions (*see box on page 58*).

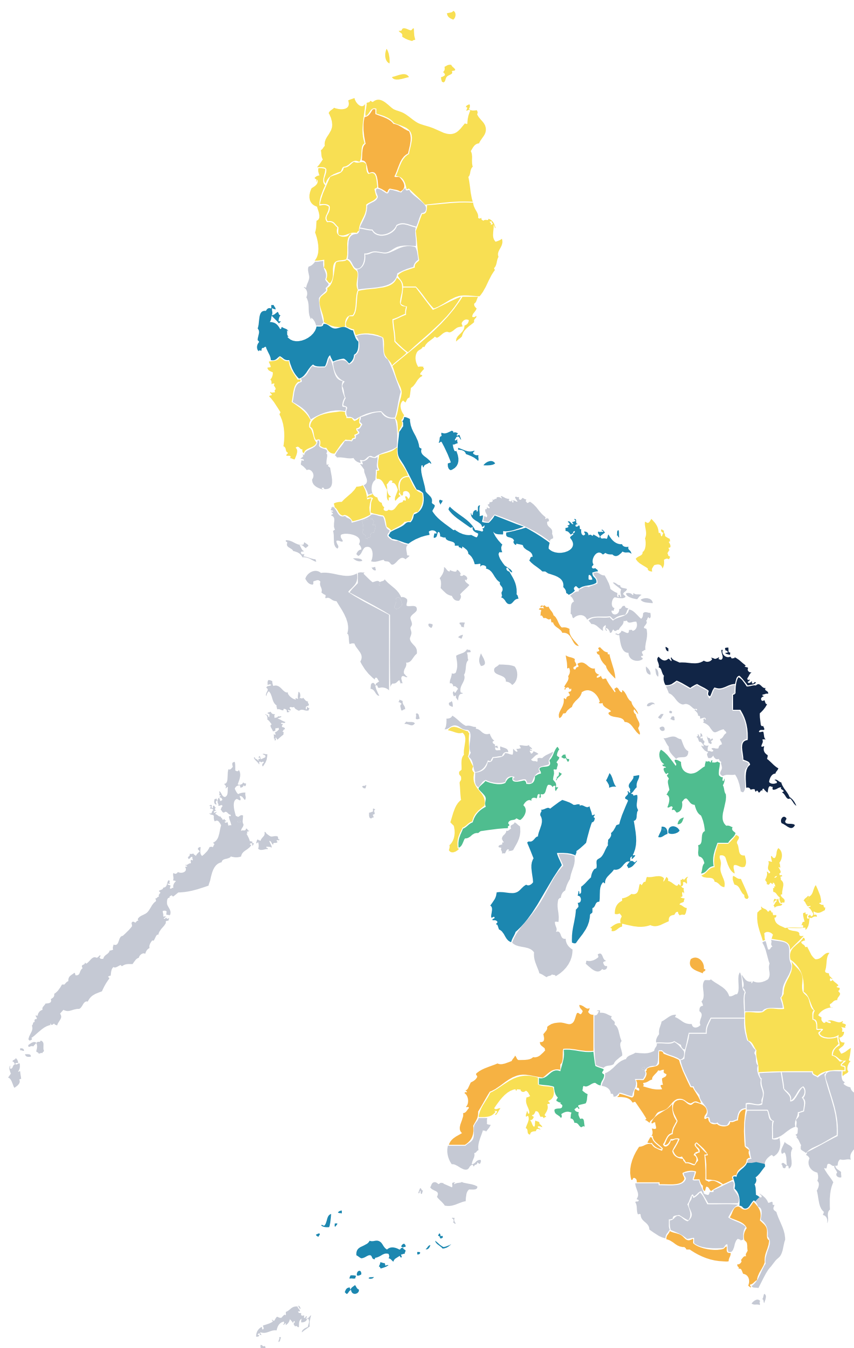
In all, these policy reforms to improve the prioritization of resources resulted in higher investments in priority sectors and programs *(see Figure 2)*, evidenced as well by the composition of the top 10 departments (*see Table 2*).

Table 2. **Top 10 Departments (2016): Increase in investments from 2010 to 2016**

Amount in Billion Pesos

Rank	Agency	2010	2011	2012	2013	2014	2015	2016
1	DepEd	173	206.3	238.8	293.4	309.5	377.7	437
2	DPWH	135.6	110.6	126.4	152.4	219.9	304.1	400.4
3	DND	57.8	104.7	108.1	123.1	123.2	154.1	175.2
4	DILG	66.5	88.1	99.8	121.8	136.1	147.2	154.5
5	DOH	29.3	33.3	45.8	59.9	90.8	102.6	128.5
6	DSWD	15.4	34.3	48.8	56.4	83.4	108.3	111
7	DA	41.2	35.2	61.4	75	80	90.2	94
8	DOTC	17.2	32.3	34.7	37.1	48.8	59.4	48.5
9	DENR	12.9	11.6	17.5	23.7	23.9	21.7	33.2
10	DOF	10.8	12.2	23.6	34.5	17.3	16.9	24.8

Figure 1. **Focus Geographic Areas (NBM No. 123)**



Provinces with High Poverty Magnitude. In these provinces, opportunities for growth may be present but the poor are unable to contribute to and experience growth. Listed under this cluster of FGAs are provinces with the biggest number of poor households as determined by the DSWD's National Household Targeting System in 2012: **Pangasinan, Quezon, Camarines Sur, Negros Occidental, Cebu, Zamboanga del Sur, Davao del Sur, and Sulu.**

Provinces with High Poverty Incidence. In contrast to the previous area, these provinces have lesser opportunities for growth as they generally have a small population, low density, and lie in remote areas. The list includes the poorest provinces based on poverty incidence based on 2012 data of the National Statistical Coordination Board[11]: **Apayao, Masbate, Zamboanga del Norte, Camiguin, North Cotabato, Sarangani, Lanao del Sur, and Maguindanao.**

Provinces with High Disaster Risk.* These are provinces where even non-poor families can easily slide into poverty, and the poor can slide deeper into poverty, when shocks (e.g., conflict and political instability) and disasters strike. These provinces include:

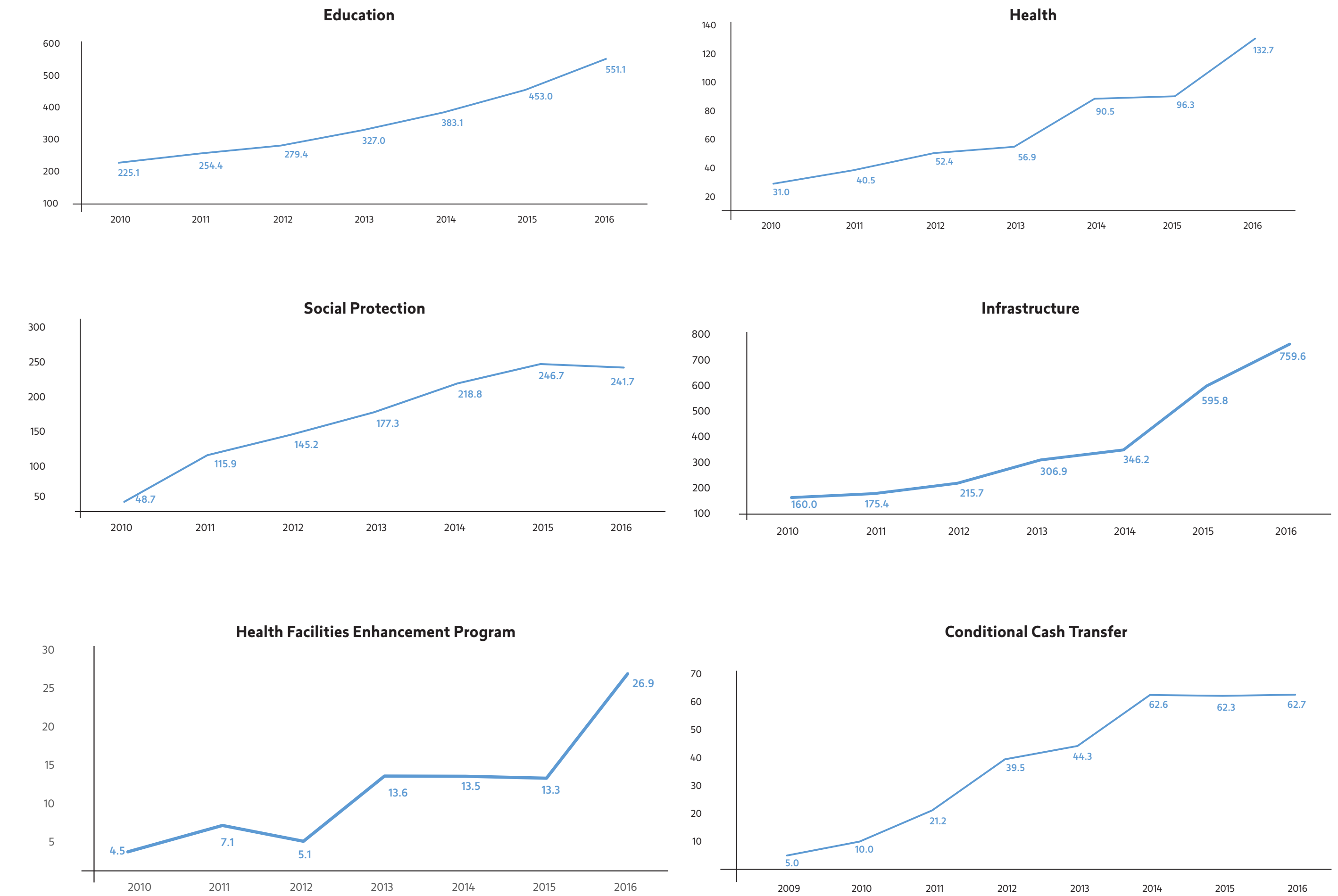
- **Ilocos Norte**
- **Ilocos Sur**
- **Abra**
- **Benguet**
- **Cagayan**
- **Quirino**
- **Isabela**
- **Nueva Vizcaya**
- **Zambales**
- **Pampanga**
- **Aurora**
- **Cavite**
- **Laguna**
- **Rizal**
- **Catanduanes**
- **Antique**
- **Iloilo**
- **Bohol**
- **Eastern Samar**
- **Leyte**
- **Northern Samar**
- **Southern Leyte**
- **Zamboanga del Sur**
- **Zamboanga Sibugay**
- **Dinagat Islands**
- **Agusan del Sur**
- **Surigao del Norte**
- **Surigao del Sur**
- **Albay**

Provinces with both High Poverty Magnitude and High Disaster Risk. These include **Iloilo, Leyte, and Zamboanga del Sur.**

Provinces with both High Poverty Incidence and High Disaster Risk. These include **Northern Samar and Eastern Samar.**

** DOST, DENR, and DSWD determined the 29 provinces under the cluster.*

Figure 2. **Budget for Select Key Sectors and Programs (in billions)**[12]



Source: Fiscal Statistics Handbook (1994-2013), BESF 2011, 2012, 2015, and 2016, GAA 2009, 2010, and 2016, and The President's Budget Messages for 2013 and 2014
Note: Figures for 2015 and 2016 are GAA-level and are rounded up.

Fostering unity for greater impact

To complement the new Cabinet Cluster system based on the KRAs in the Aquino Social Contract, the government introduced the Program Convergence Budgeting (PCB)[13] in 2012. This reform allowed the government to "center the budget on identified necessary programs, and more importantly, to ensure that key agencies participating in and contributing to the programs coordinate their targets and activities to facilitate program execution" (DBM, 2013b).

The PCB worked not only by mandating the government agencies to design their programs with the KRAs and the BPF in mind, but also to coordinate with other agencies within their respective Cabinet clusters and sub-clusters. Through this exercise, the agencies proposed programs and projects that are only within their ambit, and they were encouraged to seek the help of the other agencies to carry out non-customary functions and aspects of programs.

Program Convergence Budgeting Clusters and Sub-clusters (NBM No. 123)

- Tourism Development Program
- Infrastructure Development Program
- Basic Education for All
- Universal Health Program
- Small and Medium Enterprises Development Program
- Agriculture Development
- Disaster Risk Mitigation

The collaboration among DSWD, DepEd, DOH, and other agencies in implementing the 4Ps best exemplified the PCB. Since the program set conditions for families before they could avail of cash grants (e.g., school attendance, immunization for infants and pupils, check-ups for pregnant women), it necessitated the building of infrastructure that would enable beneficiaries to meet the "supply side" of such requirements, particularly the availability of public schools and basic health facilities.

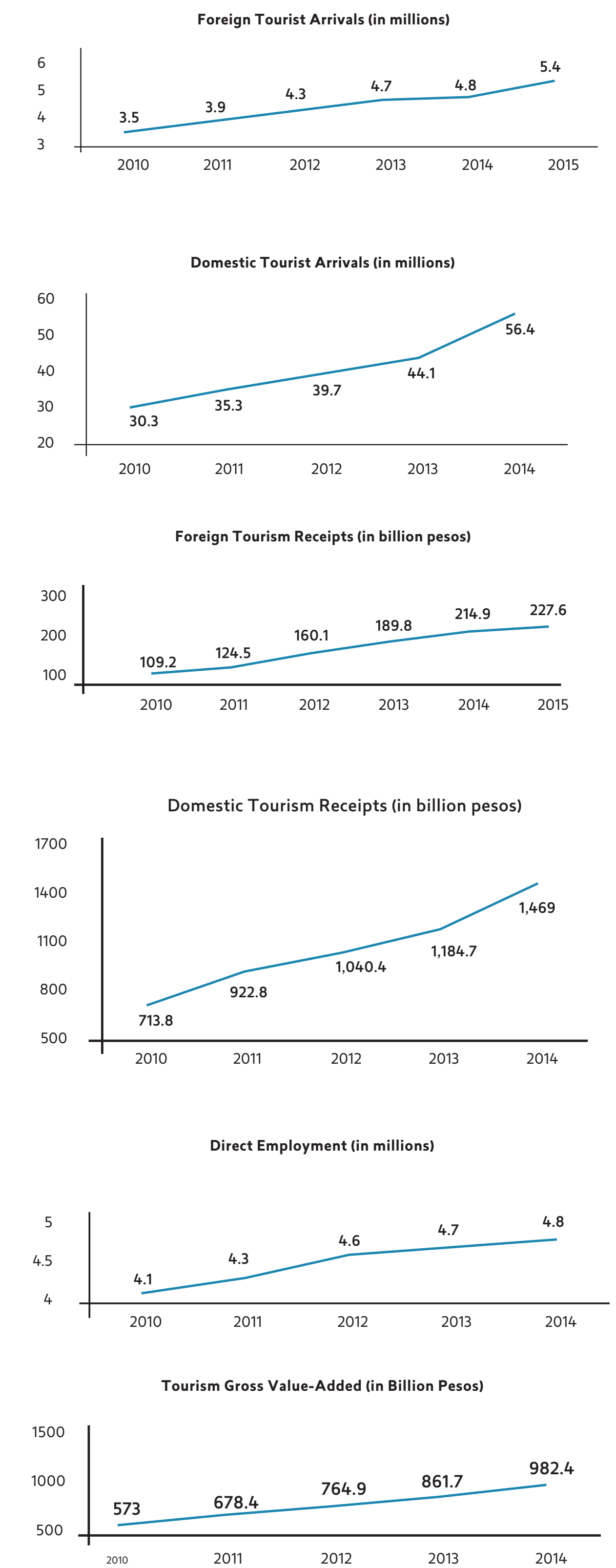
The Early Childhood Care and Development Program (ECCD), also called "First 1000 Days Program," likewise illustrated the PCB approach, as four agencies, DA, DOH, DepEd, and DSWD sought to provide a complete package for the development needs of children from conception to about two years old. The ECCD included immunization and nutrient supplementation of mothers and infants, and even livelihood opportunities for the parents.

The Tourism Development Program was another notable example of the PCB. In 2010, the Philippines ranked only sixth in the ASEAN region in attracting foreign tourists because of poor infrastructure, political instability, and security issues (NEDA, 2011). The Tourism Development Program, through the PCB, incorporated the collaboration of the agencies—those dealing with infrastructure, consular and immigration services, security, among others—through a singular strategy to improve market access and connectivity by means of infrastructure, the development of competitive destinations and products, and strengthening human resources and the culture of convergence and excellence (DBM, 2013a).[14] As a result, the country attracted more foreign as well as domestic tourists, making tourism significantly contribute to the economy than in previous years *(see Figure 3)*.

Meanwhile, the rollout of Senior High School in 2016 allowed for collaboration among the DepEd, the Commission on Higher Education, and the Department of Labor and Employment, especially in resolving one major challenge surrounding K to 12. According to Cecilia Narido, a division chief of the BMB for Human Development Sector (HDS), "the SHS will significantly reduce the number of enrollees in college and universities in the next five years, and hence may bear adverse consequences on the employment of teaching and non-teaching personnel."

Armed with the belief that no teaching and non-teaching professionals should be displaced due to K to 12, DBM

Figure 3. **Achievements of the TDP**



Source: SONA Technical Report 2015, Official Gazette

through the BMB-HDS and the collaborating agencies identified steps in mitigating the displacement problem. As Narido explained, DepEd would prioritize displaced professors, instructors, and staff of higher education institutions (HEI) through its "green lane scheme." The CHED would offer scholarships and development grants as another option for colleges and universities and their teaching personnel who would have to wait for the first batch of graduates in Senior High. The DOLE would carry out adjustment measures for the displaced staff in the HEIs.

Consolidating Budget Preparation Reforms

The DBM introduced the Two-Tier Budgeting Approach (2TBA) in formulating the 2016 Proposed Budget. The 2TBA streamlines the budget process by separating the discussion and deliberations of the requirements of ongoing policies with the new spending proposals. This approach "enabled us to free up more resources for our people's most urgent priorities over the medium-term (Aquino, 2015)."

The first tier of the 2TBA involved the determination of forward estimates (FEs) based on the fixed expenses and disbursement performance of the agencies in the last two fiscal years. Two main decision points were generally considered at the first tier of the 2TBA: the amount an agency needs to operate daily or continue a program given macroeconomic factors, such as inflation; and the manner by which the agency spent its budget and delivered on its targets in the past (DBM, 2015).

The government rigorously reviewed the targets and requirements of ongoing programs and projects and consequently managed to expand the fiscal space *(see Table 3)* as a result of the reforms that curbed unnecessary expenditures; and improved the costing of FEs to realistically predict overhead expenditures (e.g., salaries and utilities) and ongoing programs (e.g., road maintenance and 4Ps).

Table 3. **Growth of the Fiscal Space 2006-2016**[15]

Year	Total Budget	Forward Estimates	Fiscal Space	Fiscal Space as % of Total Budget
2006	1,053.3	1,064.4	-11.1	-1.10%
2007	1,126.1	1,092.2	33.9	3%
2008	1,226.7	1,088.2	138.5	11.3%
2009	1,415.0	1,354.8	60.2	4.3%
2010	1,541.6	1,497.9	42.7	2.8%
2011	1,645.0	1,632.2	12.8	0.8%
2012	1,816.0	1,644.2	171.8	9.5%
2013	2,006.0	1,847.1	158.9	7.9%
2014	2,268.0	2,104.8	163.2	7.2%
2015	2,606.0	2,318.7	287.3	11.0%
2016	3,001.8	2,419.1	582.7	19.4%

In the second tier, the fiscal space was used strictly for new programs and projects as well as the expansion of existing ones that foster inclusive development. For new expenditures to be approved, they should not only be aligned with the BPF but also be designed well: ready for implementation (e.g., with established program and project specifications, with specific activities and projects already identified) and have built-in monitoring and evaluation mechanisms in order to track performance against targets. By separately deliberating on continuing and new expenditures, and by using the FEs as "hard" ceilings, adequate time was given in evaluating proposals for new or expanded programs. In the case of proposals to expand existing programs, DBM budget analysts were given time to pore over the ZBB studies and the COA reports to assess the efficiency and sustainability of the development programs.

To illustrate further, DBM's budget analysts saw the value of DSWD's proposal to shift from the voucher system to an electronic money transfer system, which was contained in its "Tier 2" proposal to expand the 4Ps. The shift would cost P227 million for debit cards and P81 million to pay the Land Bank of the Philippines for service charges. The budget analysts found these costs miniscule relative to the billions of pesos worth of cash grants, while other expenses to install the electronic transfer system were found to be more favorable than the losses being incurred due to leakages in the existing system. In this example, the second tier of the 2TBA enabled the budget analysts to pore over the ZBB studies as well as the COA's audit reports and relevant assessments from other sources such as NEDA, The World Bank, and the Human Development Network more extensively than before in order to assess the efficiency and sustainability of proposals to expand existing programs.

The 2TBA consolidated and deepened the reforms that strategically link planning and budgeting. These reforms soldiered on the new tradition of rigorously examining programs that were established through the ZBB, the BPF, and the PCB. This reform also motivated the full adoption of the global standard of crafting three-year FEs at the program level. The 2TBA also hinged on the discipline introduced by the BPF and similar reforms in aligning expenditures with the overall development plan as well as in facilitating collaboration across the agencies.

> "On the overall, the two-tier approach makes budget preparation more strategic. It likewise strengthens fiscal discipline."
>
> **Undersecretary Laura B. Pascua**
> **DBM BUDGET POLICY AND STRATEGY GROUP**

CHALLENGES AND MOVING FORWARD

Strengthening the Ties that Bind Planning and Budgeting

The draft 2016 PEFA assessment on the Philippines recognized the many improvements that reflect the country's social and economic policy in the annual Budget. For one, it cited the government's rigor in scrutinizing and selecting public investments. Moreover, all five indicators of the draft PEFA assessment on the country's Policy-Based Fiscal Strategy and Budgeting have also been scored above-satisfactory due to, among others, the issuance of the BPF, the implementation of the PCB, the improved crafting of FEs, and the recent introduction of TRIP *(see Table 4)*. Compared to the 2010 results, the draft 2016 PEFA showed improvements in all indicators on Policy-Based Budgeting *(see Table 5)*.

The reforms on resource allocation enabled the government to significantly increase investments that reduce poverty, sustain the growth momentum, and protect the least advantaged from climate and security risks. However, achieving further success requires greater attention on further instilling the need for the agencies to align their budgets with the PDP. The quality of the Proposed Budget depends on the quality of financial and physical information that the agencies feed into the process. Their weak ability to translate plans and budgets into well-designed programs and projects is another challenge that cuts across other reform areas, particularly budget execution and performance management. Hence, the most pronounced gap is the weak technical capability of the agencies to tailor-fit the design of their programs to their respective mandates and the medium-term goals of the sectors. Other gaps must likewise be addressed: the lack of a permanent law that mandates disciplined resource allocation; the need to make ICT systems for budget formulation more responsive; and getting the agreement and acceptance of both the implementing agencies and Congress for such reforms.

Table 4. **The Philippines' Performance in the 2016 PEFA**
Indicators on Public Investment Management and Policy-Based Budgeting

	2016	Performance Highlights
Management of Assets and Liabilities P1-11. Public Investment Management	B+	Strong scrutiny of investment proposals, project selection, costing, and monitoring and evaluation
Policy-Based Fiscal Strategy & Budgeting P1-14. Macroeconomic and fiscal forecasting	A	Medium term macroeconomic and fiscal forecasting, and analysis of budget sensitivity
P1-15. FIscal Strategy	B	Impact of proposed revenue and expenditure proposals presented and discussed in the Budget
P1-16. Medium-term perspective in expenditure budgeting	B	Budgets prepared based on three-year rolling estimates, budget ceilings, and alignment with PDP
P1-17. Budget preparation process	A	Clear calendar and guidelines for budget preparation, and timely submission of proposed Budget
P1-18. Legislative scrutiny of budgets	B+	Establish process for Budget scrutiny, timely enactment, and clear rules for in-year adjustments

Source: 2016 PEFA Assessment (draft as of May 25, 2016)

Table 5. **The Philippines' Performance in the 2016 PEFA – Policy-Based Budgeting**
Using old methodology to compare 2010 vs. 2016 Performance

	2010	2016	Performance Highlights
Total Number of A or B Scores: • Per Indicator • Per Dimension	 1/2 2/7	 2/2 7/7	
P1-11. Orderliness and participation in the annual budget process	B	A	All dimensions improved: enough time for agencies to prepare budgets; clear and comprehensive NBMs; and timely enactment of the Budget
P1-12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D+	B+	All dimensions improved: MTEFs prepared, fiscal risks reported, stronger link between sector strategies and expenditures, and stonger prioritization of investments

Source: 2016 PEFA Assessment (draft as of May 25, 2016)

The future of program assessment

There is a great value in building on the discipline ZBB introduced in rigorously scrutinizing the effectiveness of programs. Director Mercedes P. Navarro of the Planning and Management Service said the ZBB reinforces the MTEF as a process for the regular review of the requirements and performance of ongoing programs, especially as their assumptions change over time. "However, the challenge really is to secure the buy-in from Congress and the agencies to ensure that the valid and evidence-based findings of ZBB are considered in the decision-making process."

Director Mary Anne Dela Vega of the BMB for Food Security, Ecological Protection, and Climate Change Management Sector believes the challenge lies in safeguarding the integrity of evaluation done not only through the ZBB but also through the initiative of DBM's budget analysts. "Sometimes, despite offering what the technical staff hoped are the most suitable interventions based on indicators like disbursement performance and socio-geographical targeting, these were not considered during legislation." After all, Director dela Vega added, "legislators still have the power to change the composition of the Budget, at the expense of reverting to the same old way of allocating funds." Such practices, she believes, have to end.

To ensure that actual performance feeds into the process of resource allocation, the ZBB should evolve into a regular process of reviewing programs and be incorporated into a broader monitoring and evaluation policy framework that, among others, seeks to strengthen the capacity of both the implementing and the oversight agencies to monitor and evaluate the impact of expenditures (see Linking Budgeting and Results). The DBM is headed in this direction after the Fiscal Planning and Reforms Bureau turns over the management of the ZBB to the newly formed Performance Management and Evaluation Bureau.

A reinforced BPF: Ensuring investments reach the margins

While the BPF has so far enabled the government to weave the PDP into the annual process of budget preparation, key gaps between planning and budgeting remain. The lack of "resource constraint" of the PDP must be addressed by strengthening the appraisal of investments and the medium-term costing of capital projects. The preparation of the 2016 Budget started to move in this direction by integrating a program appraisal process called the DBCC Sub-Committee on Program and Project Appraisal (SCPPA). Moreover, the NEDA revived the process of crafting the Three-Year Rolling Infrastructure Program (TRIP) for the formulation of the 2017 Proposed Budget. This process aims to synchronize the government's infrastructure planning and resource allocation processes: doing so would provide a list of priority infrastructure projects for the medium-term based on the goals set by the Philippine Investment Plan (PIP), as well as avoid confusion caused by the annual updating of the PIP.

Deepening the agreement and acceptance of the Cabinet and the agencies of the BPF could further enhance this framework. The original intention to make the BPF a binding document for the Cabinet, based on its consensus on which programs should be prioritized, must be pursued. Otherwise, the old practice of the agencies—each one lobbying for increments in its budget, whether or not their programs are included in the priorities—will negate the very purpose of the BPF. The proposed Public Financial Accountability Act will require the Cabinet's approval of the BPF. Moreover, to ensure that the spatial focus is reflected in the Budget, the costing of programs and projects at the provincial level and eventually down to cities, municipalities, and even barangays must be improved. Without the precise local tagging of expenditures, the analysis of how budget proposals actually meet the needs of identified focus geographic areas will continue to be difficult, if not impossible.

Addressing these gaps ultimately hinges on the ability of the agencies, which varies greatly, to plan, design and cost programs and projects. The DPWH, for instance, has an established Highway Development Management System (HDM-4): an ICT-based monitoring tool that guides the agency in long-term planning and in determining its funding levels. Most other agencies, however, lack such an integrated planning, budgeting, and monitoring system: in some agencies, planning and budgeting officers do not coordinate with one another. The NEDA and DBM could help address these issues by equipping planning officers in the agencies with the right planning and budgeting tools.

Similarly, the fruitful experience in implementing the PCB in key programs should be leveraged to improve collaboration in other sectors. An urgent starting point is the housing sector, which has been beset by fragmentation and overlapping agency mandates resulting in slow spending and underperformance. Moreover, the government should seriously look into the interlocking Cabinet-level mechanisms—the NEDA Board and Committees in relation to the Cabinet Clusters—in order to streamline coordination mechanisms and increase the impact of programs.

Weaving the 2TBA into the Budget Preparation Process

As a consolidator reform, the 2TBA centers on instilling discipline in resource allocation, predictability of the process, and collaboration among oversight agencies. However, key issues constrain its effectiveness. The quality of FEs still needs to be improved and the ability of the agencies to formulate these should be strengthened, with the aid of technology. Process-wise, the roles of the oversight agencies in assessing proposals—NEDA and DBM, for instance, in the SCPPA stage of evaluating new and expanded programs and projects—should be clarified given the limited time for budget preparation. Nevertheless, the 2TBA has served as an effective starting point: not only in attempting to integrate the NEDA into the process better, but also in providing DBM's budget analysts a fresh perspective on the appraisal and evaluation of proposals. The proposed Public Financial Accountability Act not only provides the permanent legal mandate for the 2TBA but also scales it up by requiring the Cabinet, through the DBCC, to formulate a Medium-Term Fiscal Strategy for the duration of an administration. This fiscal strategy document will also serve as basis for fiscal reporting to Congress.

> "Ultimately, we will need to support the agencies in building their capacity to plan and evaluate programs, and project their future costs based on those. Technology could also help automate the process of formulating accurate forecasts of overhead costs."
>
> **Assistant Secretary Tina Rose Marie L. Canda**
> DBM BUDGET PREPARATION AND EXECUTION GROUP

Another factor to consider is the robustness of the ICT-based systems. In 2013, DBM introduced the Online Submission for Budget Proposals System (OSBPS), a web-based tool through which the line agencies encode and electronically submit their budget proposals to DBM. This tool should reduce the time and effort that DBM analysts spend to encode the agencies' budget proposals. However, usability and bandwidth issues on the OSBPS, coupled by the weak capacity of the agencies' budget officers to use the system, have compromised its objective to streamline the process of processing budget proposals. For FY 2016 budget preparation, about 64 percent of the submissions of the agencies were still in Microsoft Excel files. Likewise, it had not been uncommon for agencies' budget officers to "submit their proposals on-site since they either had to grapple with poor internet connectivity or needed technical support from DBM personnel in navigating the system," according to Nanette Cabral, a division chief of the BMB-HDS. The frequent changes in policies and procedures on budget preparation, as well as in the COA rulings, also entailed the hasty updating of the OSBPS: this did not only lead to confusion among the budget analysts but also deprived DBM of sufficient time to handhold agencies in using the OSBPS *(see Integrated PFM System)*.

Assistant Director Grace delos Santos of the BMB for Economic Development Sector hopes that by 2017, the OSBPS will be rid of its glitches and bugs. However, she believes the success of reforms require not only adequate technical expertise and sophisticated technology, but also the cooperation of the bureaucracy. "The perennial challenge is behavioral rather than technical. There remains the tendency for agencies to procrastinate and delay the submission of their reports and proposals. This culture has to change," she said.

NOTES

[1] These reforms are part of the Public Expenditure Management (PEM) program introduced in the late 1990s.

[2] Blondal (2010) noted that the MTEF was re-introduced in 2006 after an unsuccessful attempt to introduce it in 1999.

[3] For Economic Services from 2010-2013, the figures are based on the Actual Obligation Level. Data for 2014 is based on BESF 2015 Table B.8. For 2015-2016, as per BESF 2016 Table B.8, unpublished GAA data.

For Social Services for 2014, as per BESF 2015 Table B.8. For 2016, as per BESF 2016 Table B.8, unpublished data.

[4] It was former Budget Minister Jaime Laya who first introduced the concept of "zero-base budgeting" during the Marcos administration, which entailed the review of agency proposals "on the basis of their own merits and not on the basis of a given percentage or peso increase or decrease from a prior year's level, a given percentage of the aggregate budget, or a similar rule of thumb that is not based on specific justifications (Laya, 1979)."The DBM under the Aquino administration took a different approach in implementing ZBB: instead of starting entirely from scratch every budget preparation season, DBM still considered ongoing programs that were expected to continue in the following years. This gave funding predictability to agencies for their ongoing programs and enabled DBM to focus on funding new or expanded projects (Abad and Capistrano, 2013) as well as focusing the ZBB reviews on crucial or problematic programs.

[5] Inputs for this paragraph are from Dir. Mary Anne dela Vega of the Budget Management Bureau (BMB) for the Food Security, Ecological Protection, and Climate Change Sectors (FSEPCC)

[6] National Budget Memorandum (NBM) No. 112, issued on December 29, 2011.

[7] Issued by DBM, in consultation with the DBCC, as NBM No. 119 on December 27, 2013.

[8] Based on NBM No. 123, the BPF Budget Call for the 2016 Budget, issued on January 28, 2015.

[9] NBM No. 120, issued on January 6, 2014. NBM No. 119, the BPF for 2013, also included a geographic dimension to the budget prioritization by identifying tourism zones (i.e., areas with high potential) and coconut and fishery areas (i.e., those huge numbers of poor farmers and fisherfolk).

[10] The identification of these priority provinces is based on the PDP Midterm Update (2013), using data from official poverty statistics as well as disaster risk mapping by the DSWD, the Department of Science and Technology, and the Department of Environment and Natural Resources.

[11] Now the Philippine Statistics Authority, as per RA 10625 dated July 23, 2012.

[12] For Infrastructure Budget from 2010-2014, figures are based on their Actual Level, from 2015-2016, figures are based on their GAA Level. Actual Level for 2015 is not yet available as of publication, as it will be revised within 2016.

[13] When it was first introduced, it was called "Program Budgeting Approach." The DBM subsequently changed the name of the reform as "program budgeting," defined by international best practices, connotes a different approach where appropriations are assigned for major programs and not "line item" activities and projects *(see Linking Budgeting and Results).*

[14] The Department of Tourism led the Program, together with: Finance (customs services), Foreign Affairs (consular and diplomatic services), Agriculture and Health (quarantine services), Public Works and Highways (access roads), Transportation and Communications (airports and seaports), Labor and Employment (human resource development), and the Interior and Local Government (security);

[15] Amounts for 2006-2015 pertain to GAA Levels while for 2016 to the proposed budget level.

INSIGHT FROM A DBM JUNIOR LEADER

2TBA: Curing the Health Budget

By Mary Grace G. Darunday[1]

"What you do today can improve all your tomorrows," according to Ralph Marston[2]. The Department of Health (DOH) seemed to have adopted this motto in implementing the 2TBA in preparing its 2016 budget.

The textbook definition of the 2TBA tells us that it is a budgeting approach used in the Budget Preparation Phase. It provides separate discussions and deliberations between ongoing programs or projects and entirely new spending measures and proposals as well as the expansion of the existing ones.

When the 2TBA was first used in crafting the DOH's budget, we were constrained to use the DOH's actual obligation in 2014 as the baseline budget. At 64 percent, the agency's obligation for the year was indicative of "low absorptive capacity," with unmet targets and therefore heavily affecting its beneficiaries. One particular program that the agency had been struggling to implement was the Health Facilities Enhancement Program (HFEP).

The HFEP aims to upgrade the health facilities all over the country in order to address their inaccessibility especially in the barangays. Since the program's implementation, the DOH had been using a needs-based approach, in which the LGUs and their legislative counterparts requested projects to be funded under the program. The DOH was challenged in this particular case because the agency lacked information on the actual needs of the LGUs. The lack of a master plan and a way to monitor the status of the projects contributed to the challenge. As a result, many of the projects were not finished, while some were finished but did not have the personnel complement—no nurses or midwives to look over the patients—and some had no equipment to use.

Accordingly, the DBM Secretary instructed our regional offices to inspect the health facilities in their areas and report their findings to the DBM Central Office. The DOH also conducted a nationwide assessment of the HFEP projects to identify the bottlenecks of the program. The results of the inspection only validated the poor planning and implementation of the program. The DOH was then obliged to look for gaps and bottlenecks in their processes that contribute to poor planning and implementation.

The DOH, together with the other agencies, created a Full-Time Delivery Unit (FDU). Headed by the DOH Secretary, the FDU and its DBM counterpart, was tasked to monitor the projects, through releases, obligations, and disbursements and report on a monthly basis the status of project implementation, including its bottlenecks and issues. The DOH committed then that they would address the issues that concerned its absorptive capacity, and likewise created a catch-up plan, which we as the DBM counterparts monitored closely.

The DOH since then has improved their financial and physical performance. For one, in 2015, the DOH's absorptive capacity rose to 87 percent and most of the health indicator targets were being met.

I can now confidently say that the DOH is ready to apply the 2TBA for the 2017 budget preparation. In fact, the DOH already has a roadmap of the HFEP, in which the health agency determined the actual needs of the LGUs and up to the barangay level.

[1] *As of this publication, Darunday is a Senior Budget and Management Specialist of the Budget and Management Bureau for the Human Development Sector*

[2] *A professional football player in the 1920s, and before his death in 1967 wrote The Daily Motivator, a book on positive motivation and inspiration.*

HOW EACH PESO MEETS OUR DEVELOPMENT GOALS

The Budget is the government's blueprint for progress. While striving to craft a Budget based on the country's development goals, the government was able to make the best use of its resources and push agencies to work together in achieving shared outcomes. The Two-Tier Budgeting Approach (2TBA), launched in 2015, combined several reforms into a single process that closed gaps between planning and budgeting.

Two-Tier Budgeting

2TBA weaves together the planning and budgeting processes of the government. The result: a Budget that ensures all the taxpayer's money only goes to carefully planned projects that deliver tangible results for everyone.

Under **Tier 1**, DBM assesses agencies based on their operating needs, the cost of running existing programs and projects, and their ability to use up their budget and deliver on their targets. This step ensures that agencies get only the budget that they need and can spend.

Tier 2 involves assessing agencies' proposals for new projects or expand existing ones. Agencies should be able to convince DBM that their projects are implementable, have direct and measurable impact on the citizens, and are in line with the government's agenda for inclusive development.

Forward Estimates

Budget preparation starts after the government determines its budget ceiling, the amount it can spend in the following year based on factors like projected growth, revenue targets, and deficit path. Based on the agencies' needs and spending performance, the government draws up a three-year forecast of overhead expenses[1] and budgets for their ongoing programs and projects. This practice forces agencies to prepare their budgets within a set amount.

[1]*Overhead expenses include the cost of daily operations, such as salaries and benefits of government officials, and utilities, such as electricity and rent to keep offices running.*

Program Convergence Budgeting

When agencies work as one to meet common objectives instead of competing for budgets, the government works more efficiently. Program Convergence Budgeting reinforces the government's push for a more prudent and targeted spending by fostering collaboration among agencies both in designing new programs and projects and implementing them.

The Tourism Development Program is an example of Program Convergence Budgeting. The program brings together agencies to tap the tourism sector's potential to attract more tourists and bring in bigger revenues, a major driver of economic growth, by constructing access roads to tourist destinations (Department of Public Works and Highways), repairing and building air and seaports (Department of Transportation and Communications), ensuring tourism safety (Philippine National Police), and fast-tracking consular services (Department of Foreign Affairs).

Budget Priorities Framework

The government guides agencies in designing programs and projects based on the Philippine Development Plan and the five priority areas of the Aquino administration: good governance, social protection, economic expansion, just and lasting peace, and disaster risk reduction. Furthermore, they are guided to ensure that their programs serve the poorest and most disaster-prone provinces.

Zero-Based Budgeting

Another strategy to enforce prudent spending involves the impact evaluation of certain existing programs and projects. Using state audits and impact assessment studies, Zero-Based Budgeting removed or scaled down the funding for programs that were inefficient and fraught with leakages. Funds taken out from non-performing programs were then used to fund the more effective ones.