THE PROPOSED PHILIPPINE PUBLIC FINANCIAL ACCOUNTABILITY ACT

How This Law Can Help Cement Our PFM Reforms

IN A NUTSHELL

- A PFM law sets the policies and rules on how the Budget is formulated, legislated, enacted, and reviewed. It should enable the effective management of the Budget to meet a country's development objectives.

- To review and revise the Philippines' currently-outdated and fragmented legal framework on PFM, the administration proposed a Public Financial Accountability Act in 2015 to:
  - Address gaps in the country's PFM system, in line with international practices
  - Provide a permanent basis for reforms introduced since 2010
  - Strengthen Congress' power of the purse

- The proposed measure, composed of nine parts and a total of 79 sections, seeks to:
  - Establish fiscal responsibility principles that any administration must uphold
  - Mandate the stronger link between planning and budgeting
  - Strengthen Congress' power of the purse by limiting the Executive's discretion and emphasizing the legislature's role to scrutinize the Executive's Budget performance
  - Institutionalize reforms for efficient budget execution and financial management
  - Strengthen accountability and reporting through, among others, the Comptroller General
  - Uphold transparency and participation throughout the budget cycle

- To date, the bill remains pending in Congress. To prepare for its enactment, the government:
  - aligned current policies and regulations with the bill's provisions
  - invested in capacity-building efforts for PFM professionals in public service
  - in particular, DBM completed its institutional strengthening efforts to better monitor the performance of agencies and enforce standards of fiscal openness

> "What matters now is to ensure that PFM reforms are sustained and even further escalated beyond the present Administration. It is, thus, the duty of Congress—who holds the power of the purse—to pass legislation that enforces greater accountability in the use of public funds."
>
> **Senator Ralph G. Recto**
> SENATE BILL NO. 2719, FILED IN THE 16TH CONGRESS

A PFM law or budget system law[1] is "a formal expression of the rules that govern budgetary decisions made by the legislature and the executive (Fainbom and Lienert, 2010)." Such a law defines the roles, processes, timelines, and standards that govern the PFM process. These laws define countries' budgeting systems according to their unique governance and political systems, as well as their different socio-economic and cultural settings. As such, it is inappropriate to set a model or "one-size-fits-all" law for countries; instead, these laws may be based on certain basic principles (see Table 1). (Lienert and Jung, 2004)

Table 1. Ten Basic Principles of Budget Systems Laws (Adapted from Lienert & Jung, 2004)

Principle[2]	Summary Description
1. Authoritativeness	Decision-making authorities are clearly specified in each stage of the process.
2. Annual Basis	The Budget is provided for a 12-month period.
3. Universality	All revenues and expenditures are included in the Budget.
4. Unity	The Budget presents all receipts and payments at the same time.
5. Specificity	Revenues and expenditures are presented in detail.
6. Balance	Expenditures are balanced by revenues and financing.
7. Accountability	Accountabilities of the Executive to the Legislature, within the Executive, and to an independent external audit body are clear.
8. Transparency	Roles and definitions are clear and Budget information is made public.
9. Stability	Budgetary objectives are set through a medium-term framework.
10. Performance	The expected and past results of programs are reported in the Budget.

Source: COA-DBM Joint Circular No. 2014-1

A PFM law should enable the effective management of the Budget to meet a country's development objectives. As such, countries enact new laws or amend existing ones for various reasons: "to introduce budget reforms – perhaps as a result of a budget crisis; to change the balance of power between the legislature and the executive; to enhance macro-fiscal stability; to enhance transparency and accountability in the budget system (Lienert and Jung, 2004)."

REFRESHING THE OUTDATED AND FRAGMENTED LEGAL FRAMEWORK

The Need for a Modern and Reform-Oriented PFM Law

PFM in the Philippines is currently governed by a collection of laws, executive decrees and orders, implementing rules and regulations, and other policy issuances (see box/sidebar)[3]. The Fiscal Transparency Evaluation (FTE) on the Philippines has stated that the Philippines' PFM framework "suffers somewhat from fragmentation... full transparency would suggest that it also be clear, self-consistent, and easily accessible (IMF, 2015)." More recently, the 2016 PEFA Assessment on the Philippines' PFM system highlights the "review and revision of the legal framework for PFM to ensure clarity, control, and comprehensiveness" as a crucial step to address weaknesses in budget credibility, legislative oversight, internal controls, accounting, and financial reporting (GPH et. al, 2016). It is also noteworthy that the last comprehensive law on PFM was enacted in 1987, as Book VI of the Administrative Code[4].

Thus, the legal framework on PFM in the Philippines needs to be updated to reflect the new policies that have been introduced since 2010. These reforms include those that enhance budget preparation, fast-track budget execution, restructure the budget to emphasize performance, and introduce best practices in fiscal openness. As discussed in the concluding chapter, many of these new reforms require a permanent mandate through law to be made irreversible. A number of these reforms are also still being completed, and a law will help ensure that these initiatives will continue toward their full evolution.

Moreover, gaps in the legal framework surfaced throughout the implementation of PFM reforms. Most significantly, the landmark decision of the Supreme Court on the PDAF (see The End of PDAF) brought to fore the need to clearly delineate the roles of the Executive and Congress in PFM. The parameters on the use of savings have been clarified through the GAA; though there are other areas of "power of the purse" reforms, such as addressing the proliferation of off-budget accounts (OBAs) and special accounts in the general fund (SAGFs).

The origins of the PFM bill

The work to develop a proposed PFM bill began in mid-2014, in the aftermath of the Supreme Court rulings on the PDAF and the DAP[5]. At that time, the initial results of the FTE were presented to DBM and other PFM oversight agencies. While it validated the results of bold PFM reforms that had been introduced since 2010, the FTE report highlighted lingering policy gaps that needed to be cured: from core problems with data integrity and comparability in fiscal reporting to the lack of long-term fiscal sustainability analyses.

To help institutionalize recent PFM reform efforts and bridge gaps between law and praxis, the DBM spearheaded initial work to determine the potential elements of the proposed measure. Shortly after, an inter-agency working group—composed of DBM, DOF, BTr, GCG, and COA—developed the proposed PFM bill. International development partners assisted the government in developing the measure, such as the Australian Department of Foreign Affairs and Trade (DFAT) through the Australia-Philippines PFM Program and the IMF through a technical assistance mission in October 2014[6].

In early 2015, the inter-agency working group produced a draft bill and began engaging legislators who could be potential champions of the bill. After several discussions between the working group and the legislators, the following legislators filed their versions of the bill: Senators Ralph G. Recto, Franklin M. Drilon, and Juan Edgardo M. Angara, and Representatives Henedina Abad, Kaka Bag-ao, and Leni Robredo[7].

The current legal framework on PFM in the Philippines

The 1987 Constitution itself provides the foundation for PFM as it defines the roles of institutions and how these relate to each other as well as sets fundamental budget and management policies. Foremost of such policies are that the disbursement of funds must be based on appropriations provided by law (Article VI, Section 29.1); and that the President must annually submit to Congress a Budget of Expenditures and Sources of Financing as basis for the GAA (Article VIII, Section 22).

These foundational policies in the Constitution are further fleshed out through law. The most comprehensive of such laws is Executive Order (E.O.) No. 292 or the Administrative Code of 1987, which sets aside an entire book to national government budgeting[8]. The Administrative Code also defines the PFM functions of key oversight agencies. Book VI covers chapters on budget policy and approach, preparation, authorization, execution, accountability, and expenditure of appropriated funds. The law also introduces the fundamental link between planning and budgeting, which underscores the sound use of the budget as a tool for long-term development. Book VI of the Administrative Code of 1987 is patterned after the Budget Reform Decree of 1977, Presidential Decree (P.D.) No. 1177[9].

Specific laws relevant to the PFM process include the Government Auditing Code of the Philippines, P.D. No. 1445 of 1978, which defines the policies and guidelines on government auditing and the accounting of public funds, as well as the functions of COA. The Local Government Code of 1991, Republic Act (R.A.) No. 7160, mandates that 40 percent of the national government's internal revenue taxes be distributed to the local government units (LGUs) as internal revenue allotment (IRA), and sets forth rules on the fiscal administration of the LGUs. The Government Procurement Reform Act of 2003, R.A. No. 9184, unifies the country's previously fragmented regulations on government procurement and makes it competitive and transparent (see Procurement Reform).

Another important aspect of the Philippines' legal framework on PFM is the annual GAA itself. It contains general and special provisions[10] (GPs and SPs) that set rules on how the Budget should be released, spent, and adjusted if necessary. These provisions also highlight other fund sources of agencies and ensure their proper release and use. However, these GPs and SPs can be changed annually depending on the policies to be proposed by the Executive and approved by Congress. These many GAA provisions also illustrate the fragmentation of the PFM legal framework in the country, as "in many instances [these provisions] mention the various regulations the NGAs must abide by to avoid them from being overlooked (IMF, 2015)." In addition, a number of SPs pertain to SAGFs and OBAs which, as the FTE noted, "are created by separate laws outside the budget process and tend to define one-off regimes that do not always appear to be consistent with the overall budget framework (IMF, 2015)."

The Executive and its oversight agencies on PFM issue rules, regulations, and guidelines on how to implement these laws. The President, for one, issues Executive Orders (E.O.s), Administrative Orders, and other directives on the management of public finances. Key orders issued by President Aquino include E.O. No. 43, which directs all the agencies to align their expenditures with the key result areas of his Social Contract with the Filipino People; and E.O. No. 55, which organizes the PFM Committee, composed of COA, DBM, DOF, and BTr. The DBM, as an oversight agency, also issues memoranda, circulars, and guidelines to ensure that the National Budget is prepared, executed, and accounted for efficiently and effectively. Perhaps the most important issuances that the DBM produces annually are the Budget Call and Budget Priorities Framework to guide the preparation of the Budget, and the guidelines on the release of funds.

Objectives of the Public Financial Accountability Act

As Senate President Drilon has emphasized, "the passage of this bill will fortify the government's accountability to the people for its use of public funds through a more efficient public financial management that facilitates greater transparency and the delivery of direct, immediate, and substantial services (Drilon, 2015)."

The bill, as filed, has three main objectives. First, this landmark bill aims to address the gaps in the country's PFM system and adhere to international standards and best practices. As Senator Angara has pointed out, "lack of clarity opens the opportunity not just for sub-par implementation, but also for outright abuse. The foregoing measure aims to rectify this situation by clarifying via law—a veritable first—the country's public finance management policy framework (Angara, 2015)."

The bill also promotes the permanence of PFM reforms introduced thus far. Representatives Abad, Bag-ao, and Robredo have said that reforms that require government to promote sound fiscal management—from crafting the medium-term fiscal strategy, to submitting regular fiscal reports—should be institutionalized through law as these "will ensure that people's needs are addressed and government services reach their intended constituents (Abad, Bag-ao, and Robredo, 2015)."

Last but not the least, the proposed legislation strengthens Congress' power over the purse and increases its authority to oversee the management of the Budget. In his version of the bill, Senator Recto has stressed that strengthening Congress' oversight on the Budget will enable it "to better scrutinize the President's budget proposal and to hold agencies accountable for the propriety and the results of the use of their public funds (Recto, 2015)."

LET PFM REFORMS TRANSFORM

Summary of the Proposed Public Financial Accountability Act

> "It is hereby declared the policy of the State to ensure accountability and integrity in the use of public resources by ensuring transparency, fiscal responsibility, results-orientation, efficiency, and effectiveness."
>
> **The Proposed Public Financial Accountability Act**
> SECTION 2, DECLARATION OF POLICY AND OBJECTIVES (ALL VERSIONS)

As a pioneering legislation in PFM, the proposed Act aims to be comprehensive in its approach. Its scope encompasses the entire PFM cycle, from budget preparation to budget accountability. If enacted, the law will not only apply to the NGAs but also to the GOCCs and the LGUs. In addition to those already set forth in the Constitution and existing laws, the proposed Act defines additional functions of the key players of the PFM process: from Congress and the COA, to the Presidency and its oversight agencies, and down to the NGAs.

This section summarizes the key features and provisions of the bill as filed by Representatives Abad, Bag-ao, and Robredo (H.B. No. 6117)[11].

Fiscal Responsibility[12]

To institutionalize reforms for the prudent management of the Budget, the bill enshrines Principles (see box) to which any administration must adhere. Against these principles, an administration must identify policy objectives that it seeks to achieve, and which will be monitored by Congress and the citizenry.

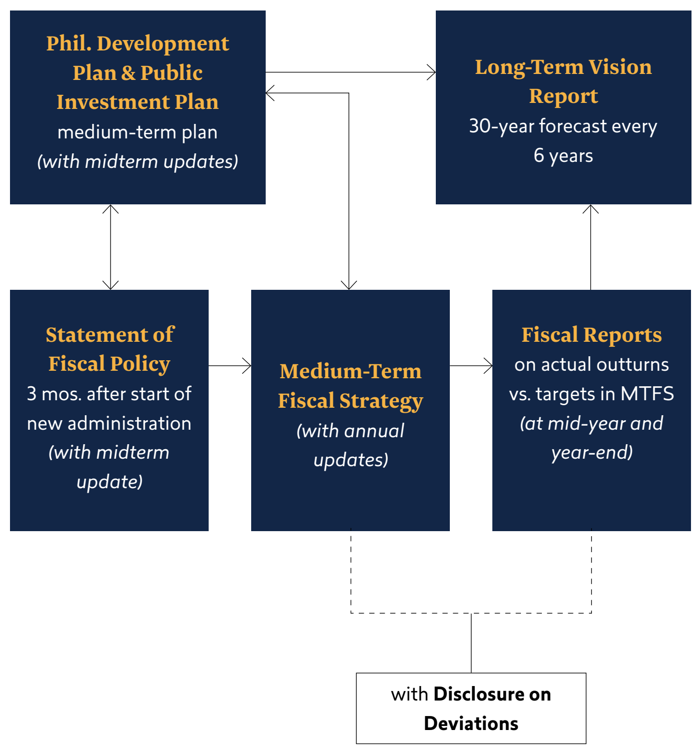
Fiscal Responsibility Principles

- Implement fiscal policies and strategies consistent with the achievement of macroeconomic stability and inclusive economic development;
- Manage resources in a fiscally and environmentally sustainable way;
- Maintain prudent levels of public debt;
- Maintain an appropriate balance between government revenues and expenditures; and
- Manage fiscal risks in a prudent manner.

The proposed Act will require any new administration, through the DBCC[13], to issue a Statement of Fiscal Policy. This document, which must also be updated at the midterm of the administration, must set realistic and measurable macroeconomic and fiscal targets to be achieved during the six-year term. The bill also requires the government to publish a Medium-Term Fiscal Strategy (MTFS) annually to flesh out these fiscal policy goals in detail and the measures to achieve such goals. The MTFS should, among others, include policies, strategies, and targets for revenue, debt, deficit, expenditure, and fiscal risk management. The setting of medium-term fiscal goals—an international best practice—also enables the linking of the government's fiscal program with its medium-term PDP.

The proposed measure requires the government to report its performance against the targets and plans stated in the aforementioned documents. Thus, the proposed Act requires the DBCC to produce the Mid-year Fiscal Report and the Annual Fiscal Report. Both reports must present economic and fiscal outturns for the period against the targets stated in the MTFS; as well as actual expenditures against their approved appropriations. The proposed Act also recognizes the need to provide the government with enough flexibility to address the impact of economic shocks, natural disasters, and other exigencies on its financial health. Still, it requires the President to report deviations to Congress, their reasons, and strategies to address these through the MTFS and the Fiscal Reports.

Diagram 1. **Fiscal Planning and Reporting: How it works**



To address the issues of macroeconomic fiscal sustainability over a longer period, the bill requires the NEDA, with the DBCC, to prepare and publish a Long-term Vision Report. This report will evaluate whether existing government policies will continue to be effective over the next thirty years, considering a variety of changes that may take place. It must be first published within two years after the PFM law is enacted, and updated every six years thereafter. The Long-term Vision Report enhances the government's current practice of publishing the medium-term PDP by providing it with a 30-year outlook on the country's development.

Linking Planning and Budgeting[14]

A stronger link between planning, budgeting, and performance ensures that the government spends public funds on the right priorities and with measurable results. Thus, the proposed Act aims to institutionalize reforms introduced in the last six years to ensure that the allocation of resources is consistent with the government's development goals and performance in the past.

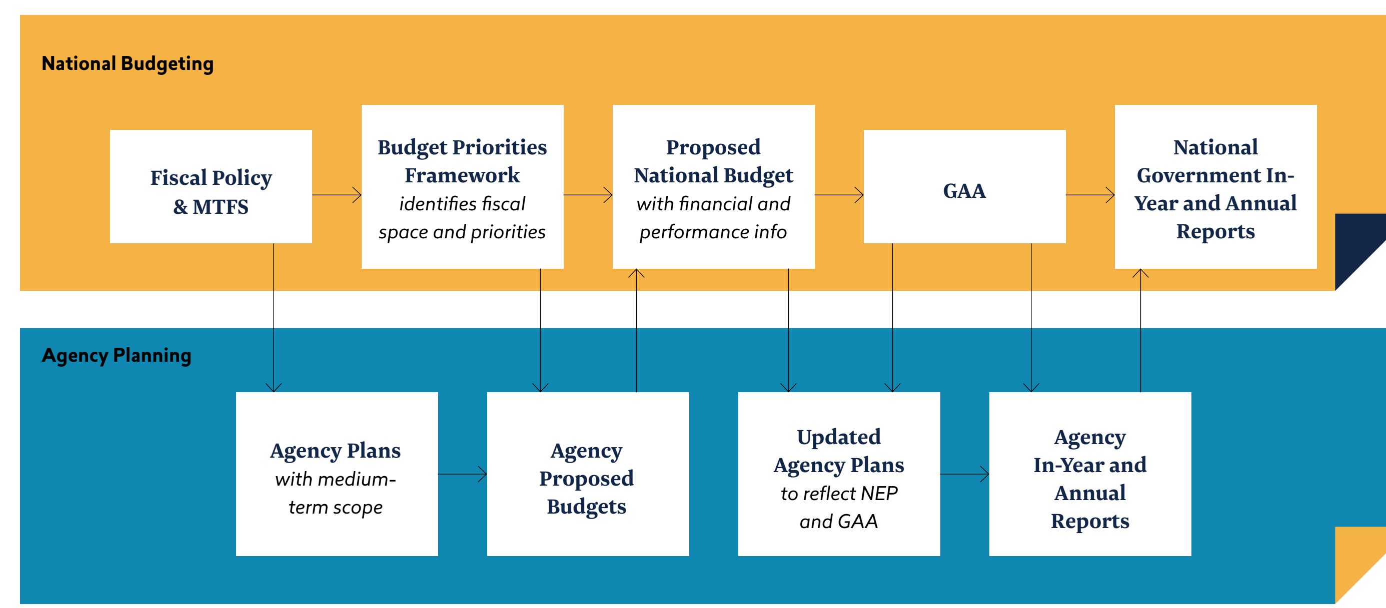
First, the proposed Act binds the new policies and practices that changed the way the Executive had prepared the budget. Foremost of which is the Budget Priorities Framework, which translates the PDP into the budget preparation process (see chapter on Linking Planning and Budgeting). The Framework must spell out the fiscal targets consistent with the MTFS, priority areas for expenditure, the available fiscal space, and other requirements. The bill also establishes governing principles for budget preparation: agencies' proposed budgets must be hinged on the PDP; these are thoroughly evaluated against the agencies' capabilities; and all sources of funds available to an agency must be considered in determining its recommended budget.

Second, the bill institutionalizes key PFM reforms by setting the minimum requirements for the form and content of the Proposed Budget submitted to Congress. For instance, it scales up Performance-Informed Budgeting by requiring the National Expenditure Program (NEP)—the document that is in the form of the GAA to be enacted—to follow the Program Expenditure Classification (PREXC) structure (see Linking Budgeting and Results). To provide Congress with information on the economic, environmental, and other risks to the budget program, the bill also mandates the government to include the Fiscal Risks Statement among the supporting documents that it must submit to Congress. The bill also mandates the use of the Unified Accounts Code Structure (UACS) in identifying all items of appropriation (see Integrated PFM).

Third, the bill strengthens the planning and budgeting linkages within each agency. At the level of the NGAs, such linkages have been weak and have resulted in poorly designed spending plans and underperformance. Thus, the proposed Act requires the NGAs to produce Annual Plans, which must have a medium-term scope, be consistent with the PDP, and contain detailed information on their budgets, projects, and performance. To emphasize the supervision of the executive departments over their attached NGAs and GOCCs, the bill mandates all departments to incorporate the plans of their attached entities in their respective Annual Plans.

Fourth, the proposed Act establishes a clear cycle from budget preparation to reporting at the agency level. For one, the bill requires the routine Monitoring and Evaluation of the agencies' spending on their programs and projects. Feedback from the evaluations will be used to inform succeeding budget proposals, thus ensuring a practice of rational budgeting. Moreover, the proposed measure mandates the agencies to produce Annual Reports on their finances and their non-financial performance compared against the Annual Plan. The agencies will also be required to submit monthly and quarterly reports on their financial and non-financial performance.

Digram 2. **From Planning to Budgeting to Performance: Linking National Government and Agency-Level Processes**



Congress' Power of the Purse[15]

The Constitution enshrines the core PFM principle that the disbursement of funds must have the imprimatur of Congress through appropriations laws. Various provisions in the proposed Act seek to increase the involvement of Congress in the management of the State's coffers. Together, these provisions strengthen Congress' check-and-balance role with the Executive in budgeting and management.

First, the proposed Act rationalizes funds that have, in practice, been excluded from closer scrutiny by Congress and have given discretion to the Executive on how these funds should be spent. It limits the types of SPFs that Congress may include in the Budget to only the National Disaster Risk Reduction and Management Fund (NDRRMF), the Contingent Fund, and the Statutory Shares of LGUs. Other SPFs may only be created if the details of expenditures under each could not be determined during budget preparation. The bill also reforms Unprogrammed Appropriations by clarifying their coverage and the parameters for their use. Among others, it limits such standby appropriations to two percent of the GAA; requires that expenditures from such are spelled out in the GAA in detail; and constrains the Executive from activating such if doing so will compromise its fiscal targets.

Second, the bill further clarifies the definition of savings and the parameters for their use, consistent with the Supreme Court's decision on the DAP. For one, savings may not be declared from discontinuance, abandonment, or non-commencement of a program, project, or activity (P/A/P) if it is due to the fault or negligence of the agency. The use of savings may be applied to augment a deficiency in any existing P/A/Ps that arises from unforeseen modifications or adjustments or adjustments to costs for justifiable reasons. Moreover, the President and other constitutional officers are required to report the use of their respective savings to Congress and the public on a regular basis. The bill also sets rules on realignment, defined as "the limited flexibility given to NGAs to reallocate, modify, or change the details within an existing [P/A/P] which shall not entail any augmentation (Part V, Section 39)." This rule recognizes the need to provide leeway to managers in the agencies to move funds within a P/A/P based on their assessment on how funds should be used. Funds cannot be transferred or realigned across P/A/Ps .

Third, the bill limits the extent of Budget re-enactment to curb the Executive's discretion in using the previous year's GAA in the event Congress fails to pass a new Budget for the year. For one, the aggregate level of the Re-enacted Budget is limited to the same total amounts in the previous GAA or the BESF, whichever is lower. Appropriations for completed PAPs are also excluded from the re-enacted GAA. As a Re-enacted Budget will tend to have a lower amount overall than the original GAA, and thus limiting the ability of government to deliver services, the bill effectively creates an incentive for both the Executive and Congress to ensure that a new Budget is enacted on time (see Fast and Efficient Budget Execution).

While the bill enhances Congress' power of the purse through the abovementioned provisions, it also enhances the legislature's responsibility over the proper management of public funds. First, it fleshes out its role of monitoring and reviewing the government's financial and non-financial performance against the appropriations it approved. As the bill requires the Executive and individual NGAs to submit plans and reports at various stages of the PFM process, the bill explicitly gives Congress the responsibility of reviewing such documents. To facilitate this additional responsibility, it authorizes Congress to use any of its existing committees or bodies, or to create new ones, in order to fulfil this function[16].

The proposed Act also introduces the new practice of requiring a Financial and Budgetary Information Sheet for each proposed revenue-eroding or expenditure-adding bill filed by legislators. The information sheet must include estimates of the financial impact of such bills over the medium-term. Simply put, Congress must provide a supporting document that elaborates on the proposed bill's impact on the country's financial health[17], for the sake of transparency and better-informed decision-making on fiscal matters.

Efficient Budget Execution and Financial Management[18]

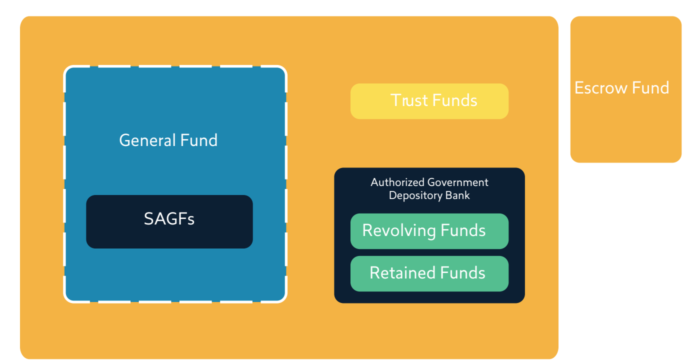
Better financial management enables faster and more efficient budget execution and service delivery. Thus, the proposed Act supplements recent reforms that streamline and clarify financial management processes to ensure speed and integrity (see fast and Efficient Budget Execution).

The bill institutionalizes the GAA-as-Release Document policy by mandating the government to "commence release of Public Funds covered by an Appropriations Law as soon as such law comes into force (Part IV, Section 31)." It also authorizes the agencies to undertake early procurement activities even prior to the passage of the GAA. The measure also provides a legal framework for further reforms that streamline budget execution, such as the one-year validity of appropriations and the shift to cash-based budgeting. Meanwhile, to facilitate the implementation of programs and projects that take more than a year to complete, the bill authorizes the agencies to enter into Multi-Year Contracts upon an agency's adherence to the DBM's guidelines and issuance of a multi-year obligational authority.

The bill also contains provisions that enforce the One-Fund Concept, where all public monies ideally accrue to the General Fund or, at the very least, are visible to the Treasury. Enforcing this concept will provide more efficiency in the management of cash resources—whether these are in the General Fund or are "off-budget." Furthermore, the proposed bill rationalizes SAGFs and OBAs by mandating their review for modification or termination every three years. New SAGFs may only have a maximum lifespan of three years, subject to extension only if their purpose still needs to be served.

Moreover, the bill institutionalizes the Treasury Single Account (TSA) to enable the BTr to manage the government's cash resources in real time. The bill defines the TSA as a banking set-up handled by the BTr "wherein the government transacts all monies collected, received or paid by NGAs in one bank account or a set of linked bank accounts and gets a consolidated view of its cash position on at least, a daily basis (Section 46, Part V)." To implement the TSA, the bill gives the BTr the authority to transfer balances from an agency's bank account to the TSA, close any NGA bank account, or revoke the authority of an NGA to open bank accounts.

Diagram 3. **What's in the TSA?**



Accountability and Reporting[19]

A PFM system will only be truly functional if responsibilities are fulfilled at each level of the government. Thus, the bill seeks to strengthen the ecosystem of accountability in PFM by enhancing oversight functions and accountabilities (see table 2).

As previously mentioned, the proposed Act enhances the oversight functions of Congress to enable it to hold the government and individual agencies accountable. The COA already has the Constitutional duty to independently audit the financial accounts of the government and its individual agencies. In fulfilling this role, the COA has the power under the Constitution and the law to set accounting and reporting standards. At the lowest rung of the accountability chain, the heads of the agencies are responsible for attaining successful financial management in their respective agencies, particularly by fulfilling these accounting and reporting standards, and implementing internal controls.

However, a significant gap in the accountability chain exists: the lack of a function within the Executive that enforces these accounting standards, reporting requirements, and internal control mechanisms across all agencies. To bridge this gap, the bill proposes the creation of the Office of the Comptroller General (OCG) under the DBM. This office is envisioned to assist COA in enforcing the accounting and auditing rules that it sets, as well as to monitor how the agencies address the COA's audit findings. Apart from this, the bill tasks the OCG to set internal control standards and ensure their implementation in all the agencies: a function that COA, as supreme audit institution, cannot be expected to fulfil. According to DBM Usec. Abuel, such a function strengthens accountability in the PFM system "by putting in place the working framework, policies, structure, rules and processes, among others" to hold government accountable.

The OCG will also take charge of producing the consolidated financial reports of the government on a quarterly and annual basis, for reporting to the President, Congress, and COA[20]. The OCG will prepare these consolidated accounts based on the in-year and annual reports that all the agencies are required to submit (see table). To facilitate the reporting process, the proposed Act mandates the OCG to oversee the implementation of an integrated FMIS for the government and to capacitate PFM professionals throughout the bureaucracy.

Table 2. **The PFM Accountability Chain: from Congress to Implementing Agencies**

Agency	Additional Responsibilities in the Accountability Chain
Congress	• Monitor and review government performance against requirements of appropriations and relevant laws. • Scrutinize reports submitted to it and consider these in reviewing the proposed budgets of agencies
COA	• Set accounting and auditing standards, and conduct independent audits of government agencies' accounts. • Enforce timely accounting and reporting of public funds, in coordination with DBM.
DBM-OCG	• Formulate measures on effective internal controls to be implemented by individual agencies. • Enforce accounting and reporting rules set by the COA. • Consolidate annual financial statements and reports for submission to the President, Congress, and COA.
Heads of Government Agencies	• Fulfil accounting and reporting requirements. • Implement internal controls, risk management, and performance review. • Submit annual plans, in-year reports, and annual reports to Congress, COA, and DBM (via OCG).

Transparency and Participation[21]

As the primary stakeholders in their country's development, the Filipino people must have a say on how their taxes are allocated and spent. Thus, the bill locks in the reforms that have made the Philippines a global leader in fiscal openness.

First, to increase public access to budget information, the bill mandates the government to publish the public the various plans and reports it is required to produce. In addition, the bill requires the DBM to publish a Calendar of Disclosures that shows a timeline of the publication of all budget documents and information to be mandated by the bill and its implementing rules. The bill also institutionalizes the People's Budget that helps the public understand budget information easier. Apart from sustaining the current practice of publishing citizen-friendly summaries of the Proposed and Enacted Budgets, the proposed measure also requires DBM to publish summaries of the Statement of Fiscal Policy and the Annual Fiscal Report. The proposed Act also establishes basic standards for the accessibility of budget information: plans and reports should be automatically posted online; and statistics should be published in open data format.

Second, the bill obliges the government to develop and enforce mechanisms that enable the participation of citizens—including the CSOs and other stakeholders—in all stages of the budget process. In particular, the proposed measure institutionalizes the award-winning Bottom-Up Budgeting (BuB) process (see Empowering Citizens). The bill tasks DBM and DILG to lead the implementation of such process to empower grassroots organizations and communities in identifying local poverty reduction and development needs to be considered in preparing the Proposed Budget. The bill also instructs DBM and other relevant Executive agencies to develop participatory budgeting policies on budget preparation, execution, and accountability; the House of Representatives and the Senate on participation in budget legislation; and COA, on participatory audit.

AS THE PFM BILL IS STILL PENDING IN CONGRESS

Steps Taken to Prepare for the Public Financial Accountability Act

> "To encourage the passage of the proposed PFM Act, we have to show to our legislators the benefits and successes that we have had with the implementation of the PFM reforms, which the Bill aims to institutionalize."
>
> **Asec. Amelita D. Castillo**
> **DBM**

By narrowing policy gaps and scaling up landmark reforms introduced by the Aquino administration, the proposed law will put into place a comprehensive and modern legal framework on the PFM, which is aligned with international best practices. Unfortunately, the bill remains pending in Congress at the committee level. Director Rowena Ruiz of DBM's Legal Service states the difficulty in securing the consensus from all stakeholders as a primary challenge in the passage of the bill. Thus, it is hoped that the next administration will consider the bill a priority measure in the 17th Congress.

Given the extent of policy changes to be made through the bill, the government has started to prepare for the implementation of the law by aligning current policies and regulations with its provisions and capacitating PFM professionals in the various agencies. It must also be noted that the bill, once enacted, will also require the government to formulate Implementing Rules and Regulations (IRR) to give flesh and bone to the broad principles and policies established by the bill. It will also require the government to develop a Transitory Plan for provisions that may not be implementable immediately after the bill's enactment.

Thus, DBCC is in the process of creating a Fiscal Calendar that incorporates key reforms in the budget cycle. In addition, the DBM has ensured that the general and special provisions of the 2016 NEP[22]—as well as the consequent Proposed Budget for 2017—are aligned with the provisions of the pending bill. The PFM Certification Program (see Integrated PFM) is likewise being implemented and scaled. In addition, the DBM is completing its institutional strengthening efforts (see pages DBM's Institutional Strengthening Efforts) to strengthen its new functions: from performance monitoring and evaluation to the enforcement of fiscal openness standards.

The proposed Public Financial Accountability Act[1] 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.

HOW THIS LAW CAN HELP CEMENT PFM REFORMS

Phase 1: Preparation — Supports long-term fiscal sustainability and the alignment of Budgets with development goals

Requires a national *Medium-Term Fiscal Strategy (MTFS)*	Links the PDP with the annual Budget through the *Budget Priorities Framework*	Institutionalizes *Performance-Informed Budgeting*, which links proposed appropriations to agencies' performance targets	Clarifies the form and content of the Proposed Budget, which includes the *Fiscal Risks Statement*	Requires agencies to formulate *Annual Plans* 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 *SPFs* and the *Unprogrammed Appropriations*	Clarifies the parameters for *Savings, Augmentation, and Realignment*, in line with the Supreme Court's decision on DAP	Clarifies *parameters for* the *re-enactment* of the GAA to reduce discretion of the Executive	Limits SAGFs to a *three-year period*, or until the *fulfillment of their purpose*, whichever comes earlier

Phase 3: Execution — Facilitates the prompt disbursement of public funds and service delivery

Institutionalizes the *GAARD* to streamline the budget execution process	Authorizes *Early Procurement and Multi-Year Contracts*	Sets a *one-year validity for appropriations*	Regularly reviews *Special Funds (OBAs) and SAGFs* which are funds not subjected to the annual budget legislation process	Enforces the *TSA* 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 *Fiscal Reports* against its MTFS	Requires agencies to publish *quarterly reports on their performance*, and to enforce *internal controls*	Creates the *OCG* to enforce public accounting and internal controls, and to prepare consolidated financial reports	Institutionalizes the *People's Budget* and fiscal transparency practices	Sustains *BuB* and requires other participatory budgeting mechanisms	Mandates Congress to *monitor the government's performance* against the GAA, and to *review reports* 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).

NOTES

[1] Such budget system laws include but are not limited to Public Finance Acts, Organic Budget Laws, Financial Management Acts, Fiscal Responsibility Laws, among others (Lienhert and Fainboim, 2010).

[2] Lienert and Jung (2004) refer to principles 2 to 6 as "classical principles," which are mainly associated with budget preparation and approval; and principles 7 to 10 as "modern principles," which pertain to budget reporting and the Executive's obligations to report to the legislature on the results.

[3] Lienert and Fainbom (2010) argued that while it is not possible to prescribe the optimal number of laws that should constitute a country's legal framework on PFM, "in general, there is a strong case for consolidating all functional areas of the budget system into a single law, although other 'specialist' laws may be adopted to cover particular areas of budgeting, such as procurement, debt management, and local government finance."

[4] Book VI I on "National Government Budgeting" of the Administrative Code contains over seventy provisions similar to those found in the Budget Reform Decree of 1977.

[5] The SC rulings on DAP are dated July 1, 2014 and February 3, 2015.

[6] Aside from IMF and DFAT, the World Bank was also actively involved in providing assistance to the endeavour.

[7] All of these bills had the long title "An Act to Enforce Greater Accountability in Public Financial Management (PFM) by Strengthening Congress' Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation, and Other Purposes."

[8] The E.O. was promulgated during the "revolutionary government" stage of the administration of President Corazon C. Aquino, and before the 1987 Constitution took effect; thus, it has the force of law.

[9] Up to 77 sections out of 92 sections in the PD 1177 and 80 sections in Book VI of the EO No. 292 are essentially identical.

[10] General Provisions (GPs) pertain to policies and regulations that apply to all appropriations in the GAA. The GPs cover receipts and income, expenditures, personnel amelioration, and the release and use of funds. Special Provisions (SPs), meanwhile, are policies and regulations that apply to specific appropriations.

[11] Rather than through a linear fashion, this section discusses the key provisions of the bill according to key principles. For brevity, many of the provisions of the bill are not discussed in detail, e.g. the penal clauses.

[12] Provisions discussed here are Part III, Sections 12 to 17.

[13] The bill specifies that the DBM, in coordination with the DoF, NEDA, and OP, should prepare the Statement of Fiscal Policy and the MTFS for approval by the President. The DBM serves as chair of the DBCC.

[14] Provisions discussed here are Part IV, Sections 19 to 25; and Part VI, Section 59 to 60.

[15] Discussed here are provisions spread out through the bill which seek to strengthen Congress' oversight function: Part III, Section 18; Part IV, Sections 19 and 25 to 24; and Part V, Sections 38 to 40)

[16] Apart from the House Committee on Appropriations and Senate Committee on Finance, a Joint Congressional Oversight Committee on Public Expenditures (JCOCPE) had also been organized by Congress to regularly examine the budget performance of the government. Meanwhile, key legislators have proposed new mechanisms—notably, House Speaker Feliciano R. Belmonte, Jr. had called for the creation of a public accounts and audit committee that will, among others, review audit reports and hold agencies accountable for these address audit findings. The Executive's inter-agency committee deemed it fit to craft the relevant provisions of the bill in a manner that gives Congress the flexibility to organize itself to fulfil its oversight roles.

[17] The Financial and Budgetary Information Sheet is a "softer" requirement that is designed to be more acceptable to Congress. In contrast, an earlier-proposed Fiscal Responsibility Bill or "pay-go" bill requires that each revenue-eroding or expenditure-adding bill be filed with a measure that compensates for its projected fiscal impact (i.e. a new tax or other revenue-generating measure, or a measure that reduces other expenditures).

[18] Provisions discussed here are Part IV, Sections 19, 29, 30 and 33; and Part V, Sections 40 to 48.

[19] Provisions discussed here are Part II, Section 8; and Part VI, Sections 58 to 68.

[20] The creation of the OCG seeks to address a key issue highlighted by the PEFA (WB, 2010) and the FTE (IMF, 2015): the COA is also assigned by the Constitution to compile the government's Annual Financial Report (AFR). This set-up puts COA in a conflict-of-interest situation, as it could not reasonably be expected to independently audit the AFR (see also Budget Integrity and Accountability).

[21] Provisions discussed here are Part VII, Sections 69 to 71.

[22] While DBM has revised the special provisions of the 2016 NEP due to recent developments, these are still more or less aligned with the provisions of the pending bill.