LINKING BUDGETING AND RESULTS

Making Every Peso Count Through Measurable Performance

IN A NUTSHELL

- Governments should structure their Budgets and set up mechanisms to link expenditures with the agencies' performance commitments and their actual results.

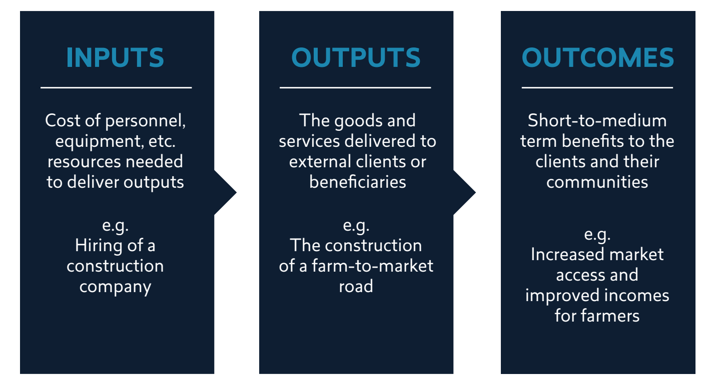
- *In the past*, the government introduced the Organizational Performance Indicator Framework (OPIF), but this major reform was constrained by:
  - The fragmentation of performance management in government
  - The quality of performance indicators and targets
  - The performance targets presented in a separate document
  - The limited coverage of indicators due to the structure of the Budget

- *Since 2010*, the government scaled up OPIF and made the link between budgeting and results clearer:
  - Established the government-wide Results-Based Performance Management System, (RBPMS) using the OPIF as a core framework
  - Improved the quality of performance indicators and targets and established the National Evaluation Policy Framework
  - Included the performance indicators—both outcomes and outputs—in the Budget itself through the Performance-Informed Budget (PIB)
  - Began the restructuring of the "line item" budgets of the agencies according to Programs through the Program Expenditure Classification (PREXC)

- *Moving forward*, the government should address key challenges to establishing an honest-to-goodness performance budgeting system:
  - Sustain the cohesion of the various oversight agencies
  - Further improve the quality and integrity of performance indicators
  - Close the accountability loop by strengthening the evaluation and reporting of the agencies' actual performance against their targets
  - Complete the PREXC implementation and secure the buy-in of Congress

A government must utilize its scarce resources to deliver services to its citizens at the most reasonable cost and with measurable results. As such, governments "must create an institutional framework that enhances the probability that actual outcomes will conform to professed targets (Schick, 1998)." As discussed in a previous chapter, the annual Budget must be linked to the medium-term PDP so that limited resources are allocated and spent on programs that achieve the desired social and economic results or outcomes (*see Linking Planning and Budgeting*). As the government invests in the right priorities, each of its implementing agencies must produce the goods and services—or outputs—at the right cost and quality, and in line with their mandates. The agencies must efficiently deploy the various inputs needed—personnel, equipment, and other resources—to deliver the output (*see Figure 1*).

Figure 1. **From Inputs to Outputs to Outcomes**



Among the PFM reforms implemented in various countries is performance budgeting: where budget management shifts from controlling inputs and ensuring financial compliance, to a greater emphasis on outputs and outcomes. Such reforms involve the reclassification of spending according to strategic objectives, as well as changes in the processes of allocating resources and accounting for resource flows to ensure their link with performance objectives (Andrews et al., 2014). Schick (2014) states that the contemporary concept of performance budgeting is generally defined by two models. The first, performance-driven budgeting, assert that allocations are firmly based on formulas that are hinged on actual or expected results. In contrast, performance-informed budgeting views that a more optimal approach is to inform Budgets by including relevant data on results being achieved. "[I]t is now widely understood that government cannot budget for results unless they manage for results (Schick, 2014)." As such, performance budgeting has increasingly been viewed as a subset of performance management, and it has thus been expanded outside the process of budget formulation and even outside the PFM process itself.[1] These extensions or offshoots include initiatives that reduce ineffective or unnecessary spending, improve the monitoring and evaluation of programs and overall socioeconomic performance, hold political leaders and public managers accountable for policy and spending decisions, and empower citizens in making those decisions.

SITUATION BEFORE 2010

Scarce Resources Wasted on Ineffective Programs

> "Previously, the National Expenditure program and the GAA were simply composed of numbers and line items without clearly explaining where exactly the funds were going."
>
> **Undersecretary Laura B. Pascua**
> DBM BUDGET POLICY AND STRATEGY GROUP

As early as the Third Republic, Philippine policies expressed the principle that spending must lead to measurable results.[2] However, budgeting practices had traditionally been focused on inputs rather than outputs or outcomes.

In the process of formulating the annual Budget, the agencies' proposals had been focused on the cost of personnel, equipment, and other inputs they needed in implementing their programs. Funding decisions had been based mostly on their requirements for such inputs, not on how much and how well they should deliver goods and services (DBM 2012). Moreover, the agencies' budgets usually just "increased incrementally with little consideration of program duplication or overlaps, changes in agency mandates, or the impact of agency activities on attaining sector and societal outcomes (DBM 2012)."

Moreover, the form and structure of the Budget itself did not show a clear link between the appropriations of each agency and their contributions in meeting the agency's objectives.[3]

The GAA has two contrasting features: "line items" in the budget, or specific appropriations for programs, activities, and projects (P/A/Ps);[4] and lump-sum funds under the agencies' budgets and Special Purpose Funds (SPFs). This manner of presentation makes it difficult to assess an agency's performance—more so, how they contribute to attaining the country's development goals.

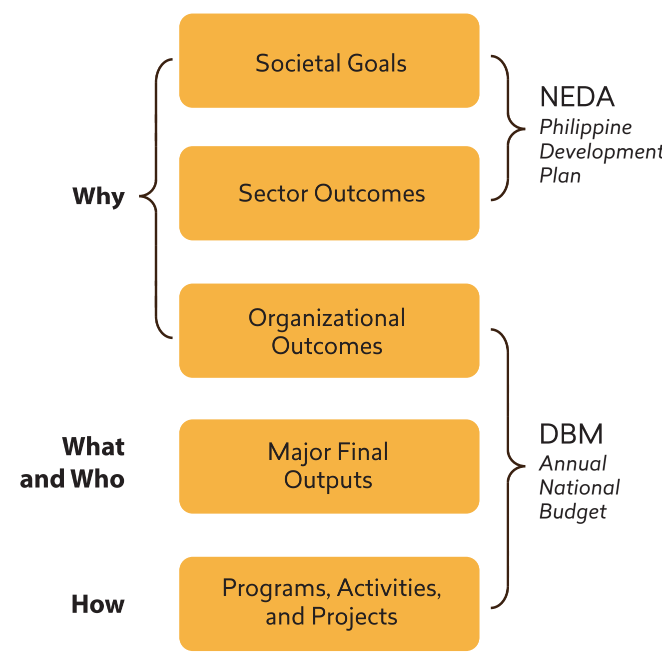
At the turn of the 21st century, the government attempted to link expenditures with their desired results through the Organizational Performance Indicator Framework (OPIF).

A pillar of the PEM Improvement Program, the OPIF sought to shift the focus of budgeting from inputs to outputs. Through this framework, the agencies focused resources on their mandates and core functions and on their respective P/A/Ps that would yield the most benefits. It also sought to enable the government to account for and report outputs delivered through the implementation of these P/A/Ps. Though supported by technical assistance,[5] the OPIF was "homegrown and indigenized (DBM, 2011)." The OPIF was developed by DBM in coordination with other oversight agencies, such as NEDA.

> "The OPIF opened the gate for performance-based budgeting. It became the avenue for agencies to better understand and appreciate their mandate."
>
> **Dir Mary Anne Z. Dela Vega**
> DBM BUDGET & MANAGEMENT BUREAU FOR FOOD SECURITY, ECOLOGICAL PROTECTION, AND CLIMATE CHANGE MANAGEMENT

A key feature of the system was the OPIF Logical Framework (LogFrame): a management tool that "tells a performance story of why, what, and how a department or agency delivers goods and services to its external clients (DBM, 2011)." The "why" pertained to the goals that an agency contributes to achieving, expressed through its organizational outcomes[6] as well as the sector outcomes[7] and the societal goals[8] articulated in the PDP. The "what" and "who" pertained to an agency's Major Final Outputs (MFOs); and the "how" referred to the P/A/Ps of the agency (*see Figure 2*). The OPIF LogFrame guided DBM and the agencies in identifying spending priorities according to those that were most "linked" to their MFOs.

Figure 2. **OPIF Logical Framework**



Source: OPIF Reference Guide (2012). Department of Budget and Management

The introduction of the OPIF took about a decade and spanned the two previous administrations as it entailed a major shift in the government's budgeting paradigm: from the fixation on the inputs to a focus on the outputs. After taking an early form in 1998,[9] the OPIF was first formally introduced during the formulation of the Budget for FY 2000,[10] although its full-scale use took a back seat to addressing the fiscal crisis at that time (*see Fiscal Management*). The OPIF was revived in the budget preparation process through the 2005 Budget Call.[11] However, it was not until the 2007 budget preparation that the OPIF was "mainstreamed" in budget formulation: through the publication and release of the *OPIF Book of Outputs*,[12] which presented the LogFrames, MFO-based budgets, and performance indicators and targets of 20 pilot agencies.[13] The OPIF was subsequently expanded to include national government agencies, including the 112 State Universities and Colleges, in preparing the FY 2009 Budget (Oliveros, 2009).

While the OPIF was a major paradigm shift in budget management, it was implemented inadequately and was bogged down by several issues.

Fragmentation of Performance Management Systems

As discussed earlier in this chapter, it is important to view performance budgeting not as a stand-alone system, but one that should be interwoven with the overall performance management system of a government. Thus, the OPIF attempted to connect the various levels of performance management in the government: from the agency level, which are under the responsibility of DBM through the Budget; to the sectoral and societal levels, which are expressed in the PDP (previously called the MTPDP) and are overseen by NEDA (*see Figure 2*).

However, the roll out of the OPIF in the past decade was limited to the assignment of performance indicators at the level of agencies' MFOs. The organizational outcomes did not have corresponding performance indicators and targets. Moreover, while the MTPDP articulated the country's various development goals, it did not have a clear-cut presentation of the information for the higher levels of performance. These gaps made it difficult for policymakers and citizens alike to relate the MFOs to the goals stated in the MTPDP.

Quality of Performance Information

The OPIF highlighted the identification of the agencies' MFOs based on their mandates and their Performance Indicators with corresponding targets.[14] The MFOs represent the goods and services that the agencies provide to external clients. The MFOs are then quantified by using Performance Information, which measures the agency's performance in delivering outputs in terms of quantity[15] (e.g., volume of applications processed by a frontline service agency), quality[16] (e.g., satisfaction of citizens who filed the applications), timeliness[17] (e.g., how fast the applications were processed), and cost[18] (e.g., the amount of inputs entailed to process applications).

Through these features, the OPIF sought to enable the agencies to report their performance in delivering outputs; and the President, Congress, and the people to hold the agencies accountable for producing their respective outputs. However, the agencies' MFO-based performance information and targets were not yet crafted well at that time. For instance, these did not yet fully reflect the outputs of the agencies as some of the performance indicators were still based on inputs (e.g. ,"no. of phone calls" in certain agencies).

A more problematic issue had been the manner by which the government and individual agencies measured actual MFO performance against their targets—that is, if monitoring and evaluation mechanisms were present in the first place. In the OPIF's progeny, DBM had attempted to focus its mid-year Agency Performance Review (APR) on the agencies' physical performance. The APR, however, had remained focused on the agencies' utilization of their budgets to decide whether their remaining funds for the year should be released: a fixation that had been motivated by chronic shortfalls in revenue collections and the supply of cash.

The OPIF Book Separate from the Budget

In 2006, DBM first released the OPIF Book of Outputs. As an additional supporting document to the Proposed Budget for 2007, which was also submitted by the Executive to Congress along with the other Budget books,[19] the OPIF Book presented not only the budgets of the agencies according to MFO but also their corresponding performance indicators and targets. The maiden edition for 2007 presented the performance information of 20 pilot agencies.

However, the OPIF Book and the performance information it contained were still considered as separate from the Budget itself: particularly the NEP, which served as the basis of the General Appropriations Bill. The NEP continued to have the "line item" structure of individual P/A/Ps serving as items of appropriation. Moreover, the process of building the OPIF Book entailed the assignment or attribution of P/A/Ps to each MFO in providing a cost to the latter—a process that tended to be complicated if a P/A/P contributed to two or more MFOs.[20]

Worsening this situation was the fact that in many fiscal years the OPIF Book had been submitted late to be considered in the budget deliberations in Congress.[21] Since the OPIF Book was not distributed together with the other budget documents,[22] "it was not used in the budget review and approval of Congress," said Dr. Romulo Emmanuel Miral Jr. of the Congressional Policy and Budget Research Department at the House of representatives (Ilagan, 2013).

These gaps contributed to the deliberations that were mainly focused on costs, inputs, and line items rather than on outputs.

Limited Coverage of the MFOs and Indicators

Another limitation of the OPIF was the structure itself. For one, the MFOs pertained only to the Operations[23] of agencies, which generally pertained to their ongoing programs and activities that directly relate to the delivery of their mandates. Under the "line-item" structure of the Budget, Projects—whether locally funded (LFPs) or foreign-assisted (FAPs)—were not included in the MFOs. Even if a project contributed to meeting the objectives of an MFO (e.g., the construction of classrooms, which supports the delivery of education services), said project was not normally factored into the performance indicators and targets for that MFO.[24]

Moreover, the assignment of performance indicators was limited to the agency-proper budgets, and not to additional sources of funds to the agency. These fund sources included SPFs,[25] which are funds managed by the central government and released to the agencies based on their needs or when they meet conditions. Other fund sources are the Off-Budget Accounts and Special Accounts in the General Fund, which sit outside the GAA (*see Budget Integrity*). In other words, the OPIF did not provide the full linkage between an agency's expenditures from all fund sources and its performance.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Budget Aligned with the Administration's Social Contract

> "Each peso must not only be spent efficiently and in a timely way but also, and ultimately, must lead to direct, substantial, and measurable benefits for our people."
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

Driven by its commitment to inclusive development, the Aquino administration intensified the rollout of PEM reforms to ensure the use of scarce resources lead to measurable results. Beginning with the ZBB, the government restructured the process of allocating resources so that these were focused on programs that fulfil the Social Contract with the Filipino People and the 2011-2016 PDP (*see Linking Planning and Budgeting*). At the same time, the government scaled up the implementation of the OPIF in order to clearly define the intended results that the agencies must deliver in implementing their programs.

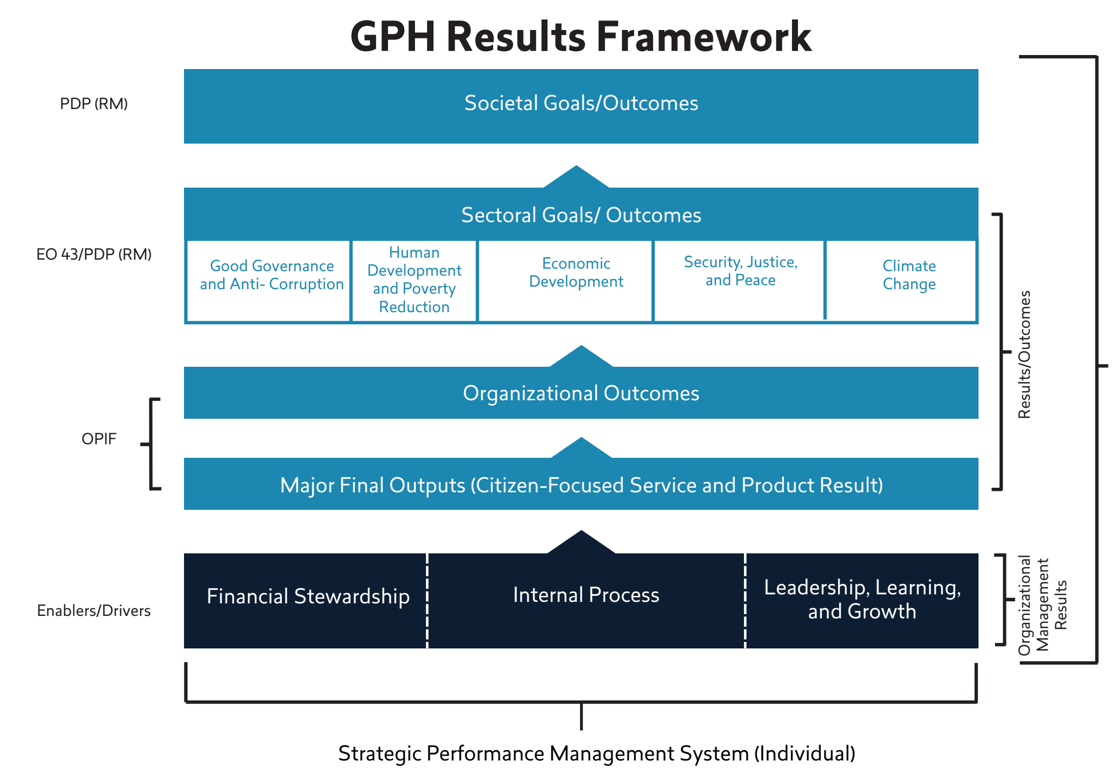
Government-Wide Performance Management

To the administration, the OPIF was not just a performance budgeting tool: it was also an anchor in consolidating the fragmented performance management systems in government.

In 2011, President Aquino directed[26] the establishment of the Results-Based Performance Management System (RBPMS) "to harmonize, unify, streamline, and simplify all existing monitoring and reporting requirements and processes" on performance management (OP, 2011). He also directed that the RBPMS use the OPIF and the PDP Results Matrix as underlying frameworks to be "used by all government agencies mandated to exercise broad oversight over the performance of all agencies in the government (OP, 2011)."

In developing the RBPMS, the government established a Results Framework (*see Figure 3*) to clearly connect the performance of individual employees,[27] the outputs and outcomes of the agencies as indicated through the OPIF, and the sectoral and societal goals that are spelled out in the PDP. For one, it is noteworthy that the structure of the Results Framework conforms to the OPIF LogFrame.

Figure 3. **The Results Framework**



Source: Presentation on The National Evaluation Policy Framework: Engendering an Evaluation Culture in the Philippines (2013). Presented by NEDA during the 3rd M&E Network Forum 06-08 November 2013, Asian Development Bank.

To provide a clear set of performance indicators for the sectoral and societal goals, NEDA also developed the Results Matrices (RM)[28] to accompany the PDP. The RM translates the desired societal goals and sectors indicated in the PDP into measurable targets (DBM 2012). By harmonizing the PDP-RM and the OPIF, the RBPMS addresses the disconnect of the OPIF to the PDP's sector outcomes. The RBPMS likewise ties up performance with compensation as it is used as the basis in granting performance-based allowances, incentives, or compensation of government employees (*see Compensation Reform*).

Improving Monitoring and Evaluation

While Monitoring and Evaluation (M&E) should be an integral part of the whole planning and budgeting process, an assessment done for eight departments revealed that management of data is poor and most employees have little knowledge of M&E. Given the transition from input budgeting to results-based budgeting, the establishment of an M&E unit within DBM may be considered a necessity. Its establishment would define the measurement, assessment, reporting—for both financial and physical aspects—and tracking of the progress of programs and projects.

Sharpening the focus on results also requires the government to establish credible means to measure how individual agencies, and the government as a whole, actually deliver their performance commitments in terms of timeliness, spending, and achievement rates.

Early in the administration's term, DBM introduced ways to evaluate the agencies' performance, though these means had a different primary objective: to modify or scrap ineffective or leakage-prone programs, using the ZBB; and to address bottlenecks in the agencies' implementation of programs and projects, using the AMTs.

Another mechanism for this purpose was the Budget Performance Review, which was more focused on the OPIF, but it had not been successfully undertaken. The Task Force on the RPBMS—and eventually, the Office of the Cabinet Secretary[29]—also monitored the performance of the agencies against their OPIF-based targets as well as strategic commitments to the President,[30] particularly in the context of PBB (*see Compensation Reform*).

Eventually, the DBM and the NEDA formulated a National Evaluation Policy Framework to fill the gap in policies and standards on the gathering of evidence on the effectiveness of programs in delivering their intended results. Launched in 2015,[31] the Policy Framework promotes guiding principles and standards on how the implementing agencies should conduct evaluations. For one, the Policy Framework set minimum criteria in conducting evaluations: the relevance, effectiveness, efficiency, and sustainability of programs and projects. It also required the agencies to formulate and maintain a rolling six-year evaluation agenda to coincide with the timeframe of the PDP; to establish capable and neutral evaluation units in their respective agencies; and to submit an evaluation plan together with the new program or project proposals that they propose for funding in the annual Budget.

The Policy Framework also emphasizes that the results of evaluations must be used to guide management response and improve the agencies' performance; as well as to inform the planning and budgeting processes and the design of similar projects. It also set standards for the reporting and dissemination of the results of evaluations. Ultimately, the Policy Framework seeks to support evidence-based decisions, ensure the improvement of programs, and enshrine the accountability of the agencies to the citizens.

The DBM, for its part, recognizing the urgent need for an evidence-based result in the performance of the agencies, conducted a capacity assessment of selected departments to determine the current M&E capacity of the implementing agencies. Alongside this assessment, the Performance Monitoring and Evaluation Bureau (PMEB) evolved, which is mandated to ensure that PIB objectives are met and an effective monitoring and evaluation system and structures are institutionalized in the bureaucracy.

M&E capabilities are anticipated to be strengthened to generate quality M&E reports to support decision-making processes to further improve the Department's performance. It will enable them to track and evaluate the achievement of its performance targets on their respective major final outputs and outcomes as against the government's development priorities. The inclusion of monitoring and reporting on results will give evidence to make adjustments in the planned strategies/actions.

> "Kung may kuwento ang bawat kuwenta, kailangan ng ebidensya sa resulta. Government has strong financial accounting and monitoring systems because each agency has a strong financial (budgeting and accounting) monitoring units. But there is no equivalent and equally strong non-financial monitoring in the agencies. Agencies cannot 'live' without regular financial reports, but can live and go on asking for annual budgets even if its non-financial reports are of poor quality or even absent."
>
> **Undersecretary Mario L. Relampagos**
> DBM BUDGET PERFORMANCE MONITORING & EVALUATION GROUP

Hand in hand with the National Evaluation Policy Framework is the Results-Based Monitoring, Evaluation, and Reporting (RBMER) policy, which was already approved in principle by the outgoing DBM Secretary. The policy is expected to contribute to the clarity and consistency in the definition of monitoring, evaluation, and reporting aspects. This is in conjunction with the Monitoring Handbook, which in turn, will guide implementing agencies on the performance of their monitoring functions on programs and projects.

Improved Performance Information

To ensure that the OPIF accurately reflected the results that the agency should deliver, the administration sought to improve the quality of performance information. In 2011, DBM initiated the review of MFOs and performance indicators and the restructuring of P/A/Ps.[32] For one, the agencies reworked their OPIF-based budgets to ensure that their activities were linked to an MFO or aligned to the mandate of the agency. If not, these activities should be dropped,[33] and the freed-up resources could be used to augment funds for higher-priority activities within the same agency (DBM 2012). The agencies were also tasked to use the PDP-RM as a guide in refining their respective performance indicators.

Furthermore, with assistance from the European Union delegation to the Philippines, DBM issued the OPIF Reference Guide in April 2012 to help the agencies better implement the OPIF. The guide provides information from the basics, such as definition of OPIF concepts, to the more complicated, such as how to construct an OPIF LogFrame, how are P/A/Ps restructured, and budget performance review, among others.

This linking of P/A/Ps to MFOs and to the agencies' mandates not only helped improve the quality of performance information but also improved budget estimation and prioritization.

The OPIF became the bridge to the next phase of performance budgeting.

> "If not for OPIF, it would be difficult for us in DBM to get the performance information from the agencies."
>
> **Director Mary Anne Z. Dela Vega**
> DBM BUDGET AND MANAGEMENT BUREAU FOR FOOD SECURITY, ECOLOGICAL PROTECTION, & CLIMATE CHANGE MANAGEMENT

Revamping the Face of the Budget through PIB

Hailed as one of the most important budgeting innovation in years[34], the Performance-Informed Budgeting (PIB) was introduced through the 2014 Budget to present both the financial allocations and the performance indicators and targets of each agency in the Budget itself.

Essentially, the PIB integrated the performance information, which used to be the OPIF Book, into the NEP. The change, however, was more than cosmetic. The reform largely made the performance indicators and targets subject to the scrutiny and approval of Congress as part of the GAA along with the financial appropriations. By giving Congress information on the outputs to be achieved by the agencies through their proposed budgets; therefore, enabling the legislative body to better scrutinize such proposals and hold the agencies accountable for their performance in the prior years. The general provisions of the GAA since 2014 have emphasized that the performance indicators and targets indicated in the Budget "[were] considered the commitments and accountability of [the] respective heads of agencies.[35]"

This way the reform sought "to strengthen the institutional checks and balances around the Budget;" and, ultimately, to empower citizens "to hold government institutions accountable for their performance (Abad, 2014)."

In its initial rollout, the PIB structured the P/A/Ps for Operations of the agencies according to the MFOs; and indicated performance information and targets at the output level in the Budget itself to premise the financial allocations. Other performance information was subsequently included in the Budget: the respective mandates, visions, and missions of the agencies; the sectors (based on PDP) and the Social Contract key results areas to which they contribute. By this time, this move enhanced fiscal transparency as it put a clear story on where the funds would be spent and the expected results or outcomes from the government programs.

Taking the PIB a notch higher, the government adopted the Outcome-Based PIB, where the organizational outcomes of the agencies are assigned with performance indicators and targets.

The organizational outcomes "represent the results or outcomes that departments and agencies aim to achieve for their external clients"[36] in the short- to medium-term. In implementing this phase of the PIB, the government enhanced the organizational outcomes of the agencies before assigning measures of their accomplishment of these outcomes. The Outcome-Based PIB continues to present the MFOs and their targets.

The inclusion of outcome indicators in the Budget strengthens the link between planning and budgeting, as the agency's organizational outcomes are aligned with the sectoral outcomes stipulated in the PDP-RM. The reform also enables synergy among the agencies in attaining the sectoral outcomes and societal goals that they share. For instance, to attain the sector outcome "Globally competitive and innovative industry and services sectors[37]," several agencies must collaborate: DPWH and DOTC provide the needed infrastructure, such as roads and airports; DoE helps ensure ample supply of electricity; DTI helps foster a business-friendly environment, among others.

The Next Phase of the PIB: Program Classification

While an innovative paradigm shift, the PIB still faced key structural issues that prevented the government and the citizens from directly relating the "line item" P/A/Ps of an agency to the delivery of its MFOs, and the MFOs to the achievement of the OOs. In the first place, the structure of the Budget continued to hinder the accurate presentation of the costs of attaining these MFOs and OOs.

As the next phase of the PIB, the DBM pursued the Program Expenditure Classification (PREXC) to enable the measurement of performance—at the output and outcome levels—for each of the programs of the agencies.

The PREXC moves the Philippines closer to program budgeting: a system where resources are allocated to "results-based" programs, reduces "line item" controls, and assigns performance indicators at the level of programs. Central to a good program budgeting system is program classification, where programs are appropriately defined as those that "bring together expenditures with a shared objective, the core of which is a common outcome which those expenditures are intended to achieve (Robinson, 2013)."

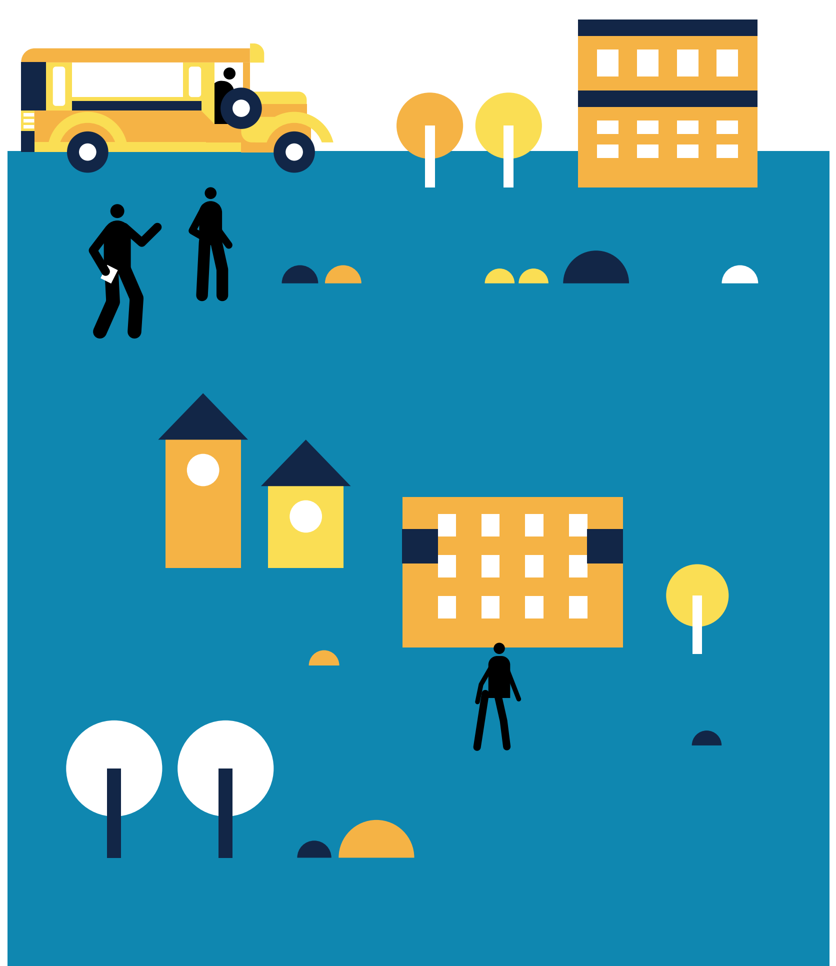
At the core of the PREXC is the restructuring of the budgets of an agency to categorize all its "line item" activities and projects under a set of major Programs. This shift required the redefinition of the P/A/P, which used to refer to any of the programs, activities, and projects of an agency. Now, a Program is defined as "integrated grouping of activities and projects that contributes to a particular outcome of an agency. It constitutes all expenditures that are intended to achieve a common purpose or objective (DBM 2015a)." Moreover, unlike the MFO that generally only covers ongoing programs and activities, the Program captures all the "line items" of an agency's budget—both recurring activities and time-bound projects (LFPs and FAPs)—that contribute to the Program. These Programs are then grouped according to the OOs to which they contribute;[38] in contrast, the OPIF and the first phase of the PIB do not clearly present how the MFOs relate to the OOs.

Subsuming all projects and activities under a Program they contribute to had enabled two things. First, performance indicators and targets—for both outputs and outcomes—could now be assigned to each of the Programs. Unlike the structure under PIB in which outputs and outcomes were still measured at the organizational level, the cascading of performance information at the lower level of Programs enabled the latter to be measured for its effectiveness in meeting the agency's mandate. Second, this new structure ensured that the cost of Programs were fully accounted for and presented in the Budget.

Ultimately, the PREXC would enable policymakers and citizens to have a better idea of how much is needed for a Program to deliver more direct benefits to the citizens and influence the attainment of higher-level socioeconomic goals. In all, the PREXC would foster greater accountability, transparency, and effectiveness in the use of public funds.

The DBM introduced the PREXC in December 2014 by piloting the reform in six departments: DSWD, DoT, DILG (OSEC), DENR, DFA, and the National Kidney and Transplant Institute. The agencies received a series of briefings and handholding workshops to help them restructure their budgets according to the PREXC. The DBM started issuing PREXC advocacy materials (flyer and briefer) in June. These steps have been taken towards the possible full shift of the NEP itself to a PREXC structure for the 2018 Budget.[39]

> "I think the PREXC is an improvement from the present system or structure that hopefully would lead to a simplified and efficient reporting and evaluation of our programs in support of the government."
>
> **Deputy Chief Public Attorney Silvestre A. Mosing**
> PUBLIC ATTORNEY'S OFFICE



CHALLENGES AND MOVING FORWARD

Do we already have an honest-to-goodness performance budgeting system?

It has taken the country almost two decades to institute a results-based budgeting system. The journey may have been long and winding: it started with the OPIF in the late 90's, which took two administrations to implement; and it was fast-tracked under the Aquino administration with the rollout of the PIB and the introduction of the PREXC. However, the link can be tightened further. Performance budgeting must be optimized, along with other tools for the efficient allocation of resources (*see Linking Planning and Budgeting*), in prioritizing expenditures. Moreover, it must be leveraged further as a performance management tool by strengthening the monitoring, evaluation, and reporting of the results delivered by the agencies through their respective budgets.

This reform journey must be taken further to install a genuine performance budgeting system. For one, while the country's laws promote performance budgeting, the specific reforms installed—from the OPIF to the PREXC—are still not enshrined in a law.[40] Moreover, the use of performance information throughout the budget cycle require PFM practitioners in both oversight and implementing agencies to develop and strengthen the required competencies: from the design of programs with clearly defined and realistic performance targets to the reporting and evaluation of actual performance. The installation of a unified ICT-based system for the PFM (*see Integrated PFM*), which should also include non-financial performance information, should be continued. The following key challenges need to be addressed especially as the citizens themselves are demanding results that are greater in scope, number, and quality.

Cohesion in a Milieu of Fragmented Oversight

The current structure of the government—where the different oversight functions are scattered throughout various agencies[41]—has been an obstacle to managing the overall performance of the national government. President Aquino's instruction to develop the RPBMS—which builds on the earlier initiatives of oversight agencies to improve their collaboration on performance management—is a major step forward in dealing with the "many deficiencies and duplication... that have resulted in redundant data, reports in different formats, delay in submissions, inaccurate results, and inefficiencies in performance monitoring, evaluation, and reporting (Office of the President, 2011)."

Short of merging such functions into one or a smaller number of oversight agencies, the incoming administration should ensure the clear delineation of roles in order to avoid duplication or conflict, particularly in requesting the agencies for performance reports. It should thus sustain the rollout of the RBPMS as a center for collaboration among the multiple oversight agencies to enhance the unity of government performance management. Moreover, a key element of the RBPMS—the Government Executive Information System[42]—has not been set up. This situation, however, presents an opportunity: rather than build a separate system, the next administration could integrate the system for performance information management into the planned BTMS.[43]

Additionally, the next administration could consider setting up a performance delivery unit in the Office of the President[44] to focus on the delivery of the President's priorities. However, it should complement and not duplicate the role of the existing oversight agencies.

Are Those Indicators Real?

A key concern raised by policymakers and stakeholders alike is the credibility and accuracy of the performance indicators presented in the Budget. Recent developments, however, presented opportunities to address this challenge. One is the creation of the Philippine Statistics Agency (PSA) in 2013[45] through the merger of key statistical agencies in the government. The performance information that the agencies should use for the Budget and for their reports must be based on the statistics produced by the PSA, or they should follow the standards set by the PSA for official government data. Moreover, as discussed earlier in this chapter, the National Evaluation Policy Framework may fill crucial gaps in policies and standards on the monitoring and evaluation of programs.

In addition, DBM should establish institutional mechanisms in evaluating the actual performance of the agencies and their programs compared against their service delivery commitments. The ZBB and the recently-introduced FTDUs (*see Faster and Efficient Budget Execution*) could be developed further to serve this purpose. Possibly, these mechanisms could eventually evolve into spending reviews that many governments all over the world conduct on a regular basis, involving a rotating set of programs to be reviewed within a frame (e.g., three years). Schick (2014) emphasized that "[t]o be useful, a spending review should ask basic questions concerning purposes, priorities, and effectiveness, and it should be organized to facilitate policy responses to the evidence adduced in conducting the review."[46]

Closing the Budget Cycle Loop on Performance

The government has already unified the presentation of both financial and non-financial performance information in the Budget itself (i.e., the proposed NEP and the enacted GAA). However, the reporting of the actual performance of the agencies against their targets needs to be strengthened. For one, the lack of a comprehensive and whole-of-government report on non-financial performance continues to be a key gap in the country's rating in global fiscal transparency standards (*see Fiscal Transparency*). More importantly, it is reasonable to expect Congress to demand from the Executive a report on how the latter met the targets that the former approved in the GAA.[47]

In addressing this gap and closing the loop between the accountability and formulation phases of the budget cycle, the government must consolidate the recently introduced reporting practices. In particular, the results of the spending review-type mechanisms, as mentioned above, may be used to enhance the narrative discussions of the DBCC Year-End Report as well as the Technical Notes on the Proposed Budget. The "PIB Report" produced in 2015 by the Budget Technical Bureau (BTB)[48] and the Report on Budget Integrity[49] produced by the newly formed Performance Monitoring and Evaluation Bureau (PMEB) may likewise be harmonized and be used as annexes to the Year-End Report.

Getting Buy-In to Restructure the Budget Itself

As discussed earlier, the PREXC dramatically restructures the Budget to intuitively align all the activities and projects of an agency under a set of major Programs. However, as PREXC is still being installed for implementation in the 2018 Budget, the next administration can make or break the reform.

The next administration's support to continue the PREXC is required, especially as the restructuring exercise will require significant adjustments in other areas of the PFM reform. The Unified Accounts Code Structure (UACS) will need to be reconfigured—at least 15 codes of the 54-digit UACS code will need to be revised—to accommodate the PREXC structure (*See Table1*).

The ongoing development of the Budget and Treasury Management System (BTMS)—a system that will enable the reporting of physical and financial performance— and other ICT-based PFM systems should likewise take into account the new PREXC structure. Along with the overall continuation of key PFM reforms, such changes will require the sustained support of the national leadership.

Moreover, the next administration will need to secure the support of Congress for the PREXC, not only because it could dramatically restructure the Budget but more fundamentally, to move toward a genuine performance budgeting and away from appropriating "line items" in the Budget. This ages-old system has constrained a core principle of operational efficiency: "managers should be given discretion to run their operations as they best see fit and should be held accountable for results, including outputs produced (Schick, 1998)." Robinson (2011) also emphasized that performance budgeting eschews "detailed control over the line-item composition of expenditure" as its focus should be on "the results delivered by the agencies."

It must also be noted that the PREXC will help resolve many issues in the credibility of the Budget and the reporting of expenditures (*see Budget Integrity*).

The government must certainly find a middle ground between the ideal "program structure" and the current "line item" structure. Legislators favor the former, as it has enabled them to make amendments to include projects that benefit their constituents—or, at the least, allows them to see the details of an agency's budget for their respective constituencies. Moreover, Robinson clarified that "line items" need not be eradicated completely, as certain types of "line-item control"—whether by Congressional approval or through the approval and release of funds by the Executive to line agencies—may be necessary on a case-to-case basis, depending on "the quality of governance and the degree of civil service discipline" in a country (2011).

Table 1. **Changes in the UACS Codes under the PREXC Structure**

From	No. of Digits	To	No. of Digits
Sectors/Horizontal Outcomes	5	Sectors/Horizontal Outcomes	5
Program/Project Purpose	1	PREXC Code (GAS, STO, Operation)	1
MFO/Project Category	2	Program	2
		Sub-Program	2
		LFP and FAPs	1
Activity Level 1/Sub-Category	2	Lowest Level Activities/Project Titles	2
Activity Level 2/Project Title	5	Project Titles	3
	15		16

Source: Briefer on the Program Expenditure Classification 2016, DBM.

HOW EACH PESO LEADS TO MEASURABLE BENEFITS FOR CITIZENS

Performance-Informed Budgeting (PIB) improved output-based budgeting by presenting both financial and physical targets in the GAA. Through PIB, the GAA shows which funds will be spent and the expected results from each allocation. The DBM also shifted to outcome-based PIB to further link organizational outcomes with sector outcomes. In and across sectors, agencies work together towards a common societal goal.

Building on these reforms, Program Expenditure Classification (PREXC) will further link budgeting and results, down to the level of programs. Conceptualized in 2015, PREXC improved on PIB by restructuring an agency's budget to group all recurring activities and projects under the different programs pursued by an agency to meet its objectives. The programs are then designed in terms of both outputs (i.e., services delivered to citizens) and outcomes (i.e., the results or benefits of such services). Thus, PREXC helps strengthen the monitoring and evaluation of programs. The full rollout of PREXC is expected in 2017 for the 2018 Budget. *This infographic shows how PREXC works.*

Key Result Areas

Ultimately, the implementation of activities and projects should contribute to the fulfillment of broader development goals (e.g., rapid, inclusive and sustained growth)

Sector Outcomes

OOs contribute to the goals of the sector to which they belong (e.g., improve access to markets and production areas). Sector Outcomes are results achieved by a group of agencies together toward the accomplishment of sector objectives.

Organizational Outcomes (OOs)

Programs are grouped together under the OOs to which they contribute (e.g. to ensure a safe and reliable national road system). OOs are results produced by an agency which contribute to the achievement of the relevant mandate of that agency.

Program or Sub-Program Outcomes and Outputs

Integrated groups of activities and projects that achieve a common purpose (e.g. national road network program). These are measured in terms of outputs (e.g., length of roads constructed) and outcomes (e.g., quality of roads, travel time).

Activities and Projects (APs)

"Line Items" in the Budget on which funds are appropriated for recurring activities (e.g., maintenance of roads) or projects (e.g. construction of a road)

Source: PREXC flier produced by the Planning and Management Service, DBM in 2016

NOTES

[1] Schick (2014) identified other variants of performance budgeting. The "extenders" include program evaluations, spending reviews, zero-base budgeting, and other reforms that seek to expand the fiscal space and improve service delivery and efficiency, among other goals. The "offshoots" include those which consider performance budgeting as a policy monitoring instrument, as a tool to hold managers accountable for spending decisions, and as a means to empower citizens to engage budgetary decision-making.

[2] The idea that spending must lead to results had been reflected in the country's laws, as early as the Revised Budget Act of 1954 (R.A. No. 992). Section 2 of the law declares "that the whole budgetary concept of the Government be based on functions, activities, and projects, in terms of expected results (emphasis ours)." Section 3 (f) defined the latter as "a delineation of the services, and products, or benefits that will accrue to the public, with the estimated unit cost of each type of service, and product, or benefit."

[3] It must be noted, however, that the proposed Budget bill—the NEP—had been accompanied by a narrative explanation of the policies and priorities, including some performance goals, which are supported by the Budget: the BESF. Since 2002, however, the BESF in narrative form had not been published. The "BESF Tables", which was composed of macroeconomic, fiscal, and expenditure estimates but with no narrative explanation of these figures, continued to be submitted to Congress.

[4] Since the Commonwealth era, the annual appropriations law had taken on a "line item" structure. Before the "PAP" was used as the item of appropriation, line items pertained to inputs: from each personnel position, to the purchase of very specific items such as tractors and breeding hogs.

[5] ADB Technical Assistance – 7190 PHI: Harmonization and development Effectiveness (NBC 532 Review, September 2012 to March 2013), European Commission Helath Sector reform under the health Sector Policy Support Programme , Philippines-Australia Partnership for Economic Government Reforms

[6] Organizational outcomes, as defined in the OPIF Reference Guide, refer to short-to-medium term benefits to clients and communities as a result of the Major Final Output delivery or the goods and or services provided to external clients to achieve a common outcome.

[7] Sector outcomes refer to longer term benefits for the sector from the initiatives of the department/agency

[8] Societal goal refers societal benefits from sector initiatives

[9] An earlier form of the OPIF was introduced during the formulation of the 1998 Budget. The Budget Call for that year required agencies to submit Budget Preparation Form No. 206 – Agency Programs/Activity and Major Outputs (DBM, 2006).

[10] Through the Budget Call for FY 2000 (DBM, 2011). Succeeding Budget Calls (2001 and 2002) introduced the concept of the Sector Effectiveness and Efficiency Review: a periodic assessment of programs, activities, and projects being implemented by the government (InciteGov, 2009).

[11] In particular, through the introduction of Budget Preparation Form A – MFO Budget Matrix and Form B – Agency Performance Measures. The former established the linkage between PAPs and MFOs, while the latter presented performance indicators and targets by MFO as well as the corresponding cost estimates (DBM, 2006).

[12] Formally entitled "FY 2007 Performance Budget of 20 Departments" (DBM, 2006).

[13] DAR, DA, DBM, DepEd, DoE, DENR, DoF, DFA, DoH, DILG, DoJ, DoLE, DND, DPWH, DoST, DSWD, DoT, DTI, DoTC, and NEDA.

[14] A predetermined level (numerical target) of quantity , quality, timeliness, and cost of an output

[15] Quantity is defined as the "number of units or volume of output delivered during a given period of time." (DBM, 2012)

[16] Quality is defined as "how well the output is delivered and how they are perceived by clients." (DBM, 2012)

[1y] Timelines is the "measure of the availability of the output as and when required by the client." (DBM, 2012)

[18] Cost is the "amount of input or funds used to produce an output." (DBM, 2012)

[19] Traditionally, the BESF (as required by the Constitution), NEP (in the form of the budget bill), PBM (the President's policy statement, and the Staffing Summary).

[20] In some instances, a PAP is costed under one MFO even if it also contributes performance targets to another. In other instances, the PAP—or an operating unit—is arbitrarily broken down to "attribute" costs to multiple MFOs.

[21] It is notable that the late publication of the OPIF Book was cited by the biennial Open Budget Survey (OBS) as among the factors that limited fiscal transparency in the Philippines (*see Fiscal Transparency*)

[22] The OPIF Book was not published together with the other budget documents.

[23] Technically speaking, the GAA uses the term "Programs" to refer to the General Administrative Services (GAS, or the expenditures pertaining to the overall administration and internal management of an agency), Support to Operations (STO, or expenditures for particular support services—like legal services, technology, and information—which support all the functions of an agency), and Operations of the agency. Operations refer to activities directed toward fulfilling an agency's mandate, such as regulatory services or the provision of goods or services (e.g., health care, education). The term "Programs" is generally used in contrast to "Projects," which are temporary in nature.

[24] In some instances, however, an agency would still consider the contribution of a project—or an expenditure under GAS or STO—in an MFO's performance indicator, even if the cost of that project is not included in the allocation for the MFO. Related to this, there are cases when the appropriation for a project is not included under "Projects" but under one of the MFOs under "Operations," which is not according to the latter's nature as ongoing expenditures.

[25] SPFs are budgetary allocations in the GAA allocated for specific purposes. These are usually lump sum in nature, as the recipient agencies and their specific programs, activities, and projects have not yet been identified during budget preparation and legislation.

[26] Through A.O. no. 25, "Creating an Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information, and Reporting Systems," issued on December 21, 2011. The Task Force is chaired by the DBM and co-chaired by the Office of the Secretary (OES); is composed of the NEDA, PMS, and DoF as members; and also involved other government oversight agencies, such as the Civil Service Commission (CSC) and the Career Executive Service Board (CESB), as well as the private sector through the National Competitiveness Council (NCC).

[27] Through the Results Framework, the CSC's Strategic Performance Management System and the CESB's Career Executive Service Performance Evaluation System were aligned with the RBPMS.

[28] The RMs contain statements of results to be achieved, corresponding links to specific items of the government's five major Guide Posts (based on the President's 16-point Agenda), indicators, baseline information, end-of-Plan targets and responsible agencies. The Matrices provide an indicator framework to the statements of results under the Strategic Framework of the Plan, which would allow for subsequent assessment and performance measures. (See http://www.neda.gov.ph/wp-content/uploads/2015/05/Revalidated-RM_Final.pdf)

[29] The Office was reconstituted by virtue of E.O. No. 99 (October 31, 2012) and it was tasked to facilitate the identification of priority programs and targets, the monitoring of their progress and reporting to the President. The E.O. specifically stated that "[t]he functions of the Inter-Agency Task Force created under [A.O. No. 25] are hereby transferred to the Office of the Cabinet Secretary." Even so, the Task Force continued to operate, particularly to administer the PBB.

[30] Through the Secretary's Performance Contracts

[31] Through NEDA-DBM Joint Memorandum Circular No. 2015-01, issued on July 15, 2015.

[32] Through NBC no. 532, "Guidelines on the Review of Major Final Outputs (MFOs) and Performance Indicators (PIs) and Restructuring of Programs, Activities, and Projects (PAPs)," issued on November 28, 2011.

[33] As stipulated under Section 5.4 of NBC 532

[34] Senator Ralph Recto described the PIB as "the single most important budgeting innovation." (Reyes, 2013)

[35] Section 2, "Performance Informed Budgeting," of the General Provisions of the 2014, 2015, and 2016 GAA.

[36] NBC No. 552, "Guidelines on the Shift to the Outcome-Based Performance-Informed Budgeting for FY 2015," issued on February 19, 2014.

[37] Under this sector outcome (Globally competitive and innovative industry and services sectors), several agencies are involved such as the Department of Trade and Industry, Department of Tourism, Department of Labor and Employment, Technical Education and Skills Development Authority, Commission on Higher Education, and Department of Energy, among others.

[38] Under the PREXC structure, agencies will still have budgetary items for "GAS" and "STO": those which represent the overhead expenditures of an agency as well as the Activities and Projects which support the attainment of multiple OOs and the overall efficiency and effectiveness of an agency's operations. Note 23 describes the nature of GAS and STO

[39] Though originally intended for implemented in the 2017 Budget, the DBM postponed the implementation of PREXC to the following fiscal year in order to give more time to address issues. *See the succeeding section for an in-depth discussion of the challenges.*

[40] The annual GAA itself, as well as the orders issued by the President, have provided the legal basis for the OPIF and the PIB. The enactment of the proposed Public Financial Accountability Act was designed to provide such a permanent policy backing for performance budgeting.

[41] In particular, resource generation (DoF), public expenditure management (DBM), socioeconomic planning (NEDA), the performance of individual government employees (CSC), and the monitoring of the President's priority agenda (OP, particularly PMS and, in recent times, the OCS).

[42] Envisioned to be "an accurate, accessible, and up-to-date government-wide, sectoral, and organizational performance information system" per Administrative Order No. 25, s. 2011

[43] For one, the DBM has been planning to develop a registry of performance information and targets defined through the PIB and PREXC. This could be developed as a module in the Unified Reporting System.

[44] The idea behind the reconstitution of the OCS was inspired by the experience of various countries which set up a "delivery unit" at the level of the prime minister's or president's office. The UK pioneered the establishment of a Prime Minister's Delivery Unit, led by Sir Michael Barber under the Blair administration, in 2001; and other countries, such as Malaysia and Indonesia in the region, have adopted this model and set-up their respective delivery units.

[45] The implementing rules and regulations of R.A. No. 10625

[46] A section of Schick's (2014) paper on performance budgeting explored the increased practice of spending reviews, especially in the context of the global financial crisis. Such "crisis-driven spending reviews" attempt to incorporate performance criteria into decisions to cut spending. He adds that genuine spending reviews are "politically driven," in as much as "[e]very country that has successfully conducted reviews and then made significant policy changes has done so because the process has been led and supported at top political levels." Otherwise, such reviews may just, in the end, generate "interesting findings but few hard choices" and "risk being ignored when time and politically pressured expenditure decisions are made."

[47] The report was initiated by the DBM to show how the PIB reports can be analyzed and reported to the Joint Congressional Oversight Committee on Public Expenditure (JCOCPE).

[48] As mentioned in the previous note.

[49] Like the PIB Report, this is still produced internally at the moment.