

ANNEX A

PEM and PFM REFORMS

1.0 An effective Public Financial Management (PFM), which includes the tools of Medium-Term Expenditure Framework (MTEF), Performance-Informed Budgeting (PIB) and its associated Organizational Performance Indicator Framework (OPIF), Zero-Based Budgeting (ZBB), Program Budgeting (PB), and Bottom-up Budgeting (BuB), achieves the following objectives:

- *"Spending within means"*, or aggregate fiscal discipline - resources should be used in a planned and deliberate medium-term strategy within the aggregate resource constraints.
- *"Spending on the right priorities"*, or allocative efficiency - spending should be aligned with socio-economic priorities, as spelled out in the Philippine Development Plan (PDP).
- *"Spending with value-for-money"*, or operational efficiency - all public goods and services must be provided at the most reasonable cost and considers the absorptive capacity of the agency given the shift to the one year validity of appropriations.

1.1 **MTEF** - the planning-budgeting framework used by the government to provide a three-year forward perspective to the decision making process during budget preparation. The framework facilitates the determination of the fiscal space (available uncommitted funds) available for allocation among the key programs taking into account the future cost of approved and ongoing programs under the forward estimates (FE) process and the fiscal consolidation targets of the National Government..

1.2 **PIB** - a budgeting approach that uses performance information to inform Congress and the public about the outputs and outcomes a GOCC is committing to deliver in exchange for its budget. The performance information is presented alongside the budget in the NEP and includes: a) the purposes/objectives for which the funds are required; b) the outputs that would be produced or the services that would be rendered; and c) the quantity, quality and timeliness targets for the outputs and/or services.

The PIB focuses more on outputs and outcomes of the GOCC and places less emphasis on its inputs needs. It links funding to results, and provides a framework for more informed resource allocation and management.

An outcome-based PIB shall continue to be adopted in the FY 2016 Budget with the following objectives:

- 1.2.1 To provide GOCC management with a clearer basis/strategy for prioritizing its programs/activities/projects by aligning them more explicitly with government priorities and targets;
 - 1.2.2 To provide the GOCC with the outcome framework for the conduct of management monitoring and evaluation (like the zero based budgeting studies) to improve program performance; and
 - 1.2.3 To build a better outcome accountability framework for the grant of Performance Based Incentive System (PBIS).
- 1.3 **ZBB** - program evaluation approach through which major GOCC programs and projects are assessed/evaluated primarily by third party entities to:
- 1.3.1 assess the continuing relevance of these programs and projects;
 - 1.3.2 explore alternatives and better ways to achieve their objectives;
 - 1.3.3 determine whether the resources for a program/project should be kept at the present level, increased, reduced or discontinued; and
 - 1.3.4 guide GOCCs in eliminating funding for activities which are not aligned with priorities or which are inefficient, ineffective and fraught with leakages.
- 1.4 **PB** - is a budgeting approach to facilitate and incentivize inter-agency collaboration along the Social Contract Results Areas to ensure that priority programs are planned, budgeted and implemented in a coordinated manner.
- 1.5 **BuB** - is a budgeting approach which ensures that the prioritized list of programs and projects required by poor cities/municipalities are incorporated into the 2016 indicative budget levels of participating agencies. It promotes responsiveness of agencies and ensures convergence of the services of departments/agencies/GOCCs to the needs of the poorest LGUs and communities. It also strengthens the capacity of the LGUs to plan, budget and execute programs.
- 1.6 Broaden the participation of the CSOs and other stakeholders in the budget preparation process and promote wider monitoring of the government's key public services.

- 1.7 Sustained Public-Private Partnerships (PPPs) (referring to BOT projects with the private sector financing/constructing and/or operating projects which traditionally would be within the ambit of the public sector) and minimizing the risks associated with these projects by building the environment for solicited bids and the capacity to identify and monitor contingent liabilities. To better ensure successful projects and build the market case for these projects, budgets shall be provided for feasibility studies.
 - 1.8 Continued promotion of open data to increase public access and awareness on budget data/information to facilitate appreciation and analysis, promote transparency and accountability. Accordingly, the posting of bids and awards on the PhilGeps, and the publication of the Transparency Seal and ARTA Citizen Charter will continue to be Good Governance Conditions under the PBB to institutionalize these transparency conditions.
- 2.0 Medium-Term Information Technology Harmonization Initiative (MITHI) - a coherent process, jointly undertaken by DBM, DOST - Information and Communications Technology Office (ICTO), and NEDA, for the planning, budgeting, implementation, monitoring and evaluation of proposed government-wide information and communication technology programs and projects. The GOCCs' Information Systems Strategic Plans shall be subject to evaluation by the MITHI steering committee in accordance with DBM-DOST-NEDA JMC 2012-01 and 2014-01.
- 3.0 Climate Change Expenditure (CCE) tagging – expenditures related to climate change adaptation and mitigation shall be identified and tagged consistent with the National Framework Strategy on Climate Change (NFSCC), the National Climate Change Action Plan (NCCAP) and in accordance with the Unified Account Code Structure (UACS). The CCE are expenditures that will mitigate risks (e.g. casualties, damage to properties, disruption of economic activities, etc.) by increasing resiliency from more intense meteorological and meteorologically hazardous triggered events (e.g. rain-induced landslide, extreme flooding, flashfloods, etc.). A Joint Memorandum Circular (JMC) between the DBM and the Climate Change Commission (CCC) shall be issued separately to guide the departments/agencies and GOCCs in identifying and tagging government expenditures for climate change in the budget process.
- 4.0 Other PFM Policies
- As a means for further improving transparency, efficiency and effectiveness in government operations, GOCCs shall also incorporate the budgetary implications of the following public sector reforms on their proposals:
- 4.1 Cost recovery measures to assist in the revenue enhancement efforts and improve service delivery, pursuant to Administrative Order No. 31 dated October 1, 2012.

4.2 Implementation of the National Guidelines on Internal Control Systems pursuant to DBM CL No. 2008-08 dated October 23, 2008, the Philippine Government Internal Audit Manual, issued thru CL No. 2011-05 dated May 19, 2011, and the creation and strengthening of an Internal Audit Service/Unit and a Management Division/Unit in Agencies concerned as provided under CL No. 2008-5 dated April 14, 2008;

4.3 Pursuit of ISO 9001:2008 (Quality Management System) certification and implementation of other quality management improvement programs to further institutionalize and enhance government processes, systems and operations as mandated under EO No. 605 dated February 23, 2007.

4.4 Total Resource Budgeting

GOCCs shall fully reflect in the budget proposal all sources of funds such as corporate income, borrowings, other corporate funds, trust funds, special account in the general fund and budgetary support from the national government.

4.4.1 All funding requirements of the GOCCs, including contingent liabilities arising from BOT projects and similar sizeable liabilities due from previous years' suppliers' contracts and other multi-year obligations or multi-year projects, must be identified in the budget submissions.

4.4.2 GOCCs should also consider in their investment decisions all available resources within a specific area or locality, to the extent feasible. Hence, programs to be undertaken shall be consistent with the development plan of said area such that the resources from all stakeholders, namely: NGAs, GOCCs/GFIs, LGUs and private initiatives will complement each other.

4.4.2.1 In the allocation of their budget, GOCCs shall undertake consultation with their major stakeholders to ensure that their concerns and priorities are addressed in their budget proposals.

4.5 Financial Independence of GOCCs

4.5.1 Measures to enhance corporate revenue generation and improve operational efficiency, including privatization of certain GOCC operations and assets, should be undertaken. GOCCs are encouraged to supplement available resources, through other means, such as external financing, PPPs (BOT schemes and variant arrangements), sale/lease of assets, etc., before requesting budgetary support from the national government.

4.6 Gender and Development (GAD)

- 4.6.1 A GAD Plan and Budget shall be formulated pursuant to and in accordance with the Republic Act 9710 or Magna Carta of Women and the PCW-NEDA-DBM Joint Circular 2012-01: Guidelines on the Preparation of Annual Gender and Development (GAD) Plans and Budgets Accomplishment Reports (AR) to implement the Magna Carta of Women.
- 4.6.2 The GAD Plans and Budgets shall respond to the gender gaps/issues faced by the GOCC's clients and constituencies and their women and men employees. The GOCC shall allocate at least five percent (5%) of the total agency budget proposal for activities supporting GAD plans and programs.
- 4.6.3 GOCCs shall accomplish BP Form 711 for the GAD Plan and Budget for 2016 and GAD Accomplishment Report for 2014, respectively. The GAD Budget shall be part of the GOCC's PS, MOOE and CO requirements. It is understood that the GAD budget does not constitute an additional budget over a GOCC's total budget.