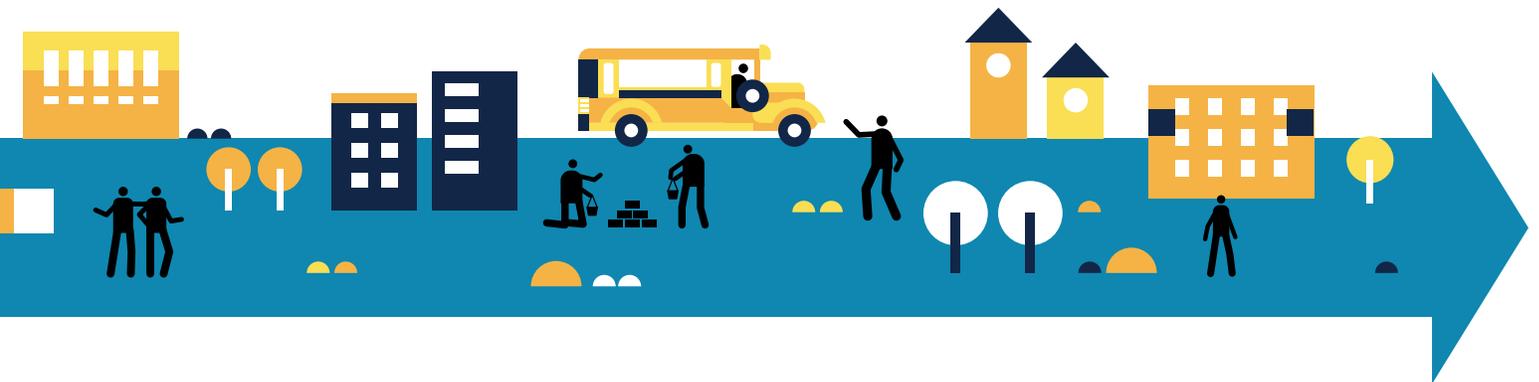


# Introduction

*“The task remains a challenge, but not an insurmountable one. Installing a results-based approach is a test of three Ps: persistence, perseverance, and partnership. Persistence, because one needs to vigorously pursue, despite the many obstacles, the objective of the program. Perseverance, because it is a test of patience, fortitude and compassion, all at the same time. And partnership, because it takes government, non-government, as well as private sector stakeholders, working together towards a common goal, to successfully implement a revolutionary program such as [budget and management reform].”*

**Former DBM Secretary Emilia T. Boncodin (+)**



The National Budget is the government's financial expression of its social and economic development goals. It is an instrument for socio-economic, human, and even political development; and a tool for good governance (Boncodin, 2008). It plays a critical role in ensuring that the scarce resources of the government are allocated to the most optimum uses: in terms of aggregate fiscal discipline or spending within its means, allocative efficiency or spending on the right priorities, and operational efficiency or spending with measurable results (Schick, as cited in Abad and Capistrano, 2013).

The Budget is formulated, authorized, implemented, and evaluated through the public financial management (PFM) system of a country: the manner by which governments manage revenues and expenditures, and how these resources affect the economy or society over time. Such a system is embedded in—and influenced by—broader sets of political and governance systems and institutions of a country. (Andrews, et al., 2014)

The PFM systems of countries, including that of the Philippines, could be characterized by continued reform. Such reforms are introduced, oftentimes with help from international organizations, to help improve the functionality of PFM systems and institutions and their outcomes (Andrews, et al., 2014). The last couple of decades have shown that PFM reforms are not always easy and have been met with limited success. Past experience has shown that there is no cookie cutter approach to implementing PFM reforms and these initiatives need to be tailored to local circumstances (Zhang, 2016). Political transitions, fiscal and economic crises, widely publicized cases of corruption, and external influences commonly trigger PFM reforms, specifically those which promote fiscal transparency, participation, and accountability (Khagram, de Renzio, & Fung, 2013).

Reforms, ergo, do not merely seek to align countries' PFM systems with international "best practices," but, more so, to enable governments to meet their mandates.

The current global situation—where the fiscal positions of countries have been profoundly challenged by the recent global economic crisis, and where citizens have increasingly demanded greater accountability in the use of their taxes—only emphasize the necessity of continued innovation in PFM. For one, the 2015 Global Financial Management Leaders Survey<sup>1</sup> revealed that more countries have innovated the way they manage risk in PFM, even as the impact of global crises on PFM reforms has diminished since 2013. Moreover, seventy one percent of PFM leaders surveyed agree that reforms of budgetary and financial management systems are crucial, as the pressure to develop more efficient and effective PFM practices is growing (Grant Thornton, 2015).

It is in this context that the Philippine government implemented PFM reforms. The six years under the Aquino administration were, in particular, a landmark period in the country's PFM reform journey: not only due to its ambitious agenda for reform and their unprecedented results so far, but also due to the equally unprecedented crises that greatly shaped the course of the journey.

## KUWENTO SA BAWAT KUWENTA

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

It is this journey of PFM reforms—marked by successes and difficulties—that this publication seeks to encapsulate. Beyond documenting this period for the sake of posterity, this publication seeks to provide a record of the starting points of reforms that have been pursued since 2010, the accomplishments that need to be sustained and scaled, and the lingering gaps and new challenges that should be addressed.

In doing so, this publication aims to provide the key players in the budget process with a comprehensive reference on the starting point of the next stage of budget reform under the new administration.

In particular, it is intended as a reference to the incoming Secretary of Budget and Management and the career officials and staff of DBM as they navigate the next phase of the budget reform agenda. It also hopes to help sustain and further spur the discussion among key stakeholders—within the government as well as in civil society, both locally and internationally—on how to further modernize the country's PFM system in light of emerging and persistent challenges. Moreover, as it seeks to fill a gap in the availability of updated and comprehensive official knowledge on Philippine budget and management, this publication also seeks to provide the academic community with a takeoff point in deepening the research on PFM in the Philippines.

### Documentation of budget reforms

This publication is the result of an internal process in the DBM to document the progress of key PFM reforms, particularly those which were led or initiated by the department in the public expenditure side of the PFM process. Beginning early 2015, a project team<sup>2</sup> reviewed past and recent independent assessments of PFM in the Philippines, particularly the Public Expenditure and Financial Accountability (PEFA) assessments in 2006 to 2007 (WB, 2010) and 2016;<sup>3</sup> compiled the policy bases of budget and management reforms introduced from 2010 to 2016; and analyzed internally produced and externally sourced data on budgetary outturns.

The resulting publication features nine (9) chapters, which are divided into four main parts that correspond to the four pillars of the Aquino administration's budget reform agenda: i) spending within our means; ii) investing in the right priorities; iii) delivering measurable results; and iv) empowering citizens.<sup>4</sup>

Each chapter discusses i) the overall situation and key issues upon the assumption of the Aquino administration in 2010; ii) budget reforms, policies, and initiatives introduced in the six years that followed, and the results that these have delivered so far; and iii) the lingering gaps and other issues that remain to be addressed. In inventorying the challenges, the chapters assess the extent to which these reforms have been institutionalized—an issue that reform partners have constantly raised. To assess the challenges that the reforms faced, the project team used the following four-point framework:<sup>5</sup>

- **Policy Strength** – The clarity of policies and rules on budget and management, including permanence of such policies through law, was assessed per reform;
- **Institutional Capacity** – The capacity of public institutions—both oversight agencies, such as the DBM and the implementing agencies—to implement modern PFM policies and deliver services effectively through the use of public funds;
- **Technology and Innovation** – The robustness of ICT systems that harmonize and streamline processes, make these more responsive to urgent needs, and reduce opportunities for discretion and corruption;
- **Stakeholder Support** – The extent to which key stakeholders, both internal to government and in civil society, in the country and internationally, are active in supporting and demanding reforms.

Additionally, the publication contains other articles on special topics or issues relevant to major budget and management reforms. These include a special feature on DBM's efforts to strengthen its ability to lead reforms in the longer haul by refining its organizational structure, improving its systems, and investing in its people. Key articles also discuss the two controversies that significantly shaped the pace and tone of reforms midway into the administration: the events that led

to the abolition of the Priority Development Assistance Fund (PDAF) and the controversy generated by the Disbursement Acceleration Program (DAP). Another special feature is on the proposed Public Financial Accountability Act: a bill that seeks to help institutionalize reforms that have been implemented since 2010.

As Secretary Abad emphasized, the documentation was done through an inclusive process. Hence, the project team sought the inputs and insights of key officials and staff of DBM who were involved in the implementation of reforms. These insights are manifested in two forms throughout the publication: short anecdotes or quotes from DBM officials on the reforms and the challenges ahead; and essays of the DBM's junior leaders<sup>6</sup> who reflected on their contributions to getting the reforms off the ground. To the extent feasible, the team also consulted partners in other oversight agencies and external stakeholders.

Moreover, in the tradition of the People's Budget (*see Fiscal Transparency*), the documentation leverages information design to highlight and illustrate important elements of the reforms. This direction is best depicted by the accompanying Executive Summary, which is composed of infographics that summarize specific initiatives under each chapter and summaries written for the layman reader. Graphic elements are spread throughout the main book as well to visualize data and illustrate new policies and processes.

As the rollout of reforms is continuously evolving, DBM welcomes comments, additional information, and critiques to this documentation. Such inputs will certainly help the DBM improve budget and management policies and reforms. While this publication is already as comprehensive as it is, the project team acknowledges that some detailed information and reference materials may not have been included due to time and resource constraints.

## THE STARTING POINTS OF THE REFORM AGENDA

### Early Reforms, Lingering Gaps, and Midterm Crises

*“Ang anumang pagbabago ay magmumula sa pagsiguro na magwawakas na ang pagiging maluhong at pagwawaldas.”<sup>7</sup>*

**President Benigno S. Aquino III**  
President's Budget Message 2011

Budgeting in the Philippines has been characterized by continuous improvement and reforms to respond to the challenges that the country has faced, as well as the many dysfunctions in the bureaucracy that have exacerbated these challenges. For one, the landscape at the turn of the 21st century was characterized by external and internal instabilities, both global and local: from the Asian financial crisis of 1997 and the global financial crisis of the late 2000s; to the domestic political crises that the Philippines experienced from the early 2000s.

This landscape influenced the character of reforms that have been introduced since then.

Particularly noteworthy are the public expenditure management (PEM) reforms that have been spearheaded in the Philippines since 1998 with the support of the World Bank. Among the key reforms promoted by the PEM Improvement Program were the Medium-Term Expenditure Framework (MTEF), which sought to introduce a realistic and strategic outlook to the allocation of scarce resources (*see Linking Planning and Budgeting*); and the Organizational Performance Indicator Framework (OPIF), which sought to link expenditures with measurable performance (*see Linking Budgeting and Results*). Collectively, these reform initiatives were meant to achieve the PEM outcomes of achieving aggregate fiscal discipline, allocative efficiency, and operational efficiency.

## What we came upon in 2010

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

- **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. The tight fiscal landscape not only severely limited the available resources for development programs and projects, but also had the effect of creating bottlenecks in the budget execution process: the government had to resort to withholding the release of budgets to the agencies during times when cash was scarce.
- **Undisciplined Resource Allocation.** Because resources were scarce, public investments in social services as well as infrastructure and other economic services remained below par. In addition, systemic gaps in the planning, budgeting, implementation, and results monitoring and evaluation processes had limited the ability of the government to invest in the right priorities. Such systemic weaknesses included poor program design, the prevalence of lump-sum funds, the weak link between the medium-term Development Plan and the annual Budget, and others.
- **A Dysfunctional PFM System.** The PEFA assessment conducted in the Philippines in the previous administration (WB, 2010) highlighted fundamental gaps in the PFM system that hampered the effective use of public resources to deliver results. For one, the process of releasing and spending public funds were ridden with both bottlenecks and leakages. Spending could not be clearly linked with the 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.** For one, the abovementioned weaknesses in the PFM system resulted in the inadequate access of citizens to information on fiscal affairs, especially in the actual utilization of public funds. The lack of transparency as well as institutional mechanisms for public participation in PFM—coupled with persistent issues of legitimacy and corruption—discouraged civil society organizations (CSOs) and ordinary citizens alike to engage the budget process.

## The starting points of reform

From day one of its term, the Aquino 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 order and hinged its PFM reforms on the following starting points:

- **The President's Leadership.** Through the very first reform that he instructed DBM to implement—Zero-Based Budgeting (ZBB)—President Aquino signalled the shift away from the status quo of incremental and leakage-prone spending. This reform—and the many others that were initiated or revived during his term—reflected the administration's will to pursue reforms in the management of public funds. Moreover, through the President's leadership, the Executive and Congress collectively ensured that the annual Budget is passed on time—for six fiscal years in a row, never before seen since 1986—to end the abuse-prone tradition of frequent budget re-enactment and to ensure the timely implementation of the Budget.
- **The PFM Reform Roadmap.** In 2009, before the administration assumed office, the career officials of the DBM, the Department of Finance (DOF), and the Commission on Audit (COA) had already started to craft a comprehensive PFM Reform Roadmap. Such reform program builds on the findings of the PEFA assessment and was supported by development partners: notably, the Australian Department of Foreign Affairs and Trade through the PFM Program (PFMP). The administration, through Executive Order No. 55 in 2011, endorsed and lent its support to the Roadmap.

- **Civil Society Engagement.** The government, through DBM, began to reach out to CSOs and other non-government stakeholders to engage them on how to open greater spaces for their participation in the budget process. This engagement gave birth to the Principles of Constructive Engagement and, later on, paved the way for the establishment of mechanisms for participatory budgeting, such as the Bottom-up Budgeting (BuB). These efforts emphasized that the empowerment of citizens in the budget process is paramount to improving the quality of the PFM systems.
- **International Support and Demand.** The bold reform agenda put forward by the government motivated international stakeholders to reach out to the government and lend their support. The PFM Reform Roadmap, for one, was enthusiastically supported by the Australia DFAT, the World Bank, the International Monetary Fund, and other development partners. Moreover, the Philippines was invited to join as a founding member of the Open Government Partnership (OGP) and Global Initiative for Fiscal Transparency (GIFT): venues that opened the Philippines to support networks of fellow reformers across the globe.

### **At midterm: crises as opportunities**

Undeniably, two Budget-related controversies profoundly shaped the pace and tone of PFM reforms midway into the administration. First, the revelation of the diversion of the PDAF in 2007 to 2009 eventually led to the abolition of such pork barrel fund by the President and the Supreme Court's landmark decision rendering it unconstitutional. The DAP—a mechanism that utilized the President's power over savings in order to speed up public spending during a time of sluggish growth—also generated controversy and led the Supreme Court to nullify its key elements. Both controversies put to fore the chronic weaknesses in the PFM systems and gave the government ammunition to pursue further reforms: in particular, the development of a proposed Public Financial Accountability Act to cure such gaps and institutionalize PFM reforms.

## **THE JOURNEY TOWARD PAGGUGOL NA MATUWID**

### **Budget Reform Agenda 2010 to 2016**

As a result of the administration's efforts since 2010, PFM practices were improved at each step of the budget process. The documentation presents an in-depth discussion of these reform milestones within the four pillars of the administration's budget reform agenda.

### **Spending within Means**

Through its fiscal consolidation efforts, the government managed to restore the sustainability of its fiscal health: in particular, by keeping the deficit within 2 percent of gross domestic product (GDP). These efforts also restored the government's credibility in financial markets, finally earning an investment-grade sovereign credit rating.

- **National Government Fiscal Management** (Chapter 1) – After inheriting a ballooned fiscal deficit, the government raised revenue collections without imposing new taxes, improved liability management, and ensured the strategic use of resources. These fiscal consolidation efforts reduced the burden of debt servicing on the Budget to a measly 13 percent and won the country successive upgrades in its credit rating—towards investment grade. The government also leveraged public-private partnerships (PPPs) and strengthened the governance of government-owned or controlled corporations (GOCCs) in order to mobilize resources for development and curb the fiscal risks that these pose.
- **Meaningful Devolution** (Feature) – the local government units (LGUs) are in a better position than the national government to know their constituents' unique development needs and deliver local services. Thus, the administration pursued reforms in meaningful devolution to further decentralize the government and empower LGUs to become effective partners in development.

## Investing in the Right Priorities

The administration dramatically reshaped the Budget to adequately fund the key results areas of its Social Contract with the Filipino People. Through the following reforms, the government increased social and economic services spending to P65 per P100 of the Budget in 2016, from only P48 per P100 a decade ago.

- [Linking Planning and Budgeting](#) (Chapter 2) – The government introduced systemic reforms to align the allocation of scarce resources with the Philippine Development Plan (PDP). These reforms enabled the government to rigorously scrutinize expenditures (ZBB), focus resources on priority programs and geographic areas (Budget Priorities Framework), and widen the fiscal space for such priority programs over the medium-term (revitalizing the MTEF through the Two-Tier Budgeting Approach).
- [Funding the Aquino Social Contract: Features on Priority Expenditures](#) (Sidebars to Chapter 2) – In tandem with efforts to improve budget formulation, the government implemented various reforms—program design, project standards, beneficiary targeting, etc.—that streamlined the delivery of services in line with the Social Contract: good governance; poverty reduction; rapid and sustained growth; just and lasting peace and the rule of law; and climate change adaptation and mitigation.
- [The End of Pork Barrel As We Know It](#) (Feature) – Apart from their being unconstitutional and prone to corruption, pork barrel distorts the rational allocation of scarce resources on development priorities. Thus, early into the administration, the government implemented reforms to rationalize the controversial PDAF (e.g., disclosure, menu, etc.). The revelation of massive abuses of the PDAF and other forms of pork compelled their abolition.

## Delivering Measurable Results

The government introduced bold and game-changing PFM reforms to rationalize the budget execution process, link expenditures with measurable performance, integrate and harmonize the government’s PFM system, and strengthen the capacity of the agencies to ensure the maximum impact for each peso spent:

- [Speeding up Budget Execution](#) (Chapter 3) – The government streamlined the slow, unpredictable, and leakage-ridden budget execution process through reforms, such as the GAA-as-Release Document. Especially during the second half of the term, the government ramped up efforts to address the weak capacity of the key agencies to implement programs and projects in a timely manner.
- [The Aftermath of DAP](#) (Sidebar to Chapter 3) – As slow spending in 2011 pulled down economic growth, the government introduced the DAP to leverage the President’s power over savings and unprogrammed appropriations—used by all Presidents in the past—to speed up spending. While DAP succeeded in boosting economic growth, the Supreme Court subsequently invalidated its key aspects.
- [Procurement Reform](#) (Feature) – The Government Procurement Reform Act (GPRA) paved the way for the unification of procurement policies as well as the introduction of stronger controls. As the procurement process tends to be tedious by nature, the government implemented reforms to ease the process, leverage technology, and beef up the capacity of the agencies in procurement.
- [Linking Budgeting and Results](#) (Chapter 4) – Through bold reforms, most notably Performance-Informed Budgeting (PIB), the government transformed the face and substance of the Budget in order to reflect the service delivery commitments of each agency in the Budget. The PIB, which builds on OPIF, is undergoing another evolution: Program Expenditure Classification, which restructures the Budget so that performance targets can be assigned for each program.

- **Compensation Reform** (Chapter 5) – To address inequities and abuses, make government compensation more competitive with the public sector, and link pay with performance, the government rationalized excessive bonuses, introduced PBB, and updated the Salary Standardization Law (SSL) schedule to bring compensation at par—at least 70 percent—with the private sector.
- **Integrated PFM System** (Chapter 6) – The government embarked on an ambitious goal to build an Integrated Financial Management Information System (IFMIS) to unify and automate the government’s disjointed and largely manual PFM processes. Towards this, the government installed important building blocks, such as the Unified Accounts Code Structure and Treasury Single Account. As the human side is more important than technology, the government also pursued efforts to build the capacity of PFM professionals throughout the bureaucracy.

## Empowering Citizens

Government exists through the mandate of the people—as well as their taxes. To empower citizens in the budget process, the government implemented reforms to boost fiscal transparency, citizen’s participation, and accountability. These reforms made the Philippines a global leader in fiscal openness:

- **Fiscal Transparency** (Chapter 7) – From publishing limited budget information in the past, the government produced all essential budget documents and reports in line with international standards and leveraged technology to make budget information more available to citizens. It also published the People’s Budget to provide citizens a gateway to understand the highly technical budget process.
- **Budget Integrity and Accountability** (Chapter 8) – To address a core structural weakness—the inability to compare actual spending with the approved Budget—the government ended the frequent re-enactment of the budget, rationalized funds that tended to be opaque and discretionary, among others. These reforms seek to strengthen the ability of oversight institutions—particularly Congress—to hold the Executive accountable for the use of public funds.
- **Citizens’ Participation in the Budget Process** (Chapter 9) – The government established formal means for citizens—particularly CSOs and other stakeholders—to engage the process of formulating the Budget and monitoring its implementation. Reforms such as the BUB have been lauded globally as trailblazing innovations in giving citizens a voice and stake in the budget process.

“We laud the Philippine Government’s efforts at leading the many initiatives to ensure the proper allocation of resources, which have translated to the timely and efficient delivery of crucial social protection and social services, as well as infrastructure and other programs that boost economic growth. It is our hope that these reforms will be institutionalized and sustained in our modest efforts to jointly effect change within government.

While we have achieved several milestones over the course of five years, I am also aware that ambitious projects such as the PFM will have its own share of challenges and may take a couple of years and a lot of political will to be fully implemented. Our experience in Public Financial Management Program (PFMP) bears an all-important lesson: that while the adoption of policy reforms and the development of new tools can lead to breakthroughs, it is only through unwavering dedication that we can ensure we will reap the benefits of the reforms.”

### Daniel Featherston

COUNSELLOR, ECONOMIC AFFAIRS SECTION, AUSTRALIA DEPARTMENT OF FOREIGN AFFAIRS AND TRADE  
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## NOTES

- <sup>1</sup> The survey included 278 leaders in PFM from over forty countries with positions in government, donor organizations, private companies, and academia.
- <sup>2</sup> The budget reform documentation team under the Knowledge Management Technical Working Group, which is now the Knowledge Management and Fiscal Transparency Service (KMFTS) (see *DBM's Institutional Strengthening Efforts*).
- <sup>3</sup> The last published PEFA was conducted by the World Bank in 2006 to 2007 and published in 2010 (WB, 2010). A new PEFA assessment round was conducted in 2015 to early 2016, although the report from the said assessment (by the Government of the Philippines and Development Partners—World Bank, Australian DFAT, ADB and IMF) is still about to be released as of press time. The PFM Committee principals and the World Bank, in a meeting on May 31, 2016, gave the DBM permission to make use of the findings of the 2016 PEFA assessment in this reform documentation report. The draft report (as of 25 May 2016) is cited in relevant chapters or articles: Linking Planning and Budgeting (page 62 to 63), Fast and Efficient Budget Execution (page 106), Integrated PFM (page 117), Fiscal Transparency (page 193), Budget Integrity and Accountability (page 212 to 214), Internal Control (pages 220 and 224), Conclusion (pages 246 to 254), and Proposed Public Financial Accountability Act (page 258). The draft PEFA report is indicated as such in the said chapters or articles of this reform documentation report.
- <sup>4</sup> The first three pillars are mostly aligned with the three objectives that Shick (1998) identified for public expenditure management (PEM): aggregate fiscal discipline, allocative efficiency, and operational efficiency. The fourth pillar was added by the DBM to give emphasis to the need to promote fiscal transparency, participation, and accountability to empower citizens in the budget process.
- <sup>5</sup> This rubric is an adaptation of the conditions for reform irreversibility, as identified by Abad (2014).
- <sup>6</sup> These essays were written by participants of the Junior Leadership Development (JLD) Program, which was implemented under the DBM Tibay Program (see *DBM's Institutional Strengthening Efforts*).
- <sup>7</sup> Roughly translated as “change can come from stamping out profligacy and extravagance.”