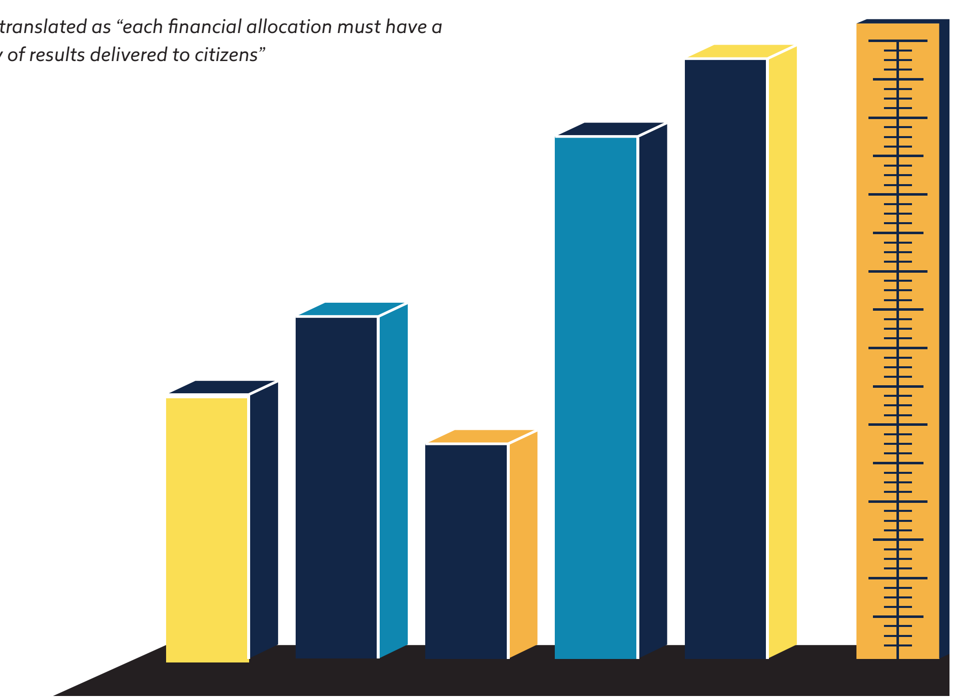
Delivering Measurable Results

Dapat may kuwento ng resulta sa bawat kuwenta[1]. Each peso must be spent efficiently and directly translate to services to citizens. In 2010, the Aquino administration pursued bold reforms to streamline budget execution processes, strengthen the bureaucracy's ability to deliver services, and clearly link spending and performance. It also began integrating the fragmented PFM system of the country by leveraging technology and capacitating public servants. These reforms helped put the country back on the track of reducing poverty and expanding the economy.

[1] *Roughly translated as "each financial allocation must have a clear story of results delivered to citizens"*



FAST AND EFFICIENT BUDGET EXECUTION

How Spending is Sped Up to Deliver Results

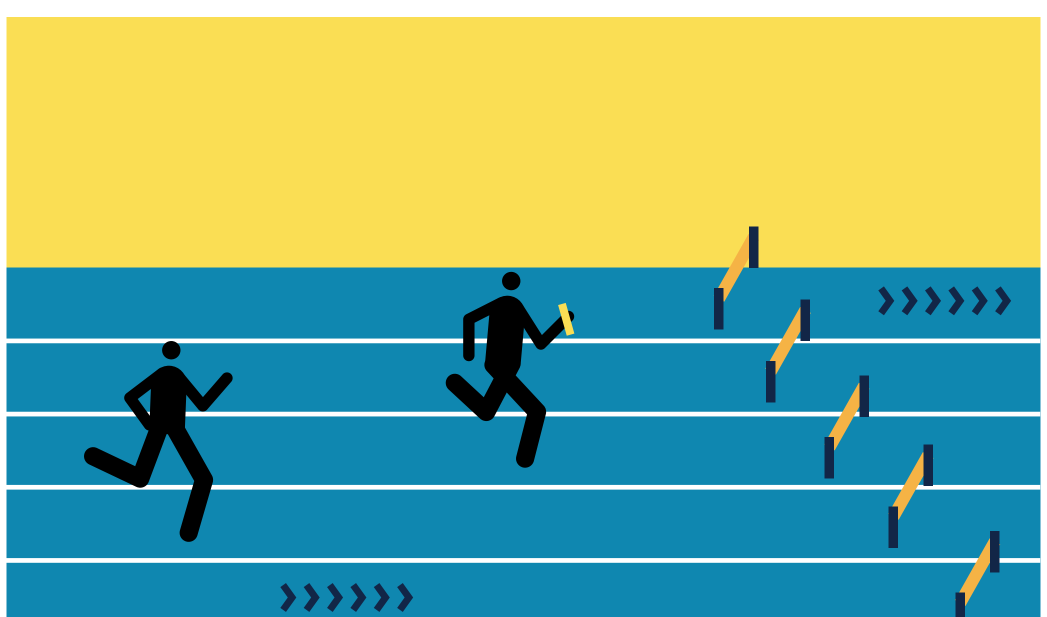
IN A NUTSHELL

- Public funds must be spend in a timely and predictable manner in order to bring greater benefit to the people.

- *In the past*, the combination of fiscal constraints, excessive spending controls, and weak agency capacity had prevented the government from efficiently utilizing the Budget:
  - Frequent reenactment of the Budget at the expense of timely rollout of projects
  - Complex and unpredictable system of releasing budgets to the agencies
  - Persistent lack of capability among the agencies to use up their budgets

- *Since 2010,* the administration has implemented bold reforms to ensure that resources are released fast and the agencies spend their budgets as planned:
  - The administration has passed the Budget on time for straight six years
  - Lump-sum funds for projects with clear locations and beneficiaries have been disaggregated
  - The GAA-as-Release Document, the Comprehensive NCA Release, and other related reforms have eliminated duplications and streamlined the process of fund release
  - Full-time Delivery Units and other mechanisms enhanced the efforts to strengthen the agencies' capacity to implement programs and projects

- *Moving forward,* reforms have allowed the government to streamline the budget execution process, but the fundamental problem of absorptive capacity should be addressed
  - Pass a PFM law and roll out ICT-based systems to bind the streamlined process
  - Strengthen the agencies through sufficient and capacitated manpower



To bring tangible benefits to its citizens, a government should not only carefully plan its Budget, but also implement it in the most prudent, efficient, and timely manner.

A government must strike the right balance between establishing appropriate controls to curb wasteful spending and easing the process to speed up spending and enable the government to adjust to changes in the economic environment. The Asian Development Bank (Schavio-Campo and Tomassi, 1999) identified the following characteristics of effective budget execution: government expenditures are within what the enacted Budget allows; enough flexibilities are in place to enable the government to adapt to macroeconomic changes (e.g., if an economic slowdown causes shortfalls in revenue collections); mechanisms exist to immediately resolve institutional, procedural, and other problems that arise during budget execution; and the purchase and use of goods and services are efficient and effective. Correspondingly, the PEFA framework underscores the need to ensure that the budget is rolled out "in an orderly and predictable manner" through mechanisms that control and monitor the use of public funds.

How the Government Releases and Spends the Budget:

1. Budget Program – the government prepares the budget program based on the appropriations approved by Congress and the agencies' plans, financial and physical targets, and schedule for the year. In effect, the budget execution phase begins in the final months of the year prior to the subject fiscal year.
2. Allotment Release – the DBM releases allotments to authorize the agencies to enter into obligations against their respective budgets. Allotment release documents include the General Allotment Release Orders (GARO) and Special Allotment Release Orders (SARO).
3. Obligation– an agency enters into binding commitments to pay for the goods and services that it needs to purchase in order to carry out its projects and daily operations. An agency undertakes Procurement and other processes before it "obligates" funds.
4. Cash Allocation – the DBM releases Notices of Cash Allocations (NCAs) and other disbursement authorities to allow the agencies to pay for their obligations.
5. Disbursement – the DBM pays out monies from the Treasury to the agencies to settle their obligations.

Complex as it is, the Philippine's budget execution process *(see box)* has built-in controls to ensure that public funds are spent properly. For instance, obligational authorities, such as the ABMs and the SAROs, ensure that every expenditure tallies with the amount and corresponds to the purpose stated in the GAA. Moreover, these controls should not impede the speedy implementation of programs and projects: funds must be available to the implementing agencies through a simple and predictable process.

SITUATION BEFORE 2010

An Abundance of Controls and Spending Inefficiencies

Poor revenue performance and soaring debt levels compelled the previous administration to control expenditures. However, the excessive use of spending controls also gave it much discretion in allocating public funds. The combination of insufficient resources, excessive controls, and executive discretion ultimately made the availability of funds to the agencies unpredictable, thereby hindering the timely and efficient delivery of programs and projects.

In the peak of the fiscal crisis in 2004, the previous administration resorted to constricting expenditures in order to contain the fiscal deficit. With debt obligations ballooning and revenue collections falling short, it prioritized debt servicing over social and economic services *(see Linking Planning and Budgeting)*. Moreover, the combination of poor revenue collection and disbursements that exceed the programmed spending *(see Table 1)* drove the past administration to resort to further borrowings to cover the deficit.

Table 1. **An Overview of the Country's Fiscal Standing, 2000 to 2009 (in P billions)**

Year	Revenues	Disbursement	Deficit	Outstanding Debt
2000	515	649	134	2,167
2001	567	715	147	2,385
2002	578	789	211	2,815
2003	640	840	200	3,335
2004	707	894	187	3,812
2005	816	963	147	3,888
2006	980	1044	65	3,852
2007	1137	1149	12	3,712
2008	1203	1271	68	4,220
2009	1123	1422	299	4,397

Source for Revenues, Disbursements and Deficit: DBM Fiscal Statistics Handbook (1994-2003; 2004-2013); Data on Outstanding Debt from Bureau of the Treasury (http://www.treasury.gov.ph/statdata/yearly/yr_outstandingdebt.pdf)

Frequent reenactments: Complicating an already complex process

In addition to the fiscal constraints, the frequent failure in enacting the GAA on time hampered timely budget execution. No new Budgets were approved in 2001, 2004, and 2006, which had the previous administration resorting to reenacting the previous year's Budget in full. In other years, the new GAA had been delayed, thus requiring the partial reenactment of the previous year's Budget *(see Table 1).*

When the Budget is re-enacted, the government uses the prior year's GAA as basis for releasing and disbursing funds in order to sustain government operations at least until a new Budget is passed. Albeit a necessary safety, the frequent reenactment of the Budget posed two fundamental problems. First, it delayed the implementation of programs of projects and, together with the complex budget execution system, made the availability of funds to the agencies unpredictable. While Congress had been responsible for failing to pass a new Budget on time, the previous administration had also consistently submitted its proposed Budget to Congress at the tail end of the Constitutional deadline, depriving the latter of sufficient time to examine the proposed expenditure program.

Second, the reenactment of the Budget gave the previous administration much discretion in reallocating funds for programs and projects that had been completed in the previous year or were already unnecessary in the subject year. Apart from using "savings" that resulted from the Budget reenactment, withholding the release of appropriations likewise had "forced" savings. In all, due to the consequences of Budget reenactments and other issues that gave the President much discretion in the use of public funds, "the extent to which the government adjusts budget allocation during the year is difficult to establish firmly (WB, 2010)."

The double jeopardy of fund release: Complexity and unpredictability

To contain the deficit, the government through the DBM resorted to controlling the release of funds to the agencies by withholding the release of allotments (ABMs and SAROs) and cash allocations (NCAs). In particular, the ABMs[1]—prepared after the enactment of the GAA, but their release usually delayed due to the tedious process of detailing the specific items to be funded—typically indicated that only about 75 percent of the agencies' appropriations were comprehensively released to them.

In other words, at least 25 percent of the agencies' budgets were withheld until these were released through the SAROs. Among those commonly withheld from comprehensive release were lump-sum funds: items of appropriation that were not yet detailed at the time the Budget was passed. The agencies needed to submit special budget requests that indicate the full particulars of the activities and projects to be funded before the SAROs were released. The prevalence of lump-sum funds did not only delay budget execution but also gave the previous administration much discretion over how such funds should be disbursed.

As a result, the agencies experienced delays and other difficulties in securing obligation and disbursement authorities, especially during the times when revenue targets were not reached (WB, 2010). The lack of a pre-established schedule for the release of the ABMs and the SAROs also created uncertainty as to when the funds were available. This unpredictability affected the release of allotments for capital outlays (CO) and maintenance and other operating expenses (MOOE), especially those that were not detailed in the Budget.

The release of cash to pay for obligations was likewise unpredictable: apart from the limited supply of cash in the Treasury during that time, the NCAs also did not follow a pre-established schedule for release. Moreover, the NCAs released were only valid for a month: in other words, if the agencies failed to disburse funds within the prescribed month, the cash would be returned to the Treasury. This rule created additional red tape: delays in the processing of payments to the following month, for instance, would require the agencies to repeat the request for the NCA.

The ability of the agencies to spend for and carry out programs and projects suffered from both little predictability and an unreasonable complexity of the budget release system. The PEFA assessment undertaken in 2007 (WB, 2010) cited the case of the Department of Education (DepEd) whose operations were severely constrained: "In 2005, for example, the ABM for DepEd was signed by the Secretary of DBM in July, almost three months after the promulgation of the GAA." In other words, more than half the year had elapsed before the department could commence with the implementation of new programs and projects—particularly the hiring of teachers and the construction of classrooms.

An aggravating factor: Poor capacity of the agencies to deliver services

The so-called weak "absorptive capacity" of the agencies—or their inability to utilize resources made available to them—had been a perennial issue. With tight controls in place during the fiscal crisis, the agencies had to deal with the sparse and unpredictable release of funds and the resulting delays in carrying out crucial projects. In time, most of the agencies' absorptive capacities further diminished.

Additionally, the agencies had to contend with structural issues that affected their absorptive capacity. For example, in procurement: the necessary yet tedious process of competitive bidding, the poor capacity of the key agencies to prepare project specifications and other bid documents, and other factors hampered the timely delivery of goods and services. Moreover, as the appropriations for the MOOE and the CO had a validity of two years, the agencies were allowed to postpone the implementation of programs and projects until the following year. This condition did not only betray their poor capacity to spend their appropriations within the year, but it also created a situation in which they managed budgets for at least two fiscal years in a given year, creating yet another cycle of programs and projects being deferred to the following year.

The government likewise implemented a Rationalization Program that reengineered the organizational structure and staffing of the agencies according to their technical needs and delivery mandates. Moreover, the program sought to help contain the fiscal crisis by reducing expenditures for redundant staff and administrative staff. The program, however, in some way restricted the agencies' abilities to hire or even retain technical staff—from civil engineers to scientists—who were vital in implementing programs and projects, especially in infrastructure.

The poor capacity of the agencies to absorb resources and implement programs and projects stemmed from the poor quality of budget preparation and program and project planning. These problems included poorly prepared forward estimates of the cost of ongoing programs and projects; the inability to design implementation-ready programs and projects, evidenced, among others, by the proliferation of lump-sum funds; procurement hampered by the lack of viable project specifications; and most of all, expenditures not tightly linked to development objectives and performance targets *(see Linking Budgeting and Performance).*

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Dismantling Roadblocks for Faster Budget Execution and Service Delivery

> "We owe it to our people to further speed up public spending, deliver services in a responsive manner, and boost economic growth... Beyond streamlining budget execution processes, we are now decisively addressing deeply-ingrained institutional weaknesses that hamper the capability of our agencies to deliver services with impact."
>
> **President Benigno S. Aquino III**
> President's Budget Message 2011

Upon entry into office, the Aquino administration pursued bold reforms to reduce inefficiencies in spending systems, improve the fiscal situation, and focus scarce resources on the government's priorities. The government used such tools as the ZBB to eliminate programs and projects that had been susceptible to leakages. The agencies, such as the Department of Public Works and Highways (DPWH), also revamped their project standards, cost structures, and procurement practices. As the administration inherited a huge fiscal deficit, it had to resort to constraining expenditures. Eventually, as revenue collections and debt management improved, the deficit has been contained below 2 percent of GDP since 2013 *(see Fiscal Management).* Moreover, in designing the annual Budget beginning 2012, the government focused the expenditures on the five key result areas of the Aquino Social Contract *(see Linking Planning and Budgeting).*

While the administration gave greater focus on curbing leakages and restructuring the Budget especially during the early part of its term, the administration also pursued various reforms to streamline budget execution processes. Perhaps the most important of these efforts was to pass the Budget on time. This reform not only ended the abuses caused by the frequent reenactment of the Budget but also ensured that a fresh Budget was available at the start of the year to facilitate the prompt implementation of programs and projects. With the support of Congress, the government has passed the GAA on time for six years in a row: a feat never before achieved in post-EDSA history.

The reforms to curb leakages and the chronically weak absorptive capacity of the agencies resulted in spending outturns that continued to fall short of target. As a response, the administration took bold steps in the latter part of its term to streamline budget execution processes, reform procurement processes and practices *(see Procurement Reform)*, and strengthen the capacity of the agencies to deliver services.

The new normal: Timely preparation and submission of the Budget

To support the early enactment of the GAA, the government adjusted its budget preparation schedule so that it could submit the Budget a working day after the opening of the regular session of Congress. This new budget preparation schedule—in which the Budget Call was released in January, rather than in April or May in the past—gave the government a longer lead time to prepare the budget proposal: in the last five years, the government had an average of 201 days to prepare the National Expenditure Program (NEP). This change gave the agencies more time to detail the lump-sum funds, ensure that proposals were implementation-ready, synergize the proposals of the agencies that contribute to common development goals, and consult with civil society organizations, Regional Development Councils, and other stakeholders. Likewise, this new timeframe in a way buffered the bureaucracy from the overwhelming amount and scope of the PFM reforms introduced.

Moreover, by submitting the proposed Budget to Congress early, the government gave the legislators an additional month before the start of the new fiscal year to scrutinize it and ensure that it was approved on time. In addition to the overwhelming support of Congress and its alignment with the President's budget thrust, which mitigated the protracted deliberations in Congress in the past, the administration never saw the need to reenact the previous year's Budget, whether partially or in full.

A Recurring Battle: Tackling Major Episodes of Sluggish Spending

Apart from the chronically weak absorptive capacity of the agencies, efforts to curb inefficient spending contributed to the spate of sluggish spending experienced in the first three quarters of 2011. After disbursements fell short of target by a whopping 16.1 percent, the government introduced in the same year the Disbursement Acceleration Program (DAP): a mechanism that leveraged the President's constitutional power to use savings in order to augment funds for fast-moving and high-impact programs and projects. The introduction of the DAP boosted public spending: the gap between target and actual spending narrowed to 9 percent by end-2011, 3.4 percent in 2012, and 5.2 percent in 2013. In addition, the DAP gave the government an entry point to introduce reforms that hastened budget execution, most notably the GAA-as-Release Document (GAARD) policy, which are discussed in subsequent portions of this article.

However, the controversy generated by the DAP *(see The Aftermath of DAP)* triggered the need to help agencies catch up on their spending, when disbursements fell below program by 13.3 percent in 2014. While the alleged "chilling effect" of the DAP controversy cannot be discounted,[2] two key factors led to this second episode of slow spending. First, the perennial problem of weak absorptive capacity continued to affect overall budgetary performance of the government well into the Aquino presidency. A second factor, which should be regarded otherwise as a welcome improvement, worsened this problem: revenue collections improved dramatically—averaging 12 percent annually from 2011 to 2015, compared to the 9-percent average from 2001 to 2010—enabling the government to expand its Budget. However, with their state of affairs, the agencies could not keep up with the increased expectations in using up their as much of their budgets as possible to deliver services.

A study conducted by the Fiscal Planning and Reforms Bureau of the DBM revealed that of the P302.7-billion spending shortfall against target in 2014, structural weaknesses of nine agencies—DPWH, DepEd, Department of Social Welfare and Development (DSWD), Department of the Interior and Local Government (DILG), DA, Department of Health (DOH), Department of Transportation and Communications (DOTC), Department of Agrarian Reform (DAR), and Department of Environment and Natural Resources (DENR)—accounted for 46 percent of the unspent amount. These weaknesses included poorly prepared programs and projects; inability to implement programs and projects as scheduled, including delayed billings of contractors and suppliers; and difficulties in procurement; among others *(see Figure 1).* Another 30 percent of sluggish spending was likewise due to the lower-than-programmed spending of all other agencies as well as reasons for the slow pace of spending that could not be identified by DepEd and DOH. Notably, only 1 percent was due to unutilized funds resulting from the Supreme Court decisions on the DAP as well as the Priority Development Assistance Fund *(see The End of Pork As We Know It).*

Figure 1. **An Accounting of the P303-Billion Unspent funds in 2014**

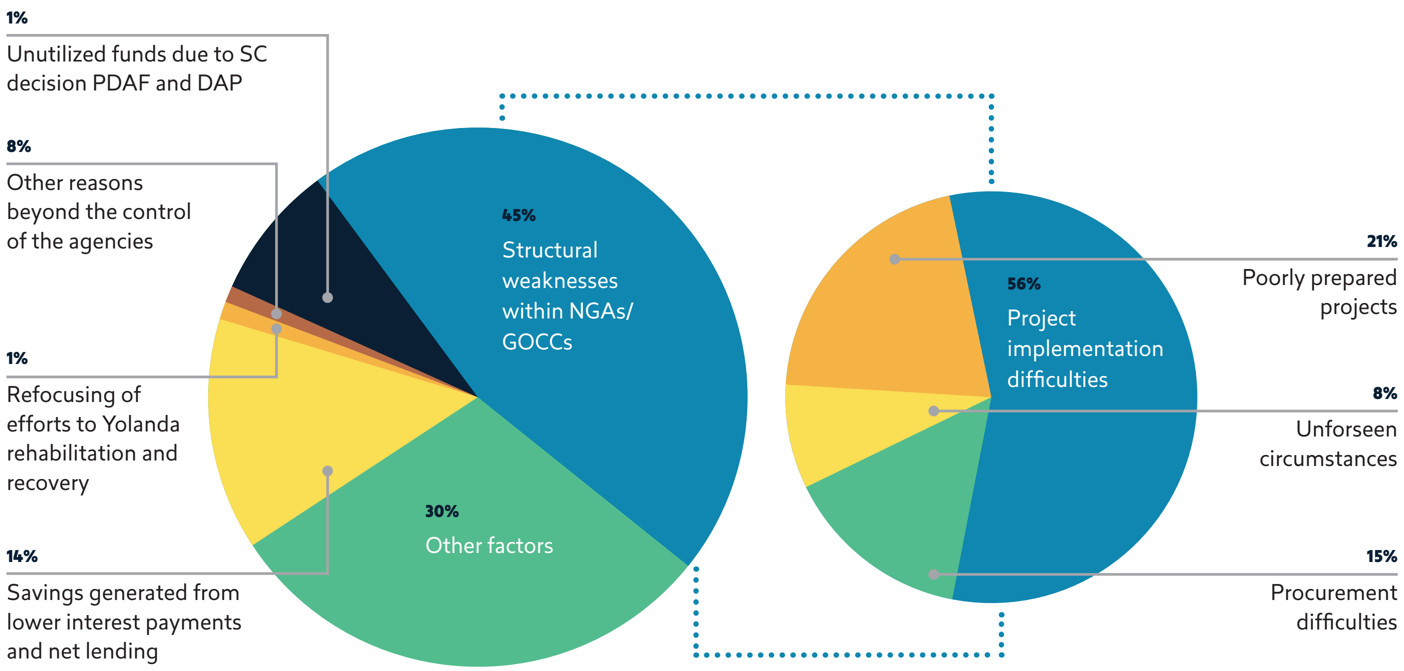


Table 2. **Disbursements at Year-end, 2011 to 2015**

Year	Disbursements (in billion pesos)	Disbursement rate*	Surplus/Deficit	Year-on-Year Growth of Actual Disbursement
2010	1,522.40	103.4	3.4	7.1
2011	1,557.70	91	-9	2.3
2012	1,777.80	96.7	-3.4	14.1
2013	1,880.20	94.8	-5.2	5.8
2014	1981.6	86.7	-13.3	5.4
2015	2,230.60	87.2	-12.8	12.6

**Ratio of funds spent to funds released*

Fleshing out for transparency: Disaggregation of the Budget

The Aquino administration inherited a Budget with an abundance of lump-sum funds: for one, 13 different Special Purpose Funds (SPFs) existed in the 2010 GAA. Certain items under the budgets of the agencies were also lump sum in nature, i.e., not disaggregated into activities and projects, such as FMRs and school buildings. The administration saw the vulnerability of these funds to corruption, given the limited transparency in the way they were used; as well as their being a glaring symptom of poor planning. As the specific projects and their implementing agencies were identified only during the fiscal year, lump sum funds ultimately hampered timely budget execution.

Hence, one of the President's earliest marching orders was to disaggregate most lump sum items into projects with specific purposes, recipients, and locations. As a result, the number of SPFs was reduced to six after abolishing some and transferring others under the budgets of the implementing agencies. Only those that were necessarily lump sum in nature, such as the Calamity Fund and the Contingent Fund, remained as such *(see Fiscal Transparency).*

The disaggregation of lump-sum funds likewise included those that had been prone to corruption, such as FMRs and irrigation projects. For those that remained lump sum in nature, Special Provisions were included in the Budget to clarify the rules for their release. For instance, in the case of FMRs, the Special Provisions under the 2011 Budget required the DA to submit network plans and construction designs.

Untangling the "spaghetti bowl": Streamlining fund release

Throughout its six-year term, the Aquino administration progressively streamlined the process in releasing allotments to the agencies. In all, the magnitude of allotment release documents was reduced from as much as 50,055 in 2012, to 25,013 in 2015 (see Table). The reduction of lump-sum funds, in particular, was crucial to reducing the number of SAROs that needed to be processed and released. It is noteworthy as well that the abolition of PDAF *(see End of Pork As We Know It)* helped reduce the number of SAROs to be processed. The DBM also improved its ICT systems in order to consolidate the releasing functions under one system *(see Integrated PFM System)* as well as eliminate manually prepared SAROs (i.e., using the typewriter), which had been prone to errors in the past.

Table 3. **Trend of Release Documents Issued, 2010 – 2015**

	2010	2011	2012	2013	2014	2015
ABM	6,111	6,419	6,841	7,189	-	-
SARO	36,339	42,218	43,214	29,467	27,839	25,013
• e-Budget	27,343	34,251	35,143	25,109	27,825	25,013
• FAPs System (for foreign-assisted projects)	118	126	66	35	11	-
• eTails (for PDAF projects)	-	5,488	6,568	2,985	-	-
• Manually-prepared SAROs (includes PDAF in 2010)	8,878	2,353	1,437	1,338	3	-
Total	**42,450**	**48,637**	**50,055**	**36,656**	**27,839**	**25,013**

In addition to reducing the number of SAROs, the government eliminated the duplicative and time-consuming process of preparing and releasing allotments. Through the GAA-as-Release-Document (GAARD), the enacted Budget itself served as the allotment release for most budget items. Hence, the GAA began to serve as proof of fund availability for every expenditure item and the authority for the agencies to enter into contracts and award bids as soon as the first working day of the fiscal year. Only remaining lump-sum funds and other items in the Negative List[3] necessitated the processing and the release of SAROs.

The GAARD addressed the redundancy of the ABM as an obligational authority. Starting in 2014, the agencies no longer needed to issue an ABM as pertinent issuances[4] have listed down the items of appropriation that could be released comprehensively upon the passage of the GAA, as well as those that still require further approval (negative list). Although the agencies could still request for the ABMs for their reference according to the Budget Technical Bureau, the GAARD already stripped the potential of the budget matrix to delay procurement.

Through the GAARD and the comprehensive release of allotments for the first semester,[5] about 90 percent of the appropriations of the agencies in the 2016 Budget had been released as early as January. Of the total obligation program (i.e., including SPFs and other fund sources), 82 percent of the 2016 Budget had been released to the agencies in March 2016, compared only to 51 percent in March 2011.

Table 4. **Allotments Released as of January and as of end of First Quarter (2009 to 2016)**

Year	As of January		As of March		Notes: Reforms in Place
	Amount (in P billion)	% of Disbursement Program	Amount (in billion pesos)	% of Disbursement Program	
2011	278.1	17	843.2	51	-
2012	917.4	51	1223.8	67	CNCA*
2013	1,304.20	65	1417	71	CNCA
2014	1,473.10	65	1,552.2	68	CNCA, GAARD
2015	-	-	2,128.40	82	CNCA, GAARD
2016	-	-	2,473.40	82	CNCA, GAARD

**Comprehensive Notice of Cash Allotments*

The GAARD works in tandem with the policy introduced in 2010 to allow the agencies to undertake procurement activities and bid out their projects, short of award, before the new GAA is enacted. Through this early procurement policy, the agencies could enter into contracts and begin rolling out projects as early as the first quarter or month of the fiscal year *(see Procurement Reform).*

To support the GAARD, the government rationalized the process of releasing cash to the agencies through the Comprehensive NCAs, which provide for their first semester's cash requirements. These comprehensive NCAs are released based on the financial and physical plans and monthly cash requirements of the agencies.[6] Moreover, the additional NCAs released to the agencies now have a lapse period of three months, until the end of the quarter: this curbed the redundant request-and-release process that previously characterized the monthly lapsing of the NCAs. These reforms accelerated budget release even before the GAARD was introduced and gave the agencies more predictability in the availability of cash resources to pay for their obligations.

Moreover, as mandated by National Budget Circular (NBC) No. 556, DBM has started to operate under a policy of directly releasing NCAs to the agencies' units in charge of implementing specific projects and programs. The direct releases included monies corresponding to the operating unit's share in or allocation from the lump-sum funds and centrally managed items[7] within the agency-specific budget as detailed during budget execution. This policy ensured that the availability of funds was predictable, down to the agencies' operating units and regional offices.

How Agencies Report Budget Execution Data

Under the general provisions of the GAA and the annual Budget Execution Guidelines released by the DBM via the NBCs, the agencies must prepare Budget Execution Documents (BEDs)—the Financial Plan (FP), Physical Plan (PP), and Monthly Disbursement Program (MDP)—based on the NEP levels before the start of each fiscal year. Upon the passage of the GAA, the agencies, in coordination with the DBM, submit the BEDs duly revised according to the changes reflected in the GAA.

The FP, which details the estimated quarterly obligation program for the upcoming budget year, vis-a-vis the current year's obligation (at the time of the preparation), is considered in preparing the release documents. The FPs and the PPs, which breakdown the agencies' annual physical targets per quarter, and the current year's accomplishment (at the time of the preparation),[8] serve as the yardstick for DBM to assess the agencies' performance in accomplishing programs and projects lined up for the year. The use of these budget execution documents work side by side with the reforms that speed up agency spending and simplify government transactions.

A step up for efficiency: The shift to checkless and cashless payments

To facilitate the pace of agency spending, the DBM in 2013 expanded the Modified Direct Payment Scheme (MDPS):[9] a system in which agencies settle the payment of goods and services they procured through bank-to-bank transactions[10] in lieu of checks and cash advances. As a result, 80 percent of government transactions has become checkless since 2014.

Under this system, the agencies make checkless payments by issuing a document called the List of Due and Demandable Accounts Payables with Advice to Debit Account (LDDAP-ADA) to their respective government servicing banks. As a rule, the list must contain only completed projects, delivered supplies, rendered services, and other accounts payables. The ADA[11] authorizes the government servicing banks to credit payments directly to the account of the agencies' suppliers, consultants, and other clients not later than 48 hours after the ADA is issued.

The regime of checkless payments helped balance efficiency with transparency for three reasons. First, it aided the timely reporting of disbursements: government servicing banks should submit summaries of payment instructions they received to the Treasury, and furnish the DBM with monthly reports on the NCAs credited. Second, it instilled additional predictability in government financial transactions as it addressed the problem with settling overdue payments.

Third, it could likewise shield suppliers from paying kickbacks to unscrupulous officials, as they do not anymore need to pick up checks from the agency.

In addition to the expanded MDPS, the government introduced the Cashless Purchase Cards (CPC) in 2014:[12] a system that injected more efficiency and transparency in small-value transactions of government agencies, which used to be made through abuse-prone cash advances. Piloted in DBM and the Armed Forces of the Philippines, the purchase cards—similar to credit cards—were used in paying for medical supplies, meals, transportation of official documents, airline tickets, and construction supplies for minor repair projects, and others.

> "Cashless and checkless payments are a sigh of relief for government retirees. Now, they are spared from the hassle of going to their respective agencies just to pick up and enchash their checks."
>
> **Assistant Director Rudylia C. Parell**
> DBM REGIONAL OFFICE X

Robust controls ensure that these cardholders remain faithful to the CPC's intended use. Penalties are imposed on the personal or negligent use of the cards. The items that can be purchased through these cards are limited to those that are not available through the standard Procurement Service. Further, users are mandated to submit charge slips or receipts issued by accredited merchants. An advisory committee composed of representatives from the participating agencies (i.e., DBM and Department of National Defense (DND)) decide over key issues on policy and objectives, controls, and procedures related to the use of the CPC, such as purchase and amount limits.

Better when hands-on: Intervention to improve agency performance

The episode of underspending in 2011, which delayed the delivery of public goods and services and stunted economic growth, prompted the introduction of the DAP *(see The Aftermath of the DAP).* The DAP gave the government an entry point to introduce measures as a means to tighten the monitoring of the agencies' performance and enable them to catch up on their spending targets.

One such measure was the Account Management Teams (AMTs) established by the DBM in nine agencies[13] that aimed to help them closely monitor their financial and physical performance. The AMTs comprised of representatives from the planning and finance units of the said agencies. The DBM would meet the AMTs twice a month to draw up strategies to speed up the implementation of programs, and hence reach their spending targets. In these meetings, they would unclog bottlenecks in program execution, such as procurement delays, unrealistic cash programming, and lack of coordination among units in the submission of cash programs and accountability reports.

Between 2012 and 2013, the nine participating agencies in the AMTs relied on this mechanism to address challenges in carrying out and spending for their projects. Numerous reforms to facilitate budget execution had yet to be institutionalized. The orientation then was to address the concerns on a per-agency, case-to-case basis. The DBM for its part accommodated requests of the agencies to intervene directly in implementing their budgets. For instance, in order to meet targets, the agencies would request for the realignment of their budgets from slow-moving projects to faster-moving ones.

After the second spate of sluggish spending in 2014, the government, through the A.O. No. 46, directed, among others, the agencies to create Full-Time Delivery Units (FDUs). To some extent scaling up and institutionalizing the work of the AMTs, the FDUs of each agency were headed by a full-time responsible officer—in departments, not lower than an undersecretary—and personnel who must regularly monitor the delivery of services, outputs, and outcomes according to their respective financial and physical plans. Similar to the AMTs, the FDUs served as the "trouble-shooters" of each agency as these were required to devise catch-up plans and strategies to improve service delivery after identifying programs and projects with historical trends of low disbursement rates as well as those with anticipated delays.

The DBM complemented this measure by assigning counterpart officials and staff to coordinate closely with the FDUs. They would meet once a month to formulate measures, and identify program or project indicators (e.g., bidding schedule, project implementation plans) to help the agencies in meeting their monthly and quarterly disbursement targets. The measures developed were communicated to the central and regional offices of each department. The regional FDUs of the DBM would conduct similar activities for the regional offices of their covered departments: from monitoring and reporting on performance to proposing measures to improve their performance.

In relation to these measures, the A.O. No. 46 mandated the agencies to complete the disaggregation of their project listings as well as the documentary requirements—such as network plans, geo-tagged photos, implementation guidelines, among others—to cause the release of funds marked for later release (i.e., under the Negative List of the GAARD, for release through SAROs). The administrative order also required the agencies to submit Budget and Financial Accountability Reports to the DBM and the Office of the Cabinet Secretary at the end of each quarter, including the catch-up plans and delivery strategies developed by the FDUs.

Moreover, to hasten the procurement process, the A.O. No. 46 mandated the agencies to assign full-time support staff to their Bids and Awards Committees (BACs) in place of the previous system that had technical staff in the BACs on an ad-hoc basis. The measure likewise allowed key departments, especially the largest underspending ones, to increase the number of BACs in order to fast-track procurement activities *(see Procurement Reform).* The agencies were also directed to work closely with the DBM to ensure that they immediately acquired additional personnel and resources.

Tailor-fitting interventions to the agencies' needs

The government allowed agencies confronted with underspending issues to hire additional manpower. Besides supporting the hiring of full-time staff to assist in procurement within the agencies, the National Budget has also allowed the agencies to hire personnel who are crucial in meeting their targets.

> "In many ways, DPWH was able to curb corruption and improve its processes. It adopted multi-year planning and implementation for projects that cannot be rolled out within a year. It also delegated planning to the regions to facilitate the programming of infrastructure."
>
> **Director Carmencita P. Mahinay**
> DBM BMB FOR ECONOMIC DEVELOPMENT SECTOR

For example, the DepEd has been given P13.66 billion to hire 40,320 teachers to teach incoming Senior High School students under the K-12 Program. Likewise for 2016, DPWH is provided with P675.54 million to hire 1,396 engineers to boost the agency's capability to accomplish its road and other infrastructure targets. During the Technical Budget Hearings in 2015, DBM approved DSWD's proposal to spend P227 million for debit cards for its Conditional Cash Transfer (CCT) program to help the latter tackle its payment backlogs. The DSWD proposed the use of cash cards specifically to cover for the absence of conduits to pay out to the CCT beneficiaries in Geographically Isolated and Disadvantaged Areas.

The initial gains: How reforms improved disbursement outturns

While overall public spending remained below target by 12.8 percent as of end-2015, disbursement trends of key departments demonstrate the impact of reforms so far. Throughout 2012 and 2013, disbursements of most of the nine monitored agencies made progress, with DepEd, DSWD, and DPWH, displaying noticeable gains *(see Table 5).*

Soon after the A.O. 46 measures were implemented, the current rate at which agencies use their respective budgets recorded a 13.2-percent uptick from the 2014 downswing. Disbursement performance between January and November 2015 increased by P16.7 billion year-on year (P143.8 billion vs. P127.1 billion in the same period of 2014) on the back of a more vigorous infrastructure spending (P20.4 billion vs. P14.8 billion). Looking at the rate at which government agencies spent their allocations, overall spending in 2015 increased by three percent from the previous year, with DSWD and DPWH displaying double-digit growth. A closer inspection of patterns in agency spending (also using the Budget Utilization Rate) in select months of 2015 further revealed a marked improvement in disbursements of select agencies *(see Table 8).*

Table 5. **Actual Disbursements of AMT-Guided Agencies by Year-End (in P million)**

Department	2009	2010	2011	2012	2013	2014*
DA	452	1,497	582	2,454	2,277	1,779
DAR	496	548	689	731	613	948
DENR	551	590	766	1,073	1,177	2,365
DOH	887	1,255	1,367	1,686	1,368	2,428
DepEd	11,268	15,346	12,883	14,125	16,591	18,131
DSWD	313	732	3,229	4,286	12,601	9,104
DPWH	7,056	13,928	3,880	1,148	6,961	9,133
DOTC	588	606	1,073	995	828	2,242
Department of Energy (DOE)	36	38	26	37	39	76

Table 6. **First Quarter Disbursements of Departments Guided by Account Management Teams (AMTs), 2011 to 2014**

Agency	Disbursements			
	2011	2012	2013	2014
Departments	169,362	191,336	250,120	281,743
Of which:				
• DA	4,551	10,096	9,745	14,495
• DEPED	43,383	46,195	53,145	59,059
• DOH	6,702	6,071	6,336	8,459
• DND	28,689	26,394	32,393	38,164
• DPWH	11,262	20,026	47,728	44,993
• DOTC	4,405	3,790	3,190	5,969
Government Corporations	7,074	5,744	4,585	1,825
Local Government Units	75,504	71,334	81,270	85,602
Total	**253,381**	**268,414**	**335,975**	**369,170**

Table 7. **Annual Disbursement Rates* of Departments guided by AMTs (2011-2013) and FDUs (2015)**

Department	2009	2010	2011	2012	2013	2014	2015
DA	98	83	78	91	88	75	86
DepED	99	98	96	98	97	93	96
SUCs	94	99	99	98	97	96	93
DENR	94	97	88	86	87	91	93
DOH	94	78	90	87	89	71	86
DPWH	97	99	77	80	78	78	97
DSWD	92	76	85	94	85	76	92
DOTC	84	94	91	88	87	80	79

**ratio of funds spent to funds released*

Table 8. **Disbursement Rates of Select Agencies (2015)**

	January	March	June	September
Government Agencies, Overall	77	93	94	94
Of which:				
• DA	37	83	84	84
• DOE	42	65	56	58
• DENR	33	91	94	91
• DOH	43	73	77	82
• DILG	85	97	98	97
• DND	93	97	98	98
• DPWH	51	91	94	96
• Department of Science and Technology (DOST)	23	71	68	68
• Department of Tourism (DOT)	43	71	72	78

CHALLENGES AND NEXT STEP:

Locking-In Reforms: A Prescription to Strengthen Agency Capacity

The slew of reforms launched between 2010 and 2016 streamlined the release system and improved the predictability of funds available to the agencies. Most notably, the draft 2016 PEFA Assessment took notice of the administration's effort to submit the Proposed Budget early and enact it on time for the past six years—a practice that may be sustained in the coming years, as it had dramatically improved the predictability of funds available to the agencies. Compared to the results of the 2010 PEFA report, the Philippines' performance in the indicator on the predictability in the availability of funds (PI-16) improved from D+ to A, owing to such reforms as the GAA-as-Release Document policy and the comprehensive release of the NCAs for the semester's cash requirements. The Treasury Single Account (TSA), an initiative by the BTr, was also cited in the report for aligning "greater financial management and control of its cash resources" by consolidating government bank accounts.

> "GAARD made our jobs easier. I can say that for the entire bureaucracy. Agencies have one less document to request for allotments, and we've got one less document to prepare. That gives us more time to focus on the monitoring and management aspects of budgeting."
>
> **Undersecretary Luz M. Cantor**
> DBM BUDGET PREPARATION AND EXECUTION GROUP

However, at this point that budget execution systems are more efficient than before, an underlying problem that impeded the faster rollout of projects—that is, the ability of the agencies to absorb funds and deliver services—has become increasingly pronounced. The government, nonetheless, has begun to address this fundamental problem. It has capacitated the key agencies through additional technical staff while at the same time addressing structural issues, such as the procurement system *(see Procurement Reform)* and the structure of the Budget itself. It has leveraged alternative modes of delivery through greater local devolution *(see Meaningful Devolution)* as well as PPPs *(see Fiscal Management)*. Lastly, at the front end, it has improved planning and budgeting so that high-impact and implementation-ready programs and projects are given priority in resource allocation.

The DBM-Fiscal Planning and Reforms Bureau study, previously discussed in this chapter, underscored the need to intensify efforts to strengthen the capacity of the agencies. In view of the increasing public demand for better and faster service delivery, efforts to strengthen institutions may be intensified by the incoming administration: from capacitating the agencies through additional manpower and technology to expanding the devolution of key services to the LGUs. In addition, policies that were beginning to show results—from the GAA-as-Release Document policy to early procurement—may also be supplemented by robust ICT systems.

Locking-in the streamlined Budget Execution Process

A concern voiced out by the stakeholders within and outside the bureaucracy was whether the beneficial reforms in budget execution and other stages pursued under the Aquino administration would last beyond the changing of guards. In response, the government proposed a Public Financial Accountability Act *(see Proposed Philippine Public Financial Accountability Act)* that, among others, would provide a permanent policy basis for key reforms, such as the GAARD and the shift to one-year appropriations; as well as address structural defects, such as the proliferation of funds and accounts that compromise the One-Fund Concept and, thus, the clear implementation of the Budget.

However, the permanency of these reforms rests not on having a PFM Law alone. For one, the new, streamlined budget execution process should be supported by systems technology. Thus, the rollout of the Budget and Treasury Management System—which would consolidate the budget execution systems of the DBM (e-Budget) and the Treasury (TSA)—should be completed. Eventually, these systems should be scaled into an Integrated Financial Management Information System that would connect the agencies' oversight systems to the implementing agencies' individual modules *(see Integrated PFM System)*.

Moreover, budget execution can only be effective with the predictable availability of funds: this hinges on a healthy fiscal environment. Hence, the government must sustain efforts to expand revenue collections and reduce the debt burden on the Budget *(see Fiscal Management)*. Otherwise, the government might revert to excessive expenditure controls to contain a runaway deficit, and again complicate the budget release system.

Beyond technology: The need to strengthen institutions and manpower

The A.O. No. 46, as earlier discussed, has addressed a number of fundamental setbacks in service delivery. Beyond the provision of technical assistance, however, the government must explore various other means to strengthen the capability of the agencies to implement programs and projects. One way is by enhancing productivity and service delivery through institutional strengthening measures, consistent with Section 84 of the General Provisions of the FY 2015 GAA. Specifically, the said Section provides that the agencies concerned shall undertake three (3) actions: (1) conduct a comprehensive review of their respective mandates, missions, objectives and functions, systems and procedures, programs, activities, and projects; (2) identify areas where improvements are necessary; and (3) implement corresponding structural, functional and operational adjustments that will result in streamlined organization and operations and improved performance and productivity. The new administration could take off from this policy and consider a more frequent review of the organizational setup across the agencies to, among other reasons, assess whether or not the current structure of key government agencies as well as their staffing could meet current service delivery demands.

In addition, efforts must be taken to strengthen the technical capacity of the government workforce. The new salary structure introduced in 2016 would institutionalize performance-based pay and bring compensation in the government closer or even at par with the private sector levels *(see Compensation Reform)*: a necessary factor to retaining and incentivizing performers in the bureaucracy as well as attracting new blood from the private sector. Furthermore, training and capacity-building efforts should be scaled especially to the key areas of the PFM: from planning and budgeting to project and procurement management *(see Integrated PFM System)*.

NOTES

[1] The ABM segregates items into those that do not require the approval of pertinent authority ("for comprehensive release" or FCR) and those which require clearance ("for later release" or FLR) through SAROs.

[2] Anecdotally, agencies became much more conservative in spending their budgets and implementing their projects; and the Commission on Audit became more aggressive in disallowing expenditures.

[3] Those in the negative list include the following:

a) Lump-sum Funds within agency budget whose details have not been submitted prior to the promulgation of the GAA;

b) Special Purpose Funds, including Budgetary Support to Government Corporations;

c) Other items subject to compliance with the conditions/requirements specified under the General and/or Special Provisions and Budget Affirmation/Veto Message in the GAA; and

d) All automatically appropriated items, including Special Accounts in the General Fund

[4] Another obligational authority called the General Allotment Release Order is in use to cover automatic appropriation common to most agencies—particularly the payment of Retirement and Life Insurance Premiums (RLIP)—without need of a special clearance from DBM or another competent authority.

[5] The DBM clarified the segregation of items for comprehensive and later release through National Budget Circulars Nos. 551 and 551-A at the beginning of FY 2014.

[6] As reflected in the Monthly Disbursement Program and other Budget Execution Documents that agencies must prepare and submit to the DBM before the start of the fiscal year (see sidebar).

[7] Centrally-managed items refer to lum sum funds under an agency's approved budget.

[8] including estimates for the last quarter

[9] Through Circular Letter No. 2013-16 issued on December 23, 2013

[10] The MDPS was introduced in 2004 but only for six departments and their attached agencies: DPWH, DepEd, DOH, CHED, SUCs, and DOLE-TESDA.

[11] The ADA is also used to transfer Internal Revenue Allotments (IRA) and other funds for local government units (LGUs) directly to the accounts of LGUs.

[12] Through Joint Memorandum Circular (JMC) No. 2014-1 issued in January 2014.

[13] The nine agencies are: Departments of Agriculture, Agrarian Reform, Environment and Natural Resources, Health, Education, Social Welfare and Development, Public Works and Highways, Transportation and Communications, and Energy.

HOW WE SPED UP SPENDING TO DELIVER RESULTS

Various reform initiatives since 2010 had changed the pace and predictability of budget release. With the Budget being passed on time and released early in the fiscal year, the government scaled up the agencies' capacity to spend and perform efficiently. Other reforms improved the expenditure performance of government agencies.

1 Program Design

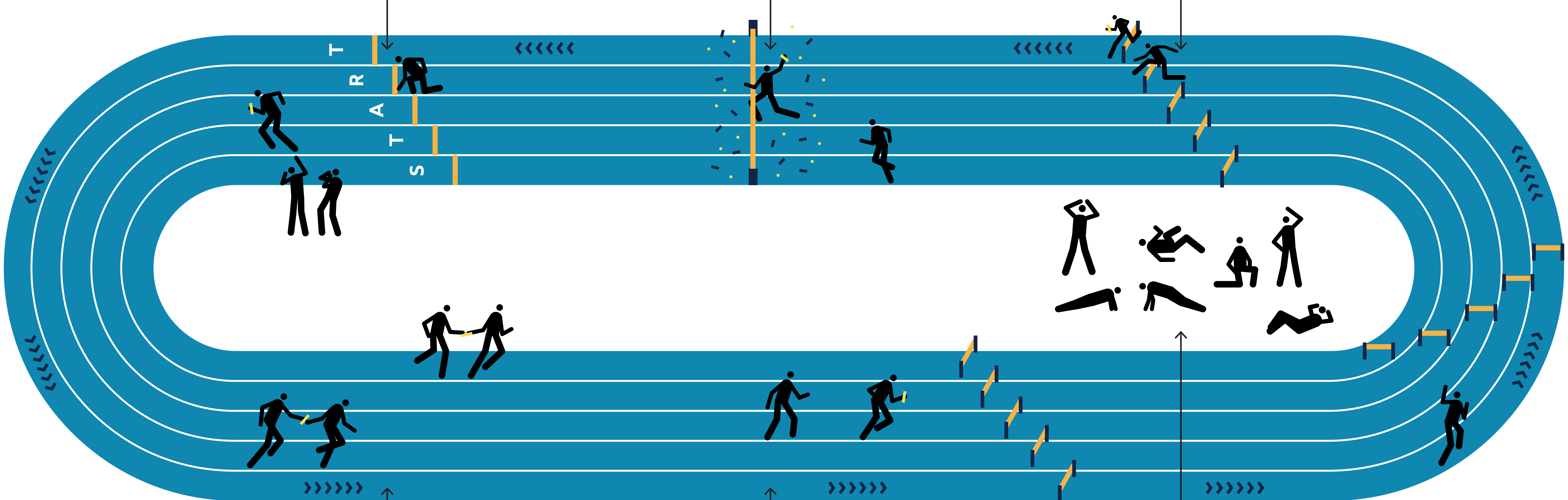
Good program design leads to seamless budget execution. Through various reforms, the government prioritized programs and projects that were implementation-ready and met development objectives. It also *rationalized lump-sum items* in the Budget into detailed programs with clear beneficiaries and outcomes.

5 Cash Management

In the past, agencies had to request for funds repeatedly since Notices of Cash Allocations (NCAs) were issued quarterly or monthly and with a short lifespan. The *release of comprehensive NCAs* now covered all agencies' cash requirements for the first half of the year, thus speeding up budget execution. *Cashless and checkless payments* through bank-to-bank transfers, meanwhile, spared agencies and their suppliers from leakage-prone cash payments or the tedious process of issuing checks.

4 Obligation and Procurement

Once allotments were released, agencies could enter into obligations, or legal commitments to pay suppliers and other providers of goods and services. By allowing them to bid out their projects, short of award and before the new Budget was enacted, agencies could award contracts by the first day of the new fiscal year *(see Procurement Reform).*



2 Early Passage or Enactment of the Budget

For six years in a row, the *Budget had been submitted and passed* on time with the help of Congress. Agencies could now implement projects at the beginning of the year (*see number 4)* and roll them out in better weather conditions, avoiding delays and cost overruns. This reform also ended the old practice of frequent budget re-enactments, which not only delayed the execution of the budget but also made it prone to abuse.

3 Immediate Release of the Budget

Because lump sums were reduced and more programs and projects were detailed in the General Appropriations Act (GAA), the government dramatically streamlined the release of budgets to agencies. Through the *GAA-as-Release Document (GAARD)* policy regime, the government greatly reduced the need for Special Allotment Release Orders and made the Budget implementable on the first day of the fiscal year.

Strengthening Agency Capacity

Faster release of public funds will be worthless if agencies cannot spend their budgets and implement projects effectively and on time. Hence, additional Bids and Awards Committees now ease up procurement *(related to number 4)*, full-time delivery units (FDUs) tracked project progress and troubleshoot delays, and key agencies hired additional technical staff (e.g., 1, 391 more civil engineers for DPWH) to boost their capability to carry out projects.

HIGHLIGHTS OF SPENDING PERFORMANCE: WHAT THE NUMBERS TELL US

These figures tell of numerous reforms since 2010 that had fast-tracked the release of the Budget and the delivery of public goods and services. In particular, the implementation of the GAARD and other reforms midway into the administration improved the process of releasing allotments and made funds available to agencies sooner.

GOVERNMENT ALLOTMENT RELEASES (IN PERCENT)		
YEAR	BEGINNING OF THE YEAR	END OF THE YEAR
2011	42.3	100
2012	49.7	100
2013	62.8	99
2014	62.4	97.1
2015	64.2	98.7
2016	64.2	-

GOVERNMENT DISBURSEMENT PERFORMANCE (IN PERCENT)		
YEAR	DISBURSEMENT RATE*	YEAR-ON-YEAR GROWTH
2011	91	2.3
2012	96.6	14.1
2013	94.8	5.8
2014	86.7	5.4
2015	87.2	12.6

**Disbursement rate measures how fast the agencies have used funds released to them by DBM through Notices of Cash Allocation.*

Government spending fell short of target in 2011 due to early reforms that plugged leakages and improved the design of programs. Through the Disbursement Acceleration Program (DAP) and other efforts, the government sped up spending and helped boost economic growth. The DAP, however, had only lasted until 2013.

Another spate of spending below target occurred in 2014. In response, the government implemented reforms to strengthen the capacity of agencies to deliver services *(see number 5, previous page)*. For instance, the introduction of Account Management Teams in 2012 increased public spending by 5.6 percent compared to 2011. Meanwhile, Full-time Delivery Units (FDUs), launched in 2015, increased public spending to 87.2 percent during the year, slightly arresting the declining trend of disbursement performance from 96.6 percent in 2012 to 86.7 percent in 2014.

The data in this page and the next only shows that while the spending performance has somehow improved, further reforms are needed. In particular, reforms that strengthen the capacity of agencies to plan and implement their programs and projects need to be intensified.

DISBURSEMENT RATES OF AGENCIES (IN PERCENT)

Agencies that used to spend below target improved their ability to disburse public funds (measured by NCA utilization rates), as FDUs identified and addressed bottlenecks in spending, thereby improving their capacity to deliver services.

BEST PERFORMERS						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF NATIONAL DEFENSE	98	95	98	99	97	98
DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT	98	97	97	97	92	97
DEPARTMENT OF EDUCATION	98	96	98	96	93	96

MOST IMPROVED AGENCIES						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS	99	77	80	78	78	97
DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT	76	85	94	98	83	94
DEPARTMENT OF HEALTH	78	90	87	89	71	86
DEPARTMENT OF AGRICULTURE	83	78	91	88	75	86

WORST PERFORMING AGENCIES						
	2010	2011	2012	2013	2014	2015
DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS	94	91	88	87	80	79
DEPARTMENT OF SCIENCE AND TECHNOLOGY	88	93	90	88	85	73
DEPARTMENT OF AGRARIAN REFORM	99	100	83	88	62	63
DEPARTMENT OF ENERGY	81	73	63	95	83	54

Source: Reports on Disbursements from government servicing banks