

NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE

AS OF DECEMBER 2016

National government disbursements reached P2,549.3 billion as of December 31, 2016, posting an annual growth of 14.3 percent – the highest since 2000. This is equivalent to about P320 billion additional outlays from the P2,230.6 billion disbursements for the full year of 2015. The growth was supported by the steadier and faster pace of disbursements in the last two quarters at 14.4 and 14.8 percent, improving from the nearly 11 percent year-on-year increase in the second quarter.

Spending for the month of December 2016 meanwhile reached P283.6 billion, increasing by 18.8 percent from a high base of P238.7 billion disbursements for the same period in 2015. Most of the expenditure items contributed to the expansion of government spending in 2016, with infrastructure and other capital outlays as the main growth driver. *The details of the year-on-year performance are discussed in the succeeding sections.*

Relative to the use of disbursements authorities, Table 1 shows that cash disbursements or those expenditure items issued with Notice of Cash Allocations (NCA) have increased significantly by 14.7 percent in the fourth quarter. The growth was even faster by the end of 2016 at 17.5 percent, outpacing the 1.7 percent expansion of Non-NCA expenditures amidst lower debt servicing costs, and tax subsidies to national government agencies and corporations for most part of the year. The growth of spending is thus driven by expenditures intended for the operations of line agencies while the increase in the less productive component of the budget such as interest payments and tax expenditures continued to be minimal.

Figure 1. National Government Disbursements as of December

Amounts in billion pesos, unless otherwise indicated

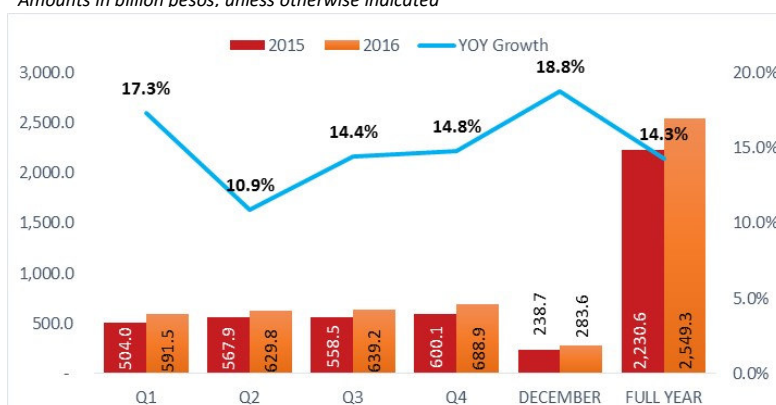


Table 1. Comparison of NCA and Non-NCA Disbursements, 2015-2016

In billion pesos, unless otherwise indicated

Particulars	Q1-Q3		Q4			Full Year						
	2016	2015	2016	Inc/(Dec)		2015	2016		Variance		Inc/(Dec)	
				Amt	%		Program	Actual	Amt	%	Amt	%
NCA	1,499.9	515.4	591.4	76.0	14.7	1,780.3	2,174.8	2,091.3	(83.5)	(3.8)	311.0	17.5
% of Eff. NCA	93.9%	96.9%	92.8%			94.4%		93.6%				
Non-NCA	360.5	84.7	97.5	12.8	15.1	450.3	470.8	458.0	(12.8)	(2.7)	7.7	1.7
TOTAL	1,860.4	600.1	688.9	88.8	14.8	2,230.6	2,645.6	2,549.3	(96.3)	(3.6)	318.7	14.3

Memo Item

Effective NCAs issued net of Trust Liabilities, Gross of Working Fund

	Q1-Q3	Q4	Full Year
2015	1,354.5	532.1	1,886.6
2016	1,597.1	637.2	2,234.4

Allotment Releases

As of December 2015	2,573.3	98.7%	of the P2,606.0 billion obligation program
As of December 2016	2,888.3	96.2%	of the P3,001.8 billion obligation program

Sources: Bureau of the Treasury and DBM-Budget Technical Bureau

In terms of fund absorption efficiency, about 94 percent of the total P2,234.4 billion effective NCAs for the full year of 2016 has been negotiated, translating to P2,091.3 cash disbursements for the year. This is slightly lower when compared to the 94.4 percent rate in 2015 partly due to the huge amount of outstanding checks

accumulated in 2016 (i.e., P33.9 billion against P26.1 billion in 2015)¹ and billing or payment issues encountered by some line agencies that hampered the disbursements of funds (*see Program vs Actual Performance discussion for details*). It should be noted, however, that the volume of effective NCAs for the full year 2016 at P2,234.4 billion is 18.4 percent higher when compared to the P1,886.6 billion level in 2015.

Notwithstanding the annual growth, both NCA and Non-NCA disbursements missed the revised full year program by 3.8 percent and 2.7 percent, respectively. This is, however, significantly lower than the above 10.0 percent deviation recorded in 2014 and 2015. *The factors behind this lower-than-target performance are discussed in the succeeding portions of this report.*

Allotment Releases

Total allotment releases as of December 31, 2016 amounted to P2,888.3 billion, equivalent to 96.2 percent of the P3,001.8 billion obligation program for the year. Of this releases, 54.3 percent or P1,567.6 billion pertain to department-specific budget while 31.4 percent or P907.5 billion refers to releases from the Automatic Appropriations which is largely composed of the Internal Revenue Allotment (P428.6 billion) and Interest Payments (P392.8 billion).

Total releases also included some P25.3 billion worth of allotments under the Unprogrammed Fund² to cover the requirements of the following: i) newly approved foreign-assisted projects (P1.2 billion); ii) share of the ARMM from the current year's collections of national internal revenue taxes, fees and charges, and taxes imposed on the use of natural resources collected within the region (P765.1 million); iii) use of excess income by agencies (P70.6 million); iv) the payment of just compensation to PIATCO, Inc. (P20.5 billion); and v) equity to the Land Bank of the Philippines (P2.8 billion). These were funded from the excess income from GOCC dividends that came in, as well as from new foreign loan inflows.

Year-on-Year Performance

For the Month of December 2016

Disbursements for the month of December 2016 climbed by nearly 19 percent to reach P283.6 billion. In nominal terms, this is the highest recorded in 2016 consistent with the trend that spending picks up towards the latter part of the year as payables are settled before the closing of books and agencies conclude program implementation.

The major growth drivers of spending for the month are personnel services expenditures and infrastructure and other capital outlays which expanded by 38.5 percent and 23.9 percent, respectively:

- Personnel services spending reached P91.4 billion, up by P25.4 billion from the level in 2015 largely due to the release of performance-based bonus (PBB) of the DILG-PNP and regional offices of the DepEd. In 2015, the PBB of the said agencies was released at the earlier part of the year. The growth in PS expenditures also resulted from the increase in the combat duty and combat incentive pay of the uniformed and military personnel of the DILG-PNP and DND-AFP pursuant to E.O. No. 3, s. 2016³. The increase in the said benefits took effect last September 1, 2016 but the funds were only released in

¹ Checks were already issued for the said amount but remains unclaimed at the end of the year. This also contributed to the underspending in personnel services, maintenance, and infrastructure and other capital expenditures.

² The Unprogrammed Fund is a stand-by appropriations which can only be tapped under the following conditions: i) when revenue collections in any of the identified tax and non-tax revenue sources in the *Budget of Expenditures and Sources of Financing (BESF)* have exceeded its corresponding targets; ii) when new revenues were generated from new tax or non-tax sources which are not part of, nor included in the original program presented in the BESF; or iii) when new loans for foreign-assisted projects have been approved. In the case of the share of the ARMM, release from the Unprogrammed Fund can be made when actual collections exceed the amount budgeted for the ARMM. The claims from the Unprogrammed Fund should be supported by a Special Budget Request and certification of actual collections and remittances by the BTr or collecting agencies.

³ Entitled *Increasing the Rates of Combat Duty Pay and Combat Incentive Pay of the Armed Forces of the Philippines and Extending the Same Allowances to the Uniformed Personnel of the Philippine National Police, Amending therefor Executive Order No. 38 (s. 2011).*

December following the submission and validation of the actual roster of personnel in the said agencies. Likewise, releases to cover the requirements for the creation and filling of positions in the DepEd and DILG, as well as the monetization claims and terminal leave benefits of employees in various government agencies contributed to higher PS expense for the month.

Table 2. National Government Disbursements for the Period Indicated

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	December		Fourth Quarter		Increase/(Decrease)			
	2015	2016	2015	2016	December		Fourth Quarter	
					Amt	%	Amt	%
Current Operating Exp.	177.2	195.4	472.0	511.5	18.2	10.3	39.5	8.4
Personnel Services	66.0	91.4	193.2	229.9	25.4	38.5	36.7	19.0
MOOE	46.3	48.8	117.6	111.7	2.5	5.4	(6.0)	(5.1)
Subsidy	12.0	5.1	22.2	20.8	(6.9)	(57.8)	(1.4)	(6.2)
Allotment to LGUs	26.0	28.6	78.0	85.8	2.6	10.0	7.8	10.0
Interest Payments	21.5	19.1	53.6	54.7	(2.4)	(11.2)	1.1	2.0
Tax Expenditures	5.4	2.4	7.4	8.7	(3.0)	(55.0)	1.3	18.1
Capital Outlays	61.1	77.5	122.9	165.8	16.5	27.0	42.9	34.9
Infrastructure/Other CO	54.0	66.9	102.3	140.8	12.9	23.9	38.5	37.7
Equity	0.2	3.2	0.4	3.2	2.9	1,272.6	2.8	638.7
Capital Transfers to LGUs	6.9	7.5	20.2	21.8	0.6	9.0	1.6	7.7
Net Lending	0.4	10.6	5.2	11.6	10.2	2,435.0	6.4	122.6
TOTAL	238.7	283.6	600.1	688.9	44.9	18.8	88.8	14.8

- Infrastructure and other capital expenditures stood at P67 billion, P13 billion more than the disbursements in December 2015. The growth was credited to the implementation of road infrastructure programs and projects of the DPWH which include flood control projects and the regular maintenance, repair or rehabilitation and upgrading of existing road networks and bridges nationwide. Capital outlay projects such as the construction of hospitals and acquisition of medical equipment under the Health Facilities Enhancement Program (HFEP) of the DOH, and completed irrigation projects of the NIA which were previously implemented under the DA also boosted infrastructure spending.

Disbursements have likewise increased as a result of higher maintenance spending, equity, as well as net lending assistance to GOCCs. Maintenance expenditures grew by 5.4 percent to reach P48.8 billion due to expenses incurred for the operations of government agencies. Equity jumped to P3.2 billion while net lending surged to P10.6 billion largely on account of the P2.8 billion capitalization requirements of the Landbank of the Philippines and P10.0 billion NG advances to the PSALM, respectively.

The growth of spending for the month, however, was tempered by the decline in subsidy (P6.9 billion, 57.8 percent), interest payments (P2.4 billion, 11.2 percent) and tax expenditures (P3.0 billion, 55.0 percent). Government subsidies were down mainly because of lower financial assistance to GOCCs in December. Releases were already made in the previous months, and some GOCCs such as NHA and NIA were unable to disburse funds following delays in the submission of billings statements and documentary requirements from their contractors. Interest payments were lower year-on-year due to combined effects of bond maturities, bond exchange transactions and changes in timing of payments (i.e., payments previously made in December 2015 were made in November 2016). Meanwhile, tax subsidies fell below its 2015 level as a result of lower importation requirements of government agencies/corporations in December 2016.

For the Fourth Quarter of 2016

Disbursements for the fourth quarter of 2016 grew by nearly 15 percent to reach P688.9 billion.⁴ The upswing stemmed from the huge infrastructure and other capital outlays which reached P140.8 billion owing to the completed capital outlay projects of the DPWH (e.g., roads and bridges); ARMM (e.g., public works such as construction/repair of flood control and drainage systems, renovation/improvement of buildings and structure); DepEd and SUCs (e.g., school buildings, educational facilities and equipment). Spending was also supported by the P229.9 billion personnel services expense to cover among others the year-end bonus and cash gift which were released in November, and the requirements for the PBB and the creation/filling up of positions in some agencies during the quarter.

For the Period January to December 2016

For the full year 2016, disbursements reached P2,549.3 billion, up by 14.3 percent, faster than the 12.6 percent growth recorded for the same period in 2015. Government spending in 2016 was largely driven by strong infrastructure and other capital expenditures which reached almost half a trillion at P493.0 billion compared to the P345.3 billion outlays in 2015. This included projects from the DPWH (e.g., road widening, repair and rehabilitation of national roads); DND-AFP (e.g., modernization program); DOH (e.g., health facilities and medical equipment), DepEd and some SUCs (e.g., construction, rehabilitation and repair of educational facilities).

Higher subsidies to government corporations, such as the PHIC for premium subsidy of indigents and senior citizens enrolled under the *National Health Insurance Program*, and NIA for its irrigation projects, have likewise contributed to the robust disbursements for the year. Meanwhile, personnel services and maintenance expenditures have grown steadily at a similar rate of 8.8 percent from their respective levels in 2015 due to higher salaries and benefits of government employees pursuant to E.O. 201 s.2016, and the expansion of social services programs, respectively.

Table 3. National Government Disbursements, January to December 2016

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	January to December			Variance		Increase/(Decrease)	
	2015 Actual	2016		Amt	%	Amt	%
		Rev. Prog	Actual				
CURRENT OPERATING EXP.	1,784.9	1,973.1	1,928.5	(44.5)	(2.3)	143.6	8.0
Personnel Services	664.4	726.2	723.2	(3.0)	(0.4)	58.8	8.8
MOOE	403.4	493.7	439.0	(54.6)	(11.1)	35.6	8.8
Subsidy	78.0	70.7	103.2	32.5	46.0	25.2	32.3
Allotment to LGUs	311.9	342.9	342.9	0.0	0.0	31.0	9.9
Interest Payments	309.4	327.7	304.5	(23.3)	(7.1)	(4.9)	(1.6)
Tax Expenditure Fund	17.8	11.8	15.7	3.9	32.9	(2.1)	(11.7)
CAPITAL OUTLAYS	436.0	655.7	605.5	(50.2)	(7.7)	169.5	38.9
Infra and Other CO	345.3	533.1	493.0	(40.1)	(7.5)	147.7	42.8
Equity	0.8	8.6	11.7	3.1	35.8	10.9	1,422.9
Capital Transfers to LGUs	90.0	114.0	100.8	(13.1)	(11.5)	10.9	12.1
NET LENDING	9.7	16.8	15.3	(1.5)	(9.1)	5.6	57.8
TOTAL	2,230.6	2,645.6	2,549.3	(96.3)	(3.6)	318.7	14.3

⁴Spending in the last two months of the year accelerated faster, rebounding from the 6.9 percent contraction recorded in October 2016 which is largely attributed to one-off expenditures and low disbursements recorded for some big-spending agencies such as DOH and DSWD. See *Assessment of National Government Disbursement Performance Reports as of October and November 2016* available at http://www.dbm.gov.ph/?page_id=15800.

Program vs Actual Performance

Against the revised full year disbursement program of P2,645.6 billion⁵, the deviation is minimal at 3.6 percent equivalent to some P96.3 billion. This underspending is significantly lower when compared to the underspending recorded in 2014 (13.3 percent, P302.7 billion), in 2015 (12.8 percent, P328.3 billion) and in the first semester, against the original program (11.9 percent, P164.4 billion). But among the expenditure items where sizeable underspending was still recorded are maintenance and other operating expenditures, infrastructure and other capital outlays, and interest payments:

- Maintenance expenditures were below the program level by 11.1 percent equivalent to P54.6 billion mainly due to low obligations of line agencies arising from procurement issues such as delays and failed biddings, and the election ban in the earlier part of 2016. These were the primary reasons cited by the DOH for the low budget utilization in some of their banner programs and services such as hospital services, general administrative services and health sector policy services among others which combined for about P2.1 billion unobligated funds⁶. The DOH is closely monitoring its budget utilization this year and has set an early deadline for the processing of sub-allotments to ensure that funds are readily available to their operating units. Moreover, the agency has issued Department Memorandum Order No. 2016-0024 to improve work organization (e.g., synchronization and efficient implementation of activities). Bid failures were also cited by the DICT (formerly DOST-ICTO) for not obligating some P1.6 billion worth of allotments under its Free Internet Wi-Fi project. The rebidding for the said project is ongoing this 2017.

Billing issues such as incomplete and non-submission of documentary requirements, of statement of billings or claims, and of liquidation reports have likewise hampered the processing of payments and hence the slower disbursement of funds. The examples of the agencies, including their respective programs/projects for which they have experienced this problem are listed below⁷:

Department	Programs/Projects	Estimated Amt.
DA	National Programs for Rice, Corn, High Value Development Crops, Organic Agriculture and Livestock, BUB/PAMANA programs	P4.0 billion
DepEd	Government Assistance to Students and Teachers in Private Education (GASTPE)	P3.6 billion
CHED	Student Financial Assistance and K-12 Transition Programs	P1.5 billion
DOTr	MRT3 Maintenance and General Overhauling	P690.0 million
DILG	SALINTUBIG (potable water supply proj.), BUB/PAMANA Programs	P687.0 million

The said agencies are coordinating with their field units, suppliers/creditors/contractors and partner institutions (e.g., LGUs for DILG and participating private schools for DepEd/CHED) to facilitate the submission of supporting documents so that payments could be made this year.

⁵ The revised 2016 full year disbursement program of P2,645.6 billion was approved by the DBCC on July 5, 2016. It will be noted that some P349.8 billion or 11.7 percent of the original P2,995.4 billion full year disbursement program was shaved off after the first semester performance review. The program was trimmed down as the new administration adopted a more realistic fiscal target on account of the prevailing macroeconomic environment, capacity issues of implementing agencies as reflected in their recent disbursement performance, and the expected temporary delays and slowdown in spending due to the transition to a new administration after a Presidential election.

⁶ Per DOH report submitted to BMB-B on March 23, 2017. Other reasons cited by the agency behind its low disbursement performance are: i) low availment of the Human Resource for Health (HRH) deployment program (*Doctors to the Barrios and Rural Health Practice Program*); ii) legal issues (procurement of drugs/medicines under the *Family Health and Responsible Parenting Program*); and iii) savings generated from drugs, medicines, and medical and dental supplies which were procured at a lower cost.

⁷ Based on report submitted by agencies.

Other factors cited by agencies which led to underspending in maintenance expenditures include: i) slower actual delivery of goods (e.g., fuel, oil and lubricant requirements of DND-Philippine Navy, P579.4 million); ii) noncompletion of acceptance and testing of delivered items (e.g., acquisition of 48 new MRT3 coaches by the DOTr (formerly DOTC), P2.2 billion)⁸; and iii) postponement of the SK and Barangay Elections last October 2016 pursuant to R.A. No. 10923 (P4.8 billion).

- Infrastructure and other capital outlays likewise missed the target expenditures by 7.5 percent or P40.1 billion owing to procurement difficulties such as failure of biddings, non-compliance of bidders with bid requirements or difficulty in complying with product or service specifications.⁹ The examples of agencies, including their respective programs/projects are shown below¹⁰:

Department	Programs/Projects	Estimated Amt.
DOH	Health Facilities Enhancement Program	P7.6 billion
DOTr	Various Locally-Funded Projects	P2.7 billion
DOF-BIR	Construction of buildings/offices	P2.3 billion
DFA	Acquisition of properties, renovation of buildings and purchase of furniture, fixtures and equipment for chanceries, residences and office space for consular or diplomatic posts	P1.6 billion

Moreover, the procurement and implementation of some projects under the DND are still ongoing such as the construction of airbase of the Philippine Air Force in Cagayan De Oro City (P1.0 billion) while some projects under the Revised AFP Modernization Program are still for approval of the President. Underspending in infrastructure outlays also stemmed from the P1.8 billion funds which were not yet requested by the PNR and PPA in connection with their Memorandum of Agreement (MOA) with the DOTr for various rail and port projects.

The said agencies are already expediting procurement activities for these programs/projects to ensure obligation this year. The DOTr for example has created an interim BAC to immediately bid out projects and programs funded under prior years' budget, and sign MOA with LGUs or Provincial Government Units and government corporations to transfer funds that will be used for projects involving site or land acquisition.

- On a positive note, underspending also came from the P23.3 billion savings in interest payments generated from bond exchange transactions and other debt liability management strategies implemented by the BTr.

The underspending, however, was muted by the overspending in subsidy (P32.5 billion, 46.0 percent); tax expenditures (P3.9 billion, 32.9 percent); and equity (P3.1 billion, 35.8 percent). The program for the said expenditures were significantly reduced during the revision of the 2016 full year program in July 2016 on account of their historically low fund utilization. Hence, some items for the aforementioned expenditures which materialized during the second half of the year were not considered in the revised program.

⁸ The acceptance of the new train coaches was already signed by the DOTr after the completion of test in March 2017. Payments are already being processed with disbursements expected in April, May and June this year.

⁹ The DFA also cited encountering delays in the commencement of chancery/residence projects as foreign posts have concerns with the requirements of the Procurement Law (R.A. 9184) vis-à-vis the host countries procurement laws. The DOTr meanwhile reported that legal challenges such as Motion for Reconsiderations filed by losing bidders, court injunctions and temporary restraining orders filed on major projects have adversely affected their procurement timeliness and the eventual award of contracts.

¹⁰ Based on report submitted by agencies.

Outlook for 2017

For 2017, the national government targets a disbursement program of P2,909.0 billion equivalent to 18.2 percent of GDP and 14.1 percent higher than the P2,549.3 billion actual disbursements in 2016. This disbursement level will support the 6.5 to 7.5 GDP growth target for the year, consistent with the macroeconomic assumptions and fiscal targets adopted by the DBCC.

The growth of disbursements for the first few months this 2017 will be moderate partly due to base effect considering the high disbursements recorded for the same period in 2016 and since most line agencies are still in the process of obligating their allotments at the earlier part of the year. However, spending is expected to rack up in the succeeding months towards the summer season.

To help the agencies obligate their budget faster, the DBM has comprehensively released P1,643.9 billion or 83.5 percent of the total P1,968.8 billion agency-specific budget in January 3, 2017 – the first working day of the year.¹¹ This is part of the Department's GAA-As-An-Allotment Order policy and is supported by the comprehensive release of cash requirements for the first semester to ensure efficient and timely implementation of government programs and projects. Furthermore, the revised Implementing Rules and Regulations (IRR) of the Procurement Law or R.A. No. 9184 has been issued late last year. The revision aims to fast-track the bidding process and streamline the documentary requirements to avoid procurement problems and the delays in program/project implementation. Training and capacity building of BAC personnel also started last year and currently still ongoing for some line agencies, GOCCs and LGUs to support the implementation of the revised IRR. This should facilitate the procurement activities of agencies this year and hopefully improve their budget utilization.

Moreover, several reform measures are being implemented to support credible budget execution this 2017:

- a. Strengthening the linkage between planning and budgeting. Study and analysis of agency performance point that the main reason for underspending is poor planning and weak structural or institutional capacities of line agencies. To address this issue, the DBM is institutionalizing the implementation of the Medium-Term Expenditure Framework. A manual to assist the line agencies in rolling out a medium-term budget consistent with the development plan is being developed under a technical assistance from the IMF and an engagement of a local sector expert. This will be pilot tested to four (4) agencies this year and will be rolled out to big-spending agencies in the succeeding years. To supplement this approach, a fiscal calendar will be issued soon to synchronize the timeline of fiscal activities and guide the agencies in their respective planning and budgeting exercises.
- b. Streamlining the release of funds and development of integrated financial management system. The Budget and Treasury Management System, an integrated financial management system which links the budget execution and cash management and operations, is on track for implementation this 2017. The portal went live in January earlier this year to allow system validation. Users' training is currently ongoing in time for the launch of the budget execution function this month, and the treasury and cash management, and budget management functions later this May and July, respectively. The system is expected to be rolled out to spending agencies in January 2018.

The DBM will closely engage the line agencies to jointly monitor the progress of their program/project implementation.

¹¹ Annex A of National Budget Circular No. 567 dated January 3, 2017 entitled *Guidelines on the Release of Funds for FY 2017*. Available at http://www.dbm.gov.ph/?page_id=18372