Spending Within Our Means

Sound fiscal management supports a stable economy and ensures sufficient resources for the government's programs and projects. In 2010, the administration inherited a ballooned fiscal deficit, a budget burdened by debt servicing, and low investor confidence. In six years, it boosted revenue collections without hiking taxes, improved liability management, eliminated leakages and wasteful spending, and achieved investment-grade credit ratings. As a result, the Philippines has been recognized as among the ASEAN's fastest growing economies and has been dubbed as Asia's rising tiger[1].

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

FISCAL MANAGEMENT

How the Government Reduced the Deficit and Doubled the Budget in Six Years

IN A NUTSHELL

- Government needs to collect sufficient revenues and ensure the sustainability of its borrowings and debts in order to have enough resources for development spending. On the other hand, each peso must be spent properly and with maximum impact.

- *In the past*, persistent fiscal deficits and an unmanageable debt stock constrained the ability of the government to invest adequately on socio-economic services:
  - Revenues had eroded to become among the lowest in Southeast Asia due, among others, to leakages in collection systems and revenue-eroding laws.
  - A heavy debt burden—with interest payments reaching a peak of 36.9 percent of revenues in 2004—limited available funds for development spending
  - From 1986 to 2010, social services almost equaled debt servicing at 29 percent of total spending, and infrastructure averaged a dismal 1.5 percent of GDP.

- *Since 2013*, fiscal consolidation efforts contained the fiscal deficit below 2 percent of GDP and nearly doubled the Budget to P3 trillion in 2016:
  - Revenues expanded through collection reforms and without imposing new taxes, except for the long-overdue sin tax reform
  - The debt burden was reduced from about 25 percent of revenues in 2010 to only 14.7 percent as of end-2015. Better revenues, lower debt stock, and governance reforms earned investment-grade credit ratings for the country.
  - Due to reforms, social services now accounts for 37.3 percent of the total Budget for 2016; and the infrastructure budget has reached 5.1 percent of GDP.
  - Also, a) revitalized public-private partnerships (PPPs) to tap private capital and expertise in big-ticket infrastructure projects; and b) reformed government-owned or -controlled corporations (GOCCs)

- *Moving forward*, the new administration should not only protect the healthy fiscal situation but also hasten public spending:
  - Consider pushing for a package of tax reform measures that reduces the tax burdens on individual taxpayers; compensates for revenue losses through other reform measures; and gives additional teeth to tax administrators
  - Further strengthen the capacity of the government to ensure the long-term sustainability of government finances and debts; and guard against fiscal risks such as those from PPPs and GOCCs
  - Improve the pace of public spending by strengthening the agencies' capacity to absorb more resources—i.e., the ability to plan, design, procure, implement, and monitor and evaluate programs and projects

The day-to-day operations of governments are financed through the taxes they collect and other sources of financing that they leverage. Especially for developing countries like the Philippines, governments must collect sufficient taxes and other revenues in order to adequately fund initiatives that spur economic growth, reduce poverty, and meet other goals. If such revenues fall short of expenditure needs, then governments may borrow resources from capital markets as well as international donor agencies to finance important programs and projects. However, in doing so, they must keep their borrowings and outstanding debts within reasonable levels to protect their financial positions from macroeconomic shocks and sustain their credibility among investors.

On the other side of the coin, governments need to ensure that the revenues they collect and the borrowings they incur are indeed spent properly and with maximum impact on the lives of their constituents. Adequate and high-impact public spending boosts economic growth: the National Economic Development Authority (NEDA) estimates that a 10-percent hike in capital outlays pushes GDP growth upwards by about 0.16 percentage points; in contrast, a similar increase in current operating expenditures only increases GDP growth by about 0.04 percentage points (DBM, 2015c). Efficient and effective public spending boosts economic growth: spending per se has a direct contribution to growth, while spending on infrastructure and other public goods enable businesses and ordinary citizens to create more wealth.

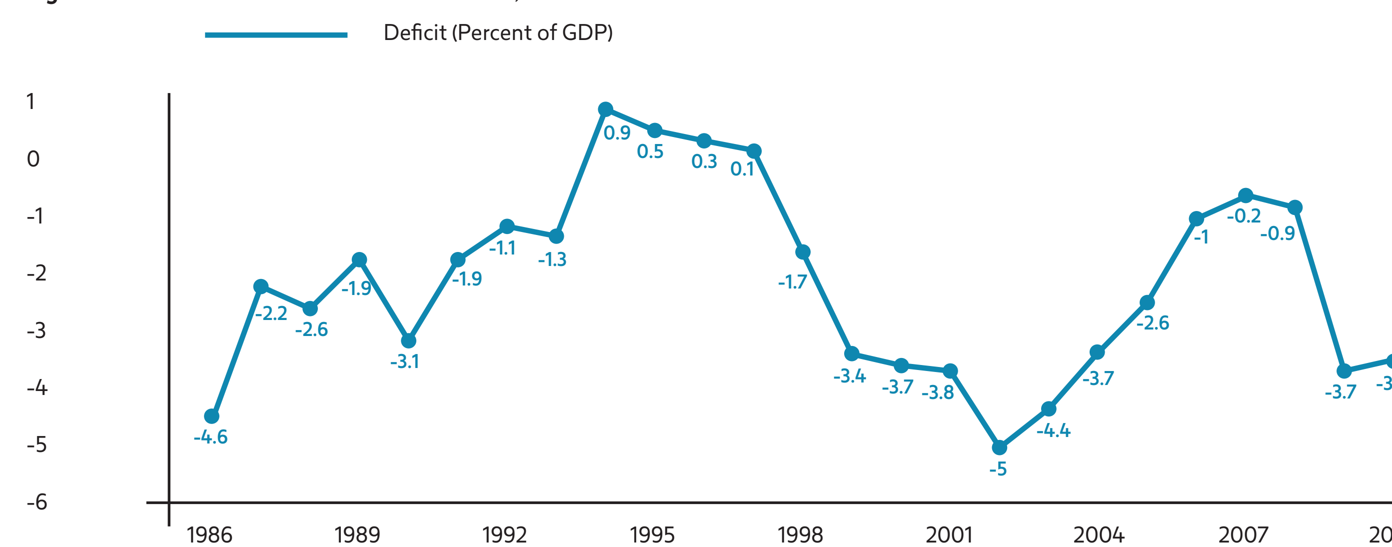
A vibrant economy, where citizens have sufficient means to finance their needs, creates additional financial resources for governments through taxes and other revenues. Good governance is thus at the core of effective fiscal management: where the right amount of taxes and other revenues are collected, liabilities and financial risks are deftly managed, and the maximum impact of the use of limited resources is ensured.

SITUATION BEFORE 2010

Persistent Deficits and Leakages Deprived Citizens of Much-Needed Services

Since the restoration of democracy, persistent shortfalls of revenue collections against expenditures have constrained the ability of the Philippine government to adequately invest in development interventions and stabilize the economic environment. From 1986 to 2010, the fiscal deficit averaged 2.2 percent of GDP annually, primarily due to anemic revenue collections, and worsened by global crises and other exigencies. While there were periods of stability, especially when surpluses were achieved in 1994 to 1997, the Asian financial crisis of 1997, as well as the political instability that followed, hiked the fiscal deficit to a peak of 5 percent of GDP in 2002 (*see Figure 1*).

Figure 1. **Fiscal Deficit as Percent of GDP, 1986 to 2010**



Early into the Arroyo administration's term, "[t]he country went through additional serious fiscal and public debt distress during 2002-2005, resulting in sovereign credit downgrades and difficulties in securing foreign capital (ADB, 2007)." To address the fiscal crisis, the previous administration enacted new revenue measures from 2004 to 2005, most significantly the increase in the value added tax (VAT) to 12 percent. Even as the government managed to achieve a near-fiscal balance in 2007, the fiscal deficit worsened to 3.7 percent of GDP by 2009 due to the global financial crisis from 2008 to 2009. As a result, the deficit averaged 2.9 percent of GDP from 2001 to 2010, compared to the average deficit of 1.7 percent of GDP during the three previous administrations.

Even as the Asian crisis of 1997 and the recent global crisis destabilized economic growth and took their toll on the government's financial health, the deterioration of the fiscal picture was not entirely beyond its control. Poor governance—illustrated by leakages in revenue collections, poor management of debts, and leakage-prone expenditure management—is the core reason for the unstable fiscal situation during the previous decade. International rating agencies have kept the Philippines' sovereign credit rating within "junk bond" status: an indication that investors still did not consider the Philippines as a credible debtor.

Poor revenue collections

The persistence of fiscal deficits post-EDSA was primarily attributable to poor revenue collections: the Philippines had among the lowest revenue collection effort rates (*see Table 1*) even as, ironically, it had the highest tax rates in the Asia-Pacific.

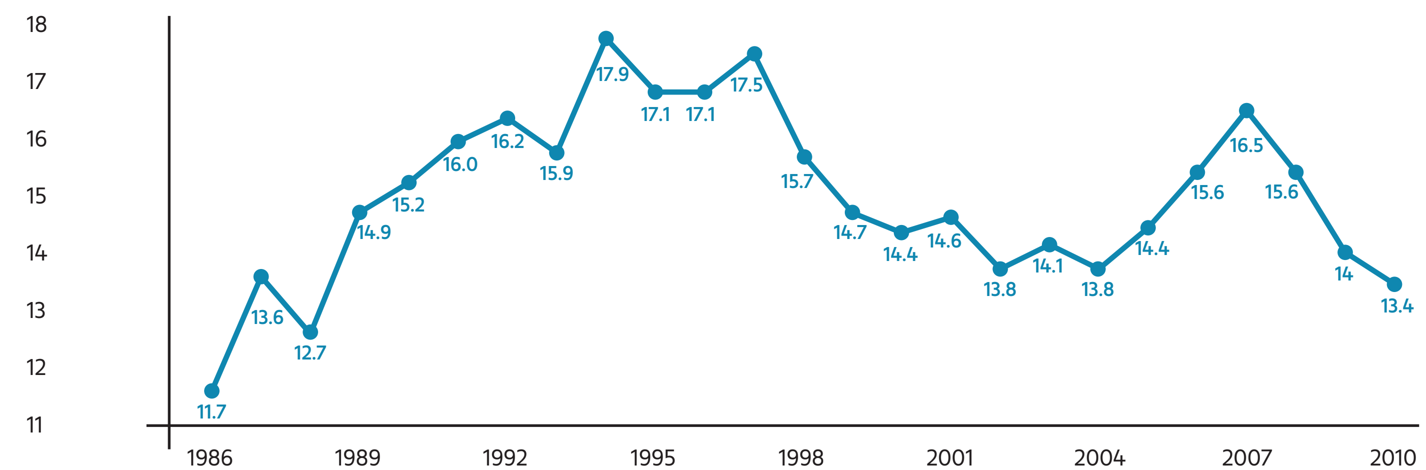
Table 1. **Revenue Effort in ASEAN Countries as Percent of GDP, 2001 to 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brunei	49.1	42.2	40.8	43.2	46.2	50.2	52.9	35.9	70.1	42.5	48.5
Cambodia	10.2	10.0	10.5	9.6	10.3	11.9	12.8	13.7	15.9	15.8	17.1
Indonesia	13.4	17.7	16.4	17.1	17.6	17.9	18.0	17.8	19.4	15.4	15.6
Lao P.D.R.	17.5	17.2	15.8	13.7	12.8	13.9	14.5	15.6	15.9	17.1	22.6
Malaysia	21.3	26.0	25.3	25.6	24.5	22.7	24.1	24.4	24.6	25.6	23.1
Myanmar	12.9	11.3	10.1	9.4	10.1	11.8	12.8	12.3	11.6	10.7	11.4
Philippines:											
IMF Data	18.1	18.1	17.5	17.6	17.2	17.8	19.0	18.7	18.7	17.4	16.8
*PH Data**	14.4	14.6	13.8	14.1	13.8	14.4	15.6	16.5	15.6	14.0	13.4
Singapore	28.2	26.2	21.9	19.6	19.1	19.9	19.8	23.8	24.0	17.4	21.1
Thailand	17.6	19.1	19.0	21.6	21.8	22.6	22.3	21.5	21.4	20.8	22.4
Timor-Leste	1.4	3.8	7.1	8.6	16.3	11.8	24.0	46.0	57.7	53.4	57.5
Vietnam	20.5	21.6	22.7	24.9	24.5	25.0	26.3	26.1	26.6	25.6	27.3

Source: International Monetary Fund (IMF) World Economic Outlook Database (as of April 2015); Philippine data from Department of Finance-Bureau of Treasury (DOF-BTr)

After revenue collection effort peaked at 17.9 percent of GDP in 1994, it then decreased to 13.8 percent in 2004 due primarily to the passage of revenue-eroding measures, particularly a "watered-down version" of the Comprehensive Tax Reform Program (CTRP) in 1997 (Diokno, 2010).[1] With the fiscal deficit reaching an unsustainably high level as a result, the government declared a fiscal crisis and pursued the enactment of fiscal reform laws, particularly the increase in the value-added tax (VAT) rate from 10 percent to 12 percent and its imposition on previously-exempted goods, such as oil and gas;[2] and the increase of excise tax rates on tobacco and alcohol.[3] The passage of new taxes subsequently enabled the government to increase its revenue effort to a high of 16.5 percent of GDP in 2007. However, the revenue effort began to dwindle anew with the onslaught of the global financial crisis, dropping to lows of 14.0 percent and 13.4 percent of GDP in 2009 and 2010, respectively (*see Figure 2*).

Figure 2. **Revenue Effort as Percent of GDP, 1986 to 2010**



However, revenue-eroding measures and external shocks were not the sole reason why the country's revenue effort had remained low compared to similarly situated countries. For one, tax evasion, smuggling, and other revenue collection leakages had chronically deprived the government of much-needed resources. The Global Financial Integrity (Kar and LeBlanc, 2014), for instance, estimated that the government lost a total of at least $23.05 billion dollars, roughly P1 trillion,[4] in revenue from 1990 to 2011—or about P47 billion annually—due to tax evasion through trade misinvoicing[5] or technical smuggling. An earlier study by Manasan (2008) on the impact of tax leakages also showed that while the Bureau of Internal Revenue's (BIR) tax collection effort improved from 2004 to 2007, primarily due to the passage of new tax laws, it "would have been higher than it actually was during the period under study if collection efficiency had been maintained at its 2004 level."

Among the measures passed by the Arroyo administration to avert the fiscal crisis was the Lateral Attrition Law[6] that created a system to reward and incentivize units, officials, and employees of BIR and the Bureau of Customs (BOC) who exceeded their collection targets. The previous administration also initiated the Run After Tax Evaders (RATE), the Run After the Smugglers (RATS), and the Revenue Integrity Protection Service (RIPS). Still, the business community continued to perceive both agencies as among the most corrupt agencies. According to Annual Enterprise Survey of Corruption of the Social Weather Stations (SWS, 2015) Filipino businessmen found BIR and BOC both have "very bad" net sincerity ratings (-57 and -69) in fighting corruption in 2009.[7]

Moreover, abuses in the grant of fiscal incentives—income tax holidays, reduction of or exemption from taxes and duties, among other enticements for investors—had reduced the possible tax take of the government. A study (Reside, 2006) found that redundant fiscal incentives—those given to investors "that would have invested anyway without them"—which were granted by the Board of Investments cost the government about P43.2 billion in foregone revenues in 2004. The Arroyo administration included the rationalization of fiscal incentives as part of its reforms to avert the fiscal crisis, though such law was not passed.

Worse, the tail end of its term saw the creation of new incentives-granting special economic and free port zones.

As tax administrators scrambled to reach collection targets, Congress passed revenue-eroding measures towards the end of the previous administration. To curb the impact of the global financial crisis on businesses and citizens, a law was passed reducing the top-bracket individual income tax rate from 35 percent to 32 percent, exempting minimum wage earners from income taxes, and other forms of relief from individual income taxes in 2008. Other revenue-eroding measures passed from 2009 to 2010 include VAT exemption for senior citizens and the creation of new fiscal incentive-granting bodies (*see Table 2*). The DOF in 2010 estimated that the government lost a total of P112 billion in 2008 to 2010 due to such revenue-eroding measures.

Table 2. **List of Laws with Negative Revenue Impact**

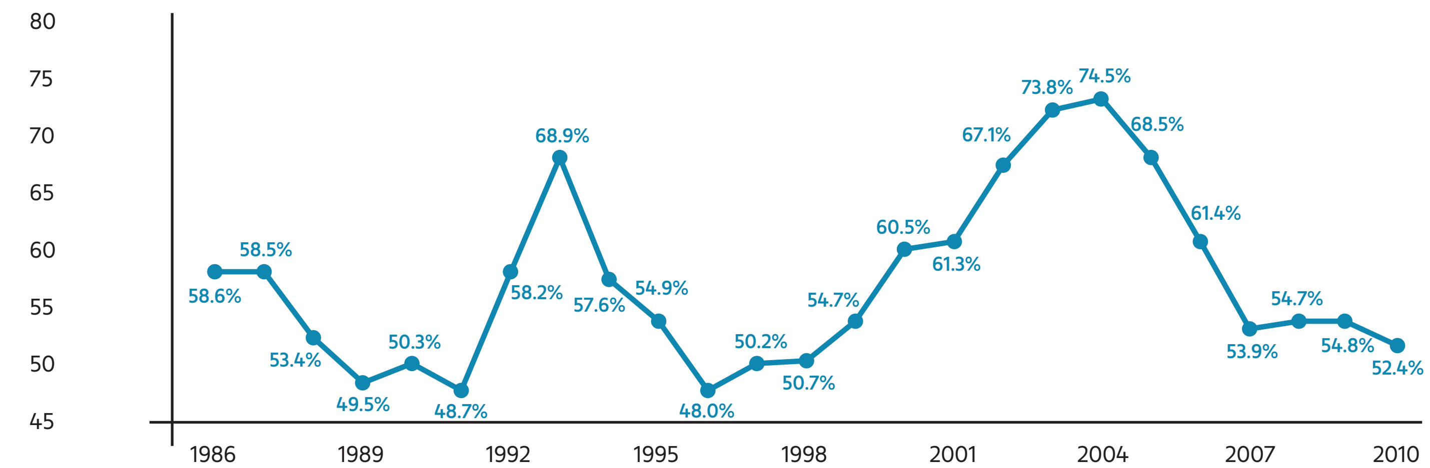
Law	Year	Name
RA9337	*2005*	Corporate Income Tax Reduction (effective 2009)
RA9504	*2008*	Individual Income Tax Relief (including exemption of minimum wage earners and adjustment of tax rates and brackets)
RA9505		Personal Equity and Retirement Account
RA9511		Imposition of Franchise Tax on Power Transmission in lieu of all taxes
RA9593	*2009*	Tourism Incentives
RA9648		Abolition of Documentary Stamp Tax (DST) on Secondary Trading of Stocks
RA9679		Incentives under the Home Development Mutual Fund Charter
RA9728		Bataan Freeport
RA9856		Real Estate Investment Trust Incentives
RA9994	*2010*	VAT Exemptions of Selected Goods and Services Purchased by Senior Citizens
RA9999		Tax Deductibility of Actual Free Legal Services Rendered by the Poor
RA10001		Restructuring of DST on Life Insurance Policies and Reduction of Premium Tax on Life Insurance Policies from 5 percent to 2 percent
RA10020		Migrant Workers and Overseas Filipino Act (Abolition of DST on Overseas Filipino Workers Remittances)
RA10026		Income Tax Exemption and Condonation of Unpaid Taxes for Local Water Districts
RA10083		Creation of Special Economic and Freeport Zone in Aurora

Source: DOF, as cited in Manasan (2010)

Ballooned national debt

As revenue collections could barely keep up with the increasing requirements for spending, the fiscal deficit increased, thereby increasing the government's borrowing requirements to finance revenue shortfalls and to amortize old debts. This, in turn, increased the government's outstanding debts. The debt stock already stood at 61.3 percent of GDP as of end-2001, which further increased to 74.4 percent of GDP in 2004. The passage of new tax measures in 2004 and 2005 enabled the government to reduce the outstanding debt to 54.8 percent of GDP in 2009 (*see Figure 3*). While decreased by about 20 percentage points from fiscal crisis levels, the debt stock was still above the benchmark for developing countries of 40 percent of GDP.

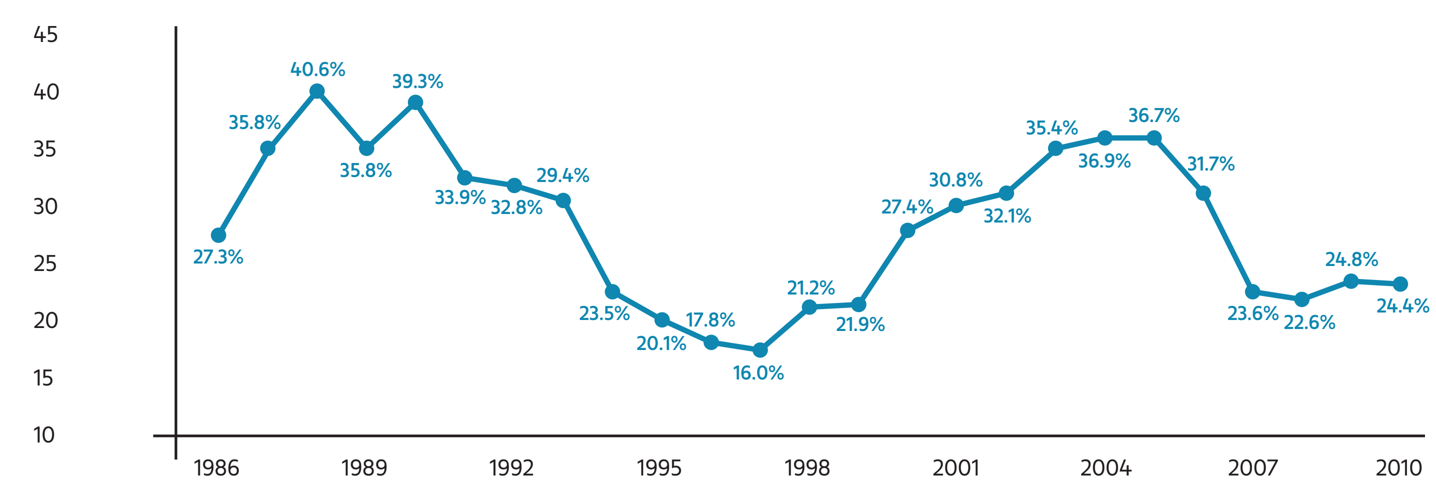
Figure 3. **NG Outstanding Debt as Percent of GDP, 1986 to 2010**



All of these actions resulted in a heavy debt burden, where a huge portion of government resources was used to service the outstanding debts. Interest payments peaked at a fiscal crisis level of 36.9 percent of revenues in 2004, before being reduced to 24.8 percent in 2009 (*see Figure 4*) due to the passage of new revenue measures as well as an expenditure restraint. Still, towards the end of the previous administration, only three-fourths of revenues could be used for government's operations and capital outlays.

In addition to the huge outstanding debt and its heavy burden on government resources, key institutional weaknesses compromised the national government's ability to effectively monitor and counteract macroeconomic and other risks to the government's financial condition. For one, the Public Expenditure and Financial Accountability (PEFA) assessment (WB, 2010) found that the government had not undertaken debt sustainability analyses, which project debt data against various economic scenarios[8]. It also said that the monitoring of fiscal risks from government-owned and controlled corporations (GOCCs) as "inadequate overall"[9] as the government had not prepared reports assessing the probability of GOCCs' contingent liabilities materializing into direct national government debt.

Figure 4. **Interest Payments as Percent of Revenues, 1986 to 2010**



Insufficient and leakage-prone expenditures

The narrow fiscal space resulting from poor revenue collections and heavy indebtedness constrained the government's ability to finance its operations and investments for development. National government disbursements from 1986 to 2010 averaged 17.2 percent of GDP annually. However, net of interest payments, expenditures averaged 13.0 percent of GDP: stated differently, an average of 4.3 percent of the GDP had to be spent annually to pay the interests on the national government's debts (*see Figure 5*).

Because revenue collections were persistently below target, the government needed to constrict expenditures in order to contain the fiscal deficit. As a result, the availability of funding support for key programs and projects became unpredictable, affecting the ability of the agencies to deliver much-needed services in a timely manner (*see Fast and Efficient Budget Execution*). Still, despite attempts to control the release of public funds, the previous administration often spent above the annual disbursement targets (*see Figure 6*).

Figure 5. Disbursements (Cash Basis) as Percent of GDP, 1986 to 2010

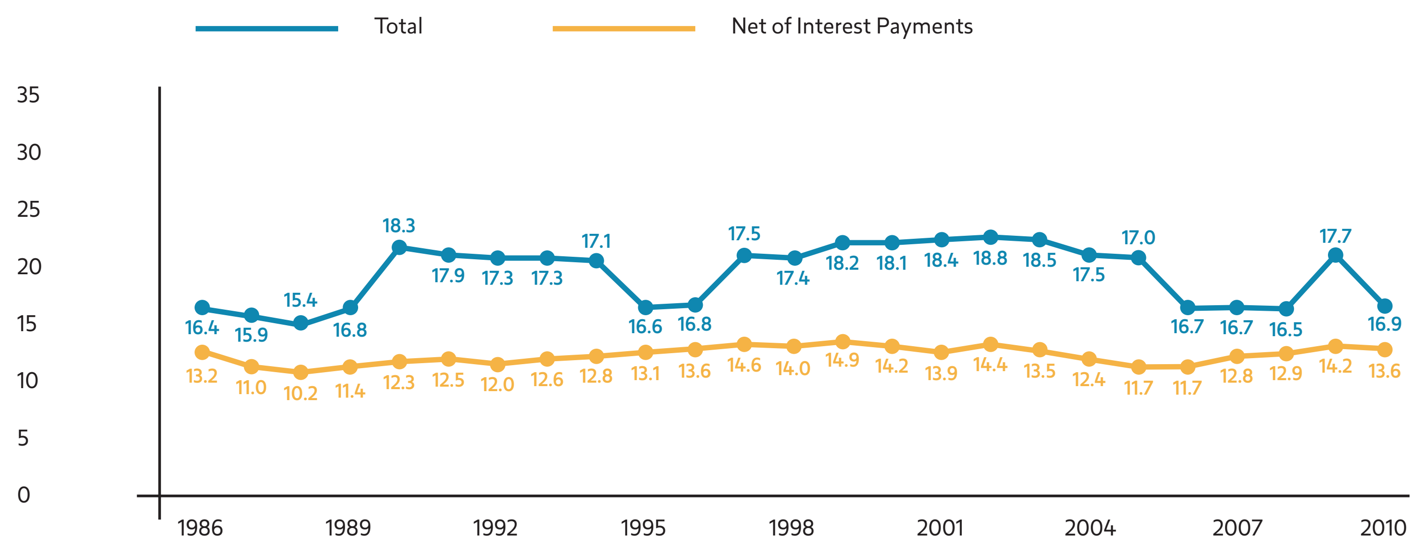
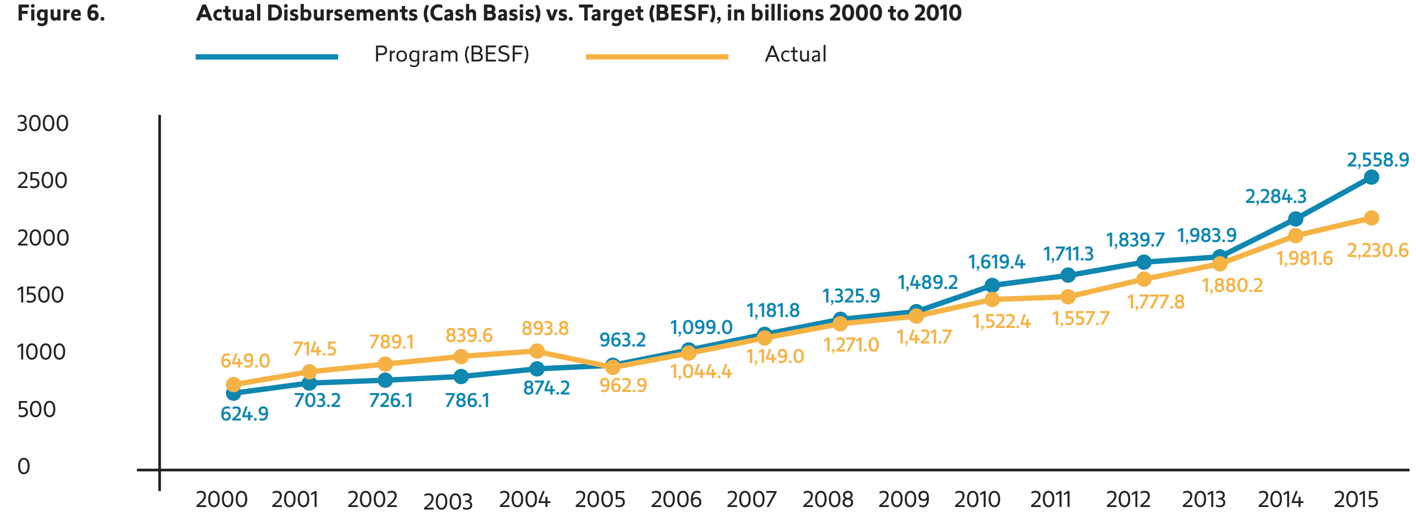
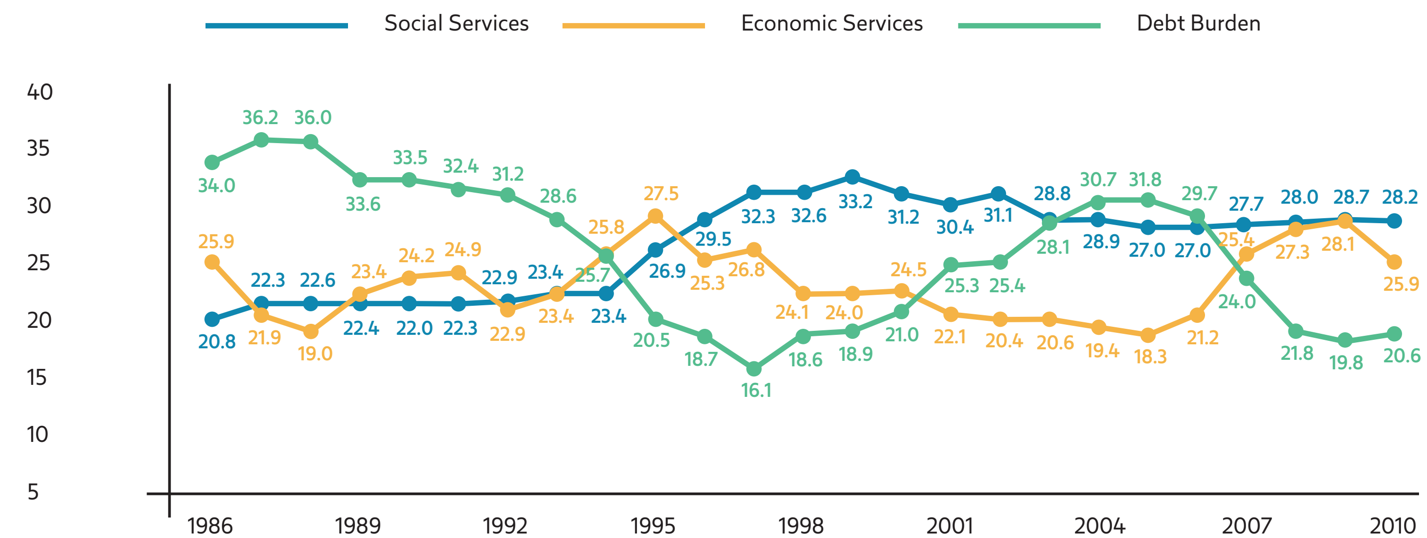


Figure 6. Actual Disbursements (Cash Basis) vs. Target (BESF), in billions 2000 to 2010



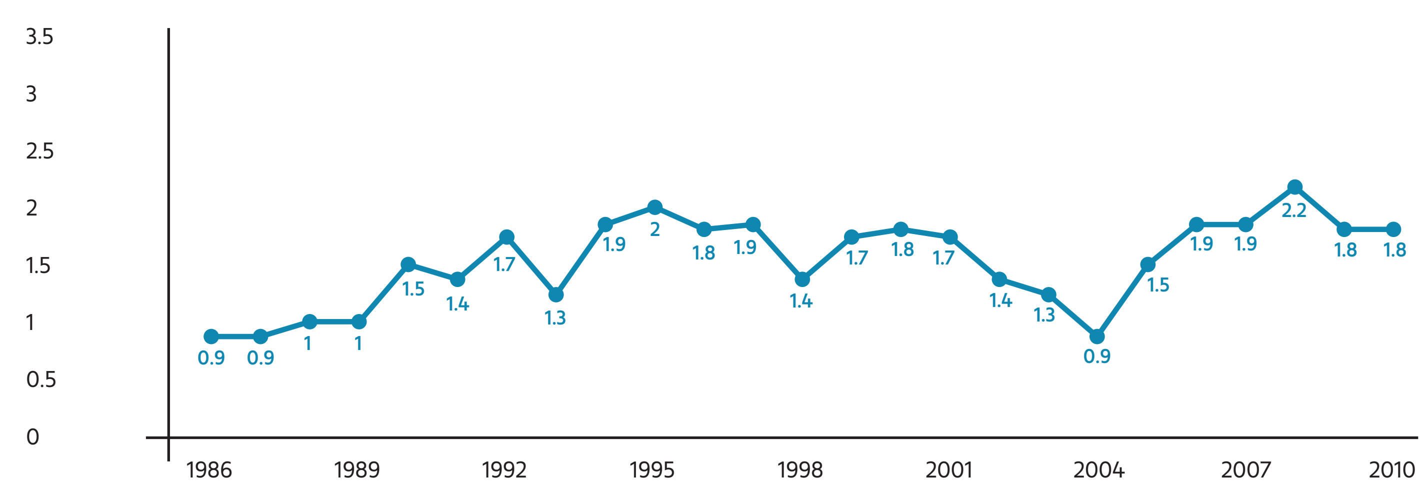
Due to fiscal constraints, spending for social services was edged out by the competing demand of servicing public debt. During the 25-year period from 1986, spending for social services only accounted for an average of 26.9 percent of total expenditures, and servicing the debt burden[10] ate up an almost equal portion, at 26.5 percent. The situation was just marginally better during the Arroyo administration, where servicing the debt burden was whittled down to an average of 25.7 percent of annual expenditures, compared to 28.6 percent for social services. It must be noted that expenditures to service the debt burden surpassed those for social services in 2004, 2005, and 2006 (*see Figure 7*).

Figure 7. Expenditures for Key Sectors (Obligation Basis), as Percent of Total Expenditures 1986 to 2010



Moreover, the tight fiscal space severely limited the capacity of the government to invest in much-needed infrastructure to boost economic growth. Annual infrastructure spending averaged a dismal 1.5 percent of GDP from 1986 to 2010, although the outturn was slightly better at 1.6 percent of GDP annually from 2001 to 2010. Still, during the 25-year period, capital outlays never breached the 2.5-percent-of-GDP level, more so to reach the benchmark capital outlays spending of 5 percent of GDP (*see Figure 8*).

Figure 8. Infrastructure Outlays (Obligation Basis) as Percent of GDP, 1986 to 2010



Further worsening the situation were fundamental weaknesses in spending systems, which, unfortunately, led to the wastage of public funds. The introduction and succeeding articles of this volume further describe these cross-cutting weaknesses that affected the government's disbursement performance and the composition of expenditures. The most noteworthy of these weaknesses included the weak link between the Philippine Development Plan and the annual Budget, which meant that the government could not optimally allocate its scarce resources on development goals (*see Linking Planning and Budgeting*); leakage-prone budget execution systems, including the prevalence of lump sum funds (*see Budget Integrity and Accountability*) as well as loopholes in the procurement process (*see Procurement Reform*); and the inability of the government to accurately account for and assess how public funds were spent faithfully according to the approved Budget (*see Budget Integrity and Accountability*). In other words, the government in the past not only found it difficult to spend within its means but also failed to spend on the right priorities and deliver measurable results in a transparent and accountable manner.

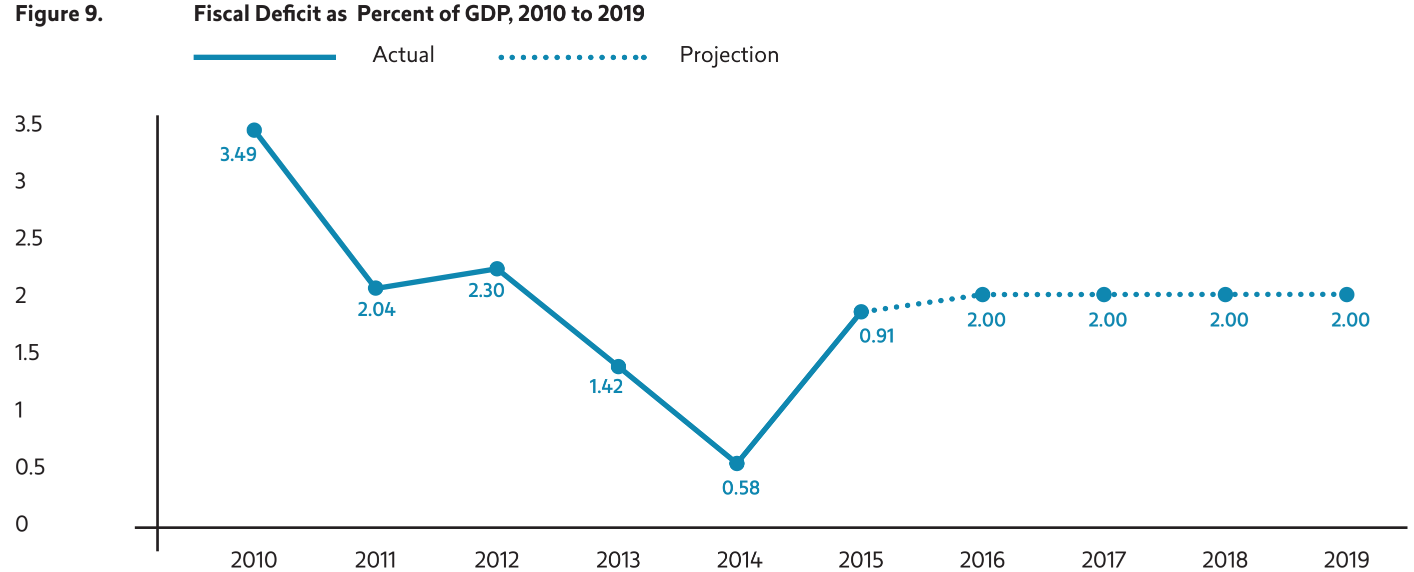
KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Fiscal Consolidation through Good Governance

> "Because we put our fiscal house in order by reducing our deficit by plugging tax leakages and improving our debt metrics, our country has regained its credibility among the investment community."
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

In the face of a huge deficit and anemic collections, the Aquino administration committed to fiscal consolidation: its overall strategy to boost revenue collections and reduce the burden of the national debt, as well as to curb leakages in spending, in order to create a larger space for urgent public spending. After inheriting a huge deficit of 3.5 percent of GDP as of end-2010, the government, through the Development Budget Coordination Committee (DBCC), targeted to reduce the fiscal deficit to 2 percent of GDP: a threshold that the government has kept within since 2013 (*see Figure 9*).

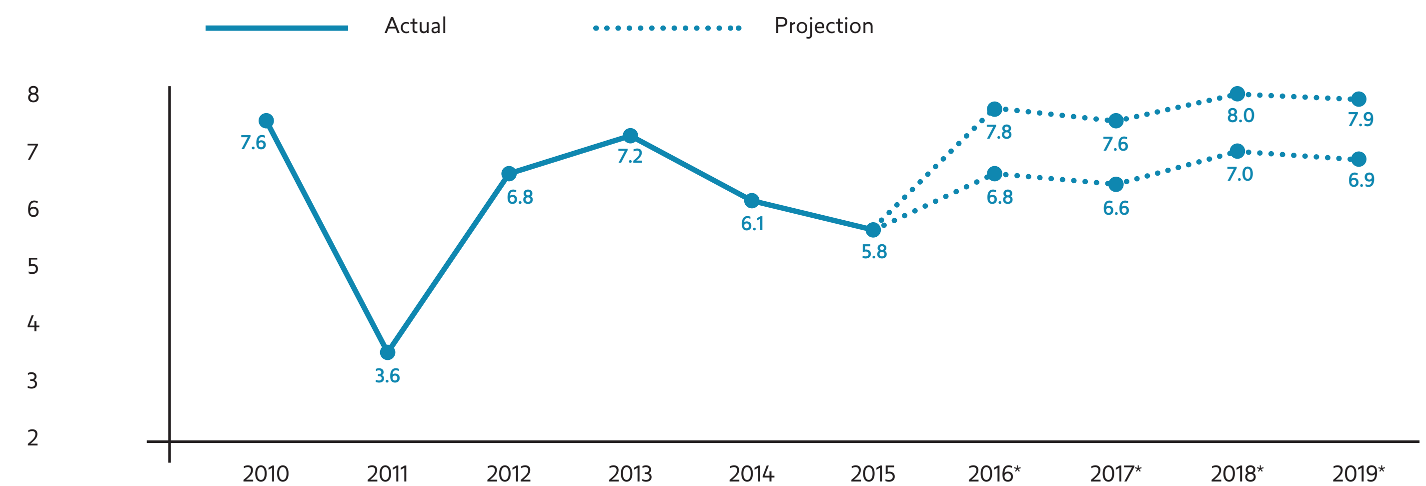
Figure 9. **Fiscal Deficit as Percent of GDP, 2010 to 2019**



From the very beginning, the government recognized that it could only finance its bold agenda for inclusive development through good governance: by purging tax and revenue collection systems of leakages, by improving its ability to manage its debt as well as to address fiscal risks, and by embracing transparency, accountability, and efficiency in public spending. As a result, the government under the Aquino administration managed to nearly double its Budget from P1.541 trillion in 2010 to P3.002 trillion in 2016. Moreover, because it exercised fiscal responsibility and deftly implemented measures to address global risks, the government was able to keep interest, inflation, and foreign exchange rates stable.

Thus, the newly restored health of the government's finances, backed by bold fiscal and financial management reforms, enabled the government to finally secure investment-grade sovereign credit ratings from all five international credit rating agencies. This fiscal health signified the newfound confidence of international investors on the country's risk profile and long-term economic viability. In turn, the newfound credibility of the government and the additional resources it gained enabled it to bring the domestic economy to newfound heights: the average annual growth of GDP from 2010 to 2015 reached 6.2 percent—the highest among other administrations[11] (*see Figure 10*).

Figure 10. **GDP Growth, in Constant Prices 2010 to 2019**



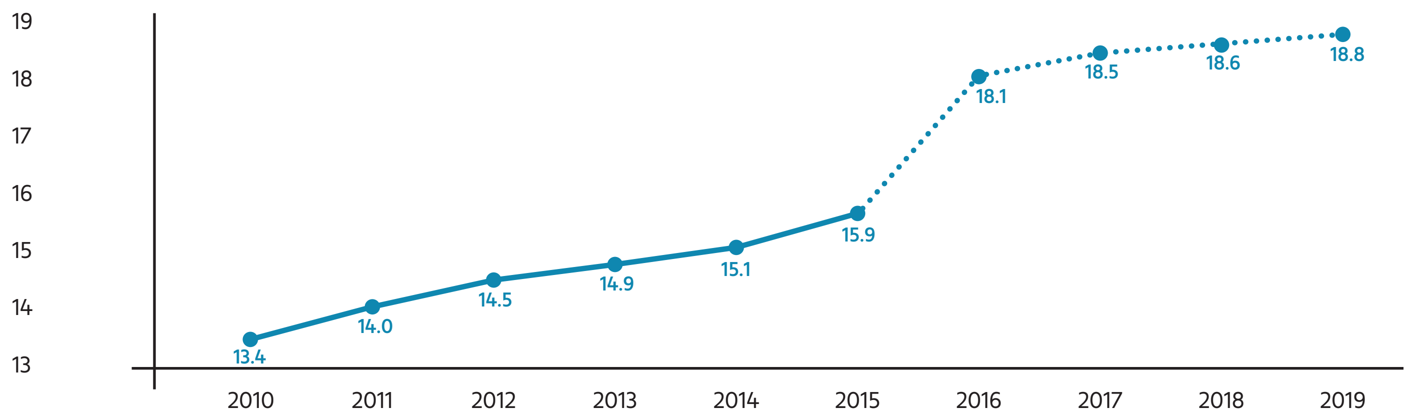
**2016-2019: These are ranges of projected growth.*

Improved revenue collections

Without imposing new tax burdens on the people and businesses—except for the long-overdue reform of the sin tax regime—the government dramatically improved revenue collections: enabling it to not only reduce the fiscal deficit but also to expand available resources for urgent public spending. So far, the government improved the revenue collection effort from 13.4 percent of GDP in 2010, to as much as 15.8 percent of GDP in 2015 (*see Figure 11*). During the same period, revenue collections increased by a cumulative 74.6 percent, or an average of 11.8 percent annually.

To achieve tax justice, the government pursued the long-overdue Sin Tax Reform Law not only to increase revenues per se but also to ensure adequate resources for the government's Universal Healthcare Program. The Sin Tax Reform Law—heavily opposed by the tobacco lobby and other interests—generated an additional total of 358.0 billion in revenue from 2012 to present. The government also took steps to rationalize the grant of fiscal incentives—at least to bring in more transparency to those granted by the government by accounting for and publishing the amounts of tax expenditures in the annual Budget documentation.[12]

Figure 11. **Revenue Effort (Percent of GDP), 2010 to 2019**



On the administrative side, the government, through DOF and its attached agencies, continued but intensified the RATE, RATS, and RIPS programs to bring tax evaders, smugglers, and corrupt revenue collection officials to justice. Under the RATE program, the total number of tax evasion cases filed increased to 352 as of April 2015, with total tax dues of P67.0 billion, from merely 27 as of 2010. Similarly, cases filed under the RATS program increased to 201 as of April 2015, covering a total amount of P26.0 billion, from only 27 in 2010.

Moreover, the government began the difficult process of reforming BIR and BOC by appointing honest officials to important posts, by streamlining revenue collection systems and taking other administrative measures, and by leveraging technology. In BOC, for instance, officials in key positions were reassigned, enabling the government to introduce a fresh batch of officials to man critical posts, such as the collection-heavy ports and those involved in customs intelligence. The BIR also streamlined tax forms and procedures, introduced systems for the electronic filing of taxes, and embarked on a high-impact public advocacy campaign to encourage taxpayers to file the right taxes.

Because of the bold reform initiatives, the business community's outlook on the sincerity of the government in fighting corruption in tax administration had improved. According to the Annual Enterprise Survey on Corruption (SWS, 2015), BIR's net sincerity rating in fighting corruption improved significantly from "very bad" to a "neutral" -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the "very bad" bandwidth, though it improved significantly from -69 in 2009 to -55 in 2014.

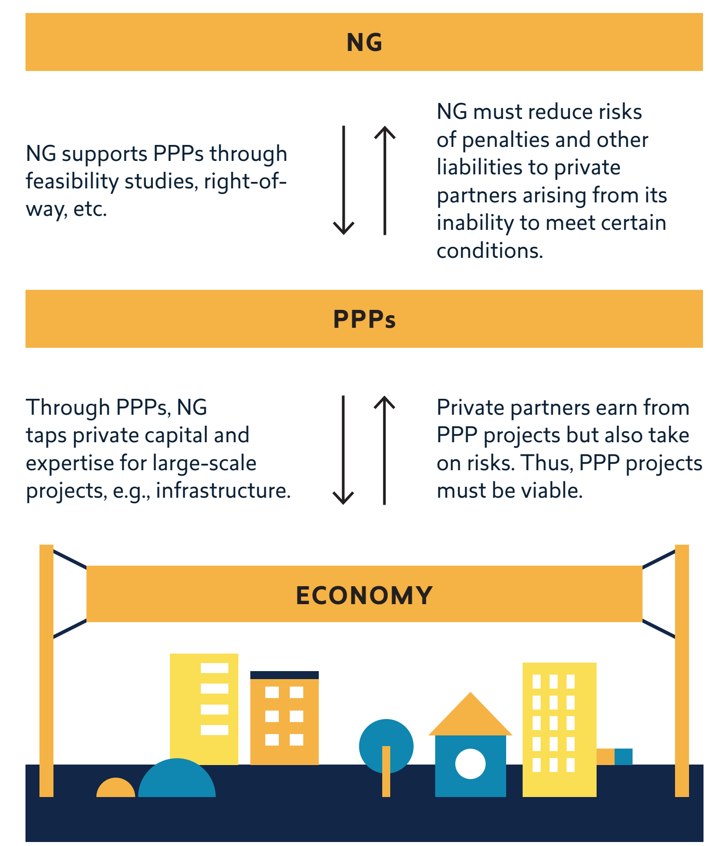
Table 3. **PPP Projects Pipeline**

	Number of Projects	**Project Cost (in billions)**
Total Pipeline	51	1,424.6
Contract Awarded	12	200.5
Undergoing Bidding	15	582.0
NEDA Board Approval	5	101.9
Under Evaluation or Feasibility Study	19	540.2*
Others		
Under BOT Law (MRT7)	1	69.3
Joint Venture (Skyway Stage 3)	1	37.4
LGU Projects	2	TBD

Source: PPP Center (2016) **Note: only for 2 projects; cost of 17 other projects to be determined*

Public-Private Partnerships

In 2010, the Aquino administration launched the Public-Private Partnership (PPP) program "as an innovative way to address our long-standing lack of funds (Aquino, 2011)." Broadly defined, PPPs are contractual agreements between the government and a private company in the financing, design, implementation, and operation of public infrastructure and other facilities or services (PPP Center, n.d.). In essence, through PPPs, the government tapped the capital and expertise of the private sector in implementing big-ticket infrastructure and other development projects.



In practical terms, the administration's PPP program is a rebranding and revitalization of the Build-Operate-Transfer (BOT) program[13], but with the following key improvements. First, it strengthened the governance of PPP projects. It established the PPP Center under the NEDA in 2010[14] to coordinate and monitor all PPP projects. In particular, the PPP center provides technical assistance to agencies implementing PPPs; formulates policy guidelines for all PPP transactions; and manages a central database of all PPP endeavors. In 2013, the administration established the PPP Governing Board[15] that serves as the overall policy-making body for all PPP-related matters.

The administration also created a fair and transparent policy and regulatory environment for PPPs, while focusing PPP endeavors on solicited projects, i.e., projects which the government identified as priority rather than by private proponents. For one, the government through the PPP center developed a robust pipeline of PPP projects, which is composed of 51 projects as of June 20, 2016 (PPP Center, 2016). [16] Secondly, the government provided strategic support to PPP projects: from funding feasibility studies,[17] to providing budgetary support for the acquisition of right-of-way and other preparatory works for such projects. Moreover, it addressed the fiscal risks posed by PPPs, in the form of contingent liabilities that could arise from the government's financial guarantees or compensation to the private concessionaire due to the government's failure to deliver its commitments to PPP contracts. In particular, the government included a Risk Management Program of P30 billion[18] under the 2016 Budget to provide a buffer for such contingent liabilities.

So far, the government has awarded 12 PPP projects worth P200.5 billion (PPP Center, 2016) (*see Table 3*). This outturn compares favorably against the performance of the past three administrations combined, which completed six unsolicited PPP projects worth P16.4 billion (DBM, 2015c).

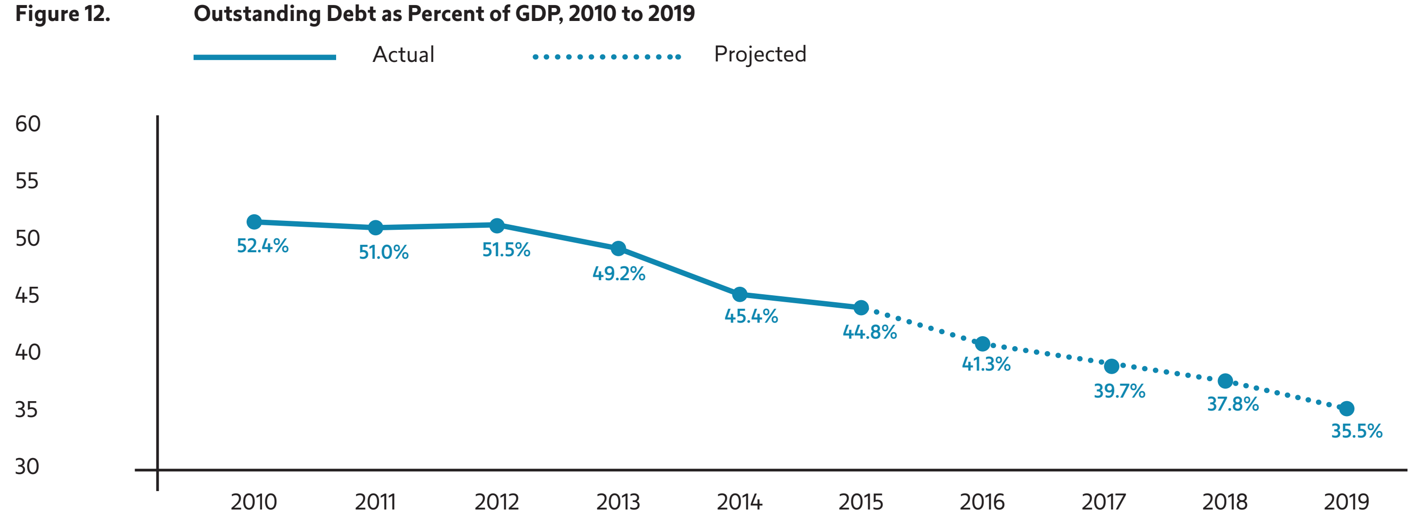
"We are not yet where we wish to be, but where we are is a far cry from where we were before, when we descended in a vicious cycle. The story of the last six years tells us that there is no magic wand involved in transforming the Philippines from the sick man of Asia to Asia's bright spot... Today, seeing how far we've come, I can say for the final time that, yes, good governance is great economics!"

Secretary Cesar V. Purisima
DEPARTMENT OF FINANCE

Reduced national debt

By improving revenue collections, readjusting the composition of borrowings, and reducing the risk profile of the country's debt stock, the government secured the sustainability of its debt portfolio. As of end-2015, the national government's debt stock had been reduced to 44.7 percent of GDP. Assuming that the government continued the current administration's fiscal consolidation strategy, it would be on track in reducing the debt stock to below 40 percent of GDP—the global benchmark for outstanding debt among developing countries—by 2017 (*see Figure 12*).

Figure 12. **Outstanding Debt as Percent of GDP, 2010 to 2019**

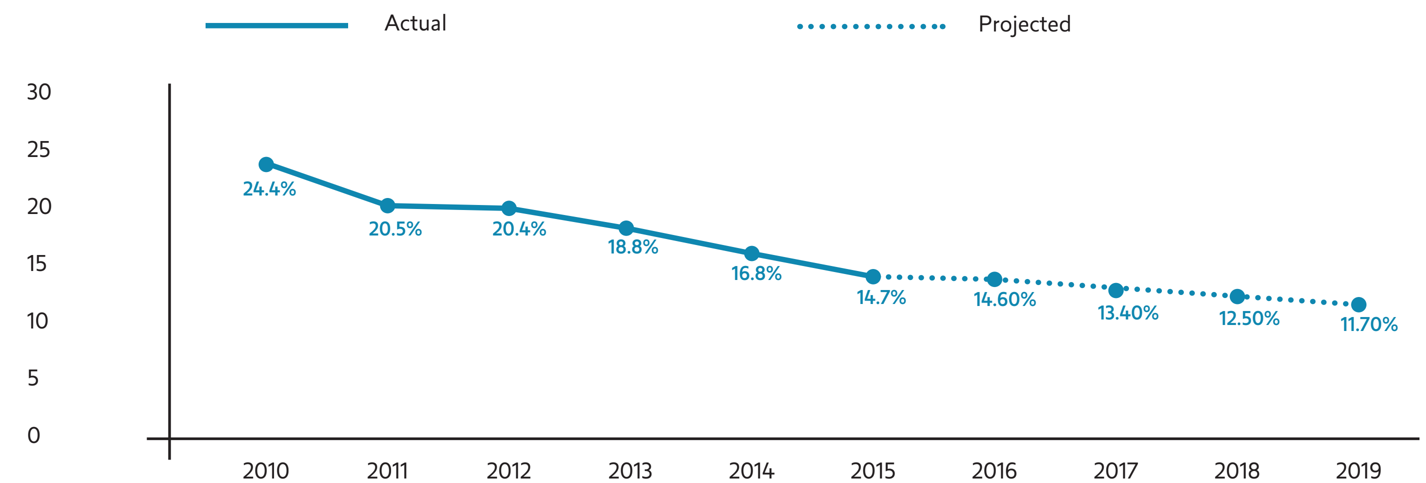


To achieve this level, the government recalibrated its liability management strategy to reduce the risks to its debt portfolio. For one, the government modified its borrowing mix to favor domestic lenders as well as peso-denominated foreign debts to minimize its exposure to foreign exchange fluctuations. The government's move to borrow more from domestic markets—at an average of 73 percent domestic and 27 percent foreign from 2010 to 2015—likewise leveraged the favorable domestic environment compared to relatively unstable international environment. As a result, the government's domestic-to-external outstanding debt ratio stood at 65:35 in 2015, from 58:42 in 2010. Moreover, the government engaged in initiatives to extend the maturity of its outstanding debts, such as the exchange of bonds from short-term to medium-term maturities. As of end-2015, only 11.1 percent of the country's debt were payable in the short- to medium-term, compared to 26.4 percent in 2010.

To better manage its cash supply and minimize unnecessary borrowing costs, the government, through the DOF-BTr, embarked on a bold move to implement a Treasury Single Account (TSA) as part of the government's PFM Reform Roadmap. The TSA serves as a unified structure of government bank accounts, which enables the Treasury to consolidate its cash resources on a daily basis, and provide timely and accurate reports on bank balances and funds movement. This reform enabled the government to have a better visibility of the government's cash supply, leverage these to pay current obligations, and thereby reduce financing expenses (*see Integrated PFM System*).

Through proactive debt management, the government reduced the debt burden. As of end-2015, the proportion of interest payments to total revenues was whittled down to only 14.7 percent. In the medium-term, this ratio should be further reduced to about 11.7 percent by 2019: stated differently, more than 88 percent of revenues would be available to finance the government's operations and urgent programs and projects (*see Figure 13*).

Figure 13. **Burden of Interest Payments as Percent of Revenues, 2010 to 2019**



Stronger Fiscal Risks Management

Recognizing the glaring weaknesses in its disclosure and management of fiscal risks, the government implemented reforms to better manage contingent liabilities, the long-term sustainability of its debts, and the disclosure of macroeconomic, fiscal, and other risks. Since 2011, the DBCC has been publishing the annual Fiscal Risks Statement (FRS), which discloses macroeconomic, external, financial, and climate change risks; and discusses measures implemented by the government to mitigate these.

The government also implemented initiatives to strengthen its capacity to manage its liabilities. In 2015, the Treasury began the practice of conducting Debt Sustainability Analyses (DSA) to assess the possible paths of debt metrics over the long term. The DSA uses DBCC-approved macroeconomic assumptions to project long-term trends of the reduction of the debt stock as a proportion of GDP; and to determine how scenarios, such as the occurrence of natural disasters, affect these trends. Also, DOF started the process of inventorying and monitoring contingent liabilities, which could arise from the government's obligations in PPP projects, as well as the operations of GOCCs.

"It is very important to publish the FRS to inform the Congress, development partners, investors, and even the general public what are the implications of the risks that the government faces and what it will be doing to mitigate those risks. The FRS helps the government to prepare in advance rather than be reactive. "

Director Rolando U. Toledo
DBM FISCAL PLANNING AND REFORMS BUREAU

Wider fiscal space for public investments

Apart from doubling the Budget from 2010 to 2016 by improving revenue collections and reducing the debt burden, the government also restructured the composition of expenditures to free up a larger portion of the Budget for development spending. As a result, the fiscal space—the portion of the Budget that is available for new or expanded programs and projects—increased from a measly P42.7 billion or 2.8 percent of the Budget in 2010, to a whopping P582.7 billion or 19.4 percent of the Budget in 2016: a cumulative increase of 1,266 percent during those six fiscal years (*see Figure 14*). With this larger fiscal space, the government was able to increase its investments to achieve its inclusive development agenda. From 2010 to 2014, actual spending for social services increased to an annual average of 33.7 percent of total expenditures compared to just 28.4 percent from 2001 to 2009; while the debt burden was reduced to 18.3 percent from 26.4 percent during the same period. In 2016, the share of the social services sector in the Budget has increased further to 37.3 percent, compared to the debt burden, which has decreased to 14.0 percent (*see Figure 15*).

Figure 14. **Total Budget Program (Obligation Basis) and Fiscal Space, in billions, 2009 to 2017**

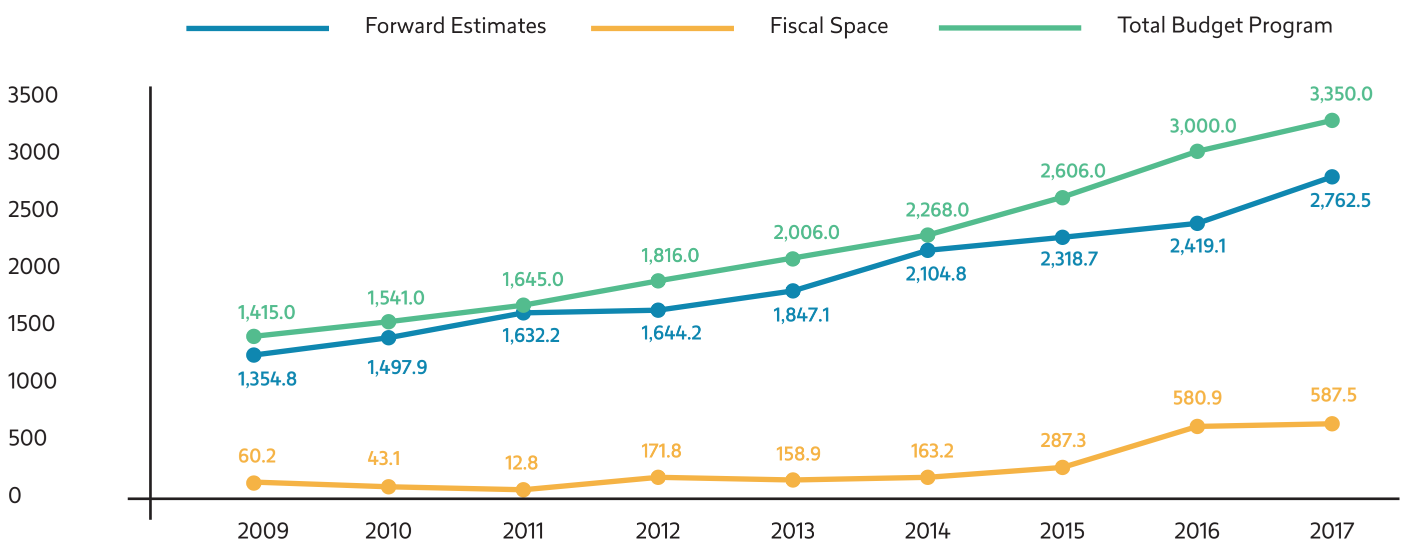
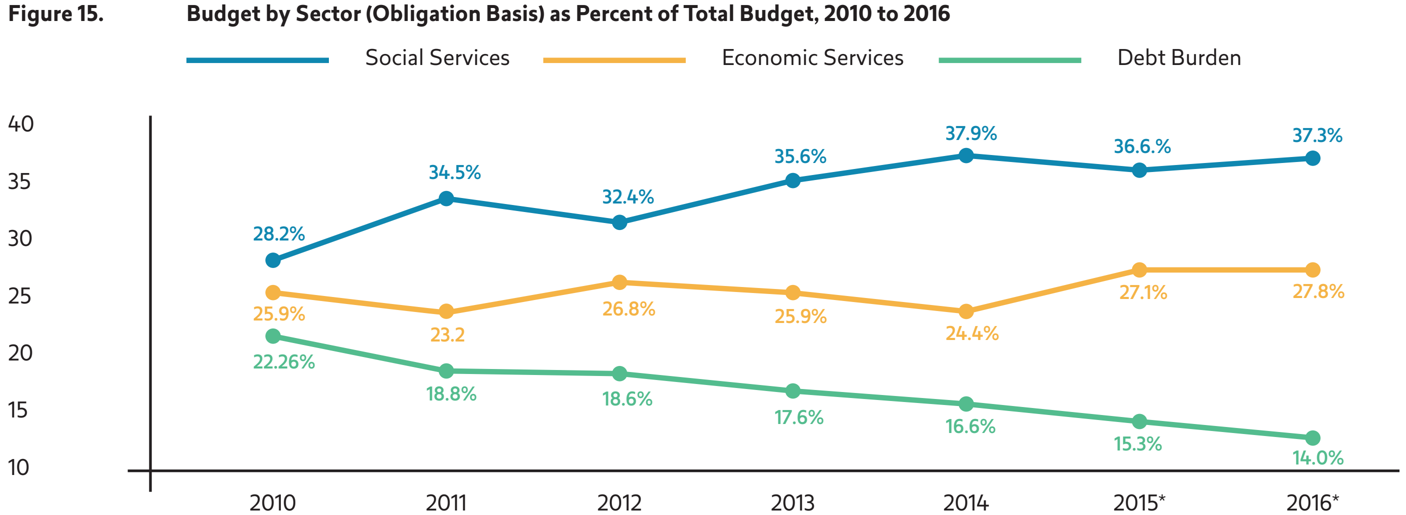


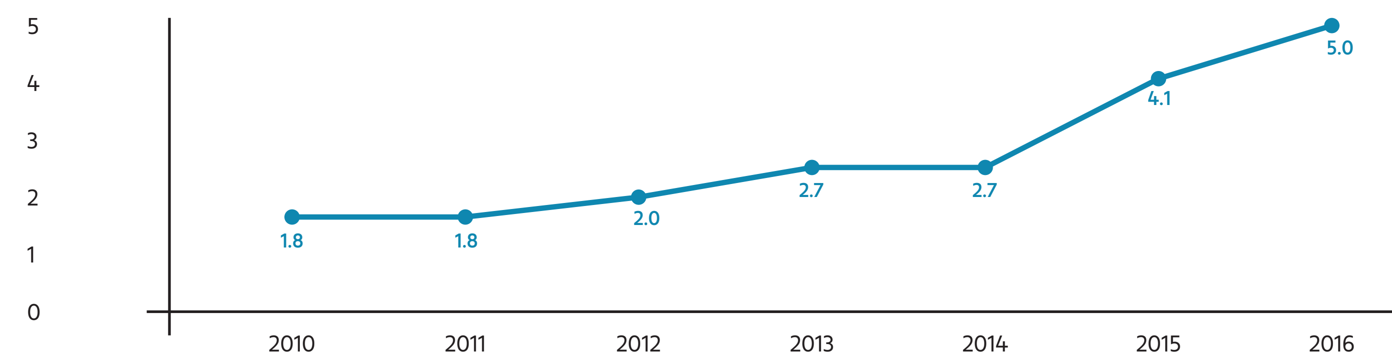
Figure 15. **Budget by Sector (Obligation Basis) as Percent of Total Budget, 2010 to 2016**



Adjusted figures for 2015 and GAA-level figures for 2016

Moreover, the government was able to allocate the ideal 5 percent of GDP for infrastructure spending in the 2016 Budget (*see Figure 16*). Reforms to improve the prioritization of funds in line with the government's agenda for inclusive development (*see Linking Planning and Budgeting*) as well as those that tighten the link between budgeting and measurable performance (*see Linking Budgeting and Results*) enabled the government to dramatically reconfigure public spending.

Figure 16. **Infrastructure Budget as Percent of GDP, 2010 to 2016**



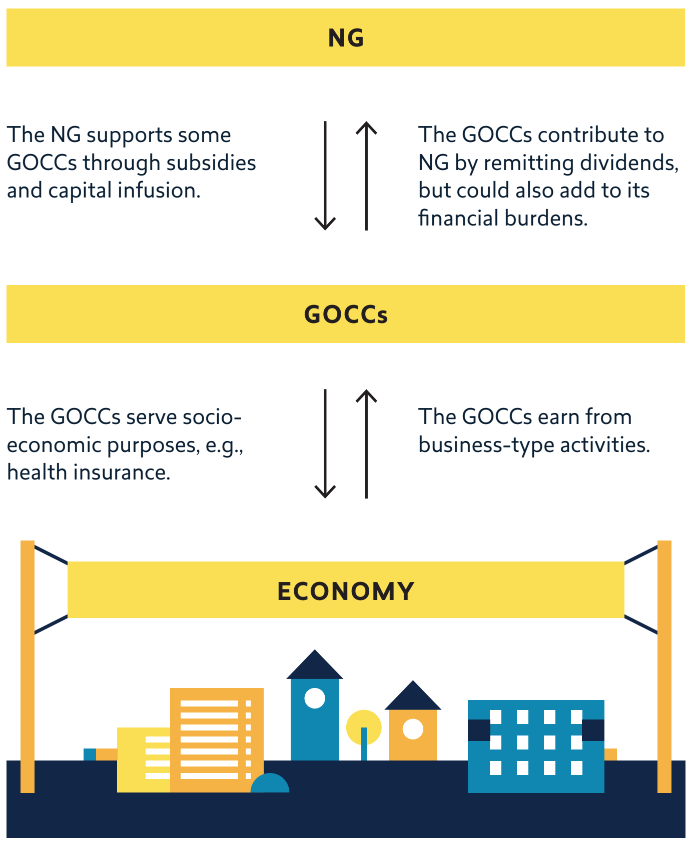
The government also implemented bold reforms to address fundamental weaknesses in spending systems to improve efficiency, transparency, and accountability, as discussed in the latter parts of this volume. For one, the more consistent revenue intake enabled the government to loosen expenditure controls and ensure the predictability of funding for crucial programs and projects. At the same time, it rationalized the budget execution process through these reforms, such as the GAA-as-Release Document (*see Fast and Efficient Budget Execution*). Second, the government curbed leakages in spending systems by revamping the ineffective and inefficient programs, the reduction of lump sum funds (*see Budget Integrity and Accountability*), and the increase of transparency (*see Fiscal Transparency*) and citizen's participation (*see Citizen's Participation in the Budget Process*) in budgeting and management. The government also implemented initiatives to strengthen budget integrity and accountability: in addition to the reduction of lump sum funds, it consistently passed the Budget on time and, in recent times, rationalized the parameters for the use of the President's power over savings.

Unfortunately, actual national government disbursements consistently fell below target from 2011 to 2015 (*see Figure 17*). While this trend indicated that the capacity of government to utilize public funds was not able to catch up with the larger resources made available due to fiscal reforms, two trends must be noted for indicating positive trends. First, the gap between actual spending and the target was reduced from 9.0 percent in 2011 to 5.2 percent in 2013 due to the implementation of the Disbursement Acceleration Program (DAP) (*see The Aftermath of DAP*); but it widened anew to 13.3 percent in 2014 in the aftermath of the Supreme Court decision on this program. However, it is noteworthy that the gap between actual spending and target in 2015 was narrowed slightly to 12.8 percent, indicating that interventions introduced during the second half of the Aquino administration have begun to improve the ability of the agencies to absorb larger resources.

Second, national government disbursements as a proportion of GDP were reduced to an annual average of 16.3 percent from 2011 to 2015 from 17.4 percent of GDP from 2001 to 2010. However, if interest payments were netted out, then public spending from 2011 to 2014 slightly improved to 13.6 percent of GDP from 13.1 percent of GDP from 2001 to 2010. This condition indicated that while total disbursements as a proportion of the economy decreased, the proportion of disbursements that actually contributed more to economic growth had widened: 83.4 percent from 2011 to 2015, compared to 75.1 percent from 2001 to 2010.

Reforming GOCCs

In 2010, the administration pursued reforms in the governance of GOCCs to ensure that their financial and operational independence is balanced with greater public accountability. Triggered by the grant of excessive bonuses and other compensation to officials and employees of certain GOCCs, the administration's reform efforts in the government corporate sector began by suspending the grant of such bonuses and rationalizing the compensation framework in GOCCs.[19] In recent times, the administration has established the Compensation and Position Classification System for GOCCs (*see Compensation Reform*).



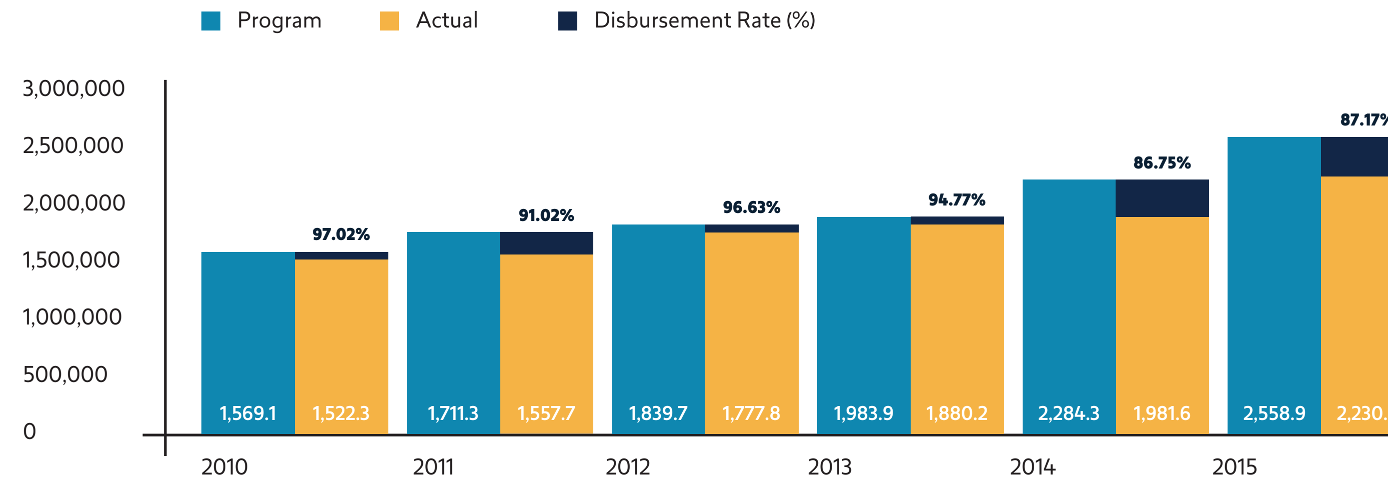
"We should gradually wean GOCCs from being dependent on financial support from the national government. Eventually, DBM should concentrate on budget and management, providing support to a GOCC only when it is tasked by the national government to implement a program that will benefit the wider population."

Director Lorenzo C. Drapete
DBM BUDGET AND MANAGEMENT BUREAU FOR GOOD GOVERNANCE SECTOR

In 2011, Congress passed the GOCC Governance Act which, among others, established the Governance Commission for GOCCs (GCG): the "central advisory, monitoring, and oversight body with the authority to implement and coordinate policies".[20] The GCG has so far pursued the rationalization of the GOCC sector. In particular, it has so far pushed for the abolition of 22 GOCCs for having duplicating functions, are no longer cost-efficient or achieving their respective objectives, or whose functions are better carried by the private sector; while 14 more GOCCs are being studied for abolition, privatization, or merger (GCG, 2015). Among those abolished GOCCs were those that had been implicated in the pork barrel scam of 2007 to 2009 (*see The End of Pork As We Know It*). Meanwhile, 25 GOCCs were declared non-operational (GCG, 2016).

The national government also focused its budgetary support to GOCCs on subsidies that directly supported priority programs and projects, rather than just bankrolling the latter's day-to-day operations. From 2011 to 2015, total subsidies, equity infusion, and net lending to GOCCs reached P369.3 billion or 4.8 percent of total expenditures.[21] Though such amount is a larger proportion than 2.2 percent from 2001 to 2010, notable were the significant increases in subsidies for health insurance subsidies, socialized housing, and sitio electrification. On the other side of the coin, GOCCs have so far remitted a total of P164.3 billion in dividends to the Treasury during the administration—P40.2 billion in May 2016—compared to a mere P84.2 billion from 2001 to 2010 (Aquino, 2016).

Figure 17. NG Disbursements against Program (in bilions) 2010 to 2016



CHALLENGES AND NEXT STEPS

Is Fiscal Consolidation Enough to Support Inclusive Development?

"The improved fiscal situation enabled us to grow expenditures and implement PFM Reforms: things that had remained elusive and uncertain in the past. Episodes of fiscal crises had taught us how important revenue predictability and fiscal sustainability were to a stable economy and to providing the more activist government spending program needed to fuel growth. Those changes, as well as the active use of the Zero-Based Budgeting, the Medium-Term Expenditure Framework, and the Two-Tier Budgeting Approach, were instrumental in enabling a wider fiscal space and channelling that for programs and projects for poverty reduction and economic growth.

With the continuous improvement of tax and non-tax revenues and the reduction of the debt burden, we could afford to undertake a much larger expenditure effort. We were also able to improve the predictability of funding to agencies through the GAA-as-Release Document and other reforms. However, we have to continue decisively addressing the poor absorptive capacity of the agencies, especially for growth-inducing infrastructure."

Undersecretary Laura B. Pascua
DBM BUDGET POLICY AND STRATEGY GROUP

Good governance reforms implemented during the past six years ensured that the new administration would inherit a healthier Treasury and a wider fiscal space to sustain the country's momentum toward achieving inclusive development. However, it must be acknowledged that below-target disbursements had been a key factor as to why the deficit reached 0.9 percent of GDP in 2016 or just about half of the deficit target; and why GDP growth, though stronger than those of neighboring countries, had fallen below expectations.

To boost economic growth, the next administration should further improve the pace of public spending, especially on infrastructure, while at the same time maintain an appropriate balance between revenues and expenditures. In other words, sustaining the path to fiscal consolidation, or to take a different direction, would be contingent upon the next administration.

At present, there are currently no formal fiscal rules that require the government to meet medium-term fiscal targets, or at the very least a legal mandate for the Executive to report to Congress any deviation from such targets. Such mandate could have been set in place by the proposed Public Financial Accountability Act, which had remained pending in Congress.

Moreover, the tail end of the administration was marked by Congress' attempts to enact measures that erode revenues (e.g., the justifiable clamor to reduce individual income tax rates) or increase financial burdens (e.g., the rejected proposal to increase Social Security System pensions). Long-term fiscal sustainability which supports inclusive growth would depend largely on the strength of the government's fiscal policy regime as well as its capacity to implement the same—especially on expenditures, considering the spate of slow-spending in recent times (*see Fast and Efficient Budget Execution*).

Revenue collections

The DOF projects the revenue effort to increase to 18.0 percent of GDP by 2019 (see Chart 11): closer to the prevailing performance of Thailand (about 17-18 percent), Malaysia (about 20-21 percent) and Vietnam (about 21-22 percent). This projection assumes, however, not only that the tax regime remains the same but also that revenue reform measures are sustained.

Toward the closing of the 16th Congress, important revenue reform measures had been enacted: the Tax Incentives Management and Transparency Act (R.A. No. 10708); and the Customs Modernization and Tariff Act (R.A. No. 10863). However, other reform measures, most notably the long-overdue Fiscal Incentives Rationalization bill, had not yet been passed. Meanwhile, legislators and stakeholders had pushed for the reform of the income tax regime with the noble intention of reducing the tax burdens of middle-income employees and making the country more attractive to investors through lower corporate tax rates.

The DOF estimates that pending legislative bills have a potential revenue impact and additional budgetary burden of about P370 billion to P488 billion, equivalent to 2.4 percent to 3.2 percent of GDP (2016).

Efforts to reform the income tax regime should be pursued in a manner that does not deteriorate the overall revenue effort. Thus, DOF under the Aquino administration, after a series of studies, proposed to the new administration a package of tax reforms that reduce corporate and individual income taxes from 30 percent and 32 percent (top bracket), respectively, to 25 percent. Such package of fiscal reform measures seek to compensate for potential revenue losses by, among others, expanding the VAT base and increasing the VAT rate from 12 percent to 14 percent (DOF, 2016) *(see box)*.

The new administration may also continue and expand revenue administration reforms: those that leverage technology to ease tax filing and collection processes; and those that revamp the tax collection agencies. Among the tax administration reform measures being sought by DOF are the lifting of bank secrecy for tax evaders and making tax evasion as a predicate crime to money laundering: at present, the Philippines is one of only three countries in the world where tax administration cannot access bank transactions of tax evaders; and one of only two where tax evasion is not a predicate crime to money laundering (DOF, 2016).

The DOF-Proposed "Holistic, Equitable, and Revenue-Positive" Tax Reform

- Income tax reform that will exempt 11 million wage earners from paying taxes, lower personal and corporate income tax rates from the ceilings of 32 percent and 30 percent, to 25 percent *(–P158 to –P222 billion)*
- Rationalize fiscal incentives *(at least +P5 billion)*
- Expand VAT base by removing exemptions and increasing the rate from 12 percent to 14 percent *(+P80 billion and +P82 billion)*
- Index oil excise taxes to inflation *(+P132 billion)*
- Bank secrecy and anti-money laundering reform, as cornerstone to tax administration reform *(+87.5 billion to +P210 billion)*
- Improve organizational capacity of BIR and BOC
- *Also:* sustain Sin Tax Reform Act of 2012

Liability and fiscal risks management

If the fiscal policies and liability management strategies of the current administration were sustained by its successor, then the national debt stock would decrease to below 40 percent of GDP by 2017 *(see Figure 12)*; and the portion of revenues allocated to paying interest on such debts would likewise decrease to 13.4 percent by the same year *(see Figure 13)*. However, apart from the possibility of revenue-eroding measures being passed, the government faces other key risks to achieving the medium-term goal of bringing the national outstanding debt below the global benchmark.

For one, based on the latest debt sustainability analysis conducted by BTr (DBCC, 2016), the debt-to-GDP ratio is expected to continue on a downward trend to a little over 30 percent in 2024. A large disaster, however, may raise this long-term projection to 36.4 percent, although the downward trend will be sustained. It is also noteworthy that government debts and interest payments are sensitive to external shocks: for instance, the projected fiscal deficit of P308.7 billion in 2016 could increase by P4.2 billion if the 180-day London Interbank Offered Rate increases by a percentage point.

It is thus incumbent on the new administration to not only sustain current fiscal policies and protect revenues from further erosion, but also to be vigilant against negative externalities—particularly, climate risks and international market shocks—that could increase the debt stock and the debt burden on the Budget.

Another key risk to the sustainability of the government's outstanding debt position are contingent liabilities from, among others, PPPs and GOCCs. In the face of these risks, it is incumbent on the next administration to at least sustain the practice of publishing the annual FRS—and to improve its timeliness in order to aid policymakers in managing fiscal risks—as well as initiatives to strengthen the capacity of the Treasury and DBCC in general to monitor and manage fiscal risks.

Expenditure management

While the National Expenditure Program (NEP) has doubled from 2010 to 2016 and the predictability of funds has dramatically improved due to better revenue collections, the capacity of the government agencies to utilize fully the larger Budget would still require much improvement. As noted in the previous discussion, the gap between actual expenditures and target in 2014 and 2015 remained wide. In particular, actual infrastructure outlays in 2014 only reached 2.7 percent of GDP against the target of 3.4 percent of GDP: while a historic record, the shortfall against target puts into question the capacity of key government agencies to utilize increased resources for much-needed infrastructure.

Only by sustaining public financial management reforms can the government sustain GDP growth and poverty reduction. The following sections of this volume describe the specific reforms that should be sustained by the new administration in order for the government to spend on the right priorities and with measurable results in a sustainable manner. Perhaps the most urgent among these PEM reforms include: the consolidation of reforms that more tightly link expenditure plans with development needs and the agencies' delivery capacity via the Two-Tier Budgeting Approach; the escalation of efforts to strengthen the capacity of the agencies to deliver programs and projects, apart from the continuation of reforms that streamline budget execution and procurement processes; and the improvement of budget integrity and accountability systems to truly assure citizens that the annual Budget is implemented faithfully as planned.

> "The stable outlook balances the Philippines' strong external position, which features its rising foreign exchange reserves and low external debt, against its low income and developing institutional and governance framework over the next 18 months.
>
> We may raise the ratings if continued fiscal improvements under the new administration boost investment and economic growth prospects, or if changes in governance and the policy environment lead us to a better assessment of institutional and governance effectiveness.
>
> We may lower the ratings if, under the new administration, the reform agenda stalls or if there is a reversal of the recent gains in the Philippines' fiscal or external positions."
>
> **S&P Global Ratings (formerly Standard & Poor's Ratings Services)**
> ON THE STABLE OUTLOOK ON THE PHILIPPINES' SOVEREIGN INVESTMENT GRADE RATING (2016)

NOTES

[1] Diokno (2010) said that the Ramos administration pursued the CTRP to further build on the improved tax effort from 1986 to 1997. Unfortunately, "what came out of Congress was a watered-down version of the original 1997 CTRP program" particularly the failure to pass measures that rationalize fiscal incentives and broaden the base for value-added taxes. These and other factors had progressively deteriorated the tax collection effort since 1997.

[2] The Expanded VAT law (R.A. No. 9337) also increased the corporate income tax rate to 35 percent until 2008.

[3] RA No. 9334.

[4] Using the exchange rate of $1 = P45

[5] Underreporting of the value or types of shipments being imported or exported in order to reduce tax and tariff payments.

[6] RA No. 9335

[7] In 2009, apart from BIR and BOC, the Department of Public Works and Highways (DPWH) also had a "very bad" net sincerity rating of -65 in fighting corruption.

[8] The PEFA assigned a score of "D" on the sub-indicator on the scope and frequency of debt sustainability analyses as none had been undertaken in the last three years.

[9] The PEFA assigned a score of "C" on the sub-indicator on the extent of central government monitoring of autonomous government agencies and public enterprises because of the failure to conduct a valuation of contingent liabilities and analysis of risks from GOCCs.

[10] Henceforth, "debt burden" refers to the portion of national government expenditures allocated for interest payments to service current debts and net lending to GOCCs to service their debts.

[11] Average real GDP growth during post-EDSA presidencies: C. Aquino (1986-1991) – 3.9 percent; Ramos (1992-1997) – 3.8 percent; Estrada (1998-2000) – 2.3 percent; Arroyo (2001-2009) – 4.5 percent.

[12] A new table in the Budget of Expenditures and Sources of Financing (BESF), introduced since the 2015 Proposed Budget, discloses the amount of tax expenditures from fiscal incentives granted by incentives-giving government agencies such as the Philippine Economic Zone Authority.

[13] The BOT Law (R.A. No. 6857) was enacted in 1990 and amended in 1993 (R.A. No. 7718) to provide a mandate to authorize the government to tap the private sector in financing, constructing, operating, and maintaining infrastructure projects.

[14] Executive Order (E.O.) No. 8 s. 2010 renames and reorganizes the BOT Center, transferring it to the NEDA from the Department of Trade and Industry (DTI).

[15] E.O. No. 136 s. 2013, an amendment to E.O. No. 8, creates such Governing Board that is composed of the Secretary of Socio-Economic Planning as chairperson, the Secretary of Finance as vice chairperson, and the Secretaries of Budget and Management, Justice, Trade and Industry, the Executive Secretary, and the private sector co-chairman of the National Competitiveness Council as members.

[16] PPP Projects whose proponents are national government agencies. In addition, the pipeline includes two projects of local government units (LGUs), a project under the BOT Law (MRT Line 7 Project), and a project under joint venture agreement (Metro Manila Skyway Stage 3 Project).

[17] Through the Project Development and Monitoring Facility, a revolving fund managed by the PPP Center for the preparation of business case, pre-feasibility and feasibility studies, and tender documents of PPP programs and projects; as well as support from the Budget.

[18] Under the Unprogrammed Fund as standby appropriations *(see Budget Integrity and Accountability)*

[19] E.O. No. 7 s. 2010 directed the rationalization of the compensation and position classification system in GOCCs and GFIs, created a Task Force on Corporate Compensation (TFCC) pending the creation of the GCG; and suspended all allowances, bonuses, and incentives for GOCC directors or trustees until end-2010; among others. The suspension of the said benefits of directors and trustees was extended to January 31, 2011 by E.O. No. 19 s. 2010. E.O. No. 24 s. 2011 eventually established a rationalized compensation framework for board directors and trustees of GOCCs.

[20] R.A. No. 10149, the "GOCC Governance Act of 2011"

[21] Based on the Treasury's data from its Cash Operations Reports. Without net lending, total support to GOCCs reaches 1.7 percent of total expenditures for 2001 to 2009, and 3.9 percent in 2011 to 2016.

INSIGHT FROM A DBM JUNIOR LEADER

ZBB: The Art of Letting Go

By Maria Cecilia Socorro M. Abogado[1]

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

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

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

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

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

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

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

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

HOW WE FREED UP MORE RESOURCES FOR DEVELOPMENT

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

Outstanding Debt of the National Government

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