



Executive Summary



**KUWENTO
SA BAWAT
KUWENTA**

**A Story of
Budget and Management Reforms
2010-2016**

About the Publication

The Budget is not just about figures that add up to what the government can spend each year: it represents the government's blueprint for progress.

This publication reveals the story behind the budget and management reforms implemented by the government under the Aquino administration. Specifically, it chronicles the journey taken by the Department of Budget and Management (DBM), together with its government partners and its stakeholders, to shape the Budget into what it is now: one that is spent within means, aligned with the pressing social and economic priorities, monitored for delivery and impact, and crafted with the people's voice and stake. This Executive Summary is a concise version of a more comprehensive publication that documents the starting points of key reforms, the achievements so far, and the remaining challenges.

The title "Kuwento sa Bawat Kuwenta," which roughly translates as "the story behind each peso," is in fact a saying coined by DBM Usec. Luz M. Cantor. Through the years, the DBM workforce has widely used it in describing the deeper purpose of their work: beyond crunching the numbers, to ensure that these figures add up to the country's vision for progress.

Executive Summary:

Kuwento Sa Bawat Kuwenta

A Story of Budget and Management Reforms 2010-2016

Produced by the Philippine Department of Budget and Management (DBM)

June 2016

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Foreword

For the most part of its history, the Department of Budget and Management (DBM) has operated behind the scenes, its work made inaccessible by the technical nature of the budget process. Over the last six years, however, DBM has moved away from the sidelines and reinvented itself as a prominent agent of governance reform.

The DBM's journey in budget and management reform under the Aquino administration began with small but certain steps. For the first time since 1986, the government has sustained the early passage of the National Budget for six years in a row, ensuring its swift implementation and safeguarding it from abuse. Along the way, DBM cleared bottlenecks and plugged leakages, ensuring that every peso spent would have maximum impact.

The DBM and its partners in the government—including the Department of Finance, the National Economic and Development Authority, and the Commission on Audit—collaborated on many reform policies that stabilized the nation's fiscal health, linked spending with desired socio-economic results, and rationalized public finance processes. Through these reforms, public spending has improved and has helped drive our economy ahead of our regional neighbors.

Moreover, ordinary Filipinos have taken the center stage in the budget process. Fiscal openness reforms earned for the government international recognition, for example, Bottom-Up Budgeting, as a groundbreaking reform in participatory budgeting. In 2015, the Philippines was ranked 21st in the world in the Open Budget Index, joining a select group of countries with substantial budget transparency. These gains could not have happened without DBM's partners in the government, civil society, and other sectors.

These gains were not without their challenges. Often, the government faced resistance to the reform initiatives, and it had to wrestle with painful controversies. These difficulties now come to us as valuable lessons, which, I believe, will guide DBM toward excellence. I believe, too, that history will be kind to the men and women of DBM who worked passionately for the cause of reform and who, over the last six years, transformed the agency into an institution of integrity and competence.

This publication encapsulates DBM's reform narrative over the last six years. It is a summary of a comprehensive documentation of these reforms: their starting points, the achievements thus far, and the challenges that remain. Through this summary and the main volume, we hope to pass on DBM's reform efforts to its future leaders—as well as to its valued partners in civil society, the international community, and other reform stakeholders—so they may build on the gains and navigate the next phase of budget reforms under the new administration.

In concluding my term, I remain humbled and honored to have served the Filipino people alongside the men and women of DBM, who, to the very end, demonstrated outstanding skill and principle as public servants. May the Filipino people always be at the heart of DBM's endeavors.

Secretary Florencio B. Abad



Introduction

THE JOURNEY TOWARD PAGGUGOL NA MATUWID

The National Budget is the government's financial expression of its socio-economic development goals. To make the Budget an effective instrument of inclusive development and good governance, the administration pursued bold and game-changing reforms in public financial management (PFM).

What we came upon in 2010. The many dysfunctions of the country's PFM system in the past led to massive corruption scandals and the breakdown of public trust. Worse, these dysfunctions in the system prevented the government from effectively boosting growth and addressing poverty. There had been attempts to improve the budgeting system during that time, but these had remained wanting.



- *Persistent Fiscal Constraints.* Unmanageable fiscal deficits, poor revenue collections, and a ballooned national debt stock characterized fiscal management in the past, severely limiting the available resources for development spending.
- *Undisciplined Resource Allocation.* Lump-sum funds, the weak link between the medium-term Development Plan and the annual Budget, and other systemic issues limited the ability of the government to focus scarce resources on priority sectors.
- *A Dysfunctional PFM System.* The processes of releasing and spending public funds were ridden with both bottlenecks. Spending could not be clearly linked with agencies' performance targets. Moreover, PFM processes—from planning to reporting—were fragmented and even redundant. These flaws hampered the delivery of timely and high-impact services.
- *A Disempowered Citizenry.* Persistent issues of legitimacy and corruption, worsened by a lack of transparency, generated resentment and protests. Such issues discouraged any interest from civil society organizations in the budget process.

The Starting Points of Reform. From day one of its term, the administration had sought to transform the Budget as a tool in promoting its Social Contract with the Filipino People: inclusive development through good governance. The government, through DBM, followed through on this mandate and hinged its PFM reforms on the following starting points:

- *The President's Leadership.* By instructing DBM to implement Zero-Based Budgeting in 2010, President Aquino signalled to challenge the status quo of incremental and leakage-prone spending.

- *The PFM Reform Roadmap.* In 2009, before the administration assumed office, career officials of DBM, the Department of Finance (DOF), and the Commission on Audit (COA), with the support of international development partners, had already started to craft a comprehensive PFM Reform Roadmap.
- *Civil Society Engagement.* The government, through DBM, began to reach out to civil society organizations and other stakeholders to engage them on how to open greater spaces for their participation in the budget process.
- *International Support and Demand.* The Philippines was invited to join as a founding member of both the Open Government Partnership and the Global Initiative for Fiscal Transparency: venues that opened the Philippines to support networks of fellow reformers across the globe.

At Midterm: Crises as Opportunities. Two controversies profoundly shaped the pace and tone of PFM reforms midway into the administration: the revelation of the diversion of the Priority Development Assistance Fund of 2007-2009, which led to the abolition of "pork barrel"; and the controversy generated by the Disbursement Acceleration Program. These controversies put to fore the chronic weaknesses in the country's PFM system and gave the government ammunition to pursue further reforms.

Introduction

THE BUDGET REFORM AGENDA 2010 TO 2016

Since 2010, the administration has implemented budget reforms to ensure that each peso spent by the government benefited citizens. Moreover, it had given citizens a greater voice and stake in the management of public funds.



Spending Within Our Means

The government had improved revenue collections without increasing taxes, reduced its debt burden, and ensured greater discipline in expenditure management. Because of these:

- **The deficit had been contained** within 2 percent of GDP since 2013 because of improved revenue collections and sound liability management without raising new taxes except for sin tax reform.
- **Debt servicing reduced to a smaller slice** of the Budget at 13 percent in 2016, from 34 percent a decade ago, paving the way for greater fiscal space
- **The Budget doubled** from P1.54 trillion in 2010 to P3.0 trillion in 2016 to increase development spending.
- **Investment-grade credit ratings achieved** because of the government's commitment to fiscal consolidation, improved socio-political environment, and solid macro-economic foundation

Investing in the Right Priorities

To pursue inclusive development, the government had refocused its resources on the people's most pressing needs, such as social protection, basic education, public health and infrastructure, among others. It had prioritized expenditures that had the most impact on people's lives, through:

- **P65 in every P100 of the Budget** allotted for social and economic services in 2016, from only P48 per P100 a decade ago
- **Zero-Based Budgeting** to curb poorly-designed programs, as well as leakage-prone and low priority spending
- **Budget Priorities Framework** to focus expenditures on inclusive development goals and the needs of the poorest and most vulnerable provinces
- **Two-Tier Budgeting** to contain overhead costs and allocate a larger portion of the Budget on priority programs and projects



Delivering Measurable Results

The government had exerted great effort to de-clog bottlenecks in budget execution, tightly link spending and performance, and enshrine integrity throughout the budget process. Notable reforms had ensured that the Budget delivered tangible results:

- **Timely submission and passage of the Budget for a record six straight years** had prevented abuse and ensured the prompt budget execution
- **GAA-as-Release Document** and other reforms that streamlined allotment release and obligation, and used procurement
- **Strengthening of agencies' capacity to deliver services** and spend public funds efficiently
- **Speeding up and digitizing procurement** through a manpower upgrade, technological tools and other innovations
- **Performance-Informed Budgeting** to align agencies' spending with their performance targets
- **Performance-Based Incentives** and other reforms to reward performance and to make public sector pay competitive and hinged on results
- Building an **Integrated PFM System** by unifying account codes, harmonizing processes, installing ICT systems, and capacitating PFM professionals

Empowering Citizens

The Philippines has become a global leader in fiscal transparency because it has increased citizens' access to information and opportunities to participate in the budget process through:

- Reduced lump-sum funds, rationalized savings, and improved reporting to **strengthen integrity and accountability**
- The **Transparency Seal, Open Data**, and other new policies to make more information on agencies' finances available and useful
- The **People's Budget** to provide citizen-friendly presentations and summaries of the Budget
- Publication of **technical budget documents and reports** according to international standards
- **Bottom-up Budgeting, Budget Partnership Agreements** and other reforms to give citizens a greater voice in the national budget process
- An improved **social media presence** to allow citizens to engage with DBM online



INSIGHT FROM A JUNIOR LEADER

ZBB: The Art of Letting Go

“We will stop the wasteful use of government funds. We will eradicate projects that are wrong.” President Benigno Aquino III could not have said it more clearly, when he introduced Zero-Based Budgeting (ZBB) in his first State of the Nation Address in 2010.

ZBB is not the “business-as-usual” or traditional incremental budgeting. Incremental budgeting is based on the agency’s historical budget, adjusted for non-recurring and terminated projects and for certain parameter changes (e.g., foreign exchange rates and inflation). Through ZBB, every expenditure and program/activity/project (P/A/P) should be justified before it is funded, which is how we should be spending taxpayers’ hard-earned money. ZBB does not include by default the budgetary items in the prior or current year’s budget. With ZBB, government programs are revisited to check their relevance to national priorities and strategic plan, as well as to the agency’s mandate. In ZBB, the funds are allocated based on the need and performance, as well as on the relevance, impact, and sustainability of a P/A/P.

However, as with all things new and unfamiliar, reforms can lead to resistance on the part of the agency, since these will mean drastic changes in the budget. No one wants to be shaken out of one’s comfort zone without justifiable reason and sufficient basis. Hence, we employed the services of the Philippine Institute for Development Studies to obtain an objective, scientific, and apolitical perspective in assessing issues in funding and implementing the existing P/A/Ps, with a stronger focus on evaluating the more “problematic” ones.

For example, in the case of the Agricultural Competitiveness Enhancement Fund (ACEF), we were prompted to come up with our own findings and evaluation based on the results of the study. This effort led us to suggest necessary changes in the budget levels (up to the extent of proposing a zero budget for loans) and in implementation mechanisms, to be embedded in the special provisions.

By Maria Cecilia Socorro M. Abogado¹

What made ZBB distinctively challenging was that it resulted in a kind of “role reversal” between DBM and the implementing agencies. Untowardly, DBM was put on the defensive. The assumption was that the implementing agencies knew more than we did about the operational or technical aspect of their own programs, as well as their own organizational mandate and how the two (programs and mandate) correlate. Hence, our decisions, including our technical know-how and credibility, were sometimes questioned.

The agencies and the program beneficiaries had also become accustomed, if not dependent, on how things were being done. The use of the ZBB then led to frustration in both parties, especially when this resulted in the suspension of certain programs or fund releases. Sometimes we also had to face irate agency officials and emotional program beneficiaries during meetings or their unannounced visits to our office to question what they would claim as “budget cuts.” Moreover, some of the issues raised in ZBB studies, specifically those of the ACEF, were legal in nature. Hence, at times, we had to ask our Legal Service to accompany us in meetings where discussions could easily turn into “heated” debates on how the laws and the corresponding implementing rules and regulations should be interpreted.

Amidst these and other challenges, however, ZBB was worth all that I had experienced. At the end of the day, I believe that in mustering enough courage to stand up for what is right, I have influenced others to think out of the box and beyond practices they have been so used to which were no longer effective and relevant. I guess, in my own way, I have shared with them some lessons on the art of letting go, in the name of efficiency, transparency, and accountability.

¹ As of this publication, Abogado is a Supervising Budget and Management Specialist of the Budget Management Bureau for Food Security, Ecological Protection, and Climate Change Management Sector.

Spending Within Our Means

Sound fiscal management supports a stable economy and ensures sufficient resources for the government’s programs and projects. In 2010, the administration inherited a ballooned fiscal deficit, a budget burdened by debt servicing, and low investor confidence. In six years, it boosted revenue collections without hiking taxes, improved liability management, eliminated leakages and wasteful spending, and achieved investment-grade credit ratings. As a result, the Philippines has been recognized as among the ASEAN’s fastest growing economies and has been dubbed as Asia’s rising tiger¹.

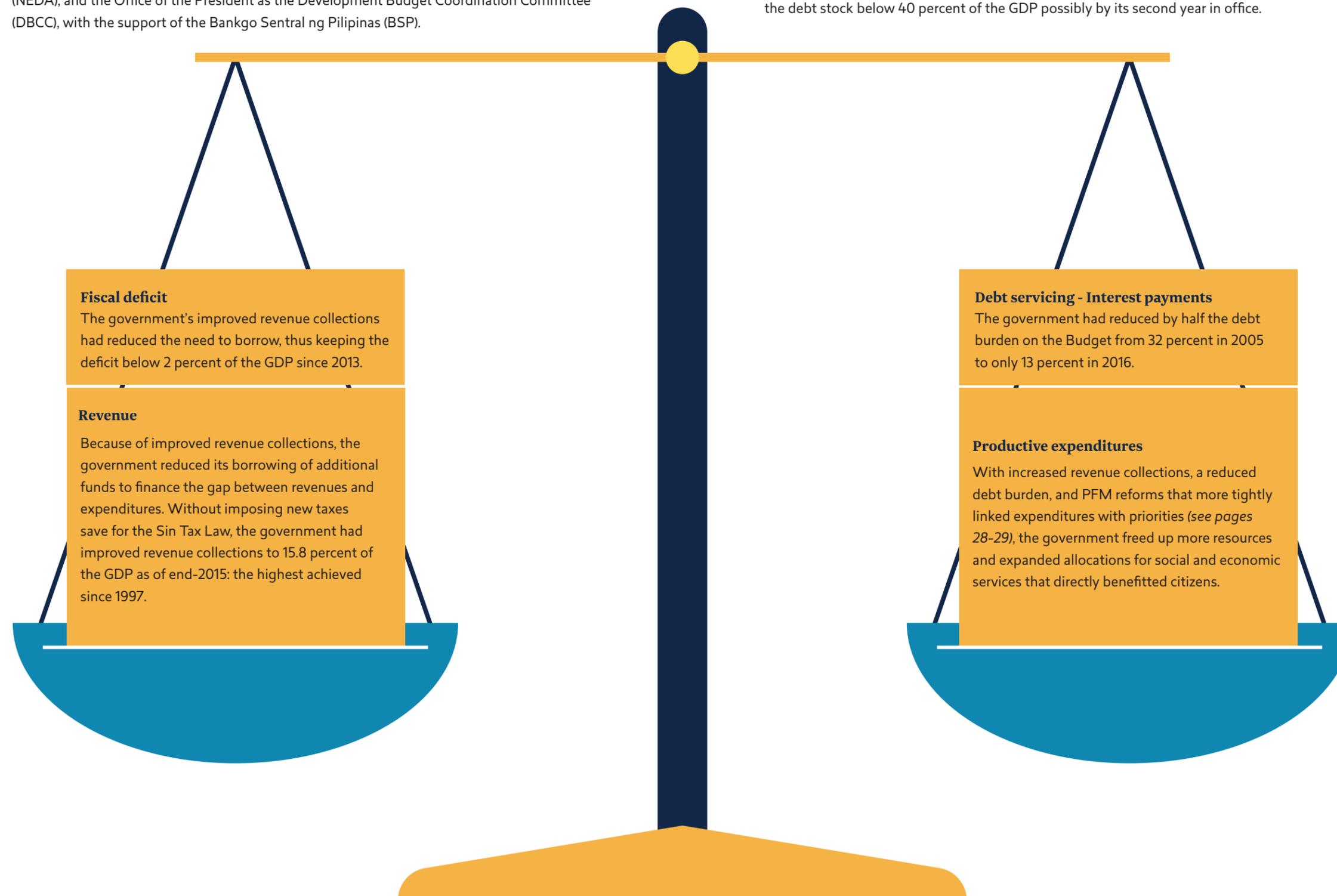


¹ According to former World Bank Country Director Motoo Konishi in a speech given at the Philippine Development Forum in Davao City in 2013

Fiscal Management

HOW WE FREED UP MORE RESOURCES FOR DEVELOPMENT

Through bold revenue, debt, and expenditure management reforms, the government improved its ability to finance its agenda for inclusive development. Since 2010, it had improved revenue collections and reduced the need to borrow, as well as ensured efficient use of resources generated and with maximum impact on the people. These gains were achieved through the collective work of DBM, DOF, the National Economic and Development Authority (NEDA), and the Office of the President as the Development Budget Coordination Committee (DBCC), with the support of the Banko Sentral ng Pilipinas (BSP).



Fiscal deficit

The government's improved revenue collections had reduced the need to borrow, thus keeping the deficit below 2 percent of the GDP since 2013.

Revenue

Because of improved revenue collections, the government reduced its borrowing of additional funds to finance the gap between revenues and expenditures. Without imposing new taxes save for the Sin Tax Law, the government had improved revenue collections to 15.8 percent of the GDP as of end-2015: the highest achieved since 1997.

Outstanding Debt of the National Government

To reduce the burden of servicing debts and improve the long-term stability of the country's debt portfolio, the government borrowed more from the domestic market, extended the maturity of outstanding debts, and reduced risks associated with foreign-denominated debt by converting dollar-denominated debts into pesos. As a result, the government had reduced the debt stock from 68.5 percent of the GDP in 2005 to 44.7 percent in 2015—paving the way for the next administration to bring the debt stock below 40 percent of the GDP possibly by its second year in office.

Debt servicing - Interest payments

The government had reduced by half the debt burden on the Budget from 32 percent in 2005 to only 13 percent in 2016.

Productive expenditures

With increased revenue collections, a reduced debt burden, and PFM reforms that more tightly linked expenditures with priorities (*see pages 28-29*), the government freed up more resources and expanded allocations for social and economic services that directly benefitted citizens.

Public Sector Management: LGUs, GOCCs, and PPPs

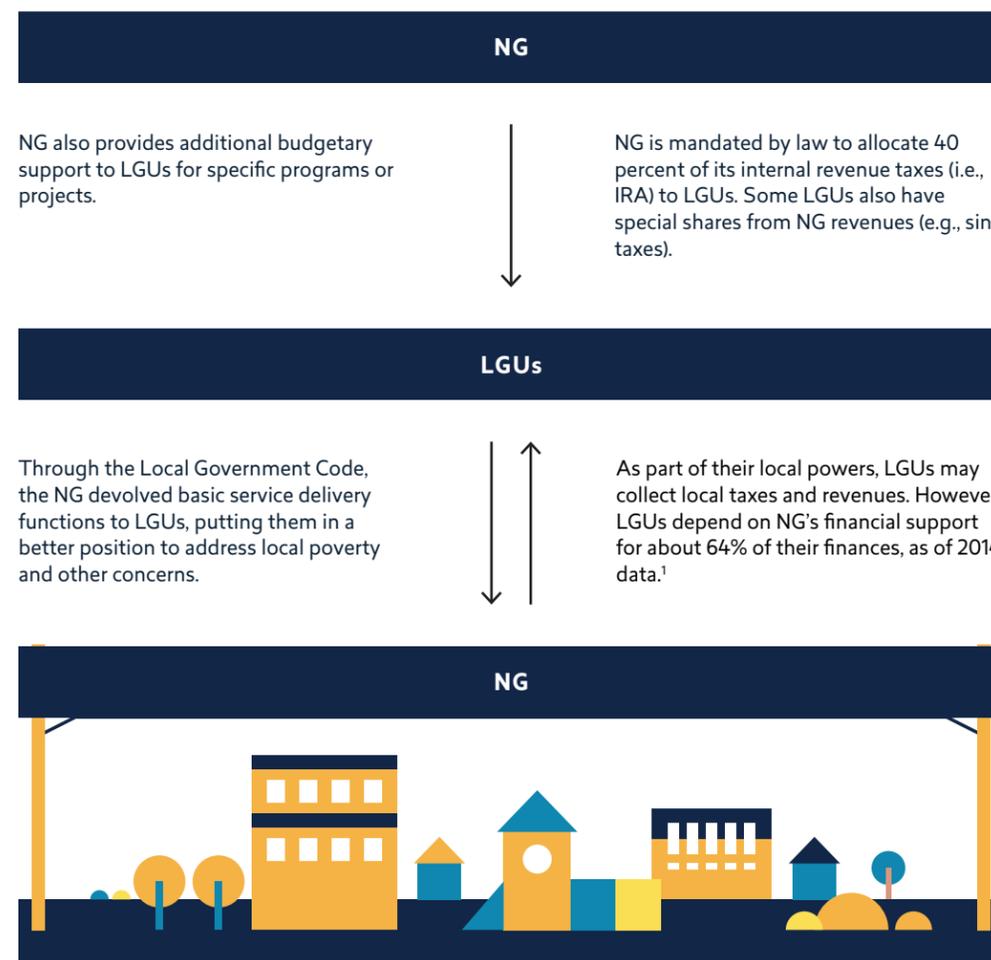
HOW WE MAXIMIZED ALTERNATIVE MEANS FOR SERVICE DELIVERY

Local Government Units (LGUs), Government-Owned or -Controlled Corporations (GOCCs), and Public-Private Partnerships (PPPs) were maximized to support the National Government (NG) in delivering services. This effort was accompanied by measures for internal audit and PFM reforms.

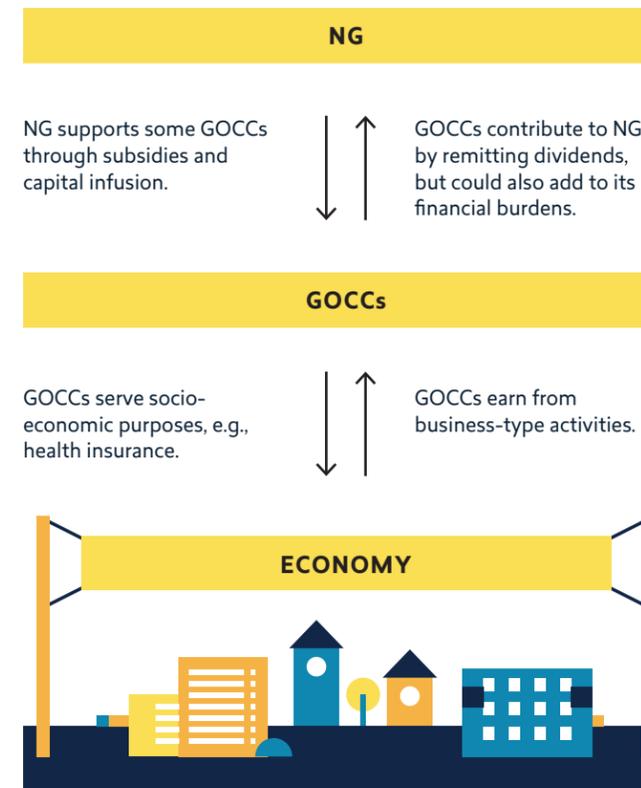
Strengthening Local Governments

The government has been helping LGUs strengthen their capacity to absorb and generate more resources, and deliver basic services in the most transparent, accountable, and participative way through the following reforms:

- **LGU PFM Program** to help LGUs improve their PFM systems and ability to manage their finances through:
 - A regular assessment of their financial stewardship through the PFM Assessment Tool
 - Designing and implementing responsive and technically feasible PFM Improvement Plans to address weak areas
 - Technical assistance, training, and other support from the NG
- **Department of the Interior and Local Government's Mandatory Disclosure Policy, Seal of Good Local Governance, and Performance Challenge Fund** to promote local transparency and accountability through access to additional resources
- **Direct Releases to LGUs** to streamline the process of releasing Internal Revenue Allotment (IRA) and other mandatory shares
- **Performance-Based Downloading to LGUs** to meet transparency and local PFM standards, with sufficient capacity to implement projects, (e.g., local roads) and engage their citizens
- **Bottom-up Budgeting (BuB)** to give LGUs more access to funds from the National Budget for local poverty reduction projects only if they engage civil society (see pages 38 to 39)



¹Source: 2014 DOF-Bureau of Local Government Finance statements of receipts and expenditures of LGUs



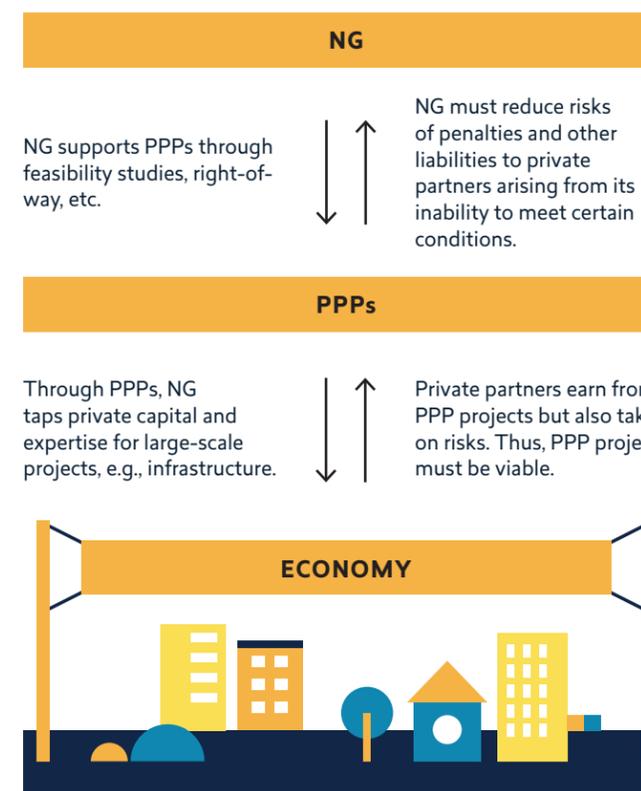
Reforming GOCCs

The government strengthened its oversight on GOCCs and pursued other reforms to maximize their ability to deliver services:

- **Created the Governance Commission for GOCCs (GCG)²** to oversee and monitor GOCCs' performance, as well as pursue reforms on non-performing GOCCs, e.g., abolishing unnecessary ones
- **Reformed GOCC Compensation** by rationalizing salaries and benefits, curbing excessive bonuses, and establishing performance-based and competitive pay
- **Dividends Remitted by GOCCs had tripled** from 12 billion in 2010 to 40.2 billion in 2016³
- **Refocused financial support to GOCCs** on subsidies that directly supported priority programs and projects, e.g., sitio electrification

²Through the GOCC Governance Act of 2011

³Source: Remittances of 54 GOCCs for 2016 GOCC Day from the GCG website



Leveraging PPPs

The government tapped the private sector to implement big-ticket projects and improved its ability to regulate PPPs and curb fiscal risks:

- **Established the PPP Center⁴** under NEDA in 2010 to coordinate and monitor all PPP projects and provide technical assistance to agencies implementing PPPs
- **Awarded 12 PPP Projects** worth P200.48 billion⁵ as of May 2016, more than the combined six solicited PPP projects implemented by the three previous administrations
- **Funded PPP Strategic Support** for feasibility studies, road, right-of-way, etc.
- Earmarked P30 billion in the 2016 Budget under the **Risk Management Program⁶** to address contingent liabilities that may arise from PPPs

⁴By strengthening and renaming the Build-Operate-Transfer Center

⁵Source: Status of PPP Projects (as of May 31, 2016) from the PPP Center website

⁶Under the Unprogrammed Fund as "Stand-by Appropriations"

INSIGHT FROM A JUNIOR LEADER

RSBSA: How We Finally Put Our Farmers and Fisherfolk on the Map

A former Department of Agriculture (DA) Secretary once said, “We must look at the farmers first. After all, more than the doctor, more than the lawyer, we need the farmer. Because we need a doctor or lawyer only a few times in our life, but we need a farmer three times a day.”

Despite their crucial role in producing our daily food, farmers and fisherfolk are the most underrated members of our workforce. In an agricultural country like the Philippines, they remain among the poorest of the population and endure the consequences of our agricultural sector’s sluggish growth. Moreover, the weak adoption of innovative farming practices and the lack of access to credit and insurance for farmers and fisherfolk have hampered their development. To address various challenges in the sector, the Aquino administration identified a critical starting point—to find out exactly who and how many farmers and fisherfolk there are, and where they live.

Hence in 2011, DBM led an inter-agency effort to create the Registry System for Basic Sectors in Agriculture (RSBSA): an electronic compilation of basic information on farmers, farm laborers, and fishermen. The RSBSA was piloted in 20 provinces, but by November 2012 it had covered an additional 55. Only staff of national government agencies could access the main database, upon the endorsement of the head of the agency or any authorized representative to protect the identity of the beneficiaries. As we implemented the registry, we asked a group of its direct users from the DA for feedback on its usefulness and impact. One user told us that “When the RSBSA was introduced, particularly when [it was] included in the special provisions under the budget of the implementing agencies, the rate of availing loans and insurance increased because identified target beneficiaries increased. It is effective in providing direct and immediate assistance to the poor. Moreover, it minimizes the possibility of leakages in the

By **Jezelle Neth R. Amante**¹

number of beneficiaries.”

Like any program, RSBSA had its share of challenges, such as the accessibility of agency-owned databases that were not part of the Registry. Also, LGUs worried that beneficiaries would only include farmers who were allied with incumbent leaders. Hence, DBM updated the database to ensure the completeness and integrity of the Registry, known as RSBSA 1.1. Until today, government planners and policy makers use it as a guide to formulate new policies for agricultural development.

As a budget analyst handling the DA, which directly receives feedback on this reform, I am confident in the usefulness of RSBSA in preparing a more informed budget proposal. It fleshes out the “*kuwento sa likod ng kuwenta*” or the story behind the figures. RSBSA likewise strengthens the integrity of the data on the agencies’ target beneficiaries. Since the registry identifies farmers and fisherfolk that the agriculture sector serves, it minimizes duplication and improves the suitability of programs to these beneficiaries. While it still may have a few loopholes, the positive comments received so far should motivate the next administration to retain and strengthen the registry. To improve RSBSA, the government should update it regularly and link it with existing databases such as those of the DA, rather than defer its use due to a lack of other information needed.

Through RSBSA, the government can now directly look after the hands that feed us. By leading the creation of the registry, DBM has concretely shown that investing in the right people and spending on the right priorities are at the core of its reform agenda. More importantly, by systematically identifying farmers and fisherfolk, we recognize their indispensable value to our agricultural sector.

¹ As of this publication, Amante is a Budget and Management Specialist of the Budget Management Bureau for Food Security, Ecological Protection, and Climate Change Management Sector.

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 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 taxpayers' 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 (see *Budget Priorities Framework*).

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 expenses¹ and budgets for their ongoing programs and projects. This practice forces agencies to prepare their budgets within a set amount.

¹Overhead 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.

Public Investment Management

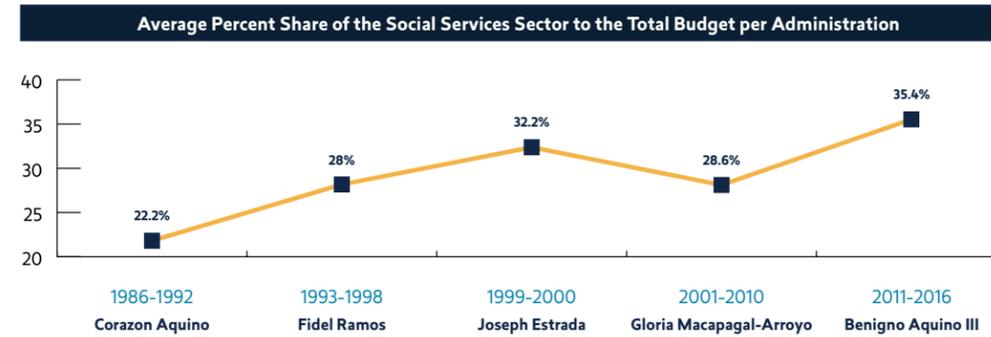
HOW WE FOCUSED SCARCE RESOURCES ON THE ADMINISTRATION'S PRIORITIES



SOCIAL SERVICES

Through a consolidated and well-targeted program for social protection, a healthier, more educated, and self-sufficient citizenry can now rise above poverty.

Since 2010, the government had implemented reforms to refocus scarce resources on programs and projects that reduce poverty, bridge provinces with growth opportunities, ensure public and territorial safety, and address climate change. Through these reforms, the government ensured that each peso it spent allowed the citizens to see and share in the gains of a steadily growing economy.



Source: Fiscal Statistics Handbook and Budget of Expenditures and Sources of Financing

Pantawid Pamilyang Pilipino Program Expanded

Increased the 4Ps budget by about five times (P10.9 billion in 2010 to P62.7 billion in 2016) to bridge 4.6 million poor families from subsistence to self-reliance

Education Gaps Closed

Increased the budget of the Department of Education by an average of 14 percent annually to address critical shortages in educational resources, as well as to successfully transition to the K to 12 basic education system

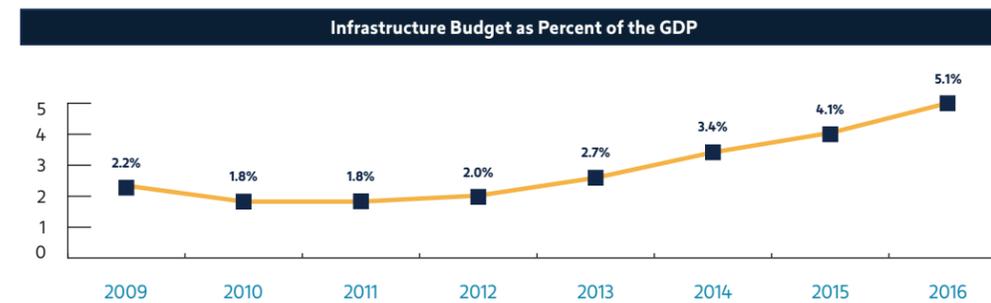
PhilHealth Coverage Widened

With the Sin Tax Law, the government increased resources available to support 4.44 times more indigent families than in 2010 (3.4 million in 2010 to 15.11 million indigent families in 2015).



ECONOMIC SERVICES

The government proved that with the right investments, more jobs and opportunities await citizens.



Roads and Bridges

Paved 27, 816.46 km of national roads¹ as DPWH streamlined bidding and introduced cost-effective measures

Tourism Receipts

Tourism arrivals rose to 5.36 million in 2015 from 3.02 million in 2009; foreign tourist receipts increased by 46 percent from 2010.

Sitio Electrification

Energized 32, 441 sitios² as targeted in 2011

Reformed Farm-to-Market Road (FMR) Allocations

Required DA to map out an FMR road network and worked with DPWH to improve FMR standards and construct the roads for increased effectiveness

¹In 2014, as per data from DPWH

²Source: Department of Energy



GOOD GOVERNANCE

At the core of a strong economy is a system characteristic of honest and proactive governance. Public investments to fight corruption, improve service delivery, and empower citizens had been significantly increased in the last six years.

Combating Corruption

Increased the budgets³ of Sandiganbayan (70.2 percent) and Ombudsman (88.1 percent) since 2010 to scale up their ability to fight corruption

Leveraging Technology

Established the Medium-Term Information and Communications Technology Harmonization Initiative (MITHI) to unify the government's IT infrastructure

Opening Spaces for Participation

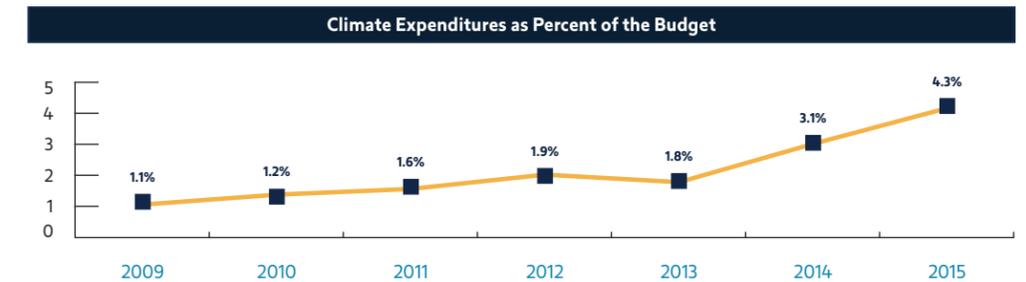
Gave citizens a bigger voice in addressing poverty in their communities through Bottom-up Budgeting (see pages 38 to 39)

³Based on GAA 2010 and 2016 figures



CLIMATE CHANGE

Investments in mitigating disasters made way for a proactive approach in responding to the "new normal" in global climate patterns.



Source: World Bank

Flood Control

Built and repaired 3,683 flood control structures between 2010 and 2014 to lessen flooding in low-lying areas⁴

⁴MMDA and DPWH

National Greening Program (NGP)

Planted 916 million seedlings⁵ from 2011 to 2015 to reduce downstream flooding

⁵Source: NGP Accomplishment Report 2015

Yolanda Comprehensive Rehabilitation and Reconstruction Program

P105.8 billion released as of May 2016 through several agencies to help Yolanda victims stand on their feet



JUST AND LASTING PEACE

The government poured in major investments in enhancing public safety and territorial defense, while pursuing alternative means to address long-standing conflict rooted in poverty.

Ensuring Peace and Development

Continued efforts to end conflict by pursuing development through the Payapa at Masaganang Pamayanan (PAMANA)

Bigger Investments in the Judiciary

Doubled the budget for the Supreme Court and other courts (P11.2 billion in 2010 to P23.6 billion in 2016) for faster delivery of justice

Public Safety and Territorial Defense

Allocated P25 billion and P2 billion, respectively, to fund Armed Forces of the Philippines and Philippine National Police modernization programs and fight threats within and outside of the national borders

INSIGHT FROM A JUNIOR LEADER

The Birth Pains of the GAA-as-Release Document Regime

“Birth is an opportunity to transcend. To rise above what we are accustomed to, reach deeper inside ourselves than we are familiar with,” wrote author Marcie Macari². I agree, but in another sense. While we were rolling out the GAA-as-Release Document (GAARD) in December 2013, I realized that simplifying a complex process was like human birthing, as Macari had described it: I rose above what I was not used to and accessed from within myself, allowing me to fulfil the pressing task at hand.

During the first stages of implementing the GAARD, my team at the Standards and Policy Division of the Budget Technical Service was to create a process to consolidate data coming from the different Budget and Management Bureaus. This process would churn out the data needed to group the funds into two: either under the “For Comprehensive Release (FCR)” or the “For Later Release (FLR)” categories. At first, I was apprehensive not only about the process we were to create, but also about how this reform would actually be implemented. Nobody knew because it was never executed before, as far as we were concerned.

Nevertheless, we moved fast to get it done. I created an Excel worksheet to consolidate the data needed for the FCR and FLR (also known as the “Negative List”). The FCR and FLR, both in Excel format, were eventually used as Annexes to the Guidelines on the Release of Funds for the inaugural implementation of the GAARD in 2014. But on the last working day of that year, December 27, we discovered that DBM’s e-Budget System was not ready for the GAARD, even as the Annexes were already designed. The Unified Accounts Code Structure (UACS) code and amount of each program, activity, and project (P/A/P) under the Negative List in the e-Budget System still had to be encoded for the IT system to recognize the remaining balance of each agency’s appropriations.

¹ As of this publication, Pereda is a Supervising Budget and Management Specialist of the Budget Management Bureau for Economic Development Sector, but was formerly with the Budget Technical Service (now the Budget Technical Bureau).

By Loremee L. Pereda¹

Consumed by pressure, my thoughts were on two things: the management needed to release the FY 2014 National Budget Circular for Fund Release but I needed to file a leave of absence so I could prepare for my January 4, 2014 wedding, which was just a week away.

Nevertheless, my quick response was to solicit help from the IT staff. They encoded the UACS code of each P/A/P that was in the Negative List and backed up the data in the e-Budget System. It was midnight when we finished encoding, while also checking the appropriations of each agency and making sure that the figures matched the combined amounts of the comprehensive release and the amount included in the Negative List.

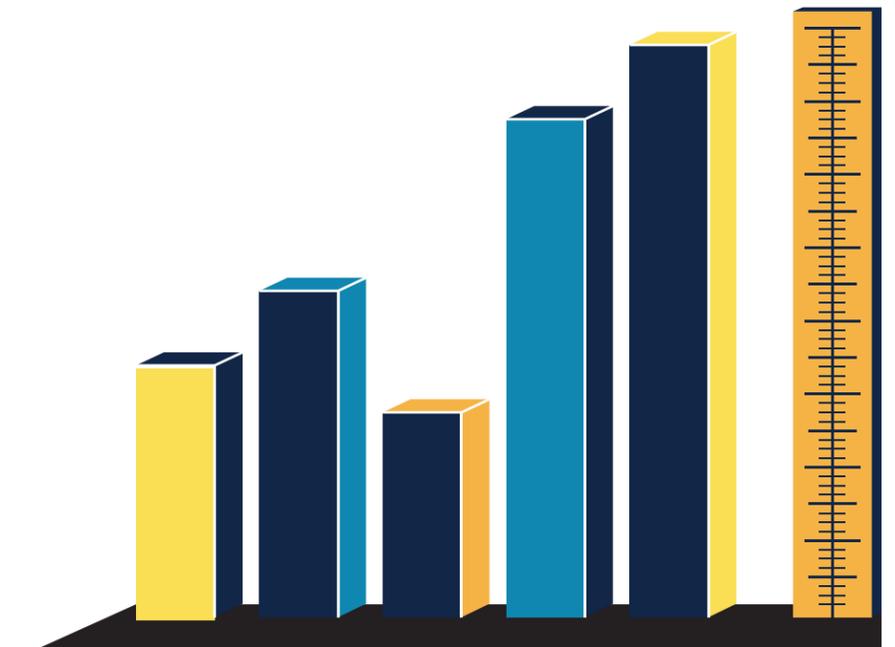
Not enough words could describe the hurdles we went through to help make the GAARD possible. This reform has brought us to where we are now: dramatically increased percentage in allotment releases, as well as more time spent on analytical work such as evaluating agency performance and identifying bottlenecks in implementing certain programs and projects.

Albeit all the challenges that evening of December 27, 2013, my January 4, 2014 wedding happily pulled through and I am now joyfully married and have experienced the true human birthing process through my twin boys.

² Macari is a natural childbirth advocate and author of *She Births: A Modern Woman’s Guidebook for an Ancient Rite of Passage*.

Delivering Measurable Results

Dapat may kuwento ng resulta sa bawat kuwenta! Each peso must be spent efficiently and directly translate to services to citizens. In 2010, the Aquino administration pursued bold reforms to streamline budget execution processes, strengthen the bureaucracy’s ability to deliver services, and clearly link spending and performance. It also began integrating the fragmented PFM system of the country by leveraging technology and capacitating public servants. These reforms helped put the country back on the track of reducing poverty and expanding the economy.



¹ Roughly translated as “each financial allocation must have a clear story of results delivered to citizens”

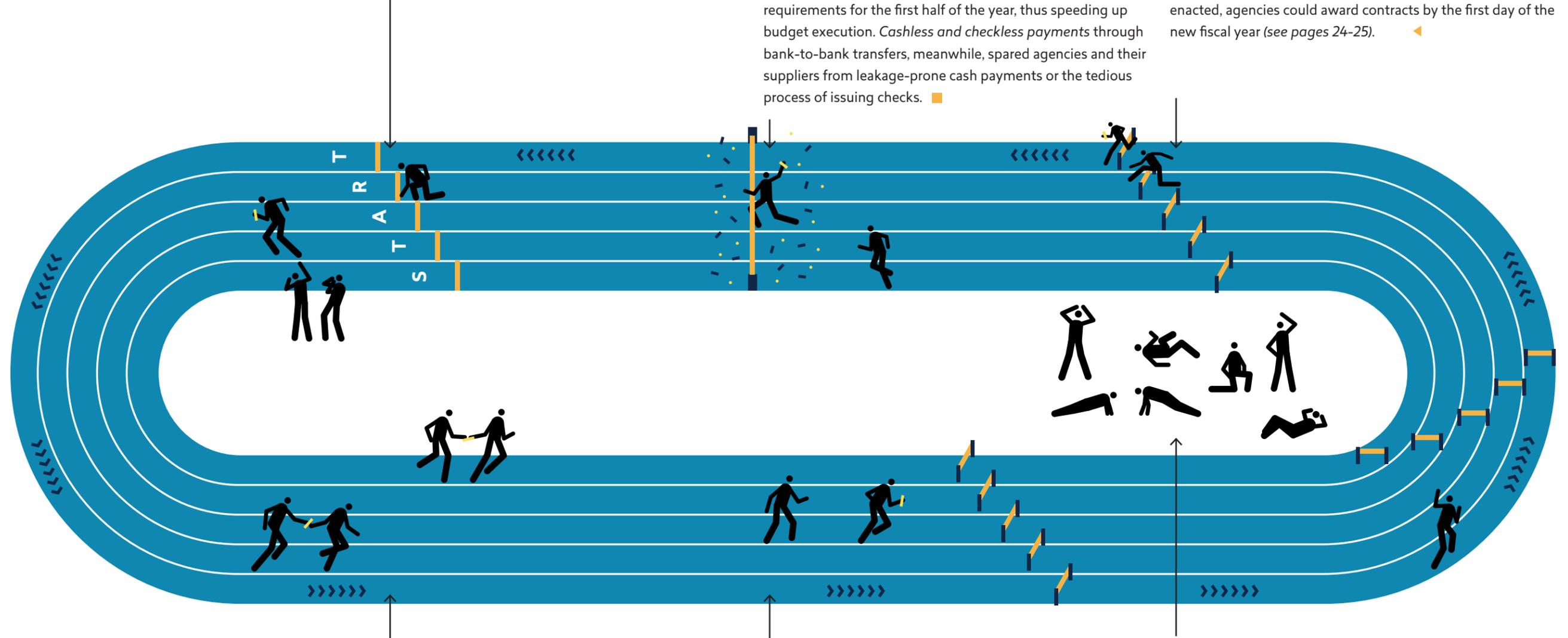
Speeding Up Budget Execution

HOW WE SPED UP SPENDING TO DELIVER RESULTS

Various reform initiatives since 2010 had changed the pace and predictability of budget release. With the Budget being passed on time and released early in the fiscal year, the government scaled up the agencies' capacity to spend and perform efficiently. Other reforms improved the expenditure performance of government agencies.

1 Program Design

Good program design leads to seamless budget execution. Through various reforms (see pages 14-15), the government prioritized programs and projects that were implementation-ready and met development objectives. It also *rationalized lump-sum items* in the Budget into detailed programs with clear beneficiaries and outcomes.



2 Early Passage or Enactment of the Budget

For six years in a row, the *Budget had been submitted and passed* on time with the help of Congress. Agencies could now implement projects at the beginning of the year (see number 4) and roll them out in better weather conditions, avoiding delays and cost overruns. This reform also ended the old practice of frequent budget re-enactments, which not only delayed the execution of the budget but also made it prone to abuse.

5 Cash Management

In the past, agencies had to request for funds repeatedly since Notices of Cash Allocations (NCAs) were issued quarterly or monthly and with a short lifespan. The *release of comprehensive NCAs* now covered all agencies' cash requirements for the first half of the year, thus speeding up budget execution. *Cashless and checkless payments* through bank-to-bank transfers, meanwhile, spared agencies and their suppliers from leakage-prone cash payments or the tedious process of issuing checks.

4 Obligation and Procurement

Once allotments were released, agencies could enter into obligations, or legal commitments to pay suppliers and other providers of goods and services. By allowing them to bid out their projects, short of award and before the new Budget was enacted, agencies could award contracts by the first day of the new fiscal year (see pages 24-25).

3 Immediate Release of the Budget

Because lump sums were reduced and more programs and projects were detailed in the General Appropriations Act (GAA), the government dramatically streamlined the release of budgets to agencies. Through the *GAA-as-Release Document (GAARD)* policy regime, the government greatly reduced the need for Special Allotment Release Orders and made the Budget implementable on the first day of the fiscal year.

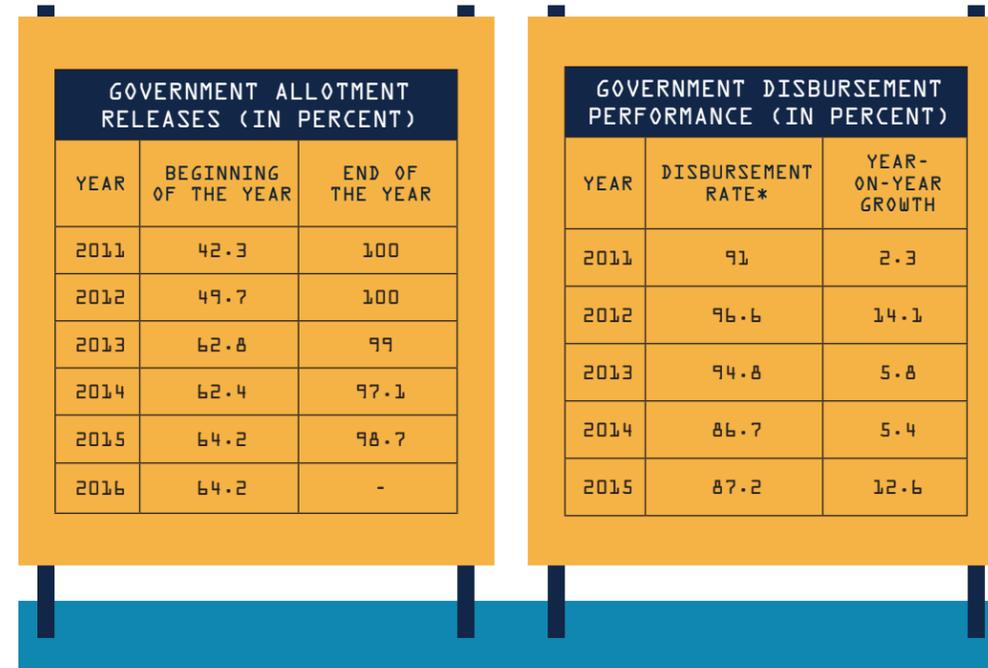
Strengthening Agency Capacity

Faster release of public funds will be worthless if agencies cannot spend their budgets and implement projects effectively and on time. Hence, additional Bids and Awards Committees now ease up procurement (related to number 4), full-time delivery units (FDUs) tracked project progress and troubleshoot delays, and key agencies hired additional technical staff (e.g., 1,391 more civil engineers for DPWH) to boost their capability to carry out projects.

Speeding Up Budget Execution

HIGHLIGHTS OF SPENDING PERFORMANCE: WHAT THE NUMBERS TELL US

These figures tell of numerous reforms since 2010 that had fast-tracked the release of the Budget and the delivery of public goods and services. In particular, the implementation of the GAARD and other reforms midway into the administration improved the process of releasing allotments and made funds available to agencies sooner.



*Disbursement rate measures how fast the agencies have used funds released to them by DBM through Notices of Cash Allocation.

Government spending fell short of target in 2011 due to early reforms that plugged leakages and improved the design of programs. Through the Disbursement Acceleration Program (DAP) and other efforts, the government sped up spending and helped boost economic growth. The DAP, however, had only lasted until 2013.

Another spate of spending below target occurred in 2014. In response, the government implemented reforms to strengthen the capacity of agencies to deliver services (see number 5, page 21). For instance, the introduction of Account Management Teams in 2012 increased public spending by 5.6 percent compared to 2011. Meanwhile, Full-time Delivery Units (FDUs), launched in 2015, increased public spending to 87.2 percent during the year, slightly arresting the declining trend of disbursement performance from 96.6 percent in 2012 to 86.7 percent in 2014.

The data in this page and the next only shows that while the spending performance has somehow improved, further reforms are needed. In particular, reforms that strengthen the capacity of agencies to plan and implement their programs and projects need to be intensified.

DISBURSEMENT RATES OF AGENCIES (IN PERCENT)

Agencies that used to spend below target improved their ability to disburse public funds (measured by NCA utilization rates), as FDUs identified and addressed bottlenecks in spending, thereby improving their capacity to deliver services. (see page 21, *Strengthening Agency Capacity*).

BEST PERFORMERS						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF NATIONAL DEFENSE	98	95	98	99	97	98
DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT	98	97	97	97	92	97
DEPARTMENT OF EDUCATION	98	96	98	96	93	96

MOST IMPROVED AGENCIES						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS	99	77	80	78	78	97
DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT	76	85	94	98	83	94
DEPARTMENT OF HEALTH	78	90	87	89	71	86
DEPARTMENT OF AGRICULTURE	83	78	91	88	75	86

WORST PERFORMING AGENCIES						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS	94	91	88	87	80	79
DEPARTMENT OF SCIENCE AND TECHNOLOGY	88	93	90	88	85	73
DEPARTMENT OF AGRARIAN REFORM	99	100	83	88	62	63
DEPARTMENT OF ENERGY	81	73	63	95	83	54

Source: Reports on Disbursements from government servicing banks

Procurement Reform

HOW WE MODERNIZED THE WAY WE BUY GOODS AND SERVICES

Procurement is a crucial stage in the budget execution process. It is the act by which the government taps the most capable suppliers that can provide goods and services with the best quality and at reasonable costs and timeframes. Hinging on the policy thrusts of the Government Procurement Reform Act, the administration aimed to deplug procurement, leverage technology, maximize the government's bulk-buying power, and improve the capacity of agencies to procure.

Speed

Procurement is a complex and time-consuming process. It normally takes 3 to 4 months to procure a contractor for an infrastructure project. To hasten the process, the government introduced the *Early Procurement Policy*: upon the submission of the Proposed Budget, agencies could proceed with procurement activities. Hence, agencies may award contracts once the GAA is enacted and begin implementing projects at the start of the fiscal year.

Digitization

The government modernized the *Philippine Government Electronic Procurement System (PhilGEPS)*: once a mere bulletin of bid announcements, it now supports a merchant registry, a bid notification feature, an integrated notice creation feature, an Auditor and Civil Society module, and e-Bidding. The PhilGEPS has also been improved to cater to more end-users and to now include a more robust Virtual Store, an Annual Procurement Plan module, and an E-Catalogue of common-use supplies procured in bulk by the government. It also has an electronic payment facility, a procurement management information system, and a contract management system. The government also incentivized agencies through the PBB (see pages 26-27) to comply with the requirement to post announcements of bids and awards through PhilGEPS.

Value for Money

The government leveraged its bulk-buying power to procure goods at the most affordable cost. It mandated agencies to use and maximize the *Procurement Service (PS)*—the government's bulk buyer—to purchase common-use supplies, such as paper and computers. This process resulted in savings of 30 percent at normal market prices. The government also modernized the PS.

Capacity of Agencies

Procurement must be strengthened across the bureaucracy. Thus, the government enabled agencies—especially those with large volume procurement requirements (e.g., DPWH)—to create additional bids and awards committees (BACs) and to assign full-time procurement technical staff to support BAC operations and other procurement activities¹ (see pages 20-21).

Since 2012, the Government Procurement Policy Board (GPPB) has been assessing the procurement performance of agencies through the Agency Procurement Compliance and Performance Indicator (APCPI) framework. Based on these assessments, agencies formulate action plans to improve processes and address problems identified. The technical support office of GPPB has also been providing capacity-building trainings to procurement personnel.



¹Administrative Order No. 46 s. 2015

Compensation Reform

HOW WE MADE GOVERNMENT PAY COMPETITIVE

Attracting and retaining talent in government requires a competitive compensation package. Executive Order (E.O.) No. 201, s. 2016 increased compensation to at least 70 percent of market rates, rationalized previously abused bonuses, and strengthened the link between pay and performance.

The E.O. No. 201 rationalized other standard bonuses such as the PEI, PERA, YEB, U/CA, and CNA Incentive.

Collective Negotiation Agreement (CNA) Incentive: Capped at P25,000, given to employees whose agencies meet 90 percent of their performance targets in the GAA and the Secretary's Performance Contracts

REPUBLIC OF THE PHILIPPINES ANNUAL PAY SLIP	
For the Year 2016	
PLANNING OFFICER IV Salary Grade (SG) 22	
PARTICULARS	AMOUNT
Annual Basic Salary	569,376
Mid-Year Bonus	47,448
Performance-Based Bonus (PBB)	35,000
Productivity Enhancement Incentive (PEI)	5,000
Personal Economic Relief Allowance (PERA)	24,000
Year-End Bonus (YEB)	52,448
Uniform/Cash Allowance (U/CA)	5,000
Collective Negotiation Agreement (CNA) Incentive	25,000
TOTAL GROSS PAY 763,272	

This sample pay slip shows increases in basic pay and certain benefits of civilian employees of national government agencies as of the First Tranche Salary Schedule released in 2016. Three more tranches are scheduled from 2017 to 2019.

E.O. No. 201 also covers LGU personnel, subject to the LGUs' financial capacity and other parameters.

The E.O. also increases the hazard pay and grants a substantial Provisional Allowance and Officers' Allowance for active military and uniformed personnel.

For GOCCs, E.O. No. 203 establishes a Compensation and Position Classification System for GOCC officials and personnel. Like in national government agencies, the E.O. institutionalizes performance-based incentives.

Annual Basic Salary: Scaled up by a weighted average of 27 percent, pre-E.O. No. 201 to the final tranche of E.O. No. 201. For this SG, the annual basic salary will increase by 11 percent in 2016 and by 53 percent in 2019 from pre-E.O. No. 201 rates.

Mid-Year Bonus: A new incentive for all employees equivalent to one-month salary

Performance Based Bonus (PBB): The Enhanced PBB is worth one to two months' basic salary depending on performance will be effective by 2017 onward.

Productivity Enhancement Incentive (PEI): Rationalized to a fixed P5,000 each for all employees

Year-End Bonus (YEB): Equivalent to one-month salary plus a P5,000 cash gift

On top of increasing basic salaries, the E.O. No. 201 introduced the Mid-Year Bonus and enhanced the PBB.

Total Gross Pay: In 2019, this bottom line will become P1,060,115, a 53-percent increase from P693,128 at pre-E.O. No. 201, if 1.25 months of the Enhanced PBB and the same benefits are included.

Source: Organization, Position Classification, and Compensation Bureau, DBM, E.O. No. 201 s. 2016, National Budget Circular No. 540

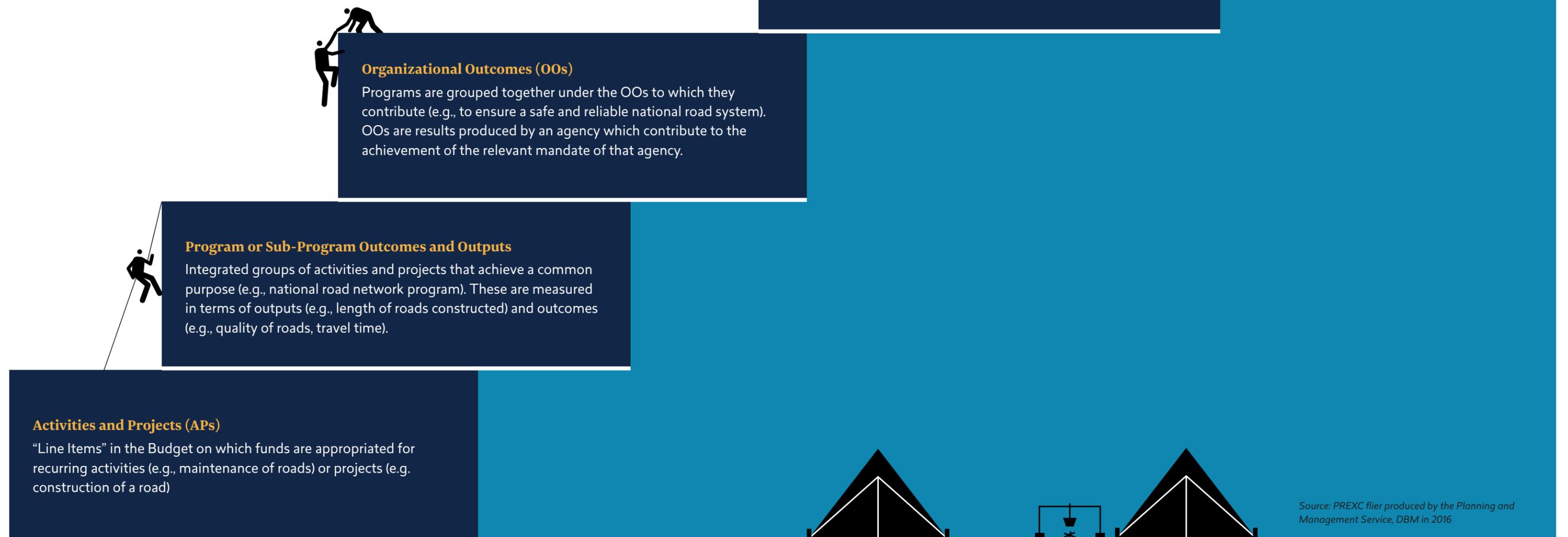
Assumptions: This salary represents step 1 of SG 22 with maximum amounts for PBB (best employee in the best bureau) and the CNA incentive. Computations exclude tax and other deductions.

Linking Budgeting and Results

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.*



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

Integrated Public Financial Management System

HOW WE LAID THE FOUNDATIONS OF TECH-DRIVEN BUDGETING

The government envisions an integrated financial management information system (IFMIS) to make financial reporting more efficient, transparent, and accountable. Since 2010, the government rolled out various tech-driven tools to automate processes and harmonized account codes structure, financial reports, and cash management.

More important is the capacity of the people who will operate the system. Thus, the government introduced the PFM Certificate Program to improve the capacity of PFM professionals throughout the bureaucracy.

Unified Accounts Code Structure (UACS)

As the IFMIS's backbone, the UACS provides a harmonized classification system for budgetary, treasury, and accounting processes across the government.

Treasury Single Account (TSA)

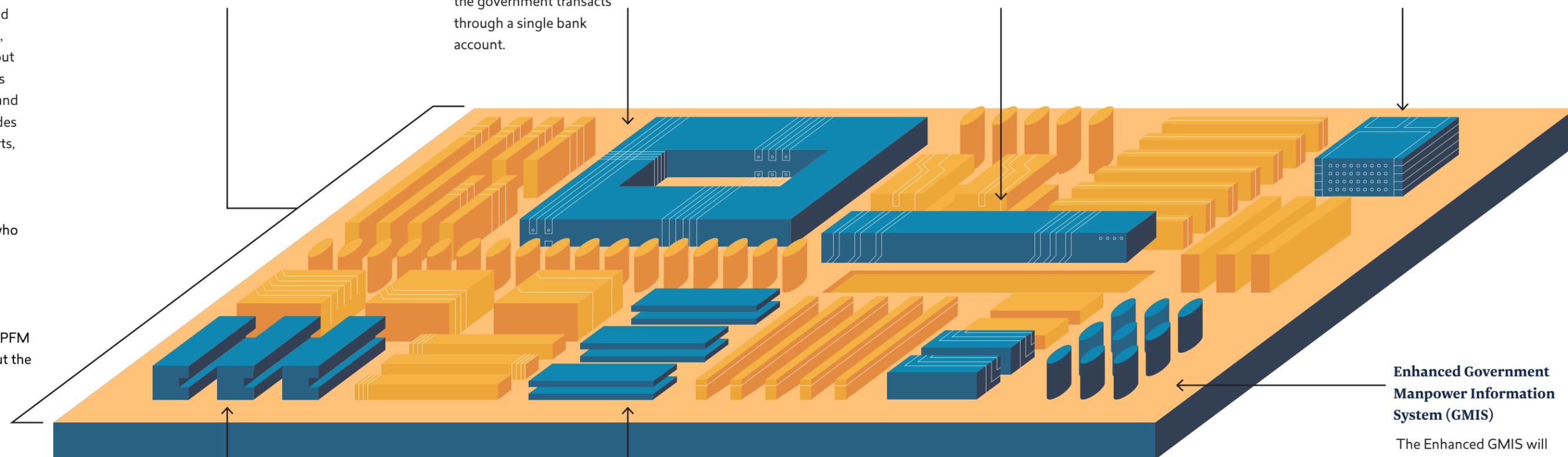
The TSA is a set of banking arrangements managed by the DOF-Bureau of the Treasury (BTr) that gives the government a consolidated view of its cash resources. Through the TSA, it is as if the government transacts through a single bank account.

Budget Treasury and Management System (BTMS)

The BTMS will serve as an integrated system for budgetary, treasury, management, accounting, and reporting processes of DBM and DOF-BTr.

Unified Reporting System (URS)

Like the OSBPS, the URS facilitates the online submission of Budget Execution Plans and Targets and Budget and Financial Accountability Reports (BFARs).



Budget Cycle Analytics (BCA)

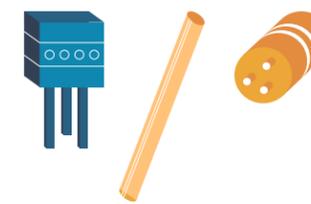
BCA enables cross comparison of UACS-based budgetary data, targets and accomplishments to support analysis and decision-making.

Online Submission of Budget Proposals System (OSBPS)

Through the online and real-time submission of budget data, the OSBPS reduces paperwork in budget preparation.

Enhanced Government Manpower Information System (GMIS)

The Enhanced GMIS will serve as a comprehensive and unified system to manage human resource information of agencies. It aims to expand and integrate manpower and payroll management.



**Other components, such as agency modules to the BTMS are for development.*

INSIGHT FROM A DBM JUNIOR LEADER

UACS: The 54-Digit Challenge

Resistance to change is human nature. Even the calmest, most composed of people would raise hell when asked to step out of their comfort zones.

The moment I flashed my presentation slide showing a 46-digit code to unify budget monitoring and reporting—the Unified Accounts Code Structure as we know it—before a crowd of more than a hundred fellow government workers, there was deafening silence. And almost immediately, a surge of side comments that sounded like bees buzzing were upon me. It felt like I was swarmed with a colony of wild bees that I disturbed while hunting for honey.

Everyone in the room could not hold back and speak their minds right at that moment, even after I assured them I would entertain questions at the latter part of the session. I had to pause awhile because I was overwhelmed by their reactions and I needed to think about how to bring them back to focus and tell them that, ‘hang on, this 46-digit code would actually make your work lives easier.’

The loudest opposition came from the operations staff, who perceived compliance to the coding system as additional workload. I understood their sentiments. After all, who would not be shocked if one were to use a 46-digit code in all the financial reports submitted to the oversight agencies? It would not help that the 46-digit code became eight digits more a year after. Hence, as a trainer, I bore the responsibility of allaying their fear of such a complex-looking code. As complicated as it seemed, the unified coding format would in the long run simplify reporting and monitoring of financial transactions and reduce time and effort wasted in duplicative paperwork.

At the end of each training, I would hope that they had agreed with my explanation that the UACS would reshape the way we do budgeting in two ways.

By Mary Joy O. de Leon¹

First, the UACS made the impossible possible: it unified previously different formats of reporting the budget as spent, accounted for, and audited. Second, we went against the odds to involve the entire bureaucracy in learning about this reform and implementing it, unlike before when we used to involve only the agency heads and leave the cascading to their staff. Although it was a financial and logistical challenge to train all the technical staff of all national government agencies in the use of the UACS, I thought that it was the best move we made. By directly sending the message of the reform to those who would use it, we were able to get more champions of reform from our UACS trainees.

The government, no matter how stable its institutions are, will encounter changes at one point. This brings me to pointing out one major challenge in implementing the UACS, from my perspective as a trainer: it was rolled out at the height of the rationalization plan. Employees occupying redundant positions were offered retirement, while some others opted for early retirement. Since the agencies only hired new employees in 2015 after the approval of their respective rationalization plans, the new hires—thousands across the agencies under our coverage—were not able to participate in the trainings we offered. Inevitably, they would not have the same appreciation and sense of ownership as the others who we were able to train.

But I believe the sense of ownership will come naturally, especially if the UACS platform is sustained and jointly refined by the oversight agencies (COA, DBM, and DOF). Also, I believe an assessment will help in gauging if the government workforce, especially the new ones, are keeping up with the use of UACS. Despite the challenges, I am glad that change has come, and that my fellows in the bureaucracy are gradually accepting it.

¹ As of this publication, de Leon is a Senior Budget and Management Specialist of the Budget Management Bureau for Food Security, Ecological Protection, and Climate Change Management Sector.

Empowering Citizens

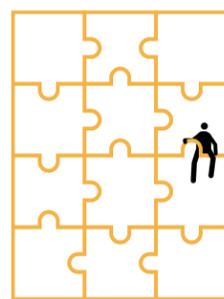
Government exists through the mandate of the people—as well as their taxes. Against a backdrop of corruption and ineffective service delivery in the past, the people installed the Aquino administration in 2010, which took a fresh mandate to restore trust between the government and its people. To honor the spirit of People Power, the administration increased transparency, citizens’ participation, and accountability in the way public funds were managed. Through these reforms, the Philippines became a global leader in fiscal openness.



Fiscal Transparency

HOW WE OPENED UP THE BUDGET CYCLE TO THE PEOPLE

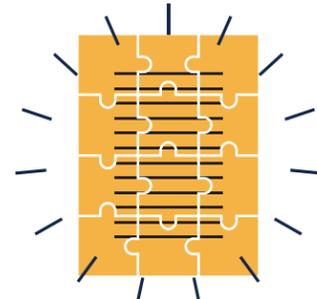
Fiscal transparency enables better management of public resources and better government performance. The Philippines adhered to best practices in fiscal transparency by publishing these eight essential budget documents regularly. Moreover, the government leveraged technology to improve the availability and accessibility of budget information to the public.



1

Budget Priorities Framework

This defines estimated revenues, expenditures, and debt based on assumed economic conditions, and also discusses the priority programs and provinces that agencies' proposed budgets must reflect.



2

Proposed National Budget

This is composed of the Budget of Expenditures and Sources of Financing, the National Expenditure Program, and other supporting documents. Through major reforms, the Proposed Budget now includes detailed programs and projects, performance indicators and targets, and narrative explanations of proposed policies.



3

General Appropriations Act (GAA)

The GAA or Enacted Budget is the Budget approved by Congress and signed into law by the President.



4

In-Year Reports

These monthly and quarterly reports published by DBM and DOF track government's actual revenues, expenditures, and debt management. Agencies also prepare and publish regular budget and financial accountability reports (BFARs).

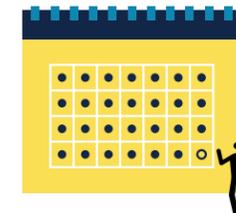
- Regular online disclosure of:
 - DOF-BTr: Cash Operations Reports, Debt Statistics, etc.
 - DBM: Allotment Releases, Status of Obligations, Cash Allocations Releases, Disbursements
- Disclosure by agencies of Budgets, key programs, and BFARs via *Transparency Seals*



5

DBCC Mid-Year Report

It summarizes the government's economic and fiscal performance, along with the status of major programs and projects, as of the first semester of the year. It also explains differences between actual performance and targets, and discusses target adjustments, if any, for the rest of the year.



6

DBCC Year-End Report

This provides a complete review of the government's actual economic and fiscal performance and indicators. The performance of major programs and projects are also reported. Here, the actual outturns are reported against the original program set by the National Budget.



7

COA Annual Audit Reports

The COA publishes the annual financial report, annual audit reports, special audit reports, and others to evaluate the integrity and completeness of the financial accounts of the national government, individual agencies, LGUs, and GOCCs.



8

People's Budget

Composed of publications and varied multimedia products, the People's Budget translates technical information on the Budget into plain language and creative graphics. The People's Budget is ideally published throughout all four phases of the budget cycle.

Technology for Transparency

The government leverages ICT tools and social media to produce and disseminate budget information to the public. Technology-driven transparency initiatives include a) the Open Data project; b) the Transparency Seal; c) online disclosure of releases from the erstwhile pork barrel fund; and d) online publishing of the eight budget documents and other budget reports.

Budget Integrity and Accountability

HOW WE BUILT SAFEGUARDS IN PUBLIC SPENDING



Since 2010, the administration had implemented reforms to strengthen Budget Integrity: government expenditures could now be clearly accounted for according to the appropriations approved by Congress. These reforms enabled oversight institutions, especially Congress, and the public to hold government accountable in faithfully implementing the Budget.

Prior Year's Appropriations

Using the past year's Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

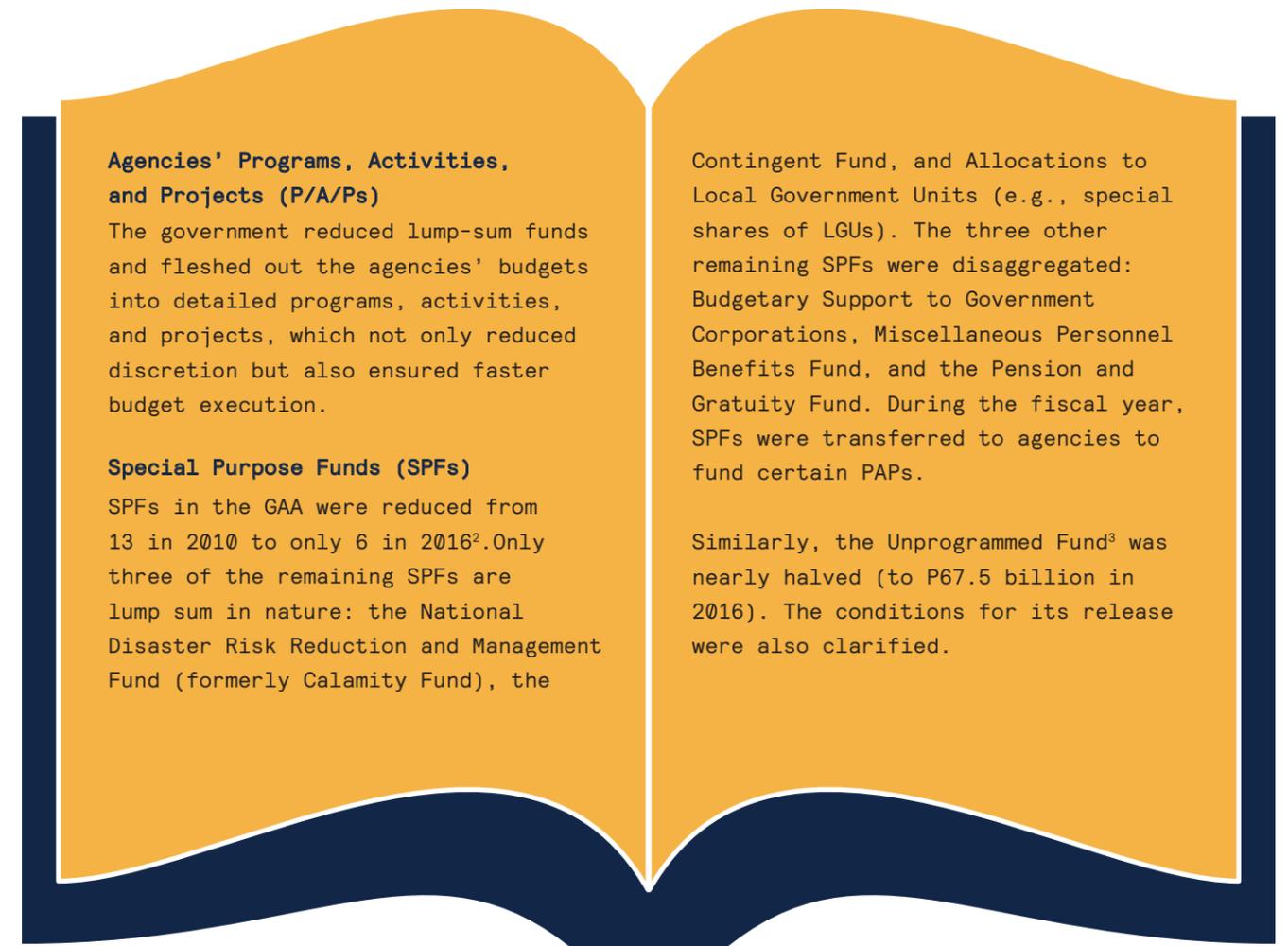
By ensuring that the GAA was enacted on time for six fiscal years in a row, the government **ended the frequent re-enactment of the Budget** in the past: a practice that delayed the delivery of services and gave the previous administration a vast amount of discretion to shift funds allocated for completed programs and projects.



Off-Budget Accounts (OBAs) and Special Accounts in the General Fund (SAGFs)

The government ensured the prudent and transparent use of OBAs and SAGFs¹. For example, the Malampaya Fund, an SAGF, was now strictly used for energy development-related projects. The government also started the practice of disclosing revenue collections, utilization, and balances from OBAs as part of the Proposed Budget and improved the presentation of SAGFs in the Budget documents.

¹ OBAs and SAGFs are authorized by law to be collected from specific revenue sources (e.g., royalties from oil and gas exploration) and used for specific purposes (e.g., energy development). However, SAGFs are still considered as budgetary accounts (part of the total Budget program) but are earmarked for particular purposes; while OBAs are not part of the Budget program (e.g., retained revenue of hospitals that are collected, spent, and accounted for in addition to the National Budget).



Agencies' Programs, Activities, and Projects (P/A/Ps)

The government reduced lump-sum funds and fleshed out the agencies' budgets into detailed programs, activities, and projects, which not only reduced discretion but also ensured faster budget execution.

Special Purpose Funds (SPFs)

SPFs in the GAA were reduced from 13 in 2010 to only 6 in 2016². Only three of the remaining SPFs are lump sum in nature: the National Disaster Risk Reduction and Management Fund (formerly Calamity Fund), the

Contingent Fund, and Allocations to Local Government Units (e.g., special shares of LGUs). The three other remaining SPFs were disaggregated: Budgetary Support to Government Corporations, Miscellaneous Personnel Benefits Fund, and the Pension and Gratuity Fund. During the fiscal year, SPFs were transferred to agencies to fund certain PAPs.

Similarly, the Unprogrammed Fund³ was nearly halved (to P67.5 billion in 2016). The conditions for its release were also clarified.

Savings and Augmentation

After the Supreme Court's decision on the Disbursement Acceleration Program, the government clarified the definition of savings and their use to augment deficient P/A/Ps. For instance, savings could not be declared from unused funds that result from discontinued P/A/Ps due to the fault or negligence of agencies concerned.

² The count excludes Interest Payments and the Tax Expenditure Fund, and the Internal Revenue Allotment for local governments, which are automatic appropriations. The other SPFs were eliminated or transferred under the agencies' budgets (e.g., E-Government Fund, School Building Program).

³ The Unprogrammed Fund includes appropriations approved by Congress but may only be used if the government earns windfall revenue: if it collects non-tax revenues in excess of targets, if it gains new revenue sources, or if it perfects new loan agreements (e.g., for official development assistance). The amount for the Fund is on top of the Budget program (i.e., not counted as part of the 2016 P3 trillion Budget) as revenues for and expenditures from the fund added to the Budget program.

Participation

HOW BOTTOM-UP BUDGETING EMPOWERED CITIZENS

In 2010, the administration began to open up the budget process to the participation of citizens, including civil society organizations (CSOs). It established formal mechanisms for participatory budgeting, such as the Bottom-up Budgeting (BuB), the Budget Partnership Agreements, and COA's Citizen Participatory Audit. Through these mechanisms, the Philippines ranked 5th in the world for participatory budgeting as per the 2015 Open Budget Survey.

BuB was the most notable among these reforms. It empowered people in the grassroots with a greater voice and stake in crafting and implementing the National Budget. It also supported meaningful devolution by incentivizing LGUs to adopt good governance standards and engage their citizens.



CSO Assembly

BuB requires LGUs to hold CSO assemblies open to all CSOs in the locality. The assembly is conducted to: 1) select the CSO representatives to the Local Poverty Reduction Action Team (LPRAT); (2) discuss their locality's poverty situation; (3) identify projects to propose to the LPRAT and; (4) discuss the status of ongoing BuB programs and projects.

Identification of Poverty Reduction Programs

The LPRAT, composed of equal number of representatives from the LGU and CSOs, convenes a series of workshops to formulate their LGU's Local Poverty Reduction Action Plan (LPRAP). The LPRATs may choose from a menu of programs and projects in developing an LPRAP that suits their locality's poverty situation.

Submission of Proposed Programs and Projects

The LPRAP must first be signed by at least three CSO members of the LPRAT before it may be considered for funding in the National Budget. These plans are submitted to the Regional Poverty Reduction Action Team (RPRAT) for checking and validation.

Funding the Programs and Projects

The respective RPRATs and the National Poverty Reduction Action Team (NPRAT) review and approve the proposed programs and projects. Once approved, these projects may be funded in the Budget, through either of the following:

- Integration to the budget of participating national government agencies that will implement the projects (e.g., Department of Health for health facilities)
- Direct download to LGUs for implementation, provided that they have:
 - Seal of Good Financial Housekeeping
 - Proof of progress in the Public Financial Management Improvement Plan
 - Timely implementation of past BuB projects

LGUs are also required to provide counterpart funds for the implementation of the project.

Project Implementation

CSOs and citizens continue to be engaged during the implementation of BuB projects:

- CSO members of the LPRAT can observe the procurement of BuB projects.
- A group composed of LGU and CSO representatives visit BuB project sites for monitoring.
- Quarterly LPRAT meetings about the progress of BuB projects are conducted.
- Reports on the progress and status of all BuB programs and projects are submitted and posted online at **OpenBuB.gov.ph**.

Conclusion

HOW CAN A NEW REGIME OF SOUND FINANCIAL MANAGEMENT BE ACHIEVED THROUGH SUSTAINED REFORM?

The incoming administration will inherit a solid platform for PFM after a slew of game-changing reforms. In the last six years, the government had improved the generated resources vigorously and spent them efficiently, increased the budget for social and economic services, and placed the country on a path toward further growth. At the same time, it opened up more spaces for public participation in the budget process.

The gains so far. International measures have validated the success of the country's budget reforms so far:

- The recent Public Expenditure and Financial Accountability (PEFA) assessment¹ saw marked improvements from 2010 due to these bold reforms:
 - Of the 28 indicators, the Philippines is now rated “A” or “B” in 17 in 2016, vs. just 8 in 2010.
 - More transparent public finances, a stronger budget formulation process, and the presence of predictability and control in budget execution
- The IMF's Fiscal Transparency Evaluation (FTE) in 2015 rated the Philippines as advanced or good in 23 of 36 aspects of PFM, such as in-year reporting, public participation, and fiscal risks management.
- The 2015 Open Budget Survey (OBS) placed the Philippines in the league of countries that provide substantial budget information and opportunities for citizens to engage the budget process. The country ranked 1st in Southeast Asia and 21st in the world for transparency and 1st in Southeast Asia and 5th in the world for participation.

The challenges at hand. Still, a lot more needs to be done. The PEFA assessment likewise noted that the credibility of the Budget, the accounting and reporting practices, and the independent oversight need to be strengthened. The country's PFM system should also constantly adapt to the changing demands of the economy and society.

The next administration may sustain and scale up reforms by building on the gains so far, addressing the remaining gaps, strengthening the capacity of the agencies to manage their finances, and creating a PFM system that compares with the best in the world. The following are the challenges that cut across various PFM reform areas and options to address these:

Policy Strength

1. **Push for a Public Financial Accountability Act.** Many reforms in the last six years lacked a solid policy foundation. The passage of a PFM law provides not only a consolidated legal framework, but also a means to cement reforms and to strengthen Congress' power of the purse (see pages 42-43).
2. **Marry Line-item Budgeting and Program Budgeting.** The presentation of line items in the Budget supported transparency and enables reforms like the GAA-as-Release Document. However, such line items must be organized according to programs through PREXC. Such move may help achieve efficient planning, utilization, evaluation, and reporting of spending and performance.

Institutional Capacity

1. **Strengthen the capacity of implementing agencies.** Reforms have so far tightened the link among planning, budgeting, performance, and accountability at the national level. The same processes, however, should be strengthened at the level of implementing agencies. By supporting and incentivizing best practices, DBM can encourage the agencies to build systems that best fit their unique needs.

¹ Conducted by the World Bank in the Philippines from 2015 to 2016

2. **Help agencies catch up with their spending.** In the last two years, the government had spent below program by about 13 percent, at the expense of service delivery. Such a situation requires interventions to help agencies keep up with their increasing budgets and strengthen their ability to plan, implement, and evaluate programs and projects.
3. **Empower local governments to deliver services.** Ongoing efforts to strengthen PFM in LGUs and incentivize good local governance support the further devolution of resources and service delivery functions to the LGUs. This way, the national government can focus on its core functions, such as economic growth, national defense, and foreign relations and trade.
4. **Strengthen oversight.** Financial accountability requires strong external oversight by Congress and COA. However, the PEFA, OBS, and FTE highlight key gaps in the ability of Congress to scrutinize the Executive's finances and the results delivered. Reforms—such as the improvement of financial reporting practices, as well as the inclusion of performance indicators in the Budget—seek to help strengthen Congress' power of the purse.

Leveraging Technology

1. **Continue the IFMIS.** The PEFA recommends the “continued development of a comprehensive, integrated accounting and financial information system” to improve the monitoring of the agencies' performance and scale up their capacity to deliver results for every peso spent. The development of the IFMIS should also make use of new technologies, such as cloud computing, that could help make the system more robust and efficient.

Stakeholder Support

1. **Build greater public appreciation of reform initiatives.** The turn of events midway into the Aquino administration brought about a stronger public clamor for change. Still, independent surveys had shown that the public, particularly the private sector, appreciated the reforms introduced in the last six years. Efforts to solidify the support of stakeholders for reforms should be sustained:
 - SWS Enterprise Survey: DBM's sincerity in fighting corruption went from “bad” in 2009 to “neutral” in 2015.
 - Global Competitiveness Survey: The Philippines' rank in indicators on reducing the wastefulness of public spending and the diversion of public funds has improved.
2. **Bureaucracy supports reforms when benefits are clear.** An internal survey of DBM shows that PFM professionals buy into reforms—most notably, the GAA-as-Release Document—that clearly improve the way they work.

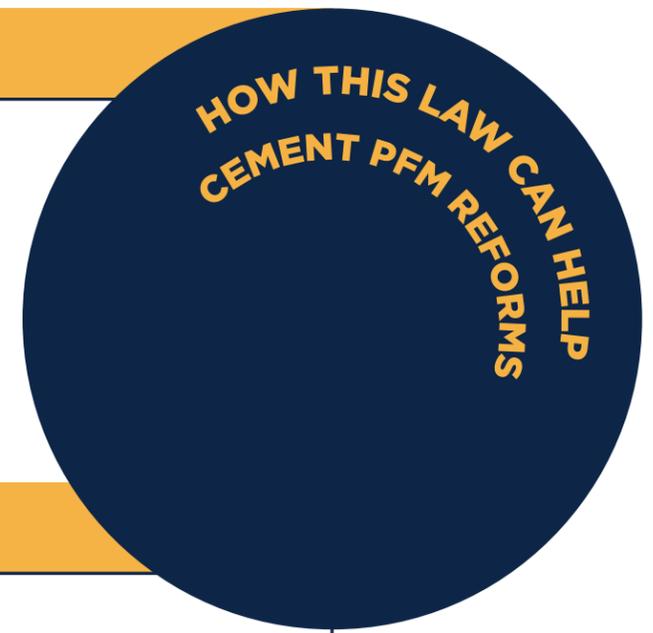
Prospects for Further Reform. Moving forward, the new leadership may consider prioritizing and sequencing reforms according to the urgency of challenges to be addressed. It may manage the pace of reforms to enable the bureaucracy to understand, embrace, and implement these. The DBM should also continue its institutional strengthening efforts so it can sustain and support agencies in the process of implementing reforms (see pages 44-45).



The Proposed PFM Law

The proposed Public Financial Accountability Act¹ seeks to modernize the Philippines' legal framework for PFM, which is governed by a mix of laws and regulations on Budget management. The proposed law seeks to align the country's PFM practices with international standards, institutionalize reforms in budgeting, and strengthen Congress' and the public's oversight on the budget through greater transparency, accountability, and participation. In particular, the bill will cement the following reforms and practices under each of the four phases of the budget process.

Phase 1: Preparation					
Supports long-term fiscal sustainability and the alignment of Budgets with development goals					
Requires a national <i>Medium-Term Fiscal Strategy (MTFS)</i>	Links the PDP with the annual Budget through the <i>Budget Priorities Framework</i>	Institutionalizes <i>Performance-Informed Budgeting</i> , which links proposed appropriations to agencies' performance targets	Clarifies the form and content of the Proposed Budget, which includes the <i>Fiscal Risks Statement</i>	Requires agencies to formulate <i>Annual Plans</i> with strategic priorities, performance targets, programs and projects, etc., to support their budget proposals	
Phase 2: Legislation					
Strengthens Congress' power of the purse					
Rationalizes lump-sum <i>SPFs</i> and the <i>Unprogrammed Appropriations</i>	Clarifies the parameters for <i>Savings, Augmentation, and Realignment</i> , in line with the Supreme Court's decision on DAP	Clarifies <i>parameters</i> for the <i>re-enactment</i> of the GAA to reduce discretion of the Executive	Limits SAGFs to a <i>three-year period</i> , or until the <i>fulfillment of their purpose</i> , whichever comes earlier		
Phase 3: Execution					
Facilitates the prompt disbursement of public funds and service delivery					
Institutionalizes the <i>GAARD</i> to streamline the budget execution process	Authorizes <i>Early Procurement and Multi-Year Contracts</i>	Sets a <i>one-year validity for appropriations</i>	Regularly reviews <i>Special Funds (OBAs)</i> and <i>SAGFs</i> which are funds not subjected to the annual budget legislation process	Enforces the <i>TSA</i> to enable the effective and real-time management of available cash resources	
Phase 4: Accountability					
Improves transparency, reporting, monitoring and evaluation, and citizens' participation in PFM					
Requires the government to publish <i>Fiscal Reports</i> against its MTFS	Requires agencies to publish <i>quarterly reports on their performance</i> , and to enforce <i>internal controls</i>	Creates the <i>OCG</i> to enforce public accounting and internal controls, and to prepare consolidated financial reports	Institutionalizes the <i>People's Budget</i> and fiscal transparency practices	Sustains <i>BuB</i> and requires other participatory budgeting mechanisms	Mandates Congress to <i>monitor the government's performance</i> against the GAA, and to <i>review reports</i> mandated by the Act

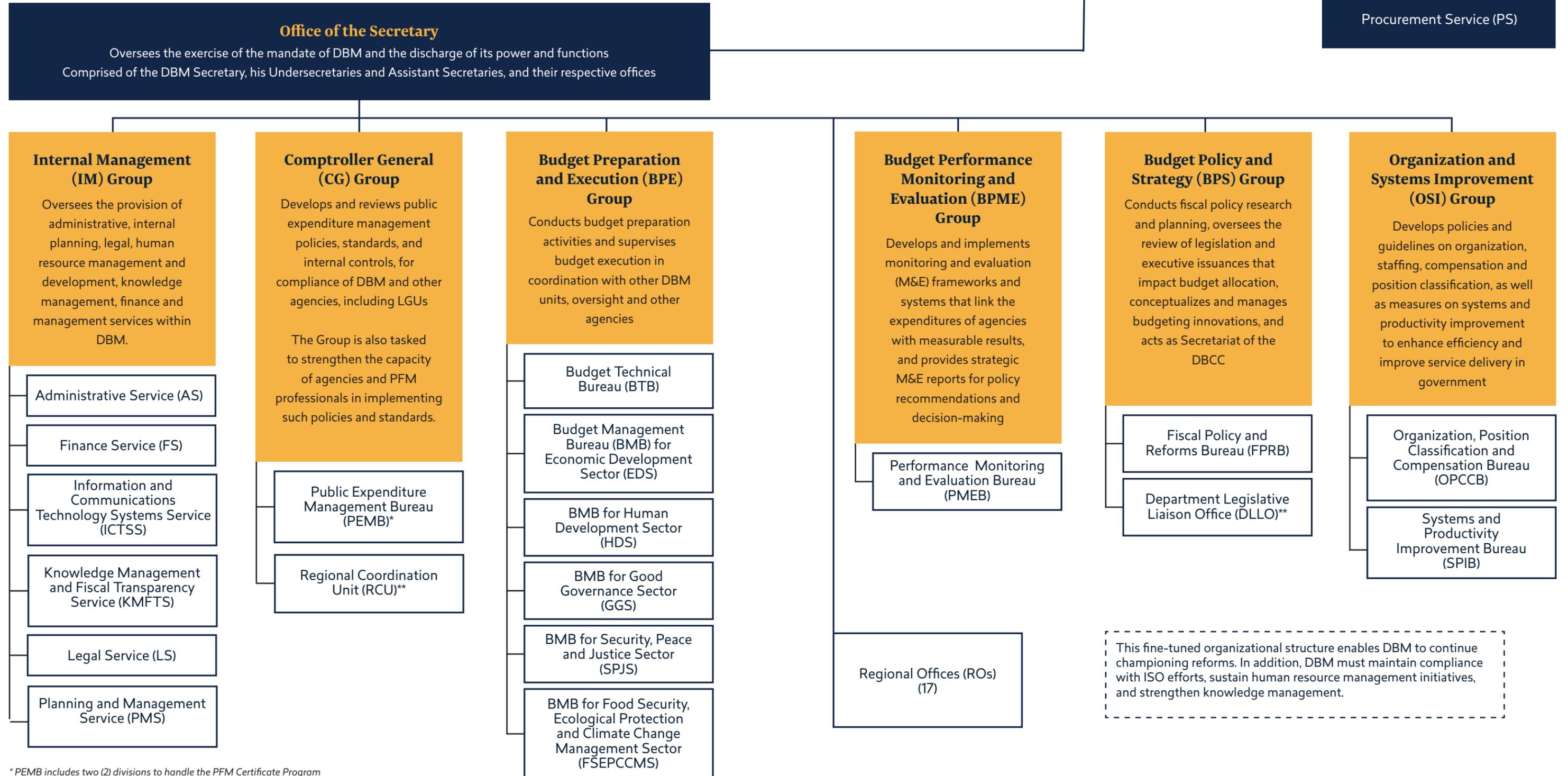


¹ Filed in the 16th Congress by Senators Ralph G. Recto (SB No. 2719), Franklin M. Drilon (SB No. 2750), and Juan Edgardo M. Angara (SB No. 2777); and Representatives Maria Leonor Gerona-Robredo, Arlene J. Bag-ao, and Henedina Abad (HB No. 6117).

DBM's Institutional Strengthening Efforts

A REVITALIZED DBM

The DBM had pursued institutional strengthening efforts to support the sustained rollout of reforms. Aside from investing in its human resources and streamlining its systems, DBM also fine-tuned the organization of its bureaus, offices, and units to enhance the agency's service delivery and performance.



* PEMB includes two (2) divisions to handle the PFM Certificate Program
** Items are currently lumped or straight listed under OSEC

Sources: SPIB, DBM Department Order Nos. 2014-4, 2015-7, and 2016-9

Acknowledgments

The **Knowledge Management and Fiscal Transparency Service (KMFTS)** would like to thank:

Sec. Abad, Usec. Abuel, Usec. Amador, Usec. Cantor, Usec. Moya, Usec. Pascua, Usec. Relampagos, ASec. Canda, ASec. Castillo, ASec. Chua, ASec. Hamada, and ASec. Yanto for their support, guidance, and encouragement throughout the budget reform documentation project

The DBM's partner-agencies in the Development Budget Coordination Committee (DOF, NEDA, OP, BSP) and the PFM Committee (COA, DOF, BTr) for their commitment to the pursuit of unprecedented PFM reforms

Partners in civil society, the international community, and other stakeholders who supported the implementation of PFM reforms. In particular, the Australian DFAT, the World Bank, the IMF, the EU, the ADB, the USAID, and other development partners for their assistance

The heads of the bureaus, services, units, and regional offices of DBM for providing their insights throughout the making of this publication; and their staff for assisting in validating the data presented

The former staff of the KMFTS and the Office of the Secretary for helping us break ground by providing project management support, drafts, and inputs in the earlier stages of the project

The participants of the DBM Tibay Junior Leadership Development Program for putting into writing their experiences in implementing budget reforms, their Writer-Coaches for their mentorship through the process, and the DBM Tibay JLD Project Team for efficiently coordinating between KMFTS and the JLD participants for various activities

Dan U. Matutina and Bernice de Leon-Yumul for their overall creative direction and artistic rendition of key reforms

Adela Sta. Cruz-Espina for her continuous editorial support, patience, and valuable lessons on both writing and life

And everyone who has, in one way or another, contributed their time and effort to the success of this publication.



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