A Story of Budget and Management Reforms 2010-2016
About the Publication

The Budget is not just about figures that add up to what the government can spend each year: it represents the government’s blueprint for progress.

This publication reveals the story behind the budget and management reforms implemented by the government under the Aquino administration. Specifically, it chronicles the journey taken by the Department of Budget and Management (DBM), together with its government partners and its stakeholders, to shape the Budget into what it is now: one that is spent within means, aligned with the pressing social and economic priorities, monitored for delivery and impact, and crafted with the people’s voice and stake.

This comprehensive volume, published with an Executive Summary, documents the starting points of key budget and management reforms, the achievements so far, and the remaining challenges to be addressed by further reform. This publication also serves as DBM’s accomplishment report for fiscal year 2015.

The DBM hopes that these publications provide a takeoff point for the academic community to deepen the research on Philippine PFM. Ultimately, it is hoped that this report helps sustain the dialogue and collaboration between DBM and its stakeholders on how to navigate the next phase of the reform agenda for budget reform under the incoming administration, for the sake of further empowering citizens in how their taxes are spent.

The title “Kuwento sa Bawat Kuwento,” which roughly translates as “the story behind each peso,” is in fact a saying coined by DBM Usec. Luz M. Cantor. Through the years, the DBM workforce has widely used such phrase in describing the deeper purpose and meaning of their work: beyond crunching the numbers, to ensure that these figures add up to the country’s vision for progress.
Kuwentos sa Bawat Kuwenta
A Story of Budget and Management Reforms 2010-2016

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Foreword

For the most part of its history, the Department of Budget and Management (DBM) has operated behind the scenes, its work made inaccessible by the technical nature of the budget process. Over the last six years, however, DBM has moved away from the sidelines and reinvented itself as a prominent agent of governance reform.

The DBM’s journey in budget and management reform under the Aquino administration began with small but certain steps. For the first time since 1986, the government has sustained the early passage of the National Budget for six years in a row, ensuring its swift implementation and safeguarding it from abuse. Along the way, DBM cleared bottlenecks and plugged leakages, ensuring that every peso spent would have maximum impact.

The DBM and its partners in the government—including the Department of Finance, the National Economic and Development Authority, and the Commission on Audit—collaborated on many reform policies that stabilized the nation’s fiscal health, linked spending with desired socio-economic results, and rationalized public finance processes. Through these reforms, public spending has improved and has helped drive our economy ahead of our regional neighbors.

Moreover, ordinary Filipinos have taken the center stage in the budget process. Fiscal openness reforms earned for the government international recognition, for example, Bottom-up Budgeting, as a groundbreaking reform in participatory budgeting. In 2015, the Philippines was ranked 21st in the world in the Open Budget Index, joining a select group of countries with substantial budget transparency. These gains could not have happened without DBM’s partners in the government, civil society, and other sectors.

These gains were not without their challenges. Often, the government faced resistance to the reform initiatives, and it had to wrestle with painful controversies. These difficulties now come to us as valuable lessons, which, I believe, will guide the DBM toward excellence. I believe, too, that history will be kind to the men and women of DBM who worked passionately for the cause of reform and who, over the last six years, transformed the agency into an institution of integrity and competence.

This publication encapsulates DBM’s reform narrative over the last six years. Together with an Executive Summary, this comprehensive documentation captures the starting points of reforms, the achievements thus far, and the challenges that remain. Through this summary and the main volume, we hope to pass on DBM’s reform efforts to its future leaders—as well as to its valued partners in civil society, the international community, and other reform stakeholders—so they may build on the gains and navigate the next phase of budget reforms under the new administration.

In concluding my term, I remain humbled and honored to have served the Filipino people alongside the men and women of DBM, who, to the very end, demonstrated outstanding skill and principle as public servants. May the Filipino people always be at the heart of DBM’s endeavors.

Secretary Florencio B. Abad
July 2010 to June 2016
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Introduction

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

Former DBM Secretary Emilia T. Boncodin (+)
The National Budget is the government’s financial expression of its social and economic development goals. It is an instrument for socio-economic, human, and even political development, and a tool for good governance (Boncodin, 2008). It plays a critical role in ensuring that the scarce resources of the government are allocated to the most optimum uses: in terms of aggregate fiscal discipline or spending within its means, allocative efficiency or spending on the right priorities, and operational efficiency or spending with measurable results (Schick, as cited in Abad and Capistrano, 2013).

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

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

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

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

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

**KUWENTO SA BAWAT KUWENTA**

A Story of Budget and Management Reforms 2010-2016

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

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

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

**Documentation of budget reforms**

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

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

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

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

Additionally, the publication contains other articles on special topics or issues relevant to major budget and management reforms. These include a special feature on DBM’s efforts to strengthen its ability to lead reforms in the longer haul by refining its organizational structure, improving its systems, and investing in its people. Key articles also discuss the two controversies that significantly shaped the pace and tone of reforms midway into the administration: the events that led...
to the abolition of the Priority Development Assistance Fund (PDAF) and the controversy generated by the Disbursement Acceleration Program (DAP). Another special feature is on the proposed Public Financial Accountability Act: a bill that seeks to help institutionalize reforms that have been implemented since 2010.

As Secretary Abad emphasized, the documentation was done through an inclusive process. Hence, the project team sought the inputs and insights of key officials and staff of DBM who were involved in the implementation of reforms. These insights are manifested in two forms throughout the publication: short anecdotes or quotes from DBM officials and reference materials may not have been included due to time and resource constraints.

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

THE STARTING POINTS OF THE REFORM AGENDA

Early Reforms, Lingering Gaps, and Midterm Crises

Budgeting in the Philippines has been characterized by continuous improvement and reforms to respond to the challenges that the country has faced, as well as the many dysfunctions in the bureaucracy that have exacerbated these challenges. For one, the landscape at the turn of the 21st century was characterized by external and internal instabilities, both global and local: from the Asian financial crisis of 1997 and the global financial crisis of the late 2000s; to the domestic political crises that the country has faced, as well as the many dysfunctions in the bureaucracy that have exacerbated these challenges. For one, the process of releasing and spending public funds were ridden with both bottlenecks and leakages. Spending could not be clearly linked with the agencies’ performance targets. Moreover, PFM processes—from planning to reporting—were fragmented and even redundant. These flaws hampered the delivery of timely and high-impact services.

What we came upon in 2010

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

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

The starting points of reform

From day one of its term, the Aquino administration had sought to transform the Budget as a tool in promoting its Social Contract with the Filipino People: inclusive development through good governance. The government, through DBM, followed through on this order and hinged its PFM reforms on the following starting points:

- **The President’s Leadership:** Through the very first reform that he instructed DBM to implement—Zero-Based Budgeting (ZBB)—President Aquino signalled the shift away from the status quo of incremental and leakage-prone spending. This reform—and the many others that were initiated or revived during his term—reflected the administration’s will to pursue reforms in the management of public funds. Moreover, through the President’s leadership, the Executive and Congress collectively ensured that the annual Budget is passed on time—for six fiscal years in a row, never before seen since 1986—to end the abuse-prone tradition of frequent budget re-enactment and to ensure the timely implementation of the Budget.
- **The PFM Reform Roadmap:** In 2009, before the administration assumed office, the career officials of the DBM, the Department of Finance (DOF), and the Commission on Audit (COA) had already started to craft a comprehensive PFM Reform Roadmap. Such reform program builds on the findings of the PEFA assessment and was supported by development partners: notably, the Australian Department of Foreign Affairs and Trade through the PFM Program (PFMP). The administration, through Executive Order No. 55 in 2011, endorsed and lent its support to the Roadmap.
Civil Society Engagement. The government, through DBM, began to reach out to CSOs and other non-government stakeholders to engage them on how to open greater spaces for their participation in the budget process. This engagement gave birth to the Principles of Constructive Engagement and, later on, paved the way for the establishment of mechanisms for participatory budgeting, such as the Bottom-up Budgeting (BuB). These efforts emphasized that the empowerment of citizens in the budget process is paramount to improving the quality of the PFM systems.

International Support and Demand. The bold reform agenda put forward by the government motivated international stakeholders to reach out to the government and lend their support. The PFM Reform Roadmap, for one, was enthusiastically supported by the Australia DFAT, the World Bank, the International Monetary Fund, and other development partners. Moreover, the Philippines was invited to join as a founding member of the Open Government Partnership (OGP) and Global Initiative for Fiscal Transparency (GIFT): venues that opened the Philippines to support networks of fellow reformers across the globe.

At midterm: crises as opportunities

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

Investing in the Right Priorities

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

• Linking Planning and Budgeting (Chapter 2) – The government introduced systemic reforms to align the allocation of scarce resources with the Philippine Development Plan (PDP). These reforms enabled the government to rigorously scrutinize expenditures (ZBB), focus resources on priority programs and geographic areas (Budget Priorities Framework), and widen the fiscal space for such priority programs over the medium-term (revitalizing the MTEF through the Two-Tier Budgeting Approach).

• Funding the Aquino Social Contract: Features on Priority Expenditures (Sidebars to Chapter 2) – In tandem with efforts to improve budget formulation, the government implemented various reforms—program design, project standards, beneficiary targeting, etc.—that streamlined the delivery of services in line with the Social Contract: good governance; poverty reduction; rapid and sustained growth; just and lasting peace and the rule of law; and climate change adaptation and mitigation.

• The End of Pork Barrel As We Know It (Feature) – Apart from their being unconstitutional and prone to corruption, pork barrel distort the rational allocation of scarce resources on development priorities. Thus, early into the administration, the government implemented reforms to rationalize the controversial PDAF (e.g., disclosure, menu, etc.). The revelation of massive abuses of the PDAF and other forms of pork compelled their abolition.

Delivering Measurable Results

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

• Speeding up Budget Execution (Chapter 3) – The government streamlined the slow, unpredictable, and leakage-ridden budget execution process through reforms, such as the GAA-as-Release Document. Especially during the second half of the term, the government ramped up efforts to address the weak capacity of the key agencies to implement programs and projects in a timely manner.

• The Aftermath of DAP (Sidebar to Chapter 3) – As slow spending in 2011 pulled down economic growth, the government introduced the DAP to leverage the President’s power over savings and unprogrammed appropriations—used by all Presidents in the past—to speed up spending. While DAP succeeded in boosting economic growth, the Supreme Court subsequently invalidated its key aspects.

• Procurement Reform (Feature) – The Government Procurement Reform Act (GPRA) paved the way for the unification of procurement policies as well as the introduction of stronger controls. As the procurement process tends to be tedious by nature, the government implemented reforms to ease the process, leverage technology, and beef up the capacity of the agencies in procurement.

• Linking Budgeting and Results (Chapter 4) – Through bold reforms, most notably Performance-Infused Budgeting (PiB), the government transformed the face and substance of the Budget in order to reflect the service delivery commitments of each agency in the Budget. The PiB, which builds on OPIF, is undergoing another evolution: Program Expenditure Classification, which restructures the Budget so that performance targets can be assigned for each program.
- **Compensation Reform** (Chapter 5) – To address inequities and abuses, make government compensation more competitive with the public sector, and link pay with performance, the government rationalized excessive bonuses, introduced PBB, and updated the Salary Standardization Law (SSL) schedule to bring compensation at par—at least 70 percent—with the private sector.

- **Integrated PFM System** (Chapter 6) – The government embarked on an ambitious goal to build an Integrated Financial Management Information System (IFMIS) to unify and automate the government’s disjointed and largely manual PFM processes. Towards this, the government installed important building blocks, such as the Unified Accounts Code Structure and Treasury Single Account. As the human side is more important than technology, the government also pursued efforts to build the capacity of PFM professionals throughout the bureaucracy.

**Empowering Citizens**

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

- **Fiscal Transparency** (Chapter 7) – From publishing limited budget information in the past, the government produced all essential budget documents and reports in line with international standards and leveraged technology to make budget information more available to citizens. It also published the People’s Budget to provide citizens a gateway to understand the highly technical budget process.

- **Budget Integrity and Accountability** (Chapter 8) – To address a core structural weakness—the inability to compare actual spending with the approved Budget—the government ended the frequent re-enactment of the budget, rationalized funds that tended to be opaque and discretionary, among others. These reforms seek to strengthen the ability of oversight institutions—particularly Congress—to hold the Executive accountable for the use of public funds.

- **Citizens’ Participation in the Budget Process** (Chapter 9) – The government established formal means for citizens—particularly CSOs and other stakeholders—to engage the process of formulating the Budget and monitoring its implementation. Reforms such as the BUB have been lauded globally as trailblazing innovations in giving citizens a voice and stake in the budget process.

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

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

Daniel Featherston

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

1. The survey included 278 leaders in PFM from over forty countries with positions in government, donor organizations, private companies, and academia.

2. The budget reform documentation team under the Knowledge Management Technical Working Group, which is now the Knowledge Management and Fiscal Transparency Service (KMFTS) (see DBM’s Institutional Strengthening Efforts).

3. The last published PEFA was conducted by the World Bank in 2006 to 2007 and published in 2010 (WB, 2010). A new PEFA assessment round was conducted in 2015 to early 2016, although the report from the said assessment (by the Government of the Philippines and Development Partners—World Bank, Australian DFAT, ADB, and JICA) is still about to be released as of press time. The PFM Committee principals and the World Bank, in a meeting on May 31, 2016, gave the DBM permission to make use of the findings of the 2016 PEFA assessment in this reform documentation report. The draft report (as of 25 May 2016) is cited in relevant chapters or articles: Linking Planning and Budgeting (page 62 to 63), Fast and Efficient Budget Execution (page 106), Integrated PFM (page 117), Fiscal Transparency (page 193), Budget Integrity and Accountability (page 212 to 214), Internal Control (pages 220 and 222), Conclusion (pages 246 to 254), and Proposed Public Financial Accountability Act (page 258). The draft PEFA report is indicated as such in the said chapters or articles of this reform documentation report.

4. The first three pillars are mostly aligned with the three objectives that Shick (1998) identified for public expenditure management (PEM): aggregate fiscal discipline, allocative efficiency, and operational efficiency. The fourth pillar was added by the DBM to give emphasis to the need to promote fiscal transparency, participation, and accountability to empower citizens in the budget process.

5. This rubric is an adaptation of the conditions for reform irreversibility, as identified by Abad (2010).

6. These essays were written by participants of the Junior Leadership Development (JLD) Program, which was implemented under the DBM Tibay Program (see DBM’s Institutional Strengthening Efforts).

7. Roughly translated as “change can come from stamping out profligacy and extravagance.”
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 tiger¹.

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 enables 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

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).
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

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Brunei</td>
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<td>4.2</td>
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<td>3.9</td>
<td>7.0</td>
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<td>9.6</td>
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<td>11.9</td>
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<td>13.7</td>
<td>15.9</td>
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<td>Indonesia</td>
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<td>16.4</td>
<td>17.1</td>
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<td>18.0</td>
<td>17.8</td>
<td>19.4</td>
<td>15.4</td>
<td>15.6</td>
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<tr>
<td>Laos P.D.R.</td>
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<td>13.7</td>
<td>12.8</td>
<td>13.9</td>
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<td>15.9</td>
<td>17.1</td>
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<td>24.5</td>
<td>22.7</td>
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<td>23.1</td>
</tr>
<tr>
<td>Myanmar</td>
<td>12.9</td>
<td>11.3</td>
<td>10.1</td>
<td>9.4</td>
<td>10.1</td>
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<td>11.6</td>
<td>10.7</td>
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</tr>
<tr>
<td>Philippines</td>
<td>18.1</td>
<td>18.1</td>
<td>17.5</td>
<td>17.6</td>
<td>17.2</td>
<td>17.8</td>
<td>19.0</td>
<td>18.7</td>
<td>18.7</td>
<td>17.4</td>
<td>16.8</td>
</tr>
</tbody>
</table>

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

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 (CTRIP) in 1997 (Dokmok, 2010). With the fiscal deficit reaching an unsustainable 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; the increase of excise tax rates on tobacco and alcohol;9 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, in revenue from 1990 to 2011—or about P47 billion annually—due to tax evasion through trade misinvoicing 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 Law6 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.

Moreover, abuses in the grant of fiscal incentives—income tax holidays, reduction of or exemption from taxes and duties, among other entitlements 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 P4.2 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

<table>
<thead>
<tr>
<th>Law</th>
<th>Year</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>RA9337</td>
<td>2005</td>
<td>Corporate Income Tax Reduction (effective 2009)</td>
</tr>
<tr>
<td>RA9504</td>
<td>2008</td>
<td>Individual Income Tax Relief (including exemption of minimum wage earners and adjustment of tax rates and brackets)</td>
</tr>
<tr>
<td>RA9505</td>
<td></td>
<td>Personal Equity and Retirement Account</td>
</tr>
<tr>
<td>RA9511</td>
<td></td>
<td>Imposition of Franchise Tax on Power Transmission in lieu of all taxes</td>
</tr>
<tr>
<td>RA9533</td>
<td>2009</td>
<td>Tourism Incentives</td>
</tr>
<tr>
<td>RA8648</td>
<td></td>
<td>Abolition of Documentary Stamp Tax (DST) on Secondary Trading of Stocks</td>
</tr>
<tr>
<td>RA9679</td>
<td></td>
<td>Incentives under the Home Development Mutual Fund Charter</td>
</tr>
<tr>
<td>RA9728</td>
<td></td>
<td>Batan Freeport</td>
</tr>
<tr>
<td>RA9856</td>
<td></td>
<td>Real Estate Investment Trust Incentives</td>
</tr>
<tr>
<td>RA9994</td>
<td>2010</td>
<td>VAT Exemptions of Selected Goods and Services Purchased by Senior Citizens</td>
</tr>
<tr>
<td>RA9999</td>
<td></td>
<td>Tax Deductibility of Actual Free Legal Services Rendered by the Poor</td>
</tr>
<tr>
<td>RA10001</td>
<td></td>
<td>Restructuring of DST on Life Insurance Policies and Reduction of Premium Tax on Life Insurance Policies from 5 percent to 2 percent</td>
</tr>
<tr>
<td>RA10020</td>
<td></td>
<td>Migrant Workers and Overseas Filipino Act (Abolition of DST on Overseas Filipino Workers’ Remittances)</td>
</tr>
<tr>
<td>RA10026</td>
<td></td>
<td>Income Tax Exemption and Condonation of Unpaid Taxes for Local Water Districts</td>
</tr>
<tr>
<td>RA10083</td>
<td></td>
<td>Creation of Special Economic and Freeport Zone in Aurora</td>
</tr>
</tbody>
</table>

Source: DOF, as cited in Monsan (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 74.6 percent of GDP in 2006. 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 crisis levels, the debt stock was still above the benchmark for developing countries of 40 percent of GDP.

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. It also said that the monitoring of fiscal risks from government-owned and controlled corporations (GOCCs) as “inadequate overall” as the government had not prepared reports assessing the probability of GOCCs’ contingent liabilities materializing into direct national government debt.

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

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

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22 23
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 constric 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).

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 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 7).

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 16 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).
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).

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 administrations11 (see Figure 10).

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projection</th>
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<tr>
<td>2018</td>
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<tr>
<td>2019</td>
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**Figure 10. GDP Growth, in Constant Prices 2010 to 2019**

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<td></td>
</tr>
<tr>
<td>2019*</td>
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</tbody>
</table>

*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 2016. Moreover, the Sin Tax Reform Law not only increased revenues per se but also to ensure adequate resources for the government’s Universal Healthcare Program. The Sin Tax Reform Law—a measure heavily opposed by the tobacco lobby and other interests—enabled the government 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 administrations11 (see Figure 10).

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 administrations11 (see Figure 10).
On the administrative side, the government, through DOF and its attached agencies, continued to intensify 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 P6.7 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 “bad” to a “neutral” -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the “bad” to a “neutral” -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the “bad” to a “neutral” -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the “bad” to a “neutral” -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the “bad” to a “neutral” -4 points. Considering the systemic problems at BOC, its net sincerity rating unfortunately remained in the “bad” to a “neutral” -4 points.
“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).

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 percent of the country’s debt were payable in the short- to medium-term, compared to 26 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

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).

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 management of these risks. 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 meager 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).

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-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-intake enabled the government to dramatically reconfigure public spending.

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.

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. In recent times, the administration has established the Compensation and Position Classification System for GOCCs (see Compensation Reform).

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.” 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 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 GDP. GOCCs reached P369.3 billion or 4.8 percent of GDP.

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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 GAAs 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 R. Pascola
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 1); closer to the prevailing rates of Indonesia (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.

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 (+P75B to +P22B 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 excise taxes to inflation (+P32 billion)
- Bank secrecy and anti-money laundering reform; as cornerstone to tax administration reform (+B75 billion to +P250 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 (BDOC, 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 infrastructural 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)
Spending Within Our Means • Fiscal Management

NOTES

1 Disclos (2003) did say that the Ramos administration pursued the CTPR 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 CTPR 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 (RA No. 9392) 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. RA No. 9334.

6 In 2009, apart from BIR and BOC, the Department of Public Works and Highways (DPWH) also had a ‘very bad’ net sincerity rating of -45 in fighting corruption.

7 The PEFA assigned a score of ‘C’ on the sub-indicator on the scope and frequency of debt sustainability analyses as none had been undertaken in the last three years.

8 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.

9 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 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.

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

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

14 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.

15 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).

16 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 lender documents of PPP programs and projects; as well as support from the Budget.

17 Under the Unprogrammed Fund as standby appropriations (see Budget Integrity and Accountability).

18 E.O. No. 7 s. 2010 directed the rationalization of the compensation and position classification system in GOCCs and GOIs. It created a Task Force on Corporate Compensation (TFCC) pending the creation of the GCC 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.

19 R.A. No. 10149, the “GOCC Governance Act of 2011”

20 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 2000 to 2009, and 3.9 percent in 2011 to 2016.

INSIGHT FROM A DBM JUNIOR LEADER

By Maria Cecilia Soccoro M. Abogado

What made ZBB distinctively challenging was that it resulted in a kind of “role reversal” between DBM and the implementing agencies. Unfortuandly, 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 ironic 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.

ZBB: The Art of Letting Go

“W”e 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.

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.
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 Bangko 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.

Revenue
Because of improved revenue collections, the government reduced its borrowing of additional funds to finance the gap between revenues and expenditures. Without imposing new taxes save for the Sin Tax Law, the government had improved revenue collections to 15.8 percent of the GDP as of end-2015: the highest achieved since 1997.

Fiscal deficit
The government’s improved revenue collections had reduced the need to borrow, thus keeping the deficit below 2 percent of the GDP since 2013.

Debt servicing - Interest payments
The government has reduced by half the debt burden on the Budget from 32 percent in 2005 to only 13 percent in 2016.

Productive expenditures
With increased revenue collections, a reduced debt burden, and PFM reforms that more tightly linked expenditures with priorities (see Linking Budgeting and Results), the government freed up more resources and expanded allocations for social and economic services that directly benefitted citizens.
MEANINGFUL DEVOLUTION

IN A NUTSHELL

+ The local government units (LGUs) are in a position to know their constituents’ unique development needs and deliver local services better than the national government.

+ However, more than two decades since the Local Government Code has been enacted, the LGUs are still heavily reliant on fund transfers from the national government and their financial management systems remain underdeveloped.

+ The administration implemented reforms to empower the LGUs so they could take on more of the national government’s service delivery functions:
  - It built on the previous reform efforts and introduced the LGU PFM Program to strengthen the capacity of the LGUs in financial stewardship.
  - It implemented the Bottom-up Budgeting and other mechanisms to incentivize the LGUs to become more transparent, participative, and accountable.

+ These reforms for meaningful devolution support the moves to further decentralize the government and empower the LGUs to become effective partners in development.

Because they are on the ground, the LGUs are in the best position to know the development needs of their localities and to deploy resources to meet those needs.

Scholarly work in the past half-century has established that devolving the mobilization of resources and delivery of services from the national government to LGUs improves the allocation of resources. For one, the LGUs are able to adapt public services to the unique needs of their constituents, as opposed to the national government’s tendency to provide “one size fits all” solutions. Individuals may also move to local jurisdictions that provide public services according to their “tastes.” Moreover, the LGUs compete with one another, thereby creating “pressure” to deliver public services efficiently. Lastly, decentralization motivates the LGUs to innovate and “adopt new approaches to public policy (Oates, 2006).”

Several conditions must be met for fiscal decentralization to enable the optimal delivery of services to specific localities. The LGUs’ accountabilities for managing public resources—through expenditure responsibilities, allocation of sources of revenue, inter-governmental transfers, and borrowings—must be clearly defined. “Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be substantiated and, in this way, the full potential of decentralization cannot be realized (Feruglio and Anderson, 2008).” Likewise, the LGUs must have ample capacity to fulfill their devolved fiscal management roles: from the effective collection of local revenues to the efficient utilization of funds for the delivery of services, and accurate accounting and reporting of their financial transactions.

Therefore, in order to become effective agents of development in their respective jurisdictions, the LGUs must have sufficient resources to deliver tailor-fit services to their constituents and must have the capacity in effectively deploying such resources.

TWENTY-FIVE YEARS SINCE THE LOCAL GOVERNMENT CODE

The Philippines’ Incomplete Decentralization Project

Almost 25 years ago, the Local Government Code (LGC) was enacted to empower the LGUs to become effective instruments of local and national development.

The code devolved a number of national government mandates to the LGUs, particularly by giving them the authority to expand certain sources of revenue, such as real estate taxes and business-type income, and design their local budgets according to their local development objectives. Likewise, the delivery of local services, including local infrastructure, primary healthcare, and solid waste disposal, were assigned to the LGUs. The LGC likewise increased the share of the LGUs in the national internal revenue taxes—the Internal Revenue Allotment (IRA)—from 20 to 40 percent to provide them with the resources as a means to absorb the service delivery functions that have been devolved from the national government. The code also enshrined the participation of civil society and non-government organizations as active partners of the LGUs.

However, despite the powers, opportunities, and resources at the disposal of the LGUs, their financial sustainability has remained a challenge. Data from the DOF-Bureau of Local Government Finance (BLGF) for 2009 show that provincial and municipal governments have remained highly dependent on the IRA and other shares from national revenues. On the average, provinces and municipalities are dependent on their shares in the national taxes at 79 percent and 80 percent, respectively, of their operating income, though cities have a lower dependence rate at 46 percent. This state of affairs is far from the vision of the LGC, i.e., for the LGUs to become self-reliant.

The national government undertook efforts to improve local fiscal management by strengthening its own oversight. The Department of the Interior and Local Government (DILG) introduced the Local Government Performance Management System (LGPMMS), although its coverage for local government finance has been limited. Acknowledging the fragmented structure of the oversight function of the national government on local PFM, DILG, NEDA, DBM, and DOF in 2007 jointly issued guidelines to harmonize local planning, investment programming, revenue administration, budgeting, and expenditure management. The said guidelines strengthened the interface between the LGUs and the national government agencies. Complementing this move, DBM updated the Budget Operations Manual (BOM) for LGUs in 2008 to inform the LGUs on new budgeting tools, make account classifications consistent with the National Government Accounting System (NGAS), clarify vertical linkages among the various levels of the LGUs, and introduce the guidelines on citizens’ participation in local budgeting. In 2007, DBM, with technical assistance from the European Commission, carried out the LGU PFM Phase I Project after realizing that no comprehensive and standard assessment on LGU financial management had been undertaken.

The IRA and other mandatory shares of the LGUs may be insufficient after all to cover their broadened mandate for service delivery under the LGC. However, additional financial support of the national government for the LGUs should be done through clear, rules-based mechanisms that are hinged on measurable criteria, rather than through political patronage. This principle was recognized by the DBCC in 2009 when it approved a Performance-Based Incentive Policy to rationalize the national government’s transfers to LGUs and focus these transfers as incentives to improve local governance and service delivery (DILG, 2011).

LGUS AS STEWARDS OF PUBLIC FUNDS AND AGENTS OF DEVELOPMENT

Recent Reforms to Strengthen and Incentivize LGU PFM

“This is an opportunity to push our agenda for meaningful devolution. Our local governance and financial stewardship initiatives... have been boosting the LGUs’ ability to absorb more funds and deliver basic social and economic services—those that are currently undertaken by the national government, even if these appropriately fall under the mandate of LGUs under the (LGC).”

President Benigno S. Aquino III
President’s Budget Message 2011

The Aquino administration sought to bring fresh momentum to the stalled devolution project through various reforms. A primary stream of such reforms is the comprehensive LGU PFM Reform Roadmap aimed at strengthening the capacity of the LGUs for financial stewardship. The development of such a roadmap entailed the difficult yet necessary task of assessing the strength of LGUs’ PFM systems. The administration also introduced mechanisms that gave the LGUs incentives for implementing transparent, accountable, and participative PFM.

Setting the baseline of LGU PFM performance

The implementation of the PFM Improvement component of the EU-funded LGU PFM Project Phase 1 paved the way for the development of the LGU PFM Assessment Tool (PFMAT). Issued in 2012, the PFMAT is a self-assessment, evidence-based instrument that describes the characteristics of an open and orderly PFM system. A diagnostic tool, it established indicators that measure the seven critical dimensions of performance of LGU PFM (see box). The tool allows the LGUs to identify the strengths and weaknesses in their PFM systems as basis for improvement measures through their respective PFM Improvement Plans (PFMIPs).

The Dimensions of an Open and Orderly LGU PFM

1. Policy-based Budgeting – assesses the level of consideration or due regard given to government policy, including local development plans, when preparing the LGU’s budget

2. Comprehensiveness and Transparency – measures the completeness of information presented in the LGU’s budget and the accessibility of fiscal information to the public

3. Credibility of the Budget – evaluates whether or not the budget—including revenue and expenditure forecasts—is realistic and is implemented as intended

4. Predictability and Control in Budget Execution – determines if the LGU’s budget is implemented in an orderly and predictable manner, with sufficient controls against waste

5. Accounting, Recording, and Reporting – measures the adequacy of records and information produced, maintained, and disseminated for control, management, and reporting

6. Internal and External Audit – examines the arrangements for scrutiny of public finances and follow-up by the local chief executive and/or the local legislative council (Sanggunian)

7. Citizens’ Participation – measures how LGUs enable Civil Society Organizations (CSOs) as partners in the formulation, monitoring, evaluation, and improvement of the local budget

The PFMAT was patterned after the PEFA Framework but with the additional dimension on citizens’ participation. As an evidence-based instrument, the PFMAT was used by the LGUs in assessing their PFM systems using quantitative indicators. The PFMAT uses a five-point scale from 0 (lowest) to 4 (highest). An electronic version of the PFMAT was issued and used by the LGUs in 2013.

Baseline data from the results of PFM assessments undertaken in 2012 by 550 LGUs covered by the pilot run of Bottom-up Budgeting (BuB) established that the elements of an open and orderly PFM system in LGUs were not complete, although “what exists are fully operational.” The LGUs covered by the assessment garnered an overall mean score of 2.34 out of the possible highest score of 4 across all the dimensions of the PFMAT (see Table 1). Scoring the lowest—below the overall mean score—were policy-based budgeting; accounting, recording, and reporting; and internal and external audit (LGU PFM 2 Project, 2015).

As of mid-2015, the PFMAT has been rolled out to 95 percent of LGUs, and 53 percent of LGUs have met the PFM benchmarks, or at least an average score of 2.34 (GGAC, 2015). The assessment results using the PFMAT has become one of the conditions for an LGU to avail of funding support under the BuB.

Table 1: Baseline LGU PFM Performance: Mean Scores of 550 LGUs

<table>
<thead>
<tr>
<th>Critical Dimensions of PFM System</th>
<th>Score</th>
<th>Assessment Highlights</th>
</tr>
</thead>
</table>
| Policy-based budgeting            | 1.70  | • weak alignment of local development plans & local budgets 
|                                   |       | • local economic enterprises not self-reliant |
| Comprehensiveness & transparency  | 2.99  | • highest mean rating, though poor compliance with disclosure requirements |
| Credibility of the budget         | 2.85  | • revenue forecasts less reliable as revenue codes & market values were outdated |
| Predictability & control          | 2.36  | • weak tax enhancement, especially real property taxes 
|                                   |       | • poor cash flow forecasting 
|                                   |       | • weak procurement practices |
| Accounting, recording, & reporting| 2.26  | • poor practices in reconciling bank accounts & liquidating cash advances |
| Internal & external audit         | 1.24  | • internal audit units not created 
|                                   |       | • low settlement of CDA disallowances |
| Citizen’s participation           | 2.82  | • CSO accreditation is strong but degree of CSO participation is low |

Spending Within Our Means  •  Meaningful Devolution
A comprehensive roadmap for the reform of LGUs up to 2022

In 2012, the government (DOF-BLGF, DILG, and NEDA), with the support of the European Union, commenced Phase 2 of the LGU PFM Project. Through this phase, a rapid assessment of the state of the LGUs’ PFM was conducted using the results of the PFM assessment of the 550 LGUs in 2012. A series of consultations with LGU officials was held to validate the results. These inputs were used in developing the LGU PFM Reform Roadmap, which was issued in 2015.¹

“When we were starting with the implementation of LGU PFM 2 Project, there was no strategic plan for LGU PFM reform, the improvement measures being implemented at that time were introduced separately and at times in an overlapping manner by the national government agencies, among other fundamental issues. Now, after rolling out the LGU PFM Reform Roadmap and Implementation Strategy, we have identified the various structures, systems, and tools to assist LGUs in strengthening their PFM systems and enticing CSOs participation in the local budget process.”

Director Julian L. Pacificador, Jr.
DBM REGIONAL OFFICE IV-A

The LGU PFM Reform Roadmap seeks to address two key PFM issues that beset the LGUs: the perennial challenge of obtaining sufficient funds and sound expenditure management; and the weak LGU PFM systems, which are partly due to poor coordination between the LGUs and the oversight agencies, as well as among the oversight agencies themselves. The roadmap, thus, guides the LGUs in strengthening their PFM systems and assists the national government oversight agencies to enhance their support for the PFM reforms implemented by the LGUs. It also seeks to help development partners identify possible entry points to provide support for the LGU PFM reform efforts in the country.

The roadmap groups reform interventions into four clusters (see box) and outlines the policy tools or interventions that address the issues identified by stakeholders. The roadmap also outlines the targeted outcomes at the end of three years for three successive terms (i.e., 2016, 2019, and 2022) and the indicators to measure the extent of accomplishment of these outcomes. The roadmap is accompanied by an Implementation Strategy to provide the specific action plan and identify the risks in accomplishing the roadmap and the measures to mitigate such risks (LGU PFM 2 Project, 2015a).

“In a short period of time the implementation of the Roadmap has made impressive gains (LGU PFM 2 Project, 2016). In particular, the convergence among oversight agencies has been strengthened through the establishment of Regional Inter-Agency Teams to support the LGUs in crafting and implementing their PFMIPs. Noteworthy likewise is the release of the Handbook on the Participation of CSOs in the Local Budget Process.

**Highlights of Accomplishments of the LGU PFM Roadmap**

- Linking Budget Planning to Policy Priorities
  - Regional Inter-Agency Teams for LGU PFM established
  - PFMAT and PFMIP institutionalized through the BuB and a DBM LGU Policy Unit
- Guide for the Preparation, Review, Monitoring, and Updating of the Comprehensive Development Plan and Local Development Investment Plan enhanced
- Developing Reliable and Predictable Budgets
  - Development of LGU Integrated Financial Tools (ILFT) commenced
  - Manuals on budget operations, revenue mobilization, treasury operations, assessment examination monitoring, and real property appraisal reviewed and updated
  - Performance Standards for Local Treasurers and Assistant Treasurers issued
- Integrating Transparency and Accountability
  - Handbook on CSO Participation in the Local Budget Process issued
- Holding Managers to Account
  - Internal Audit Manual for LGUs produced
  - Revised Chart of Accounts for LGUs issued by the CoA
  - New budget performance monitoring and evaluation framework adopted

Source: LGU PFM 2 Project (2016)

“I most LGUs still face the challenge of fiscal sustainability, particularly in raising sufficient funds and effectively managing their resources. The introduction of performance-based downloads addressed the LGUs’ need for further support, while also incentivizing the regular assessment of PFM systems and implementation of improvement measures. Thus, at the same time as we are helping LGUs, we are institutionalizing the culture of constant improvement and strengthening of PFM systems.”

Director Leilia Magda G. Rivera
DBM PUBLIC EXPENDITURE MANAGEMENT BUREAU

Incentivizing LGUs’ adoption of PFM

The administration, through DILG, introduced the Performance Challenge Fund (PCF) in 2010 to incentivize the LGUs to adopt good governance standards. The PCF was introduced together with the Seal of Good Housekeeping (SGH), which is awarded to the LGUs that comply with the policy of fully disclosing budget and financial information, have no adverse audit opinions, comply with the Procurement Law, and implement measures against red tape. In 2014, the SGH was enhanced to the Seal of Good Local Governance, which expanded the assessment of the LGUs’ performance; the core areas of Good Financial Housekeeping, Social Protection, and Disaster Preparedness; and the essential areas of Business-Friendliness, Peace and Order, and Environmental Management.

The PCF incentivizes the LGUs that attain the SGH or the SGLG² through counterpart funding for capital investment projects of the LGUs;³ those that support the attainment of the Millennium Development Goals (MDGs), pursue local economic development, support disaster risk reduction and management, and boost ecological solid waste management. After an initial allocation of P500 million in the 2011 Budget, the PCF was increased to more than P1 billion in the 2016 Budget. As of end-2015, the PCF has funded 2,183 projects, of which 1945 (89 percent) have been completed (DILG, 2016). The details of these projects and their status have been made available online by the DILG through its PCF website (http://pcf.dilg.gov.ph).

“The direct release mechanism exemplified the Aquino administration’s resolve to speed up infrastructure development particularly, rural road network thereby increasing economic activities in the countryside and also developing the capability of LGUs in implementing big ticket infrastructure projects.”

Director Alfonso B. Bedonia, Jr.
DBM REGIONAL OFFICE VI

The Bottom-up Budgeting (BuB) process, which was introduced in 2012, likewise serves as a mechanism for the LGU-specific issues and municipalities—access more resources for development projects if they meet good governance standards, such as the SGH, the self-assessment under the PFMAT, and the development of a PFMIP. In recent years, the government has allowed the LGUs with the right capacity and that meet higher governance standards to implement BuB-funded projects. More importantly, however, the BuB incentivizes the LGUs to engage the local CSOs and grassroots organizations in their jurisdictions, considering that projects will not be funded if these are not identified through an open and participative process. In 2016, the administration started the pilot run of Barangay BuB to give barangays access to additional resources on the condition that they engage local organizations and meet good governance conditions (see Citizen’s Participation in the Budget Process).

“The what is good now is that we are not looking at personality-based but policy-based, which means the (programs) are looking at our capacities and commitment to good governance. The partnership of the local governments and the national government looks at how to make the resources more felt at the grassroots level.”

Bataan Governor Albert S. Garcia
BATAAN GOVERNMENT

The administration recently created a facility for provinces to access additional resources for the implementation of provincial roads: the Konkreto at Aoyos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran (KALSADA). With an initial allocation of P6.5 billion in the 2016 Budget, the facility supports the rehabilitation and upgrading of provincial roads that are consistent with their respective Provincial Road Network Development Plans (PRNDP). The program builds on the Provincial Road Management Facility project implemented in 2007 by the DILG, the Australian DFAT, and 10 pilot provinces. The KALSADA expands the support to 73 provinces that meet good governance conditions and social development benchmarks. The funding was distributed to the provinces based on these metrics as well as their performance in completing road projects funded by the Special Local Road Fund.¹⁸ Provinces are also required to report the status of projects to the national government regularly through the Open Roads Portal (http://openroads.gov.ph).

¹ Direct release mechanism exemplified the Aquino administration’s resolve to speed up infrastructure development particularly, rural road network thereby increasing economic activities in the countryside and also developing the capability of LGUs in implementing big ticket infrastructure projects.

² TheBottom-up Budgeting (BuB) process, which was introduced in 2012, likewise serves as a mechanism for the LGU-specific issues and municipalities—access more resources for development projects if they meet good governance standards, such as the SGH, the self-assessment under the PFMAT, and the development of a PFMIP. In recent years, the government has allowed the LGUs with the right capacity and that meet higher governance standards to implement BuB-funded projects. More importantly, however, the BuB incentivizes the LGUs to engage the local CSOs and grassroots organizations in their jurisdictions, considering that projects will not be funded if these are not identified through an open and participative process. In 2016, the administration started the pilot run of Barangay BuB to give barangays access to additional resources on the condition that they engage local organizations and meet good governance conditions (see Citizen’s Participation in the Budget Process).

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Meaningful Devolution Requires a Strong LGU PFM

“Perhaps more than anything, this administration has defined meaningful devolution in two ways. One, we have a clear baseline of the capacities of LGUs along defined pillars of governance and public fiscal management. The LGU PFM project for municipalities aided by the BuB and the KALSADA program for provinces. Barangay BuB has also, for the first time, given us a clear baseline and database of the capacity of all 42,036 barangays. Two, these same programs have put performance standards in place based on national and international norms of fiscal openness and effectiveness.”

Assistant Secretary Maxine Tanya M. Hamada
DBM BUDGET PERFORMANCE MONITORING AND EVALUATION GROUP

The administration sought to give the Philippines’ 25-year-old devolution project a boost through the reforms that strengthened the PFM systems of the LGUs and provided incentives for their adoption of good governance standards.

Are these efforts succeeding? These reforms are still in the infancy stage: notably, the LGU PFM Reform Roadmap was introduced only in 2015, and to be completed by 2018. Many of its important components are therefore still in the pipeline: the harmonization of performance-based incentive mechanisms for the LGUs; the installation of an ICT-based system for the LGUs’ financial management; and the LGUs’ full implementation of the manuals that were recently issued by the oversight agencies of the national government.

“The PFM teams of DBM ROs witnessed the slowly-changing paradigms in local financial management after the initial round of assessment. Implementation of the PFMiPs however, remain to be a challenge. Most PFMiPs are ambiguous and generalized statements formulated for ‘compliance purposes’ and therefore difficult to monitor and measure; Local Chief Executives are not completely supportive even if the Plans bear their signatures; concerned Department Heads do not exert effort to oversee the implementation of corrective and preventive measures. Nevertheless, sound LGU PFM systems must be pursued to complement the good governance advices at the national level.”

DBM Assistant Director Maria Fe D. Jagna
DBM REGIONAL OFFICE XI

Strengthening the performance-based mechanisms for the LGUs indicates the need to continue and further strengthen the PCF, the BuB, and the KALSADA as mechanisms to incentivize LGUs that truly meet good governance standards. Moreover, based on the mean PFMAT scores in 2013, a lot of work needs to be done in strengthening the capacity of the LGUs to link development plans with their budgets, make cash availability predictable, comply with procurement laws, reconcile accounts in a timely manner, strengthen internal audit, and act on adverse audit findings of the COA.

Local resource mobilization is especially challenging. BLGF data as of 2014 show that, on the average, provinces and municipalities are still 80 percent dependent on the IRA and other mandatory shares from national government revenues; while cities are 44 percent dependent. Evidently, not much has changed since 2009 on this aspect of the LGU PFM. In response to this critical issue, the LGU PFM Reform Roadmap outlines policy actions as a means to improve the capacity of the LGUs to generate revenues: from strengthening their capacity to assess and collect real property taxes to ensuring the viability of local economic enterprises.

Moving forward, these reforms should help further empower the LGUs as “more effective partners in the attainment of national goals,” as the LGC was envisioned, through greater capacity to take stewardship of their local finances and greater accountability to their constituents. 12

NOTES

1 About half a century ago, Oates (1972, as cited in Oates, 2006) defined the Decentralization Theorem, as follows: “For a public good—the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government—it will always be more efficient (at least as efficient) for local governments to provide the Pareto-efficient levels of any output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions.”

2 The four arguments for fiscal decentralization as cited here are based on the ‘basic elements’ identified in a working paper by Oates (2006) of how, based on ‘traditional theory’, decentralization improves the allocation of resources in the public sector. The working paper itself revisits the ‘traditional’ or ‘first generation’ theory of fiscal decentralization in light of new evidence and the emergence of a ‘second generation theory’.

3 R.A. No. 7160, enacted on October 10, 1991

4 Additionally, LGUs receive special shares from national government revenues, including those from tobacco excise taxes, the expanded VAT, royalties from the extraction of natural resources (e.g. oil, gas, and mining), the collections of special economic zones, among others. LGUs also receive allocations from the National Budget, such as from the Priority Development Assistance Fund (see End of Pork as We Know It); the Local Government Support Fund, and transfers from national government agencies for the implementation of programs and projects.


6 The LGU PFM Phase I Project was introduced as part of the Technical Assistance for the Health Sector Policy Support Program of the European Commission to the Department of Health. The Project covered 16 provinces.

7 promulgated by the DBM via Local Budget Circular No. 101 on October 12, 2012.

8 Generally, the assessment is based on a three-year set of data to allow for abnormal situations outside the control of the local administration.


10 LGUs must meet the three “core” criteria and at least one of the “essential” criteria to qualify for the PCF.

11 Such capital investment projects must be included in an LGU’s Annual Investment Program (AIP) and funded out of the Local Development Fund or 20 percent of its IRA (DILG, 2015).


13 Roughly translated as: ‘Concreteized and Quality Pavements and Roads Towards Inclusive Development’

14 Under the Local Government Support Fund

15 This Fund, a Special Account in the General Fund (SAGF), is financed through the Motor Vehicle User’s Charge (see Budget Integrity and Accountability).

16 While it is not the intention of this article to elucidate on how the shift to federalism can be pursued, it is noteworthy that the literature on fiscal decentralization does not discount the possibility of “fiscal federalism” being implemented in a unitary system. Still, it may be possible for “fiscal federalism” reforms, in tandem with the continued implementation of LGU PFM reforms, to be implemented in preparation for the eventual shift to a federal system of government. The so-called “second generation theory” of fiscal federalism may also be instructive in designing further reforms. For instance, Weingast (2007) identifies possibilities for engineering reforms, including decentralizing in steps—“with the first step allowing one or a small number of regions the power to reform one step ahead”—so that their success could be used to demonstrate the benefits of decentralization.

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Meaningful Devolution Requires a Strong LGU PFM

Spending Within Our Means • Meaningful Devolution

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Investing in the Right Priorities

The government’s limited resources must be focused on achieving its development goals. As it improved its finances and curbed wasteful spending, the Aquino administration since 2010 had leveraged the Budget as a primary tool for inclusive growth. It heavily invested in fulfilling its Social Contract with the Filipino People: human development, economic expansion, climate change adaptation and mitigation, peace and security—all supported by a strong foundation of good governance. The government now spends P65 of every P100 in the Budget on priority social and economic services.
The government faces these challenges in the budget process: to establish clear policies, allocate resources based on these policies, measure the results of using such resources, and use these results in creating future policies and Budgets (MfDS, 2007). If the government is able to resolve such challenges, then it can ensure the optimal use of scarce resources and, in the process, curb unnecessary and wasteful spending.

SITUATION BEFORE 2010
Scarcie Resources Wasted On Inffective Programs

In the past decade, the weak revenue effort and higher debt-to-GDP ratio severely constricted the government’s allocable fiscal space, or the available resources for development (see Fiscal Management). The inefficient allocation of public resources worsened the situation: funding had been incremental rather than focused on programs and projects that were aligned with development goals and showed measurable results. Many programs and projects had been poorly designed, and the implementation of which had failed to realize their objectives.

The DBM in the previous administrations introduced reforms to establish greater discipline in resource allocation: the MTEF and the Organizational Performance Indicator Framework (OPIF) (see Linking Budgeting and Results). Though laudable, these reforms were fully matured and woven into the budget process.

An abundance of lump sums: A symptom of poor program design

The prevalence of controversial lump-sum funds in previous Budgets that were prone to abuse reflected the inability of the agencies to define expenditures in terms of specific programs, activities, and projects. Examples of these lump-sum funds were the Special Purpose Funds (SPFs), such as the controversial Kalayaan Barangay and Kilos Asenso Funds; and funds under the budget of the agencies, such as the banner programs of the Department of Education (DepEd), Department of Health (DOH), and Department of Agriculture (DA) that were lodged under the Central Office and not disaggregated into specific activities, projects and locations. Senator Franklin M. Drilon (Valderama, 2008) had emphasized that the manner by which these lump-sum funds were allocated had been shrouded in opacity, with only the President or key officials of the Executive having a say on how exactly these funds would be spent. Furthermore, lump-sum funds had hampered effective budget execution (see Fast and Efficient Budget Execution) and constrained Congressional oversight (see Budget Integrity and Accountability).

The ineffective design of programs and projects, including selecting and targeting of program beneficiaries as well as establishing quality standards for infrastructure projects, had also led to the misuse of funds. Expenditures in the agriculture sector, for instance, were frequently associated with corruption scandals: a notable example was the Fertilizer Fund Scam. In addition, in a special report on the Arroyo administration’s banner agricultural programs in 2007, the Commission on Audit (COA, 2010) stated that “[t]he good intention of the GMA Rice Program to reduce poverty incidence and attain national food security is tainted with weaknesses and irregularities in implementation.” Beneficiary-farmers in several regions did not receive the correct amount of seeds and fertilizers. Furthermore, almost P290 million in agricultural program funds were downloaded to
non-government organizations (NGOs) of dubious origin, the COA report said. The respective offices of these NGOs were non-existent, including the benefits of their supposed activities. The COA also found that the government wasted P717 million on poorly executed farm-to-market roads (FMRs) because they needed to be re-graveled. The poor formulation of such programs—whether designed to make room for pilferage, or resulting from the weak technical ability of the bureaucracy—ultimately negated the government's goal of improving productivity and income in the countryside.

Too many programs, too little impact

In addition to poor design, the programs were too many, thereby spreading resources too thinly to create impact. The 2011-2016 PDP acknowledged this predicament, citing a study conducted by the Development Academy of the Philippines in 2009, which revealed that, at one point, twenty-one agencies were implementing various social protection initiatives (NEDA, 2011). The Asian Development Bank (ADB) also stated in a study that while the country had a wide range of social protection programs, their coverage was low and the benefits they provided were inadequate (2007). Poor targeting and the lack of built-in monitoring and evaluation mechanisms worsened the problem of insufficient funding. Moreover, social protection programs were not coordinated well, often implemented piecemeal due to their individual mandates. This causes waste because of overlaps and redundancies in sectoral or geographical beneficiaries (ADB, 2011).

Despite the country’s long tradition in development planning, the PDP “has been described as aspirational and academic in nature for each sector and as a comprehensive ‘menu’ overall” and “offers little real guidance for resource allocation decisions (Blondal, 2010).” In addition, the annual budget preparation process had been known to be an arena for the agencies to secure increments in their budgets, while their actual performance was not considered. “While the budget intends to allocate funds for identified deliverables, it pays no attention to whether deliverables from the previous year(s) have been delivered or not (HDN, 2009).

How planning problems trickle down to budgeting

Introduced in 2006, the MTEF attempted to make the Budget more policy-oriented and linked with the PDP. As an international practice, the MTEF’s aim to strategically widen the budgetary space for new programs by introducing future estimates in revenue and expenditures, and in the process, encourage the allocation of resources based on the governments’ priorities and the medium-term sustainability of expenditures (Wilhelm & Krause, 2007). In implementing the MTEF, the government sought to a) set Forward Estimates (FEs), or three-year projections of ongoing expenditures based on inflation and other factors; and b) prepare the Paper on Budget Strategy (PBS), an internal document that guided decision-making on prioritizing the allocation of uncommitted funds.

A number of key factors, however, limited the impact of the MTEF. For one, the fiscal space had remained narrow, at an average of 18 percent of the Proposed Budget from 2003 to 2008 (Boncodin, 2008). Secondly, the FEs tended to be unreliable or even bloated because of poor forecasting, imprecise costing, and ineffective project design. The weak link between the sector-based approach to development planning and the agency-specific budgeting likewise tended to create “a spaghetti bowl effect with too much unconnected (budgeting and performance) information (AusAid, 2006).” Combined with the PDP’s lack of resource constraints and the dearth of timely and reliable information on actual performance, this “spaghetti bowl” hampered effective decision-making in allocating the scarce resources as a means to yield potentially transformative social and economic outcomes.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Budget Aligned with The Administration’s Social Contract

Since 2010, President Aquino has leveraged the Budget as the central tool to fulfill his Social Contract with the Filipino People: to reduce poverty and create equal opportunities for all through honest and effective governance.

In his first Budget Message to Congress, he emphasized that the bedrock principle of his first Budget “is that the taxes paid by the people will be spent for the people (Aquino, 2010).” Thus, his administration wielded the Budget to achieve inclusive development by investing in adequate and well-targeted social services and creating more opportunities for meaningful employment and livelihood for the people, especially the poor and marginalized (DBM, 2015).

Through DBM, the President recalibrated the Budget to show a clear preference for the poor. Thus, 64.4 percent of the Budget for 2016 was allocated for social and economic services, from 54.1 percent in 2010 and 48.2 percent in 2006, with the shares of vital sectors, such as education, health, and public transportation, increasing the fastest among the others (see Table 1). The reforms implemented since 2010—from cancelling anomalous programs and projects to aligning the annual Budget with medium-term development goals—has enabled the government to invest increasingly in programs that deliver real and measurable impact.

Plugging leakages through stringent program assessment

The first budgeting reform introduced by the administration, the ZBB entails the extensive review of ongoing programs and projects. Programs fraught with leakages or failing to deliver results are cancelled or redesigned, which in turn enables the government to increase funding for those found to be effective or have great potential in reducing poverty.

As President Aquino said in his first State of the Nation Address, “we will stop the wasteful use of government funds. We will eradicate projects that are wrong (2010).”

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Table 1. Percent Share of Sectors to Total Budget 2010-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Services</th>
<th>Social Services</th>
<th>Debt Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>25.9</td>
<td>28.2</td>
<td>20.6</td>
</tr>
<tr>
<td>2011</td>
<td>23.2</td>
<td>34.5</td>
<td>18.8</td>
</tr>
<tr>
<td>2012</td>
<td>26.8</td>
<td>32.4</td>
<td>17.6</td>
</tr>
<tr>
<td>2013</td>
<td>25.9</td>
<td>36.6</td>
<td>16.6</td>
</tr>
<tr>
<td>2014</td>
<td>26.2</td>
<td>37.2</td>
<td>15.9</td>
</tr>
<tr>
<td>2015</td>
<td>27.1</td>
<td>36.6</td>
<td>13.97</td>
</tr>
</tbody>
</table>


Used by the administration in the formulation of the 2011 Budget, the ZBB made use of COA’s audit reports and evaluation studies as basis for aborting programs that no longer met their goals. This reform also redesigned those that could be saved by revising their mechanics, including the transfer of programs to the agencies with the right mandate and capacity. In the subsequent rounds of the ZBB studies, DBM closely worked with the Philippine Institute for Development Studies (PIDS) for the latter to conduct program evaluation studies, which yielded 21 such studies from 2012 to 2014.

The implementation of the ZBB studies for the preparation of the 2011 Proposed Budget focused on the President’s directive to cancel or revamp ineffective and leakage-prone programs. For one, it led to the cancellation of the Kalyaan Barangay and Kilos Asenso Funds as they were found to have questionable uses, apart from being undervalued as recipient-agencies failed to submit sufficient supporting information.
The Food for the School Program was also found to have costly leakages after revisiting the findings of COA in a 2006 assessment (Manasan and Cuenda, 2014). The program was supposed to provide rice to public school children as an incentive to attend school. However, besides short deliveries of rice, which was valued in millions of pesos, the study revealed that students in several districts received rice allocations behind schedule. Based on these findings, the administration initiated the proper targeting and identification of beneficiaries under the program. Renamed the Supplemental Feeding Program, its implementation was transferred from DepEd to the Department of Social Welfare and Development (DSWD), which was better suited to implement the program.

Other studies enabled the government to address policy issues in programs that were crucial to the country’s development. One such study covered the agriculture sector. One impact evaluation study (Briones, 2013) emphasized that while the agriculture sector budget grew over time, the government failed to reduce poverty incidence in the countryside, raise rural incomes, and improve farm yields. This tepid performance could be traced to faulty design and execution of programs, in particular key infrastructure projects, such as irrigation, which had a record of wastage and ineffectiveness. In contrast, FMRs, electrification, and ports projects, such as irrigation, which had a record of wastage and ineffectiveness. In contrast, FMRs, electrification, and ports

The DBM acted on these findings by restructuring the agriculture sector’s budget in the 2014 Proposed Budget. On infrastructure, a greater emphasis was placed on investments in FMRs: not only to provide additional funds but also to address lingering issues in the program’s design, such as the lack of a road network plan. As a result, the poor capacity of DA to implement such projects was also addressed as the Department of Public Works and Highways (DPWH) became involved in the design and implementation of FMRs.

In the absence of a road network plan, DBM asked DA to account for all finished FMRs by submitting geo-tagged images of such projects prior to the release of additional FMR funds. The DBM also restructured the DA budget to focus on planting High Value Crops instead of focusing solely on rice, which is very costly in terms of irrigation and farm inputs.

It also directed DA to prioritize the linking of agriculture and fisheries to industry and services sectors. Such policy decisions were seen to improve the incomes of farmers and fisherfolk.

The ZBB process also took cognizance of an evaluation by the World Bank (Chaudhury et al., 2013), which provided evidence that the Pantawid Pamilyang Pilipino Program (4Ps) improved enrollment rates in the elementary but not in the secondary school. Another study published by PIDS showed that a child who finishes high school can earn average wage of at least forty percent more than if he or she finishes only some years in elementary (Reyes et al., 2013). As a result, DSWD expanded and increased the conditional cash transfer benefits to allow working students to finish High School without worrying about augmenting their household income.

The DBM’s conditional cash transfer program has covered 12 million children aged 15 to 18 to support their secondary education under the new K to 12 Curriculum (DBM, 2015c).

**Aligning the Budget with development goals**

Following the release of the PDP in 2011, the President issued Executive Order No. 43 defining the five Key Result Areas (KRAs) of the Aquino Social Contract, reorganized his Cabinet in clusters according to the five KRAs, and mandated the agencies to focus their budgets, programs, and projects on these five priority areas (see box). The National Budget Call for the 2012 Proposed Budget emphasized this directive.

**Key Result Areas of the Aquino Social Contract**

- Anti-Corruption and Transparent, Accountable, and Participatory Governance
- Poverty-Reduction and Empowerment of the Poor and Vulnerable Population
- Rapid, Inclusive, and Sustainable Economic Growth
- Just and Lasting Peace, Security, and the Rule of Law
- Integrity of the Environment and Climate Change Adaptation and Mitigation

To integrate the KRAs in the allocation of resources, DBM introduced the Budget Priorities Framework (BPF), which indicated the sectors and programs that should be prioritized in the Proposed Budget, and defined the challenges and strategies that the agencies should consider in preparing their budget proposals. First introduced in the 2013 Budget preparation, the BPF likewise spelled out the macroeconomic parameters and the fiscal program, as well as the budget ceilings of the agencies based on their FEs. The BPF complements the Budget Call, which lists down the guidelines in submitting budget proposals.

Furthermore, the BPF introduced an important element to budgetary decision-making: the prioritization of resources for Focus Geographic Areas (FGAs). As early as in the 2013 BPF, the government acknowledged that economic activity had been historically limited to a few urban spaces, resulting in markedly uneven distribution of wealth and opportunity across the population; in contrast, the poor, underdeveloped provinces—many of which are prone to natural disasters—often had the least access to resources for development. The PDP Midterm Update (2013) also emphasized the need to consider the spatial dimension in development planning and resource allocation. Hence, in the 2014 BPF, 44 priority provinces with large populations or magnitudes of the poor, with huge poverty incidence rates, and which are vulnerable to shocks and disasters were identified. With such a needs-based framework in hand, the government veered away from the tendency of applying a one-size-fits-all structure for development-oriented interventions (see box on page 58).

In all, these policy reforms to improve the prioritization of resources resulted in higher investments in priority sectors and programs (see Figure 2; evidenced as well by the composition of the top 10 departments (see Table 2).

### Table 2. Top 10 Departments (2016): Increase in investments from 2010 to 2016

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DepEd</td>
<td>173</td>
<td>206.3</td>
<td>238.8</td>
<td>279.4</td>
<td>309.5</td>
<td>377.7</td>
<td>437.7</td>
</tr>
<tr>
<td>2</td>
<td>DPWH</td>
<td>135.6</td>
<td>193.6</td>
<td>226.4</td>
<td>192.4</td>
<td>219.9</td>
<td>304.1</td>
<td>404.0</td>
</tr>
<tr>
<td>3</td>
<td>DND</td>
<td>57.8</td>
<td>104.7</td>
<td>108.1</td>
<td>123.1</td>
<td>123.2</td>
<td>154.7</td>
<td>175.2</td>
</tr>
<tr>
<td>4</td>
<td>DILG</td>
<td>66.5</td>
<td>88.1</td>
<td>99.8</td>
<td>121.8</td>
<td>136.1</td>
<td>147.2</td>
<td>154.5</td>
</tr>
<tr>
<td>5</td>
<td>DOH</td>
<td>29.3</td>
<td>33.3</td>
<td>45.8</td>
<td>59.9</td>
<td>90.8</td>
<td>102.6</td>
<td>128.5</td>
</tr>
<tr>
<td>6</td>
<td>DSWD</td>
<td>15.4</td>
<td>34.3</td>
<td>48.8</td>
<td>56.4</td>
<td>83.4</td>
<td>108.3</td>
<td>111.1</td>
</tr>
<tr>
<td>7</td>
<td>DA</td>
<td>41.2</td>
<td>35.2</td>
<td>61.4</td>
<td>75.7</td>
<td>80.9</td>
<td>90.2</td>
<td>94.0</td>
</tr>
<tr>
<td>8</td>
<td>DOTC</td>
<td>17.2</td>
<td>32.3</td>
<td>34.7</td>
<td>37.1</td>
<td>48.8</td>
<td>59.4</td>
<td>64.8</td>
</tr>
<tr>
<td>9</td>
<td>DENR</td>
<td>12.9</td>
<td>11.6</td>
<td>17.5</td>
<td>23.7</td>
<td>23.9</td>
<td>21.7</td>
<td>33.2</td>
</tr>
<tr>
<td>10</td>
<td>DOF</td>
<td>10.8</td>
<td>12.2</td>
<td>23.6</td>
<td>34.5</td>
<td>17.3</td>
<td>16.9</td>
<td>24.8</td>
</tr>
</tbody>
</table>
Provinces with High Poverty Magnitude:
In these provinces, opportunities for growth may be present but the poor are unable to contribute to and experience growth. Listed under this cluster of FGAs are provinces with the biggest number of poor households as determined by the DSWD’s National Household Targeting System in 2012. Pangasinan, Quezon, Camarines Sur, Negros Occidental, Cebu, Zamboanga del Sur, Davao del Sur, and Sulu.

Provinces with High Poverty Incidence:
In contrast to the previous area, these provinces have lesser opportunities for growth as they generally have a small population, low density, and lie in remote areas. The list includes the poorest provinces based on poverty incidence based on 2012 data of the National Statistical Coordination Board: Abra, Apayao, Masbate, Zamboanga del Norte, Camiguin, North Cotabato, Sarangani, Lanao del Sur, and Maguindanao.

Provinces with High Disaster Risk:* These are provinces where even non-poor families can easily slide into poverty, and the poor can slide deeper into poverty, when shocks (e.g., conflict and political instability) and disasters strike. These include Iloilo, Leyte, and Zamboanga del Sur.

Provinces with both High Poverty Magnitude and High Disaster Risk: These include Iloilo, Leyte, and Zamboanga del Sur.

Provinces with both High Poverty Incidence and High Disaster Risk: These include Northern Samar and Eastern Samar.

* DOST, DENR, and DSWD determined the 29 provinces under the cluster.

Fostering unity for greater impact
To complement the new Cabinet Cluster system based on the KRAs in the Aquino Social Contract, the government introduced the Program Convergence Budgeting (PCB) in 2012. This reform allowed the government to “center the budget on identified necessary programs, and more importantly, to ensure that key agencies participating in and contributing to the programs coordinate their targets and activities to facilitate program execution” (DBM, 2013b).

The PCB worked not only by mandating the government agencies to design their programs with the KRAs and the BPF in mind, but also to coordinate with other agencies within their respective Cabinet clusters and sub-clusters. Through this exercise, the agencies proposed programs and projects that are only within their ambit, and they were encouraged to seek the help of the other agencies to carry out non-customary functions and aspects of programs.

Provinces with both High Poverty Magnitude and High Poverty Incidence, and High Poverty Incidence and High Disaster Risk. These include Iloilo, Leyte, and Zamboanga del Sur.
Armed with the belief that no teaching and non-teaching professionals should be displaced due to K to 12, DBM
through the BMB-HDS and the collaborating agencies identified steps in mitigating the displacement problem. As Narido explained, DepEd would prioritize displaced professors, instructors, and staff of higher education institutions (HEI) through its ‘green lane scheme.’ The CHED would offer scholarships and development grants as another option for colleges and universities and their teaching personnel who would have to wait for the first batch of graduates in Senior High. The DOLE would carry out adjustment measures for the displaced staff in the HEIs.

Consolidating Budget Preparation Reforms

The DBM introduced the Two-Tier Budgeting Approach (2TBA) in formulating the 2016 Proposed Budget. The 2TBA streamlines the budget process by separating the discussion and deliberations of the requirements of ongoing policies with the new spending proposals. This approach ‘enabled us to free up more resources for our people’s most urgent priorities over the medium-term (Aquino, 2015).’

The first tier of the 2TBA involved the determination of forward estimates (FEs) based on the fixed expenses and disbursement performance of the agencies in the last two fiscal years. Two main decision points were generally considered at the first tier of the 2TBA: the amount an agency needs to operate daily or continue a program given macroeconomic factors, such as inflation; and the manner by which the agency spent its budget and delivered on its targets in the past (DBM, 2015).

The government rigorously reviewed the targets and requirements of ongoing programs and projects and consequently managed to expand the fiscal space (see Table 3) as a result of the reforms that curbed unnecessary expenditures; and improved the costing of FEs to realistically predict overhead expenditures (e.g., salaries and utilities) and ongoing programs (e.g., road maintenance and 4Ps).

Table 3. Growth of the Fiscal Space 2006-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Budget</th>
<th>Forward Estimates</th>
<th>Fiscal Space</th>
<th>Fiscal Space as % of Total Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,053.3</td>
<td>1,064.4</td>
<td>-11.1</td>
<td>-1.10%</td>
</tr>
<tr>
<td>2007</td>
<td>1,126.1</td>
<td>1,092.2</td>
<td>33.9</td>
<td>3%</td>
</tr>
<tr>
<td>2008</td>
<td>1,226.7</td>
<td>1,088.2</td>
<td>138.5</td>
<td>113%</td>
</tr>
<tr>
<td>2009</td>
<td>1,415.0</td>
<td>1,354.8</td>
<td>60.2</td>
<td>4.3%</td>
</tr>
<tr>
<td>2010</td>
<td>1,541.6</td>
<td>1,497.9</td>
<td>42.7</td>
<td>3.8%</td>
</tr>
<tr>
<td>2011</td>
<td>1,645.0</td>
<td>1,632.2</td>
<td>12.8</td>
<td>0.8%</td>
</tr>
<tr>
<td>2012</td>
<td>1,816.0</td>
<td>1,644.2</td>
<td>171.8</td>
<td>9.5%</td>
</tr>
<tr>
<td>2013</td>
<td>2,006.0</td>
<td>1,847.1</td>
<td>158.9</td>
<td>7.9%</td>
</tr>
<tr>
<td>2014</td>
<td>2,268.0</td>
<td>2,304.8</td>
<td>163.2</td>
<td>7.2%</td>
</tr>
<tr>
<td>2015</td>
<td>2,606.0</td>
<td>2,318.7</td>
<td>287.3</td>
<td>10%</td>
</tr>
<tr>
<td>2016</td>
<td>3,001.8</td>
<td>2,419.1</td>
<td>582.7</td>
<td>19.4%</td>
</tr>
</tbody>
</table>

In the second tier, the fiscal space was used strictly for new programs and projects as well as the expansion of existing ones that foster inclusive development. For new expenditures to be approved, they should not only be aligned with the BPF but also be designed well: ready for implementation (e.g., with established program and project specifications, with specific activities and projects already identified) and have built-in monitoring and evaluation mechanisms in order to track performance against targets. By separately deliberating on continuing and new expenditures, and by using the FEAs as “hard” ceilings, adequate time was given in evaluating proposals for new or expanded programs. In the case of proposals to expand existing programs, DBM budget analysts were given time to pore over the ZBB studies and the COA reports to assess the efficiency and sustainability of the development programs.

To illustrate further, DBM’s budget analysts saw the value of DSWD’s proposal to shift from the voucher system to an electronic money transfer system, which was contained in its “Tier 2” proposal to expand the 4Ps. The shift would cost P227 million for debit cards and P81 million to pay the Land Bank of the Philippines for service charges. The budget analysts found these costs miniscule relative to the billions of pesos worth of cash grants, while other expenses to install the electronic transfer system were found to be more favorable than the losses being incurred due to leakages in the existing system. In this example, the second tier of the 2TBA enabled the budget analysts to pore over the ZBB studies as well as the COA’s audit reports and relevant assessments from other sources such as NEDA, the World Bank, and the Human Development Network more extensively than before in order to assess the efficiency and sustainability of proposals to expand existing programs.

The 2TBA consolidated and deepened the reforms that strategically link planning and budgeting. These reforms solidified on the new tradition of rigorously examining programs that were established through the ZBB, the BPF, and the PCB. This reform also motivated the full adoption of the global standard of crafting three-year FEAs at the program level. The 2TBA also hinged on the discipline introduced by the BPF and similar reforms in aligning expenditures with the overall development plan as well as in facilitating collaboration across the agencies.

“On the overall, the two-tier approach makes budget preparation more strategic. It likewise strengthens fiscal discipline.”

Undersecretary Laura B. Pascua
DBM BUDGET POLICY AND STRATEGY GROUP

CHALLENGES AND MOVING FORWARD

Strengthening the Ties that Bind Planning and Budgeting

The draft 2016 PEFA assessment on the Philippines recognized the many improvements that reflect the country’s social and economic policy in the annual Budget. For one, it cited the government’s rigor in scrutinizing and selecting public investments. Moreover, all five indicators of the draft PEFA assessment on the country’s Policy-Based Fiscal Strategy and Budgeting have also been scored above-satisfactory due to, among others, the issuance of the BPF, the implementation of the PCB, the improved crafting of FEAs, and the recent introduction of TRIP (see Table 4). Compared to the 2010 results, the draft 2016 PEFA showed improvements in all indicators on Policy-Based Budgeting (see Table 5).

The reforms on resource allocation enabled the government to significantly increase investments that reduce poverty, sustain the growth momentum, and protect the least advantaged from climate and security risks. However, achieving further success requires greater attention on further instilling the need for the agencies to align their budgets with the PDP. The quality of the Proposed Budget depends on the quality of financial and physical information that the agencies feed into the process. Their weak ability to translate plans and budgets into well-designed programs and projects is another challenge that cuts across other reform areas, particularly budget execution and performance management. Hence, the most pronounced gap is the weak technical capability of the agencies to tailor-fit the design of their programs to their respective mandates and the medium-term goals of the sectors. Other gaps must likewise be addressed: the lack of a permanent law that mandates disciplined resource allocation; the need to make ICT systems for budget formulation more responsive; and getting the agreement and acceptance of both the implementing agencies and Congress for such reforms.

Table 4. The Philippines’ Performance in the 2016 PEFA Indicators on Public Investment Management and Policy-Based Budgeting

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016</th>
<th>Performance Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of Assets and Liabilities</td>
<td>B+</td>
<td>Strong scrutiny of investment proposals, project selection, costing, and monitoring and evaluation</td>
</tr>
<tr>
<td>Policy-Based Fiscal Strategy &amp; Budgeting</td>
<td>A</td>
<td>Medium term macroeconomic and fiscal forecasting, and analysis of budget sensitivity</td>
</tr>
<tr>
<td>Fiscal Strategy</td>
<td>B</td>
<td>Impact of proposed revenue and expenditure proposals presented and discussed in the Budget</td>
</tr>
<tr>
<td>Medium-term perspective in expenditure budgeting</td>
<td>B</td>
<td>Budgets prepared based on three-year rolling estimates, budget ceilings, and alignment with PDP</td>
</tr>
<tr>
<td>Budget preparation process</td>
<td>A</td>
<td>Clear calendar and guidelines for budget preparation, and timely submission of proposed Budget</td>
</tr>
<tr>
<td>Legislative scrutiny of budgets</td>
<td>B+</td>
<td>Establish process for Budget scrutiny, timely enactment, and clear rules for in-year adjustments</td>
</tr>
</tbody>
</table>

Source: 2016 PEFA Assessment (draft as of May 25, 2016)

Table 5. The Philippines’ Performance in the 2016 PEFA – Policy-Based Budgeting Using old methodology to compare 2010 vs. 2016 Performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2010</th>
<th>2016</th>
<th>Performance Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of A or B Scores:</td>
<td>1/2</td>
<td>2/2</td>
<td>All dimensions improved: enough time for agencies to prepare budgets; clear and comprehensive NBMs; and timely enactment of the Budget</td>
</tr>
<tr>
<td>Per Indicator</td>
<td>2/7</td>
<td>7/7</td>
<td>All dimensions improved: enough time for agencies to prepare budgets; clear and comprehensive NBMs; and timely enactment of the Budget</td>
</tr>
<tr>
<td>Orderliness and participation in the annual budget process</td>
<td>B</td>
<td>A</td>
<td>All dimensions improved: enough time for agencies to prepare budgets; clear and comprehensive NBMs; and timely enactment of the Budget</td>
</tr>
<tr>
<td>Multi-year perspective in fiscal planning, expenditure policy, and budgeting</td>
<td>D+</td>
<td>B+</td>
<td>All dimensions improved: MTEFs prepared, fiscal risks reported, stronger link between sector strategies and expenditures, and stronger prioritization of investments</td>
</tr>
</tbody>
</table>

Source: 2016 PEFA Assessment (draft as of May 25, 2016)
**The future of program assessment**

There is a great value in building on the discipline ZBB introduced in rigorously scrutinizing the effectiveness of programs. Director Mercedes P. Navarro of the Planning and Management Service said the ZBB reinforces the MTEF as a process for the regular review of the requirements and performance of ongoing programs, especially as their assumptions change over time. “However, the challenge really is to secure the buy-in from Congress and the agencies to ensure that the valid and evidence-based findings of ZBB are considered in the decision-making process.”

Director Mary Anne dela Vega of the BMB for Food Security, Ecological Protection, and Climate Change Management Sector believes the challenge lies in safeguarding the integrity of evaluation done not only through the ZBB but also through the initiative of DBM’s budget analysts. “Sometimes, despite offering what the technical staff hoped are the most suitable interventions based on indicators like disbursement performance and socio-geographical targeting, these were not considered during legislation.” After all, Director dela Vega added, “legislators still have the power to change the composition of the Budget, at the expense of reverting to the same old way of allocating funds.” Such practices, she believes, have to end.

To ensure that actual performance feeds into the process of resource allocation, the ZBB should evolve into a regular process of reviewing programs and be incorporated into a broader monitoring and evaluation policy framework that, among others, seeks to strengthen the capacity of both the implementing and the oversight agencies to monitor and evaluate the impact of expenditures (see Linking Budgeting and Results). The DBM is headed in this direction after the Fiscal Planning and Reforms Bureau turns over the management of the ZBB to the newly formed Performance Management and Evaluation Bureau.

A reinforced BPF: Ensuring investments reach the margins

While the BPF has so far enabled the government to weave the PDP into the annual process of budget preparation, key gaps between planning and budgeting remain. The lack of “resource constraint” of the PDP must be addressed by strengthening the appraisal of investments and the medium-term costing of capital projects. The preparation of the 2016 Budget started to move in this direction by integrating a program appraisal process called the DBCC Sub-Committee on Program and Project Appraisal (SCPPA). Moreover, the NEDA revived the process of crafting the Three-Year Rolling Infrastructure Program (TRIP) for the formulation of the 2017 Proposed Budget. This process aims to synchronize the government’s infrastructure planning and resource allocation processes: doing so would provide a list of priority infrastructure projects for the medium-term based on the goals set by the Philippine Investment Plan (PIP), as well as avoid confusion caused by the annual updating of the PIP.

Deepening the agreement and acceptance of the Cabinet and the agencies of the BPF could further enhance this framework. The original intention to make the BPF a binding document for the Cabinet, based on its consensus on which programs should be prioritized, must be pursued. Otherwise, the old practice of the agencies—each one lobbying for increments in its budget, whether or not their programs are included in the priorities—will negate the very purpose of the BPF. The proposed Public Financial Accountability Act will require the Cabinet’s approval of the BPF. Moreover, to ensure that the spatial focus is reflected in the Budget, the costing of programs and projects at the provincial level and eventually down to cities, municipalities, and even barangays must be improved. Without the precise local tagging of expenditures, the analysis of how budget proposals actually meet the needs of identified focus geographic areas will continue to be difficult, if not impossible.

Addressing these gaps ultimately hinges on the ability of the agencies, which varies greatly, to plan, design and cost programs and projects. The DPWH, for instance, has an established Highway Development Management System (HDM-4): an ICT-based monitoring tool that guides the agency in long-term planning and in determining its funding levels. Most other agencies, however, lack such an integrated planning, budgeting, and monitoring system: in some agencies, planning and budgeting officers do not coordinate with one another. The NEDA and DBM could help address these issues by equipping planning officers in the agencies with the right planning and budgeting tools.

Similarly, the fruitful experience in implementing the PCB in key programs should be leveraged to improve collaboration in other sectors. An urgent starting point is the housing sector, which has been beset by fragmentation and overlapping agency mandates resulting in slow spending and underperformance. Moreover, the government should seriously look into the interlocking Cabinet-level mechanisms—the NEDA Board and Committees in relation to the Cabinet Clusters—in order to streamline coordination mechanisms and increase the impact of programs.

**Weaving the 2TBA into the Budget Preparation Process**

As a consolidator reform, the 2TBA centers on instilling discipline in resource allocation, predictability of the process, and collaboration among oversight agencies. However, key issues constrain its effectiveness. The quality of FEIs still needs to be improved and the ability of the agencies to formulate these should be strengthened, with the aid of technology. Process-wise, the roles of the oversight agencies in assessing proposals—NEDA and DBM, for instance, in the SCPPA stage of evaluating new and expanded programs and projects—should be clarified given the limited time for budget preparation. Nevertheless, the 2TBA has served as an effective starting point: not only in attempting to integrate the NEDA into the process better, but also in providing DBM’s budget analysts a fresh perspective on the appraisal and evaluation of proposals. The proposed Public Financial Accountability Act not only provides the permanent legal mandate for the 2TBA but also scales it up by requiring the Cabinet, through the DBCC, to formulate a Medium-Term Fiscal Strategy for the duration of an administration. This fiscal strategy document will also serve as a basis for fiscal reporting to Congress.

"Ultimately, we will need to support the agencies in building their capacity to plan and evaluate programs, and project their future costs based on those. Technology could also help automate the process of formulating accurate forecasts of overhead costs."

Assistant Secretary Tina Rose Marie L. Canda

DBM BUDGET PREPARATION AND EXECUTION GROUP

Another factor to consider is the robustness of the ICT-based systems. In 2013, DBM introduced the Online Submission for Budget Proposals System (OSBPS), a web-based tool through which the line agencies encode and electronically submit their budget proposals to DBM. This tool should reduce the time and effort that DBM analysts spend to encode the agencies’ budget proposals. However, usability and bandwidth issues on the OSBPS, coupled by the weak capacity of the agencies’ budget officers to use the system, have compromised its objective to streamline the process of processing budget proposals. For FY 2016 budget preparation, about 64 percent of the submissions of the agencies were still in Microsoft Excel files. Likewise, it had not been uncommon for agencies’ budget officers to “submit” their proposals on-site since they either had to grapple with poor internet connectivity or needed technical support from DBM personnel in navigating the system,” according to Nanette Cabral, a division chief of the BMB-HDS. This did not only lead to confusion among the budget analysts but also deprived DBM of sufficient time to handhold agencies in using the OSBPS (see Integrated PFM System). Assistant Director Grace delos Santos of the BMB for Economic Development Sector hopes that by 2017, the OSBPS will be rid of its glitches and bugs. However, she believes the success of this project also demands technical expertise and sophisticated technology, but also the cooperation of the bureaucracy. “The perennial challenge is behavioral rather than technical. There remains the tendency for agencies to procrastinate and delay the submission of their reports and proposals. This culture has to change,” she said.
NOTES
1 These reforms are part of the Public Expenditure Management (PEM) program introduced in the late 1990s.
2 Blindal (2010) noted that the MTEF was re-introduced in 2006 after an unsuccessful attempt to introduce it in 1999.
3 For Economic Services from 2010-2013, the figures are based on the Actual Obligation Level. Data for 2014 is based on BESF 2015 Table B.B. For 2015-2016, as per BESF 2016 Table B.B, unpublished data.
4 For Social Services for 2014, as per BESF 2015 Table B.B. For 2015-2016, as per BESF 2016 Table B.B, unpublished data.
5 It was former Budget Minister Jaime Laya who first introduced the concept of “zero-base budgeting” during the Marcos administration, which entailed the review of agency proposals on the basis of their own merits and not on the basis of a given percentage or peso increase or decrease from a prior year’s level, a given percentage of the aggregate budget, or a similar rule of thumb that is not based on specific justifications (Laya, 1979). The DBM under the Aquino administration took a different approach in implementing ZBB, instead of starting entirely from scratch every budget preparation season. DBM still considered ongoing programs that were expected to continue in the following years. This gave funding predictability to agencies for their ongoing programs and enabled DBM to focus on funding new or expanded projects (Abad and Capistrano, 2013) as well as focusing the ZBB reviews on crucial or problematic programs.
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10 Inputs for this paragraph are from Dr. Mary Anne dela Vega of the Budget Management Bureau (BMB) for the Food Security, Ecological Protection, and Climate Change Sectors (FSEPCC).
11 National Budget Memorandum (NBM) No. 112, issued on December 29, 2011.
12 Issued by DBM, in consultation with the DBCC, as NBM No. 119 on December 27, 2013.
13 Based on NBM No. 121, the BPF Budget Call for the 2016 Budget, issued on January 28, 2015.
14 NBM No. 120, issued on January 6, 2014. NBM No. 119, the BPF for 2013, also included a geographic dimension to the budget prioritization by identifying tourism zones (i.e., areas with high potential) and coconut and fishery areas (i.e., those huge numbers of poor farmers and fisherfolk).
15 The identification of these priority provinces is based on the PDP Midterm Update (2013), using data from official poverty statistics as well as disaster risk mapping by the DSWD, the Department of Science and Technology, and the Department of Environment and Natural Resources.
16 As of this publication, Darunday is a Senior Budget and Management Specialist of the Budget and Management Bureau for the Human Development Sector.
17 Update (2013), using data from official poverty statistics as well as disaster risk mapping by the DSWD, the Department of Science and Technology, and the Department of Environment and Natural Resources.
18 The Daily Motivator, a book on positive motivation and inspiration.
19 A professional football player in the 1920s, and before his death in 1967 wrote The Daily Motivator, a book on positive motivation and inspiration.

INSIGHT FROM A DBM JUNIOR LEADER

2TBA: Curing the Health Budget

What you do today can improve all your tomorrows,” according to Ralph Marston.8 The Department of Health (DOH) seemed to have adopted this motto in implementing the 2TBA in preparing its 2016 budget.

The textbook definition of the 2TBA tells us that it is a budgeting approach used in the Budget Preparation Phase. It provides separate discussions and deliberations between ongoing programs or projects and entirely new spending measures and proposals as well as the expansion of the existing ones.

When the 2TBA was first used in crafting the DOH’s budget, we were constrained to use the DOH’s actual obligation in 2014 as the baseline budget. At 64 percent, the agency’s obligation for the year was indicative of “low absorptive capacity,” with unmet targets and therefore heavily affecting its beneficiaries. One particular program that the agency had been struggling to implement was the Health Facilities Enhancement Program (HFEP).

The HFEP aims to upgrade the health facilities all over the country in order to address their inaccessibility especially in the barangays. Since the program’s implementation, the DOH had been using a needs-based approach, in which the LGUs and their legislative counterparts requested projects to be funded under the program. The DOH was challenged in this particular case because the agency lacked information on the actual needs of the LGUs. The lack of a master plan and a way to monitor the status of the projects contributed to the challenge. As a result, many of the projects were not finished, while some were finished but did not have the personnel complement—no nurses or midwives to look over the patients—and some had no equipment to use.

Accordingly, the DBM Secretary instructed our regional offices to inspect the health facilities in their areas and report their findings to the DBM Central Office. The DOH also conducted a nationwide assessment of the HFEP projects to identify the bottlenecks of the program. The results of the inspection only validated the poor planning and implementation of the program. The DOH was then obliged to look for gaps and bottlenecks in their processes that contribute to poor planning and implementation.

The DOH, together with the other agencies, created a Full-Time Delivery Unit (FDU). Headed by the DOH Secretary, the FDU and its DBM counterpart, was tasked to monitor the projects, through releases, obligations, and disbursements and report on a monthly basis the status of project implementation, including its bottlenecks and issues. The DOH committed then that they would address the issues that concerned its absorptive capacity, and likewise created a catch-up plan, which was as the DBM counterparts monitored closely.

The DOH since then has improved their financial and physical performance. For one, in 2015, the DOH’s absorptive capacity rose to 87 percent and most of the health indicator targets were being met.

I can now confidently say that the DOH is ready to apply the 2TBA for the 2017 budget preparation. In fact, the DOH already has a roadmap of the HFEP, in which the health agency determined the actual needs of the LGUs and up to the barangay level.
The Budget is the government’s blueprint for progress. While striving to craft a Budget based on the country’s development goals, the government was able to make the best use of its resources and push agencies to work together in achieving shared outcomes. The Two-Tier Budgeting Approach (2TBA), launched in 2015, combined several reforms into a single process that closed gaps between planning and budgeting.

**Two-Tier Budgeting**

2TBA weaves together the planning and budgeting processes of the government. The result: a Budget that ensures all the taxpayer’s money only goes to carefully planned projects that deliver tangible results for everyone.

Under **Tier 1**, DBM assesses agencies based on their operating needs, the cost of running existing programs and projects, and their ability to use up their budget and deliver on their targets. This step ensures that agencies get only the budget that they need and can spend.

Tier 2 involves assessing agencies’ proposals for new projects or expand existing ones. Agencies should be able to convince DBM that their projects are implementable, have direct and measurable impact on the citizens, and are in line with the government’s agenda for inclusive development.

**Forward Estimates**

Budget preparation starts after the government determines its budget ceiling, the amount it can spend in the following year based on factors like projected growth, revenue targets, and deficit path. Based on the agencies’ needs and spending performance, the government draws up a three-year forecast of overhead expenses and budgets for their ongoing programs and projects. This practice forces agencies to prepare their budgets within a set amount.

Program Convergence Budgeting

When agencies work as one to meet common objectives instead of competing for budgets, the government works more efficiently. Program Convergence Budgeting reinforces the government’s push for a more prudent and targeted spending by fostering collaboration among agencies both in designing new programs and projects and implementing them.

**The Tourism Development Program** is an example of Program Convergence Budgeting. The program brings together agencies to tap the tourism sector’s potential to attract more tourists and bring in bigger revenues, a major driver of economic growth, by constructing access roads to tourist destinations (Department of Public Works and Highways), repairing and building air and seaports (Department of Transportation and Communications), ensuring tourism safety (Philippine National Police), and fast-tracking consular services (Department of Foreign Affairs).

**Budget Priorities Framework**

The government guides agencies in designing programs and projects based on the Philippine Development Plan and the five priority areas of the Aquino administration: good governance, social protection, economic expansion, just and lasting peace, and disaster risk reduction. Furthermore, they are guided to ensure that their programs serve the poorest and most disaster-prone provinces.

**Zero-Based Budgeting**

Another strategy to enforce prudent spending involves the impact evaluation of certain existing programs and projects. Using state audits and impact assessment studies, Zero-Based Budgeting removed or scaled down the funding for programs that were inefficient and fraught with leakages. Funds taken out from non-performing programs were then used to fund the more effective ones.
permits, are delivered fast and with few requirements, people affairs. When frontline services, such as clearances and business committing to introduce a new standard in service delivery, These developments reflected the outgoing administration’s 20 working days to get their passports. Filipinos set to travel or work abroad needed to wait for 10 to days to acquire, but the Department of Foreign Affairs has of technology. Applying for passports today may still take dramatically reduced waiting times through the use of the business day ends was unheard of. Now, the agencies A decade before, securing permits and certificates before 3.600,000, he submitted the requirements. “[My] paralegal was still in the SEC when it was released,” said Flores (DOF, 2015). But the paralegal managed to claim the certificate an hour after he submitted the requirements. “My paralegal was still inside the SEC when it was released,” said Flores (DOF, 2015).

A decade before, securing permits and certificates before the business day ends was unheard of. Now, the agencies have dramatically reduced waiting times through the use of technology. Applying for passports today may still take days to acquire, but the Department of Foreign Affairs has cut the waiting period to at least seven working days. In the past, without an online Passport Application System in place, Filipinos set to travel or work abroad needed to wait for 10 to 20 working days to get their passports.

These developments reflected the outgoing administration’s commitment to introduce a new standard in service delivery, and in general, promote a more reliable and honest state of affairs. When frontline services, such as clearances and business permits, are delivered fast and with few requirements, people get jobs and businesses set up shop faster. Sophisticated systems can also curb, if not eradicate, human discretion.

Guided by these principles, the government rolled out the Medium-term Information Technology Harmonization Initiative (MITHI) in 2012. By fostering collaboration and dialogue among the agencies with similar information and communications technology (ICT) needs, MITHI sought to end turfing and roll out ICT initiatives in a cohesive way.

MITHI supports the co-development or purchase of, among others:

1. Cloud-based applications, hardware, and facilities that the agencies can use to improve productivity, transparency, and accountability; and
2. Cross-cutting ICT projects that can help the government meet its development outcomes, such as improving education and the ease of doing business.

To tighten the link between ICT planning and budgeting, the government mandated that it would only bankroll proposals aligned with the Information Systems Strategic Plan (ISSP) and the Key Result Areas of the Aquino administration. Through this initiative, MITHI addressed overlaps in ICT programs, reduced duplication in hardware and software requests, and gave every region a fair chance to benefit from cutting-edge technology. One project the public can look forward to in 2016 is the setup of wireless Internet access points in schools, government processing centers, and other public spaces in 1,435 towns and cities nationwide (Department of Science and Technology, 2015).

International benchmarks recognize the country’s efforts to serve better through leveraging technology and streamlining transactions. For one, MITHI itself won the FutureGov Award for “steering away from disparate and redundant systems” and hence, improving governance and service delivery (Department of Budget and Management, 2013). And just recently, the Philippines jumped six places in the Economic Freedom Index, improving significantly in the business freedom category for significantly easing the licensing requirements (GOVPH, 2018). If MITHI and similar efforts continue, the government can encourage more people like Atty. Flores to do business and help in sustaining our economy’s newfound gains.

### The Ultimate MITHI: Leveraging Technology to Improve Governance

Atty. Javier Flores used to temper his expectations of government transactions. When the lawyer asked his paralegal to secure a certificate of incorporation from the Securities and Exchange Commission (SEC) for the law firm he was setting up, he thought the paralegal had to come back before finally getting hold of the certificate.

But the paralegal managed to claim the certificate an hour after he submitted the requirements. “My paralegal was still in the SEC when it was released,” said Flores (DOF, 2015).

A decade before, securing permits and certificates before the business day ends was unheard of. Now, the agencies have dramatically reduced waiting times through the use of technology. Applying for passports today may still take days to acquire, but the Department of Foreign Affairs has cut the waiting period to at least seven working days. In the past, without an online Passport Application System in place, Filipinos set to travel or work abroad needed to wait for 10 to 20 working days to get their passports.

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### The Making of Ilocos’ Longest Bridge

Aluling Bridge spans only about 180 meters. But people in Cervantes town call it the longest bridge in the Ilocos region: not in terms of length, but because it took 36 years to be rehabilitated.

“The bridge was destroyed during World War II.” Cervantes Mayor Benjamin Maggay said. The Marcos administration tried to reconstruct the bridge, which connects the lowland Cervantes to Tadian town and the rest of Mountain Province in 1977. “Pero hindi natipos-tipos (The reconstruction was never finished.)

The Abra River descends westward to Cervantes, separating the town from Tadian. Delays in the bridge’s construction cost the two towns not only of opportunities, but also of lives. “Kohit malakas ang agos ng tubig, nilalangoy namin. Dati, may nulunod ng dalawang teacher (Even if the current was strong, we swam through the river. Two teachers had drowned in the past),” said retired teacher Salvacion Nacol (DOF, 2016).

While there had been countless pronouncements to restart the project, it was only this outgoing administration that walked the talk. Aluling Bridge was finally finished and reopened in 2013.

In his 2014 State of the Nation Address, President Aquino demonstrated his will to invest heavily on infrastructure: “[w]e are aware that we need infrastructure in order to sustain the momentum of our economy and continue creating opportunities.”

Besides inadequate funding, leakages in infrastructure projects are well aware that we need infrastructure in order to sustain the new global spotlight, albeit negatively, when the World Bank cancelled a $33 million loan for a nationwide road project after uncovering a cartel (WB, 2009).

To make up for lost time, development organizations urged the Philippines to raise infrastructure spending to at least 5 percent of the GDP. The PDP had proposed that resources be poured in areas with limited and inequitable access to basic infrastructure, including roads that bridge farms to the nearest markets, and air and sea ports that make tourism destinations accessible.

DPWH ensured that its budget for roadworks and other projects is spent prudently and based on the most pressing needs. Its reforms manifested in three ways. First, it sought to stamp out corruption and improve service delivery by doing the right projects, with the right cost and quality, implemented right on time and by the right people. For instance, it curbed fund wastage by establishing cost estimation manuals and simplifying bidding processes. DPWH now requires bidders to submit only five documents from the usual twenty (DPWH, 2011). These changes in procurement attracted a greater number of able bidders and less of “mom and pop” contractors that conspired with others and turned in poorly constructed projects (Kim, 2015).

With such measures, projects, such as the Aluling Bridge, were finished on time and at less cost. DPWH completed the project for ₱66 million; ₱29 million less than the approved cost. Second, to ensure the quality and cost-effectiveness of projects, it upgraded design standards on roads, bridges, classrooms, and
As soon as Aluling Bridge was unveiled, trade between Mountain Province and Region I was invigorated. With reduced travel times between the two provinces, the coastal towns of Ilocos Sur gained better access to fresh produce from Mountain Province, while the latter’s landlocked towns got the freshest catch from the former. Tourism in these areas is also anticipated to boom.

The bridge also gave students access to schools. “Yung dropout rate nomin because of typhoons ay nawala na. Nakakatawad na ang mga estudyante para makapagsabok sa iskuluw (We eradicated our typhoon-related dropouts. Students can now cross the bridge to go to school),” said Mayor Maagay (DBM, 2016).

This bodes well for the future.

In 2008, a conditional cash transfer (CCT) program was launched to bridge poor families from subsistence to self-sufficiency. Named the Pantawid Pamilya Pilipino Program (4Ps), the initiative was patterned after similar initiatives in South America and Africa. Its initial coverage, however, was limited, and it also did not help that the targeting of beneficiaries at the start was not thorough. An assessment done by the Philippine Institute for Development Studies (PIDS) on the initial design of the 4Ps said that the National Household Targeting System (NHTS), from which the 4Ps drew its list, overestimated the number of poor families by at least about 300,000 (Reyes and Tabuga, 2013).

Hence, apart from raising the budget for social services, the Aquino administration fine-tuned the existing social protection strategy. Through Zero-Based Budgeting, it removed duplicating programs and those that brought limited impact (see main chapter—Linking Planning and Budgeting) while improving the design of existing ones, such as the 4Ps.

Under the administration’s agenda for poverty reduction and human development, the government consolidated its social protection programs by fostering collaboration. It aligned health and education programs to the 4Ps. To get their respective CCT grants, DSWD required children to attend school and mothers to get regular check-ups.

More importantly, DSWD refined its NHTS for a more precise targeting of the 4Ps beneficiaries. The latest NHTS update accomplished a challenging feat. It covered families belonging to geographically isolated and disadvantaged areas, as well as homeless and itinerant families, like Janet’s, who were a challenge to track.

Janet recalled how help came their way: “Neeong pong bumabagyo,” she said, “may lumapit po sa aming mga taga-DSWD. Ang domi nito, kaya nagapalit kami. Tatakbo sana kami. Pero sobo po nito, Huwag kayong tumukbo. Huwag kayong makatok! Once there was a typhoon, DSWD workers approached us. They were so many, so we were terrified. As we were about to run away, they said ‘don’t run away, don’t be afraid.’”

Now, that she benefits from the 4Ps, Janet was able to send her children to school and find temporary employment through the Cash-for-Work Program, which prioritizes parent-beneficiaries of the 4Ps.

To pull even more families out of the fringes of subsistence, DSWD further expanded the 4Ps in at least three ways. First, following a PIDS assessment of the program, coverage of 4Ps extended to children up to age 18 or until they finish Senior High School (Reyes and Tabuga, 2013). This move ensures that student-beneficiaries will be able to graduate under K to 12, and also encourages students, especially those who need to support their families, to prioritize school over work.

Second, better targeting under the 4Ps also improved the outcomes of other existing social protection initiatives. The Sustainable Livelihood Program (SLP), for instance, an offshoot of an earlier initiative called Self Employment Assistance sa Kaunlaran or SEA-K, now serves as the graduation program of the 4Ps beneficiaries, in two tracks: micro-financing for small businesses and assistance to find jobs (DBM, 2016).

Third, the 4Ps was linked to a multi-agency effort that provides health and nutrition interventions for infants and their mothers. The initiative, called the First 1000 Days Program, is hinged on the 2010 Human Development Report, which stated, “When investments in life capabilities occur earlier, future prospects are better.” The program will provide the 4Ps beneficiary-families immunization and nutritional supplementation for infants, as well as livelihood opportunities for mothers.

Eight years after its launch, the 4Ps is now at par with its international counterparts. But while it proved to be a successful initiative in linking together the government’s basic education, poverty reduction, and universal healthcare programs, one challenge to sustaining the gains lies in the integration of other areas of social protection into a single, converging blueprint. Livelihood programs offered by other agencies, for instance, could be closely linked with DSWD’s SLP, which relies on the NHTS for target beneficiaries, for better targeting and greater impact.

DBM Director Cristina Clasara pointed out that housing presents another opportunity for collaboration. “To improve occupancy rates in housing communities and ensure access of these communities to health centers and classrooms as well as job opportunities, the Human Development Cluster is drafting a resolution mandating that no proposal for housing projects will be approved without the sign-off of the agencies, such as DepEd and DOH, and National Electrification Authority.” This strategy ensures we get to build complete communities,” Dir. Clasara said.
Conflict takes root from poverty. It thrives in places like the Liguasan Marsh. Along the 288,000-hectare stretch of wetlands lives Sarika Pendato, a widow. Driven by hunger and the community’s collective desire for self-determination, her husband joined the Moro Islamic Liberation Front (MILF), and became a commander. Her husband did not die in combat, but her neighbors’ husbands did, and were gone too soon (Calengo, 2014). A known stronghold of MILF forces, Liguasan Marsh remained unsitized in spite of oil reserves said to be lying beneath it (Yacat, 2007). Due to the incessant strife in the area, people like Sarika grappled with the constant threat of displacement, hunger, and death. Scores of women have lost their husbands, who are usually the family breadwinners, due to infighting. Likewise, other provinces in the poorest cluster have been mired in decades of internal strife. The New People’s Army (NPA) exists strongly in parts of Masbate, Northern and Eastern Samar, and Negros Oriental. The Cordillera People in Ifugao and Apayao have been embroiled in decades of struggle for their rights to ancestral domain and self-determination. As a result, development in these conflict areas have always fell by the wayside. People had to constantly flee. Roads, schools, and other public structures were at constant risk of ruin, if not already in shambles. Investors were wary of doing business.

The Aquino administration recognized that peace does not spring from taking up arms, but from putting food on the table, cause flooding during the rainy season, into useful crafts? With a P500,000 capital, they purchased sewing machines, fabric, and a remnant of all animals in the world from a deluge that turned the earth into one big swamp.

Innovation to Save Lives from Disasters of Biblical Proportions

Biblical accounts say that Noah, as instructed by the Lord, constructed a giant wooden vessel that spared him, his family, and a remnant of all animals in the world from a deluge that turned the earth into one big swamp. Centuries after, in the Philippines, a project aptly named NOAAd saved an entire city from deaths and massive damage to property. In 2012, Marikina City served as a pilot area of the Department of Science and Technology’s Project NOAH or National Operational Assessment of Hazards. The city is a catch basin of rainwater from high-lying towns and cities of Quezon City, Antipolo City, Rodriguez, and San Mateo. Whenever typhoons batter the city, Marikina River swells, affecting up to 10,000 residents of communities closest to the river and its channels. In 2009, the city recorded 35 casualties from Typhoon Ondoy. With a Real-time information system in place, through NOAH, the city was spared from any casualty when Habagat (torrential rains) struck Metro Manila in August 2012 (DOST, 2014). Project NOAH makes use of cutting-edge technology to map out and monitor flood-prone areas, particularly those that lie...
As a result of consciously accounting for all climate-related expenditures, the budget for climate change adaptation and mitigation increased from 0.8 percent of the National Budget in 2008 to 5 percent in 2015. The 2013 CPEIR report entitled “Getting A Grip On Climate Change in the Philippines,” expenditures for water sufficiency, sustainable energy, and environmental stability, had made demonstrable gains between 2008 and 2013. The three are also among those with the biggest allocations for 2016 at P170 billion, P33.9 billion, and P10.7 billion, respectively (WB, 2013).

While CPEIR allowed the government to get a firm grasp of priority areas in building resilience to climate change, it also demonstrated two challenges.

First, some priority areas and sectors receive way less funding than needed. While the PDP has emphasized the need to build crop and farmer resilience against climate change, the budget for food security for 2015 made up only 3 percent of climate expenditures.

Second, the government has yet to fully utilize the concept of synergy for its climate resiliency program the way it successfully did with Tourism and Social Protection. For instance, the World Bank report (2013) said “the NCCAP and the PDP are only partially aligned.” The same thing goes with NCCAP and the Administration’s Budget Priorities Framework.

As demonstrated by the case of communities devastated by Super Typhoon Yolanda in November 2012, the degrading state of the environment is felt mostly by the poor, especially communities that live along bodies of water and those others that largely depend on coastal and other natural resources for a living.

Starting 2012, the government began pursuing climate budgeting to align climate spending with the National Climate Change Action Plan (NCCAP) for 2011 to 2013 crafted by the Climate Change Commission (CCC).

The government through the CCC and DBM began with a Climate Public Expenditure and Institutional Review (CPEIR) conducted in 2013 through the support of the World Bank. Subsequently, DBM, in 2014, introduced the tagging of climate expenditures in the Budget according to eight priority areas under the NCCAP: climate-smart industries, sustainable energy, climate finance, and food security, water sufficiency, human security, forest protection, and farmer resilience against climate change, the budget for food security for 2015 made up only 3 percent of climate expenditures.

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How DBM Supported K to 12

A s a budget and management specialist, I have been handling the budget of the Department of Education (DepEd) since 2009. Back then, shortages and gaps in basic education inputs like classrooms, teachers, seats, and textbooks were the major setbacks of the DepEd. These problems mainly originated from the limited funding needed to address these gaps. That the biggest chunk of the annual Budget goes to education that is not even making a dent in addressing the problems on shortages and gaps is to me an irony.

But things changed in 2011, specifically during the preparation of the 2012 National Budget. I remember vividly what transpired when we presented DepEd’s budget to DBM’s senior officials at the Executive Review Board (ERB) that year. I remember. We were recommending that the agency’s budget include the requirements for basic education inputs based on or less the average amount given each year due to the limited budget ceiling. In the past, pre-ERB, the government usually provided annual budgets, on the average, for the creation of 10,000 teacher positions and construction of less than 5,000 classrooms, among others.

After presenting DepEd’s budget proposal that year, Secretary Abad commented, “I don’t like to see the usual budget provided for DepEd. (What we need to identify is) how much they really need to address the shortages and gaps. And then we provide the budget for it.” According to him, the perennial problem in education would never be addressed if the government continued to provide less than what it really needed. Likewise, the ERB pointed out that the implementation of the K to 12 Program, which was still a bill at that time, would be hampered by these problems.

Relative to the new marching order from the DBM in 2011, closing the gaps in the basic education inputs was included among the priority programs/projects in the annual Budget Priorities Framework (BPF). Together with DepEd, we, in the

By Benjielet M. Zuniga

DBM, started to reshape the budget for basic education. We adopted the parameters and standards shown in the Medium Term Expenditure Plan (MTEP), as crafted by Chat Manasan of Philippine Institute of Development Studies (PIDS). The MTEP provides that the budget for basic education must be based on current enrollment data using the Basic Education Information System (BEIS), the service standards (i.e., Teacher – Student Ratio), and the standard cost for delivering basic education inputs. In addition, we also utilized the long-overdue Boncodin Formula in the computation of Maintenance and Other Operating Expenses (MOOE) requirements of Schools, Division Offices, and Regional Offices. Through the help of these new systems, the budget of DepEd is now more logical and rational, and addresses the real needs of the education sector.

With the sincere desire and perseverance of the DBM management to support the K to 12 Program and the newly adopted budgeting systems for basic education, DepEd’s budget has increased from P175 billion in 2010 to P437 billion in 2016—a 14 percent increase in six years.

Time and again, this administration kept on iterating the agenda of “spending on the right priorities,” and DBM has stayed true to this principle through such programs as the K to 12 Program. Funding the K to 12 Program is still a work in progress—it will go through many changes along the way. There will still be lingering problems, such as shortages and gaps in classrooms or teachers as enrollment increases. Though such problems may appear in a small scale, the government will pursue effective solutions to make the youth’s learning experience easier and more valuable.

As of this publication, Zuniga is a Supervising Budget and Management Specialist of the Budget Management Bureau for Human Development Sector.
How We Hiked the Numbers for Infrastructure

By Evita E. Daquioag

How did the DBM arrive at these amounts? Arriving at these budget figures took major considerations, and a lot of analytical thinking, too, to be able to recommend a budgetary level for a specific program or project, especially for infrastructure.

The process starts from an evaluation done by a DBM budget analyst. As one, I evaluate the budgetary requirements of the agency’s proposed programs and projects in the preparation of the annual national budget. In the evaluation, we consider the absorptive capacity or the agency’s ability to utilize the budget. We look at the required approvals and clearances from other government agencies, such as the NEDA, for a project’s viability and feasibility. The most critical matter that we consider is the country’s limited fiscal resources, which therefore requires prioritization of projects, among others.

We prioritize ongoing or existing projects in order to support their completion. Funding for new projects are accommodated against the fiscal space—the remaining funds after all ongoing and existing programs and projects have been considered, as we also look at what can still be accommodated considering the projects of other agencies. Our task at the DBM does not end at the allocation of funds—we also monitor their utilization. We need to know in detail what the DOTC, for example, has accomplished using the funds allocated as input to the DBM’s budget review and assessment of the agency’s performance.

The DOTC faces the ultimate challenge of delivering the targeted outcomes. It is easy for the public to know when infrastructure projects are being delivered by the agency: they just have to look with their own eyes.

The DOTC is the lead agency mandated to develop and implement integrated transport infrastructure projects.

The agency has delivered the following: Laguindingan International Airport, which opened in 2013; the full operationalization of the Ninoy Aquino International Airport (NAIA) Terminal 3 in 2014; the rehabilitation of the NAIA Terminal 1, completed in 2015; and the implementation of the Contactless Automatic Fare Collection System or the use of “Beep” cards in LRT Lines 1 and 2 and MRT Line 3 in 2015.

The DOTC is working on the Puerto Princesa International Airport Development Project; the New Bohol (Panglao) International Airport Development Project; the LRT Line 1 South Extension Project to Bacoor, Cavite; the LRT Line 2 East Extension to Masinag, Antipolo; and the MRT 3 Rehabilitation and Capacity Expansion, among others.

From 2012 to 2016, the national budget for transport infrastructure increased, from P33.9 billion to P29.3 billion, respectively, with a dramatic increase in 2014 at P33.1 billion and again in 2015 at P34.3 billion.

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RSBSA: How We Finally Put Our Farmers and Fisherfolk on the Map

A former Department of Agriculture (DA) Secretary once said, “We must look at the farmers first. After all, more than the doctor, more than the lawyer, we need the farmer. Because we need a doctor or lawyer only a few times in our life, but we need a farmer three times a day.”

Despite their crucial role in producing our daily food, farmers and fisherfolk are the most underrated members of our workforce. In an agricultural country like the Philippines, they remain among the poorest of the population and endure the consequences of our agricultural sector’s sluggish growth. Moreover, the weak adoption of innovative farming practices and the lack of access to credit and insurance for farmers and fisherfolk have hampered their development. To address various challenges in the sector, the Aquino administration identified a critical starting point—to find out exactly who and how many farmers and fisherfolk there are, and where they live.

Hence in 2011, DBM led an inter-agency effort to create the Registry System for Basic Sectors in Agriculture (RSBSA): an electronic compilation of basic information on farmers, farm laborers, and fishermen. The RSBSA was piloted in 20 provinces, but by November 2012 it had covered an additional 55. Only staff of national government agencies could access the main database, upon the endorsement of the head of the agency or any authorized representative to protect the identity of the beneficiaries. As we implemented the registry, DBM has concretely shown that investing in the right registry identifies farmers and fisherfolk that the agriculture sector serves, it minimizes duplication and improves the suitability of programs to these beneficiaries.

As a budget analyst handling the DA, which directly receives feedback on this reform, I am confident in the usefulness of RSBSA in preparing a more informed budget proposal. It fleshes out the “kuwento so likod ng kuwento” or the story behind the figures. RSBSA likewise strengthens the integrity of the data on the agencies’ target beneficiaries. Since the registry identifies farmers and fisherfolk that the agriculture sector serves, it minimizes duplication and improves the suitability of programs to these beneficiaries. While it still may have a few loopholes, the positive comments received so far should motivate the next administration to retain and strengthen the registry.

To improve RSBSA, the government should update it regularly and link it with existing databases such as those of the DA, rather than defer its use due to a lack of other information needed.

Through RSBSA, the government can now directly look at the hands that feed us. By leading the creation of the registry, DBM has concretely shown that investing in the right people and spending on the right priorities are at the core of its reform agenda. More importantly, by systematically identifying farmers and fisherfolk, we recognize their indispensable value to our agricultural sector.

By Jezelle Neth R. Amante

Like any program, RSBSA had its share of challenges, such as the accessibility of agency-owned databases that were not part of the Registry. Also, LGUs worried that beneficiaries would only include farmers who were allied with incumbent leaders. Hence, DBM updated the database to ensure the completeness and integrity of the Registry, known as RSBSA 1.1. Until today, government planners and policy makers use it as a guide to formulate new policies for agricultural development.

Moreover, the weak adoption of innovative farming practices and the lack of access to credit and insurance for farmers and fisherfolk have hampered their development. To address various challenges in the sector, the Aquino administration identified a critical starting point—to find out exactly who and how many farmers and fisherfolk there are, and where they live.

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THE END OF PORK AS WE KNOW IT


President Benigno S. Aquino III

Statement on the Abolition of PDAF (2013)

On August 23, 2013, prime-time soap operas came to a temporary halt with a message from President Benigno Aquino III.

His message marked a critical point at a real-life drama unfolding at that time. About a month before, six whistleblowers exposed a scam that involved the systematic pocketing of the Priority Development Assistance Fund (PDAF) by dubious foundations and non-government organizations (NGOs). A government audit (COA, 2013) covering the last three years under the previous administration confirmed the brazen practice. The turn of events infuriated the public, and they took their outrage to the streets.

While President Aquino recognized the noble intentions behind the PDAF—that is, to empower the legislators to identify key projects that local government units could not fund—he acknowledged the susceptibility of the fund to abuse. Moreover, the pork barrel system had been used by the previous presidency to transact deals with legislators in order to stay in power. He also saw the need to replace the PDAF with a new system that allocates resources more rationally, according to the needs of the citizens and in the most transparent manner.

On national television, President Aquino boldly announced “Panahon na po upang i-abolish ang PDAF (2013).”

Three months later, on November 19, the Supreme Court struck the 2013 PDAF as unconstitutional. The Court said that this fund broke constitutional bounds as it allowed solons to intervene in the implementation of the Budget. Also declared unconstitutional were Congressional Insertions, specific provisions of the Malampaya Fund and the President’s Social Fund (PSF), which allowed legislators to intervene in the implementation of the Budget.
Loosely defined, pork barrel is a fund or budget item over which a legislator has discretion over its allocation and use. For the High Court, the PDAF and its previous incarnations were steeped in a tradition of misuse—a fact that was recognized by the government itself, through the COA Report and even the reforms introduced by the Executive to bring more rationality in the use of the fund (COA, 2013).

Moreover, the Court found that the PDAF and its previous forms were unconstitutional as these violated the separation of powers, i.e., the power to execute the Budget rests solely on the Executive.

The PDAF, Congressional Insertions, and other fund sources and practices, which allowed legislators to identify programs and realign funds after the GAA had been passed, breached the Constitutional limits assigned to Congress. For one, as the PDAF was lump sum in nature, and the details of which were to be identified by the legislators during the implementation phase, it enabled legislators “to wield, in varying gradations, non-oversight, post-enactment authority in key areas of budget execution (Supreme Court of the Philippines, 2013).”

The lump-sum PDAF also created a system wherein specific budget items were not “textualized” into the Budget law. By breaching the “prescribed procedure of presentment” i.e., that appropriations were detailed as line items in the Budget—the PDAF deprived the President of his power to veto specific budget items. Through the PDAF and other forms of pork, Congress also unduly delegated its authority—to collectively authorize the expenditure of public funds—to individual legislators “by giving them personal, discretionary funds (Supreme Court of the Philippines, 2013).”

These same features, according to the High Court, diluted the Congress’ oversight function. “The fact that legislatures are given post-enactment roles in the implementation of the Budget makes it difficult for them to become disinterested observers when scrutinizing, investigating, or monitoring the implementation of the appropriation law (Supreme Court of the Philippines, 2013).”

The High Court also emphasized that the “inherent defect in the system” of the PDAF and other forms of pork perpetrated inequity (2013).

Back in 1994, the High Court had argued that pork, then in the form of the Countrywide Development Fund (CDF), “attempted to make the unequal equal (Supreme Court of the Philippines, 1994).” However, in its 2013 decision, it noted that the parameters under which the CDF was distributed among legislators were definitely not based on economic or geographic factors. To illustrate, under the GAA, the conflict-ridden and resource-constrained province of Basilan would get just the same CDF allocation as the revenue-rich city of Makati (Chua, Coronel, Cruz and Rumban, 2004). Similarly, the High Court (2013) also said that the PDAF “subverted genuine local autonomy” because it authorized legislators—who are national officers—to intervene in local affairs: the exclusive arena of the local government units (LGUs).

**Pork Perpetrates Inequity**

Because its defects, the pork barrel breeds inequity in the distribution of the Budget.

Noda (2011) defined two “mutually conflicting characteristics” of the pork barrel system that bring about economic inefficiencies. The first is universalism, when resources are distributed uniformly across districts. In this case, legislators engage in the so-called “mutual back-scratching” in order to receive equal slices of the pie: “whether such level of funding is truly necessary in their districts.” The second, particularism, is when representatives lobby with the central government to try to secure more resources. The result is differences in funding across the regions—not only because a locality has greater needs than another, but more so due to their “closeness,” so to speak, to the center.

In emphasizing that pork barrel is not a mere fund in the Budget but “a series of dynamic processes” of political interaction between the President and local politicians, Noda (2011) identified the following forms or “stages” of pork barrel politics. These forms, in a way, draw parallels with the unconstitutional acts that the High Court had declared.

Lump sums. The quintessential example of such form of pork is the PDAF, which equally distributed resources for the pet projects of legislators, both district representatives and nationally elected solons (i.e., senators and party-list representatives). Noda observed that while the PDAF and its earlier forms “had an ample policy rationale, the fund turned into a mere cash dispenser for the legislators (2011).”

In the case of the PDAF, funds were only broken down and released after the legislators submit a list of projects to be funded by their respective allocations: a situation that the High Court had emphasized, violated many constitutional bounds between Congress and the Executive. This practice of identifying projects post-enactment also hampered the timely and efficient use of funds for local development: the PDAF and other lump-sum funds required DBM to issue special allotment release orders (SAROs) prior to release.

**Conessional Insertions.** Besides the PDAF, the legislators lobbied for a share of the budgets of crucial line agencies, to expand the amount of allocations at their disposal. Noda (2011) said that the legislators lobbied for such insertions by seeking to reallocate some budgetary amounts, as proposed by the President, on other programs or projects. It is also an open secret that well-positioned legislators—those who had leadership positions, those allied with the majority, as well as those who were more veteran or senior—were able to secure more insertions than the others. However, the long-standing practice of Congressional Insertions took a more perverse form: the manipulation of automatically appropriated allocations for debt service. By tweaking foreign exchange assumptions to artificially reduce the debt service pot, legislators created more room for their insertions (Noda, 2011).

**Disbursement Specification or Impoundment**

Pork barrel politics had not only come from the allocation of a pot of resources per legislator or the insertion of their pet projects in the Budget. As Noda (2011) pointed out, it also rested on the power and practice of the President to release—or withhold the release—of such allocations as a way of securing greater political influence. As noted earlier, the release of the PDAF required the processing of the SAROs. Secretary Abad (2014) had said then that the SARO “had gained notoriety as the document that signified the completion of a clericalistic exchange between the executive and the legislators.” Noda, as well as the Supreme Court, identified the existence of the “Presidential pork barrel,” from where additional allocations for legislator-initiated projects were sourced—if the President so chose to fund such projects. These included the Malampaya Fund and the PSF, as discussed earlier; as alleged by Noda (2011), Special Purpose Funds (SPFs) and the use of savings (see Budget Integrity and Accountability).

**Initial Allocation**

Political intervention may occur while the various government agencies drafted their respective budget proposals. Ideally, such proposals are formulated based on realistic projections on the agencies’ day-to-day operations as well as the requirements of programs and projects vis-a-vis the development goals that these seek to attain (see Linking Planning and Budgeting). Noda (2011) flagged the possibility that legislators might have taken advantage of the budget preparation stage to clinch additional allocations for their districts, however, “there is an inherent difficulty in observing the existence of pork-barrel politics at such an initial stage of budget formulation.” It may also be argued that legislative intervention in budget formulation was not clearly invalidated by the Supreme Court decision in 2013, though a possible counter-argument is that the budget preparation phase, like budget execution, is the sole responsibility of the Executive.

**A Scandal Erupting from a History of Misuse**

The pork barrel had skewed the rational process of allocating resources to meet the country’s development needs. Historically, it had opened avenues for pillaging the Budget. The Supreme Court decision, after all, came at the heels of a public scandal, which underscored the propensity of the pork barrel to become a magnet of greed.

Sometime in the middle of 2013, a series of journalistic exposés revealed a mafia-esque conspiracy. The accomplices involved the legislators and their conduits—most notoriously, a certain Janet Lim Napoles—who used dubious Non-Government Organizations (NGOs) as fronts to siphon money off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs off the state coffers. As affidavits of the six whistle-blowers claimed, Napoles “swindled billions of pesos from the public coffers [of the] government using no fewer than 20 NGOs.
The COA Special Audit of PDAF (2013) affirmed such questionable scheme and revealed the systemic defects that enabled such syndicates to thrive. Released in August 16 of that year, the special audit probed into the use of the PDAF and Various Infrastructures including Local Projects (VILP)—a lump-sum fund in the DPWH budget—between 2007 and 2009. Among the discomfiting findings, the following were the most disturbing:

A Sampling of Key Findings of the COA Special Audit

- Amounts released to some legislators exceeded their respective allocations;
- A number of legislators endorsed 772 projects for implementation by 82 NGOs with non-existent permits and addresses, and where their relatives or they themselves sit as incorporators;
- "Projects" were constructed in private lots;
- The funds were transferred to NGOs without authorization from an appropriation law or ordinance; and
- Procurement for the supposed projects also "were not compliant with law."

Abad (2014) had said that while the abuse of the PDAF and its predecessors was nothing new, the PDAF Scam of 2007 to 2009 "plumbed new depths and showed an uglier dimension of 'pork barrel' abuses." Abuses in the past (see box) entailed percentage commissions or markups on actual yet substandard projects. In contrast, the recent "innovation" entailed the transfer of entire

Empowering Citizens  •  Internal Control

The PDAF was a period of "incentive for the legislators' personalized patronage." However, the long history of misuse by some legislators had gained infamy for the pork barrel. The source of corruption through the years had been the same discretionary nature under which PDAF and its predecessors operated. The use of the term "pork barrel" could be traced to the Pre-Civil War Era in the United States, when black slaves received barrels of salt-cured pork from their masters. Eventually, it was used "to compare the actions of American legislators in trying to direct federal budgets in favor of their districts... (through) political bills that 'bring home the bacon' to a legislator's district and constituents (Supreme Court of the Philippines, 2013)."

The concept of pork barrel in the Philippines was undeniably a product of American colonization. On paper, it sought to ensure that development reached the countryside. Unfortunately, like its American origin, pork barrel became a tool for patronage. Pork barrel, in its primordial form, was born out of the Public Works Act of 1922. The construction of national roads and bridges, national buildings, Post Office buildings, lighthouses, and similar projects fell under the jurisdiction of the Director for Public Works. However, projects, such as police barracks, local roads, arterial streets, wharves and piers, and telegraph and telephone lines, were under the jurisdiction of the legislators. The use and distribution of funds for the said types of projects required the post-enactment approval of both chambers of Congress. This latter menu of Public Works allocations became known as the forerunner of the infamous pork barrel. Of the 65 percent that went to pay-offs, lawmakers would get as much as 40 percent.

In 2000, the pork would officially take a new name: the PDAF. Just like how most former presidents used prior forms of pork, former President Arroyo used the PDAF reportedly to gain the support of Congress. The former president also allegedly misused her "presidential pork"—including the Malampaya Fund and thePost-Disaster Rehabilitation Assistance Fund (PDRAF)—to ensure that the Supreme Court reformed in 2013—to secure the loyalty of solons, local officials, the military, business cronies, and even church officials. Such strategy shielded her from threats against her presidency (Hutchcroft, 2008; Abad, 2013). In turn, legislators used their pork to gain the support of their constituents and the local powerbrokers. Such practices confirmed how the illicit use of pork barrel had become deeply embedded in the country’s political praxis that it perpetrated a cycle of subservience to traditional overlords of political power.

Attempts to Rationalize Pork Until Its Abolition

Before the unprecedented abolition of the PDAF in 2013, the administration of President Benigno S. Aquino III had endeavored to rationalize the controversial fund. First, the administration sought to make the allocation more transparent. For one, the allocations per legislator—P70 million per representative and P200 million per senator—were only based on a "gentlemen's agreement" in the past and, thus, enabled certain legislators to get more funding than the others. The Special Provisions of the PDAF under the GAA since 2010 had clearly specified these allocations. Moreover, as the "pork" was previously divided into two—the PDAF for "soft" projects, such as medical assistance and scholarships, and the DPWH-VILP for "hard" or infrastructure projects—the administration consolidated all of these under the PDAF for greater clarity.

To ensure that the PDAF projects only catered to social development, the government rationalized the menu of projects from which legislators could spend their allocations. Allowable soft projects included scholarships, training-for-work programs, purchase of rescue and patrol vehicles, and support for the One Town, One Product initiative. Infrastructure projects chargeable against the PDAF included roads, farm-to-market roads, public markets, housing units, irrigation for farmers, and flood control structures. Apart from rationalizing the PDAF menu, the government also introduced safeguards to ensure that the fund was used for worthwhile projects. For one, it introduced a provision...
that required legislators to prioritize constituents from their poorest localities in allocating their PDAF. It also required infrastructure projects to follow technical standards: for instance, farm-to-market roads must be aligned with the DA's Farm-to-Market Road Network Plan. The government leveraged technology to improve the system in releasing the PDAF and to enable citizens to monitor releases. In 2011, DBM launched the Electronic Transparency and Accountability Initiative for Lump Sums (eTAILS) to digitize the process of releasing the SAROs for the PDAF: a process that was manually done in the past and which was susceptible to errors and fraud (see Fast and Efficient Budget Execution). The system also allowed DBM to automatically post information on releases online through a portal in its website (pdf.gov.ph). Through this online site, the citizens could track the status of PDAF-funded projects, and give feedback on the progress of the projects by posting comments or uploading photos (see Fiscal Transparency). The disclosure portal on the PDAF releases was still available online even after the abolition of the fund.

At the same time, the administration had already been moving to rationalize the so-called ‘Presidential Pork Barrel.’ First, it used the Malampaya Fund (see Budget Integrity and Accountability) only for energy development-related projects. The President also became more stringent in the use of the PSF. Since 2010, the government had also worked to reduce lump-sum funds and the SPF’s in the Budget (see Budget Integrity and Accountability). This policy, among others, enabled the introduction of the GAA-as-Release Document and other reforms to streamline budget execution (see Fast and Efficient Budget Execution). As for the savings, the government leveraged these to address the spate of underspending that began in 2011; however, the implementation of the Disbursement Acceleration Program generated its own controversy (see The Aftermath of DAP).

The revelation of the 2007-2009 PDAF Scam, however, compelled the administration to shift gears: from trying to rationalize pork to outright ending it. In his August 2013 speech, in which he announced the abolition of the PDAF, President Aquino also instructed the prosecution of perpetrators of past abuses, and the withholding of the unreleased PDAF for the fiscal year pending the Supreme Court’s decision. He also announced parameters and measures “to create a new mechanism to address the needs of (legislators’) constituents and sectors, in a manner that is transparent, methodical, and rational, and not susceptible to abuse or corruption (Aquino, 2013).”

Under the new mechanism, the legislators may identify and suggest projects for their districts, but under the following conditions: that these projects would have to go through the budget legislation process; that these would be spelled out and enacted as line items in the Budget; and that there would be set standards for such projects—including the posting of bids and notices online, as well as barring the NGOs and certain GOCCs from receiving such funds. Related to the latter, the government, through the GGG, eventually abolished the GOCCs that had been involved in PDAF-related abuses.

The development of such new mechanism, however, was preempted by two landmark events: the November 2013 decision of the Supreme Court to render the PDAF unconstitutional; and weeks before that, the onslaught of SuperTyphoon Yolanda, which required additional funding for reconstruction and rehabilitation.

The Congress and the Executive heeded the writing on the wall. First, as the High Court ordered some P14.6 billion in unutilized PDAF under the 2013 GAA to be returned to the Treasury, Congress passed a supplemental appropriations law that reallocated the amount to rehabilitation and reconstruction. Second, through a joint resolution, Congress suspended the one-year validity of appropriations in the 2013 GAA in order to allow the expenditure of P14.6 billion and other calamity response funds into 2014. Third, on the P25.2 billion originally earmarked for the PDAF in the 2014 Proposed Budget, the Executive and Congress worked together to reallocate the said amount to the Calamity Fund and to the regular social and economic development programs of key departments.

The abolition of the PDAF and other forms of pork barrel in 2013 paved the way for a new milieu in the Philippines’ budget process. The period also saw the introduction of bold PFM reforms, which “rebalance power around the budget process—away from elite interests that have dominated it, and toward the empowerment of citizens (Abad, 2014).” These reforms have so far introduced greater transparency and accountability, and established mechanisms to ensure that development reaches the communities that are most in need.

However, are these reforms enough safeguards to shield the budget process from arbitrary and parochial politics? The public needs to be assured that interactions between Congress and the Executive remain within the bounds of the Constitution. It must also be acknowledged that the legislators—as elected representatives of their districts or sectors—are expected by their respective constituents to champion their needs in the allocation and use of public funds. Still, there are existing mechanisms, as well as new ones, that can be potentially leveraged to meet these seemingly conflicting imperatives.

First: venues that most legislators have underutilized are the local development councils (LDCs) and the regional development councils (RDCs). How the 2014 PDAF was Reallocated

- P1 billion for the Calamity Fund
- P4.12 billion to CHED for scholarship assistance to students
- P3.25 billion to DOH for hospitalization and medical assistance
- P1.02 billion to DOLE for its special program for the employment of students
- P1.03 billion to TESDA for training-for-work scholarships
- P4.09 billion to DSWD for burial, transportation, and food assistance
- P7.26 billion for local infrastructure projects, spelled out in detail
- P3.17 billion of the original PDAF allocation was removed from the GAA

The Birth of a New Pork, or a New Relationship of Accountability?

“The Supreme Court’s decision enforces the collective and individual boundaries of government institutions around the budget process: the executive proposes and implements the Budget; Congress approves the Budget and exercises oversight. The real challenge, however, is implementation.”

DBM Secretary Florencio B. Abad
ON THE Cusp OF BUDGET TRANSFORMATION (2014)

The Local Government Code of 1991 authorizes district congressmen to attend or send a representative to the LDCs, especially in formulating the Local Development Plan (LDP) of their respective localities. The LDP serves as a blueprint of social and economic goals of an LGU, which forms the basis of local budgets. These LDPs also feed into the RDC’s process of formulating regional development plans. By engaging the LDC and the RDC, legislators can ensure that their constituents’ needs are considered in these plans. Through their involvement, the legislators are put in a better position to scrutinize the National Budget in line with the needs of their respective localities and regions.
The Supreme Court decision on the PDAF was silent on the involvement of the legislature in budget preparation. Such phase of the budget process, it could be argued, is exclusive to the Executive. However, international standards, such as the Open Budget Survey (OBS) (see Fiscal Transparency), also consider the Executive’s consultation of Congress in the determination of budget priorities as a best practice.25

Second, the Congress may champion their constituents needs by exercising their budget oversight function. After Martial Law ended, Congress regained its “power of the purse”—at least on paper. This constitutional authority pertains not only to the power to approve expenditures, but also to hold the Executive and its agencies accountable for the results of the use of such funds. However, through the years, Congress had not been able to build the institutional capacity required to review the Proposed Budget. Like in the case of some countries, it lacked the “expertise to keep up with the growing sophistication and complexity of modern budgets (Posner and Cheng-Keung, 2007).”

Still, there are strategies that the Executive could take—and are being taken at present—to help Congress exercise its oversight function. For one, the government under the Aquino administration has been submitting the Proposed Budget to Congress a working day after the President’s State of the Nation Address (see Forst and Efficient Budget Execution). This new tradition not only ensured that the annual GAA was enacted on time but also gave Congress a longer lead time to review the Proposed Budget.

“We should create a policy preventing any legislator from directly intervening in the actual implementation of programs, a function within the ambit of the Executive in the first place. If such a policy is in place, then the discretionary powers of legislators in implementing projects will be removed.”

Assistant Director Elena Regina S. Brillasnes
DBM BMB FOR GOOD GOVERNANCE SECTOR

Reforms, such as the Performance-Informed Budget (see Linking Budgeting and Results), have given legislators access to new information that they can use to scrutinize budget proposals against the performance targets of the agencies. Similarly, the disaggregation of lump-sum funds (see Budget Integrity and Accountability) according to region and locality has allowed legislators to review which among their constituencies have received much-needed funding. In addition, DBM has published new documents, alongside the Proposed Budget, to give the legislators narrative explanations of the proposals. For example, the Technical Notes on the Proposed Budget presents in-depth discussions on the policy underpinnings and priorities of the Budget; and the People’s Proposed Budget provides layman-friendly explanations of the spending plan (see Fiscal Transparency).

The OECD study also recommended two other measures to foster such a collaborative environment: enhancing institutional processes to exercise greater discipline in setting fiscal targets as well as improving the capacity of Congress to digest and process complex budgetary information to facilitate scrutiny as guided by policy and socioeconomic assumptions. Ultimately, the study said that Congressional oversight could be best exercised when the legislators have sufficient expertise in the different aspects and priority programs of the Budget “to compete with, and when necessary, challenge executive officials” in the way they formulate their annual budgets (Posner and Cheng-Keun, 2007).

The proposed Public Financial Accountability Act (see Proposed Philippine Public Financial Accountability Act) is envisioned to help Congress strengthen its oversight power and capacity. However, similar to the passage of the said bill, it is up to Congress to seriously consider the need to strengthen its institutional and technical capacity to scrutinize budgets and performance.

NOTES
1 Official translation: “There are those who treat PDAF as their own private fund, to use as they please. This is clearly wrong: what is involved here is the people’s money; it should be used for the benefit of the people, and not for the benefit of a few greedy individuals.”
2 Official translation: “It is time to abolish PDAF.”
3 As Noda (2011) noted, the definition of pork barrel has been unclear and has depended heavily on the user of the term. In this context, he posited that defining pork barrel as a fund is simplistic; rather, it is “an outcome of mutual interactions between the local politicians and the President.”
4 The Supreme Court decision on the PDAF was silent on the issue of defining pork. While it said that the term “pork barrel” has been associated with lump-sum and discretionary funds of legislators, “the term’s usage has expanded to include certain funds of the President such as the Malampaya Funds and the Presidential Social Fund (2013).” Overall, pork barrel “refers to an appropriation of government spending meant for localized projects and secured solely or primarily to bring money to a representative’s district (2013).”
5 Rep. Candazo’s identity was only revealed on August 20—a day after he passed away due to a heart attack, and, unidentifiably, three days before President Aquino abolished the PDAF.
6 Joint Resolution No. 1, approved Dec. 26, 2013
7 Republic Act 10634, approved Dec. 26, 2013
8 This resulted in the reduction of the total Budget program for 2013 from P2.268 trillion as proposed by the Executive to P2.265 trillion as enacted by Congress.
9 This include House Committee on Appropriations Chairman and Davao City Rep. Isidro Ungab, who has hosted some RDC meetings in the House of Representatives. DMB officials have been invited to these RDC meetings, as well as in other RDC meetings which district representatives attended.
10 Item number 10% of the 2015 OBS inquiries if the executive holds consultations with members of the legislature as part of its process of determining budget priorities. The OBS says the ideal that the executives holds consultations “with a wide range of legislators” in an open, inclusive, and institutionalized manner. While the 2015 OBS noted the practice of legislators’ attendance in RDCs, it also emphasized that RDCs have no legal obligation to seek the attendance of legislators.

A 2007 study conducted by the Organization for Economic Cooperation and Development (OECD) emphasized that the sharing of information between the Executive and Congress helps make budgeting a collaborative exercise between the two branches (Poster and Cheng-Keun, 2007), potentially in place of relations of patronage based on the pork barrel.
Delivering Measurable Results

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 spent 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:
  - 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

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.

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.

**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 3) drove the past administration to resort to further borrowings to cover the deficit.

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, obligatory 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.
In other words, at least 25 percent of the agencies’ budgets were withheld until they 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 much 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 (COI) 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 authorities, especially during the times when revenue targets were not reached (WB, 2010). The lack of a pre-established establishment 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 (COI) and maintenance and other operating expenses (MOOE), especially those that were not detailed in the Budget.

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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.

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—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.

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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, and synthesize 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 state 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, 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 2011, structural weaknesses of nine agencies—DPWH, DepEd, Department of Social Welfare and Development (DSWD), Department of the Interior and Local Government (DILG), 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).
An Accounting of the P303-Billion Unspent funds in 2014

Figure 1.

Disbursements at Year-end, 2011 to 2015

Trend of Release Documents Issued, 2010 – 2015

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.

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.

Untangling the “spaghetti bowl”: Streamlining fund release

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (in billion pesos)</th>
<th>Disbursement rate</th>
<th>Surplus/Deficit</th>
<th>Year-on-Year Growth of Actual Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,522.40</td>
<td>103.4</td>
<td>3.4</td>
<td>7.1</td>
</tr>
<tr>
<td>2011</td>
<td>1,557.70</td>
<td>91</td>
<td>-9</td>
<td>2.3</td>
</tr>
<tr>
<td>2012</td>
<td>1,777.80</td>
<td>96.7</td>
<td>-3.4</td>
<td>14.1</td>
</tr>
<tr>
<td>2013</td>
<td>1,880.20</td>
<td>94.8</td>
<td>-5.2</td>
<td>5.8</td>
</tr>
<tr>
<td>2014</td>
<td>1,981.6</td>
<td>86.7</td>
<td>-13.3</td>
<td>5.4</td>
</tr>
<tr>
<td>2015</td>
<td>2,230.60</td>
<td>87.2</td>
<td>-12.8</td>
<td>12.6</td>
</tr>
</tbody>
</table>

*Ratio of funds spent to funds released
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\(^*\) necessitated the processing and the release of SAROs.

The GAARD addressed the redundancy of the ABM as an obligatory authority. Starting in 2014, the agencies no longer needed to issue an ABM as pertinent issuances\(^*\) 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,\(^*\) 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.

<table>
<thead>
<tr>
<th>Year</th>
<th>As of January</th>
<th>As of March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (in P billion)</td>
<td>% of Disbursement Program</td>
</tr>
<tr>
<td>2011</td>
<td>278.1</td>
<td>17</td>
</tr>
<tr>
<td>2012</td>
<td>917.6</td>
<td>51</td>
</tr>
<tr>
<td>2013</td>
<td>1,304.20</td>
<td>65</td>
</tr>
<tr>
<td>2014</td>
<td>1,473.10</td>
<td>65</td>
</tr>
<tr>
<td>2015</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

\(^*\)Comprehensive Notice of Cash Allotments

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.\(^*\) 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\(^*\) 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),\(^*\) 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)\(^*\) a system in which agencies settle the payment of goods and services they procured through bank-to-bank transactions\(^*\) 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\(^*\) 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, 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 encash 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 agencies10 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 unplug bottlenecks in program execution, such as procurement delays, unrealistic cash programming, and lack of coordination among units. The unmasking 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 GAAwd, for release through SARAo). 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 P272 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 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)

<table>
<thead>
<tr>
<th>Department</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
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<tbody>
<tr>
<td>DA</td>
<td>452</td>
<td>1497</td>
<td>582</td>
<td>2,434</td>
<td>2,277</td>
<td>1,779</td>
</tr>
<tr>
<td>DAR</td>
<td>496</td>
<td>548</td>
<td>689</td>
<td>731</td>
<td>613</td>
<td>948</td>
</tr>
<tr>
<td>DENR</td>
<td>551</td>
<td>590</td>
<td>766</td>
<td>1,073</td>
<td>1,177</td>
<td>2,365</td>
</tr>
<tr>
<td>DOH</td>
<td>887</td>
<td>1,255</td>
<td>1,367</td>
<td>1,686</td>
<td>1,368</td>
<td>2,428</td>
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<tr>
<td>DepEd</td>
<td>11,268</td>
<td>15,346</td>
<td>12,883</td>
<td>14,125</td>
<td>16,591</td>
<td>18,131</td>
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<tr>
<td>DSWD</td>
<td>713</td>
<td>732</td>
<td>3,229</td>
<td>4,286</td>
<td>12,601</td>
<td>9,104</td>
</tr>
<tr>
<td>DPWH</td>
<td>7,056</td>
<td>13,928</td>
<td>3,880</td>
<td>6,961</td>
<td>9,133</td>
<td></td>
</tr>
<tr>
<td>DOTC</td>
<td>588</td>
<td>606</td>
<td>1,073</td>
<td>995</td>
<td>828</td>
<td>2,242</td>
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<td>Department of Energy (DOE)</td>
<td>36</td>
<td>38</td>
<td>26</td>
<td>37</td>
<td>39</td>
<td>76</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Agency</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>169,362</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
</tr>
<tr>
<td>DA</td>
<td>4,551</td>
</tr>
<tr>
<td>DOPE</td>
<td>43,383</td>
</tr>
<tr>
<td>DOH</td>
<td>6,702</td>
</tr>
<tr>
<td>DENR</td>
<td>28,689</td>
</tr>
<tr>
<td>DPWH</td>
<td>11,262</td>
</tr>
<tr>
<td>DOTC</td>
<td>4,405</td>
</tr>
<tr>
<td>Government Corporations</td>
<td>7,074</td>
</tr>
<tr>
<td>Local Government Units</td>
<td>75,504</td>
</tr>
<tr>
<td>Total</td>
<td>253,381</td>
</tr>
</tbody>
</table>

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

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

*ratio of funds spent to funds released
CHALLENGES AND NEXT STEP:

Locking-In Reforms: A Prescription to Strengthen Agency Capacity

The slowdown 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 (FY 10) 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 BT, 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-annual 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 DBM segregates items into those that do not require the approval of pertinent authority (“for comprehensive release” or FCRI) and those which require clearance (“for later release” or FLRI) 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 dissolving 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 Companies
   c. Other items subject to compliance with the conditions/requirements specified under the General and/or Special Provisions and Budget Affirmation/Endorse Message in the GAA, and
   d. All automatically appropriated items, including Special Accounts in the General Fund
4 Another obligatory 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 Circular Nos. 551 and 551-A at the beginning of FY 2019.
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 lump sum funds under an agency’s approved budget.
8 Including estimates for the last quarter
10 The MDPS was introduced in 2004 but only for six departments and their attached agencies: DPWH, DepED, DOH, CHED, DSWD, and DOSTE.
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.
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.

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.

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.

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.

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.
Government spending fell short of target in 2011 due to early reforms that plugged leakage 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.

**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.

**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.

**Government spending fell short of target in 2011 due to early reforms that plugged leakage 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.**

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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.
The Birth Pains of the GAA-as-Release Document

Birth is an opportunity to transcend. To rise above what we are accustomed to, reach deeper inside ourselves than we are familiar with,” wrote author Marcie Macari1. I agree, but in another sense. While we were rolling out the GAA-as-Release Document (GAARD) in December 2013, I realized that simplifying a complex process was like human birthing, as Macari had described it: I rose above what I was not used to and accessed from within myself, allowing me to fulfill the pressing task at hand.

During the first stages of implementing the GAARD, my team at the Standards and Policy Division of the Budget Technical Service was to create a process to consolidate data coming from the different Budget and Management Bureaus. This process would churn out the data needed to group the funds into two: either under the ‘For Comprehensive Release (FCR)’ or the ‘For Later Release (FLR)’ categories. At first, I was apprehensive not only about the process we were to create, but also about how this reform would actually be implemented. Nobody knew because it was never executed before, as far as we were concerned.

Nevertheless, we moved fast to get it done. I created an Excel worksheet to consolidate the data needed for the FCR and FLR (also known as the “Negative List”). The FCR and FLR, both in Excel format, were eventually used as Annexes to the Guidelines on the Release of Funds for the inaugural implementation of the GAARD in 2014. But on the last working day of that year, December 27, we discovered that DBM’s e-Budget System was not ready for the GAARD, which was just a week away.

Nevertheless, my quick response was to solicit help from the IT staff. They encoded the UACS code of each P/A/P that was in the Negative List and back up the data in the e-Budget System. It was midnight when we finished encoding, while also checking the appropriations of each agency and making sure that the figures matched the combined amounts of the comprehensive release and the amount included in the Negative List.

Not enough words could describe the hurdles we went through to help make the GAARD possible. This reform has brought us to where we are now: dramatically increased percentage in allotment releases, as well as more time spent on analytical work such as evaluating agency performance and identifying bottlenecks in implementing certain programs and projects.

Albeit all the challenges that evening of December 27, 2013, my January 4, 2014 wedding happily pulled through and I am now joyfully married and have experienced the true human birthing process through my twin boys.

By Loreemee L. Pereda1

GAA-as-Release Document: A Luxury Car that Requires a Good Driver

A luxury vehicle needs a wise driver.

The GAA-as-Release Document (GAARD) policy could be likened to a luxury vehicle, equipped with the DBM guidelines, steered by wise agency drivers to navigate the transparency and accountability road and reach the final destination of an improved economy.

The GAARD’s journey, however, is still wanting of that ideal navigation: poor planning that result in a significant number of project modifications, low budget utilization, and ignorance or defiance of budget guidelines. Transparency and accountability in this sense requires that the agencies submit specific programs, activities, projects and projects (PAPs) that need to be funded as well as indicate the corresponding implementing unit to which the funds should be released.

However, some project-based agencies have had a difficult time finalizing their priority projects during the budget preparation and planning stage, which result in a significant number of project modifications when budget execution comes. Project modifications lead to low budget utilization rates, thereby affecting the GAARD’s primary objective of increasing government spending. As a result, the agencies find shortcuts or alternative ways to implement the projects even as budget guidelines are not followed.

These guidelines ensure that the implementation of the GAARD is in accordance with the country’s existing laws, rules, regulations, and jurisprudence. While some of the guidelines brought confusion to the agencies—for example, the changes that had to be made to certain guidelines after the Supreme Court decision on the DAP, or the policy on “Comprehensive Release” that the issuance of SARO was still needed for some items before the budget could be consumed by pressure, my thoughts were on two things: the management needed to release the FY 2014 National Budget Circular for Fund Release but I needed to file a leave of absence so I could prepare for my January 4, 2014 wedding, which was just a week away.

Certainly, working outside of these guidelines to utilize fully their approved budgets is not justifiable. The GAARD is a very powerful tool in achieving an improved economy for the country. Though it is recognized that some of the guidelines that govern it need to be revisited, the success of the GAARD depends mainly on the agencies as its driver. So long as the agencies manifest the characteristics of a ‘reckless driver’ and continue to practice poor planning, the GAARD as a vehicle would take a longer time to reach the end of its journey—an improved economy.

The GAARD will need sensible drivers who will live up to its objectives of increased government spending on the right programs and projects, matured, focused on its goals, and efficient especially in budget planning, which is a crucial factor in budget execution.

By Trisha M. Baraan1

1 As of this publication, Pereda is a Supervising Budget and Management Specialist of the Budget and Management Bureau for Economic Development Sector, but was formerly with the Budget Technical Service (now the Budget Technical Bureau).

1 Macari is a natural childbirth advocate and author of She Births: A Modern Woman’s Guidebook for an Ancient Rite of Passage.

1 As of this publication, Baraan is a Senior Budget and Management Specialist of the Budget and Management Bureau for Economic Development Sector.
Going Checkless and Cashless

The Modified Disbursement Payment System (MDPS) had gained substantial benefits since it was piloted in 2004 in select agencies, specifically reducing the volume of outstanding checks and addressing cash programming concerns. Seeing these benefits, the DBM broadened the system into the Expanded MDPS. Through Circular Letter No. 2013-16 dated 23 December 2013, the DBM required all the national government agencies and their operating units to implement the expanded system.

Before these two systems came into force, all disbursement transactions were done through the MDS checks, a process that was both cumbersome and risky. A lot of checks would have to be made each day and their safekeeping required a lot of effort. Further, this process was circuitous because payees would have to claim their checks personally at the Cash Division counter. Moreover, petty cash disbursements were done only by the cashier, a process that was prone to misappropriation, thus requiring tighter security measures.

One could already notice the positive effect of the Expanded MDPS at the onset. For example, disbursements were directly credited to the accounts of the suppliers, thus eliminating the need for a personal appearance of a liaison in the Cash Division. Also, payments were made in batches, thus reducing transaction time and bank-related costs.

On the other hand, we also encountered some difficulties. We were forced to create our own internal processes for a smooth implementation of the system, without deviating much from our current systems: an ICTSS-developed software implementation of the system, without deviating much from our current systems: an ICTSS-developed software. The new system was devised to generate the List of Due and Demandable (LDDAP) and include of minimum supplier information to the LDDAP-A system into the Expanded MDPS. Through Circular Letter No. 2013-16 dated 23 December 2013, the DBM required all the national government agencies and their operating units to implement the expanded system.

By Jeffrey DM. Galarpe1

The Cashless Purchase Cards (CPC) also has its own pros and cons. Control of the fund is centralized and all disbursements required authority from a special disbursing officer. The liquidation of funds is efficient, because there was no cash involved. However, some issues rendered the CPC an inconvenient purchasing alternative. All petty disbursements for purchases of items for the department were made through the credit card: this eliminated small suppliers as options in the canvassing process because they do not accept credit card payments. This issue somehow limits the market and runs counter to the "lowest bid price available" provision in the procurement law. Further, because these disbursements would still be subject to auditing rules, a lot of processes and documentation are required in one payment transaction, thus resulting in penalty charges imposed on overdue payments.

The DBM’s BTB, in cooperation with the COA and the DOF-BT, is crafting the proposed amendments to the circular to address these issues. Signatories to the forms will be determined to streamline the approval process; the use of the ADA and Checks Issued and Cancelled (AICI) form will be used for both MDS checks and ADAs for uniformity; the inclusion of minimum supplier information to the LDDAP-A will make it conform to the COA’s requirements as evidence of receipt of payment, etc.—all of which will hopefully increase its efficiency and effectiveness in addressing corruption issues and refining the disbursement structures.

The Expanded MDPS and the CPC systems aresignificant reforms in the government’s payment systems. However, the implementation should be reviewed and revisions to the guidelines should be made in order to correct the unintended and unforeseen effects of these reforms. The acceptance and support of the implementing agencies should be secured in order for the systems to be sustained in the next administration. The combination of strong support by the people using the systems and the improvements in the processes, the Expanded MDPS and the CPC will prove to be very good innovations in the government’s payment schemes.

1 As of this publication, Galarpe is an Accountant IV of the Finance Service.

FDUs: A Closer Eye to Speed-Up Spending

Many of us believe that it is a good habit to save for the future. In contrast, the government must spend because it must deliver basic services. If it deferred spending, public transport could be in disrepair, health facilities underequipped, classrooms insufficient, jobs scarce, among many other consequences of underspending.

The counterpart Full-Time Delivery Units (FDUs) established by the DBM helped put the spending of the agencies back on track: by closely monitoring the implementation of the agencies’ programs and projects.

Working with the agencies allows us to help them lay down their action plans via their Monthly Disbursement Programs (MDPs), while looking at the prevailing assumptions behind the MDPs as well. We likewise help to identify chokepoints in the program implementation, and address them by making catch up plans that include strategies on how to solve delays.

For example, the particular FDU that worked with the Department of Agrarian Reform (DAR) learned why the agency could not spend its budget as planned—the late submission of project proposals by its regional and provincial offices, the lack of eligible service providers, bidding failures, among others.

We found out that the agency had problems in ascribing the remaining landholdings that needed to be distributed under the Comprehensive Agrarian Reform Program (CARP). These landholdings are mostly private-owned agricultural lands subject to compulsory acquisition. In contrast, the lands that the DAR had acquired and distributed under the past administrations were mostly government-owned. Working on the remaining landholdings would take more than merely dividing the number of hectares by the remaining five-year schedule.

With this, we compelled the agency to commit to more doable and realistic targets based on more reliable forecasting methods and assumptions, and identify measures to address bottlenecks and fast-track disbursements.

By Ma. Danive C. Belaro1

First, target the landholdings that were workable, i.e., not marred by technical and legal issues, large enough to be divided among beneficiaries, and with a Notice of Coverage served and published. Consequently, the agency would monitor the accomplishment of its field offices based on the landholdings rather than the number of hectares delivered.

Second, the agency had required its provincial offices to submit the proposals to their regional offices at least two months before the start of any activity to provide ample for procurement.

Third, the FDU had helped the agency perform quarterly monitoring of the impact of various strategies and interventions made to resolve the bottlenecks in every stage of the project. According to our counterparts at the DAR, the flash performance monitoring report enabled them to synchronize the target, the budget, and the fund utilization.

Fourth, the agency understood better the weaknesses that led to its underperformance. For example, an agency can only maximize early procurement through well-structured and effective BACs. We likewise learned about the absence of consolidated reports submitted to the Central Office: without them, the evaluation of the agency’s performance vis-à-vis plans and targets cannot be undertaken. The spending performance of DAR is also contingent upon internal processes, which should be reviewed: for example, the private lands covered by agrarian reform undergo various stages before awarding to beneficiaries. The DBM FDU likewise should understand how these problems contribute to delays so it could help draw up effective interventions.

While the disbursement of the agencies has grown, government underspending remains a challenge. A more aggressive effort should be undertaken to speed up public disbursement and from it seems, it should begin from realistic plans and cash programs.

Much needs to be done, but we hope our next leaders would have the zeal to consider and strengthen the groundwork we have laid down through the FDU.

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The Aftermath of the DAP

"[I]t has been adequately shown as to be beyond debate that the implementation of the DAP yielded undeniably positive results that enhanced the economic welfare of the country."

Supreme Court of the Philippines
IN ARAULLO, ET AL. VS. AQUINO, ET AL., JULY 1, 2014

The Disbursement Acceleration Program (DAP) was introduced in the second half of 2011 when government disbursements severely fell short of target. It was a reform intervention to speed up public spending and boost economic growth. In contrast to the PDAF, which was a Special Purpose Fund in the Budget, the DAP was a mechanism that was hinged on the President’s power to use savings to augment resources for high impact and priority programs and projects. The DAP also made use of the Unprogrammed Fund to deploy windfall revenues for additional spending (see Budget Integrity and Accountability).

The DAP drew controversy nonetheless.

In 2013, at the height of the public outcry over the abuse of the Priority Development Assistance Fund (PDAF) in the past (see The End of Pork As We Know It), legislators who were implicated in the scandal shifted the spotlight to the DAP by tagging it as a mechanism similar to the PDAF. With a public deeply angered by the PDAF controversy and despite the government’s defense, such allegation gained momentum and motivated several petitions for the Supreme Court to declare the DAP unconstitutional.

On February 3, 2015, modifying its decision on July 1, 2014, the Supreme Court ruled with finality that, while the DAP indeed delivered on its intended result to boost economic growth, three acts under the DAP were invalid.

Why the Need for the DAP?

"DAP is different from PDAF... It’s clear that with DAP, the people’s money was never stolen—the funds were used for the benefit of Filipinos. And not for later, not soon; but—now: Programs that could be implemented immediately were implemented immediately."

President Benigno S. Aquino III
STATEMENT ON THE SUPREME COURT’S 2014 RULING ON THE DAP

The Aquino administration’s efforts to plug spending leakages early in its term, coupled by the chronic inability of the agencies to deploy resources promptly, had the unfortunate impact of slowing down spending. From January to September 2011, national government disbursements contracted year-on-year by 7.3 percent and fell below target by a whopping 16.1 percent. As a result, GDP growth slowed down to 3.6 percent in the first three quarters of 2011, from 7.6 percent in the same period of 2010 (DBM, n.d.).

Together with efforts to push the agencies to catch up on their spending, the government introduced the DAP in October 2011. The measure made use of the President’s power over savings as well as the unprogrammed appropriations: two authorities that past administrations had used. The administration sharpened the use of these authorities by prioritizing programs and projects that were fast moving or quick disbursing, urgent or priority in terms of social and economic development objectives, and performing well and could deliver more services with additional funds (DBM, n.d.).

After the DAP was implemented, disbursements in the fourth quarter expanded by 32.5 percent year-on-year. As a result, disbursements for the whole of 2011 grew by 2.3 percent, though the government still spent below program by 9.0 percent. A World Bank report said the DAP was partially successful and contributed 13 percentage points to GDP growth in the fourth quarter and pushed GDP growth to 3.6 for the full year of 2011 though it was still below the target of 5 percent (2012).

A Launch Pad For Reforms

At the same time as it implemented the DAP, the government implemented a host of reforms to improve the speed of budget execution and, in the first place, the implementation-readiness of programs and projects. These reforms included the disaggregation of lump-sum funds into detailed programs and projects (see Linking Planning and Budgeting); and the deployment of Account Management Teams; and the introduction of the GAA-as-Release Document policy (see Faster and Efficient Budget Execution).

The DAP continued to be implemented in 2012 and 2013 alongside these reform measures, although to a lesser magnitude than in 2011 (see Figure 1). The total allotments released for projects identified through the DAP reached PhP4.3 billion, or 2.6 percent of total releases from 2011 to 2013. More than half or PhP0.6 billion went to infrastructure projects and other capital outlays, including the rehabilitation of LRT Lines 1 and 2 and the construction of tourism roads. Among the 116 projects that were supported by DAP included the DOE’s Sitio Electrification Program, TESDA’s Training-for-Work Scholarship Program, and the DOST’s groundbreaking NOAH Program (DBM, n.d.-a).

In 2012 and 2013, the government’s disbursements increased year-on-year by 1.4 percent and 5.8 percent, respectively; and the gap between actual spending and program narrowed further to 3.4 percent and 5.5 percent, respectively. Infrastructure and other capital outlays grew by a whopping 57.7 percent and 62.2 percent for those two years. Such improved performance contributed to boosting GDP growth, which reached 6.8 percent in 2012 and 7.2 percent in 2013.

The Supreme Court Ruling on the DAP

The final decision of the Supreme Court on February 3, 2015, after acting on the motion for consideration filed by the government, did not declare the whole of the DAP as unconstitutional. Rather, it ruled that two acts under the DAP on the use of savings were unconstitutional: the declaration of unutilized appropriations—i.e., the form of unobligated allotments and unreleased appropriations—as savings; and the transfer of savings from the Executive branch to augment the appropriations of offices outside the Executive. It also declared void the use of unprogrammed funds without a Treasury certification of windfall revenue collections (see box in the next page).

Figure 1.
Summary of Funds Released and Utilized Through DAP (in P billions)

 Releases | Obligation | Disbursement
---|---|---
2011 | 78.4 | 60.1 | 52.3
2012 | 57.0 | 60.7 | 37.7
2013 | 3.6 | 1.9 | 4.0

116 | 117
Delivering Measurable Results • The Aftermath of the DAP

The Decision on DAP on February 3, 2014

Araullo et al. vs. Aquino et al. (SC, 2014)

"WHEREFORE, the Court PARTIALLY GRANTS the petitions for certiorari and prohibition; and DECLARES the following acts and practices under the Disbursement Acceleration Program, National Budget Circular No. 541 and related issuances UNCONSTITUTIONAL for being in violation of Section 15(3), Article VI of the 1987 Constitution and the doctrine of separation of powers, namely:

(a) The withdrawal of unobligated allotments from the implementing agencies, and the declaration of the withdrawn unobligated allotments and unreserved appropriations as savings prior to the end of the fiscal year without complying with the statutory definition of savings contained in the General Appropriations Act; and

(b) The cross-border transfer of the savings of the Executive to augment the appropriations of other offices outside the Executive.

The Court further DECLARES VOID the use of unprogrammed appropriations despite the absence of a certification by the National Treasurer that the revenue collections exceeded the revenue targets for non-compliance with the conditions provided in the relevant General Appropriations Acts."

Moreover, the Court applied the doctrine of operative fact, acknowledging the beneficial result of the DAP even as it ruled that certain acts under it may be legally infirm: "Not to apply the doctrine of operative fact to the DAP could literally cause the physical undoing of such results by destruction, and would result in most undesirable wastefulness (Supreme Court of the Philippines, 2014)." In its final decision, the Court extended the benefit of the doctrine of operative fact to the proponents and implementors of the DAP, and likewise affirmed that "the authors, proponents and implementors of the DAP, being public officers, further enjoy the presumption of regularity in the performance of their functions (Supreme Court of the Philippines, 2015)."

An Opportunity for Further Reform

Even if the DAP generated controversy, the terminated measure nonetheless provided the government with an opportunity to pursue further budget and management reforms specific to the agencies involved, further enjoy the presumption of regularity in the performance of their functions (Supreme Court of the Philippines, 2015)."

Araullo, et al. vs. Aquino, et al. (SC, 2015).” In its final decision, the Court extended the benefit of the doctrine of operative fact to the proponents and implementors of the DAP, and likewise affirmed that “the authors, proponents and implementors of the DAP, being public officers, further enjoy the presumption of regularity in the performance of their functions (Supreme Court of the Philippines, 2015)."

Furthermore, key PFM reforms were implemented to ensure that the government implements the Budget promptly in a manner that adheres faithfully to Congress’ approved Budget. The Unified Accounts Code Structure, the unified accountability reports, and the development of ICT-based systems should enable the government to accurately account for and report how each item of appropriation was implemented (see Integrated PFM). The continued application of the GAA-as-Release Document, meanwhile, is being supported by efforts to strengthen the capacity of the agencies to implement programs and projects. The controversy was also one of the motivations for the proposed Public Financial Accountability Act, a landmark measure that modernizes the Philippines’ legal framework on PFM.

"We must inculcate in the minds of our finance people the importance of planning and linking it to budgeting. Careful planning results in an efficient budget execution. With this process, we can avoid what happened with DAP. Likewise, the validity of appropriations should be one year as continuing appropriations distorts target-setting under the Performance-Informed Budgeting regime.”

Undersecretary Luz M. Cantor
DBM BUDGET PREPARATION AND EXECUTION GROUP

PROCUREMENT REFORM

IN A NUTSHELL

• A good procurement system is vital to effective public expenditure management and to the delivery of services to citizens on time, at the most reasonable cost, and with the best quality

• More than a decade ago, the Government Procurement Reform Act (GPRA) was enacted:
  - It was a landmark measure that consolidated all fragmented laws and policies on public procurement and established open, transparent, and competitive bidding as the standard.
  - However, public procurement was still beset with problems—from corruption issues to delays in service delivery—due to varying interpretations of the law and the weak capacity of the agencies to undertake the procurement process.

• In the last six years, the government introduced several measures to reform procurement:
  - Implemented the Early Procurement Policy to expedite the process
  - Began the revision of the Implementing Rules and Regulations of the GPRA to ease the processes and encourage more suppliers to participate in government projects
  - Maximized the bulk-buying powers of the Procurement Service (PS) to save on costs
  - Adopted the Agency Procurement Compliance and Performance Indicators (APCPI) to assess the procurement practices of the agencies
  - Modernized the Philippine Government Electronic Procurement System (PhilGEPS) to expand its functionalities and to, eventually, enable e-bidding

• Further improvements to procurement will require a shift in the mindset of the agencies—from mere compliance to performance and results. Measures to consider include:
  - Introduce measures to shorten the average procurement turnaround
  - Complete, widely disseminate, and implement the revised IRR of the GPRA
  - Further strengthen the PS, including a possible corporatization
  - Strengthen the capacity of the agencies for procurement, beginning with better planning
  - Complete the modernization of the PhilGEPS

A good procurement system is vital to effective public expenditure management and to the delivery of services to citizens on time, at the most reasonable cost, and with the best quality.
At the heart of public expenditure management is procurement: the process by which the government acquires goods and services at the most economical means, provides opportunities for businesses, and reduces leakages in the use of public funds. From 2008 to 2012, an average of P318 billion of the Philippine Budget was spent for public procurement requirements. The said amount accounts for an average of 21 percent of the national budget and 3.7 percent of the GDP (ADB, 2013a). The Asian Development Bank (ADB) highlighted the importance of having a sound public procurement system. “Sound public procurement policies and practices are among the essential elements of good governance. Good practices in procurement reduce costs and produce timely results; poor practices lead to waste and delays (ADB, 2002).” The Organization for Economic Cooperation and Development (2015), meanwhile, laid down the elements of a sound procurement system: 1) procurement rules and procedures are simple, clear and secure access to procurement opportunities; 2) effective institutions to conduct procedures and conclude, manage, and monitor public contracts; 3) sustainable human resources to plan and carry out the procurement processes; 4) appropriate electronic tools to facilitate the process and; 5) competent contract management.

EARLY EFFORTS FOR PROCUREMENT REFORM AND DIGITIZATION

Landmark Law Crucial But Insufficient

“The passage of a landmark procurement reform law has been a major achievement in the context of Philippine politics. But the war is far from finished. Enforcement has always been the Achilles heel of Philippine legislation.” J. Edgardo Campos and Jose Luis Syquia


The passage of the Government Procurement Reform Act (GPRA) of 2003 during the Arroyo administration was vastly celebrated. It was, after all, a crucial reform measure to cure the old system of outdated and fragmented laws and multiplicity of uncoordinated issuances that led to confusion; slow procurement action due to difficulty in enforcing such fragmented rules; and the procurement system’s overall vulnerability to corruption.

Aside from unifying all procurement-related laws and issuances, the GPRA established a governing body for all public procurement: the Government Procurement Policy Board (GPPB). Such body was tasked by the law to, among others: formulate procurement policies, rules, and procedures; ensure the dissemination of such rules to implementing agencies; monitor and evaluate compliance to procurement rules; provide tools to attain efficiency and accountability; and push for the professionalization of procurement staff through capacity-building opportunities. The GPPB is supported by a Technical Support Office (TSO) for the technical and administrative work required for procurement regulation.

The GPPB espoused transparency, competitiveness, and accountability in procurement, as well as the streamlining of procurement processes and monitoring of government procurement activities. Prior to the enactment of the GPRA, the government used the pilot of an electronic system for public procurement in 2000 with the assistance of the Canadian International Development Agency.

The GPRA eventually mandated the further development and wide use of such electronic system: the Philippine Government Electronic Procurement System (PhilGEPS). The PhilGEPS project was lodged under the Procurement Service (PS), the central buyer of the government, which was established during the Marcos administration to leverage the bulk-buying powers of the government.

To further induce transparency in the procurement system, the agencies were mandated to invite third party observers, such as representatives from the civil society and the private sector during the various stages of the procurement process. Despite the passage of the GPRA, procurement was still beset with problems characterized by procurement-related corruption scandals as well as delays which hampered the efficient delivery of services. The Country Procurement Assessment Report (CPAR), a tool designed to diagnose the existing public procurement of a country released in 2008 identified the reasons causing the problems in the procurement system of the country. Among others, the CPAR cited some issues on the Procurement Law, such as the varying interpretation and lack of knowledge of the stakeholders on the law itself and its implementation and enforcement as challenges against the effective and efficient implementation of the procurement process.

Added to the issues on the GPRA itself is the weak capacity of the agencies, especially the procurement personnel in carrying out procurement activities: procurement is largely considered as an ad-hoc function of the members of the Bids and Awards Committee (BAC), who have their respective primary responsibilities. Moreover, the PhilGEPS at that time had limited features and capacity to handle large number of concurrent users.

GIVING FLESH AND BONE TO THE GPRA

How the government improved the procurement system

“Truly, I dare say that we are better off with the GPRA than without it. But I also dare say that we still have a lot of work to do to make public procurement more efficient, responsive and accountable.”

DBM Secretary Florencio B. Abad

SPEECH DURING THE GOOD GOVERNANCE SUMMIT 2014

In line with its platform for good governance, the Aquino administration pursued procurement reforms aiming to clarify the existing policies, remove loopholes, streamline the processes, and maximize technological innovations.

A Head Start in the Procurement Process

The DBM reiterated the implementation of the Early Procurement Policy through Circular Letter 2010-9. Through the policy, the agencies are allowed to proceed with their procurement activities upon the President’s approval of the NEP, short of award. The awarding of the contract to the winning bidder will take place upon the enactment of the GAA or at the start of the fiscal year. The reform enabled the agencies, such as DPWH, to implement infrastructure projects earlier, and in the process avoiding the rainy season that usually causes delay in the course of project implementation (see Fast and Efficient Budget Execution and Insight of a Junior Leader on Early Procurement).

Revised the Implementing Rules of GPRA

The GPPB-TSO initiated a second review and revision of the Implementing Rules and Regulations (IRR) in January 2015. The objective of the IRR review is to further streamline, standardize and clarify the rules and procedures to address prevalent procurement issues in government. A Special Technical Working Group, the IRR Review Committee, was created to undertake the activities required for the review and revision. The IRR Review Committee conducted focused group discussions and IRR review workshops with relevant stakeholders, such as representatives from government agencies, observers, and bidders.

The revised IRR seeks to streamline the procurement process, motivate the procuring agencies to plan their procurement activities better, and encourage more participation from the business sector. Among others, the revised IRR clarifies the concept of an indicative Annual Procurement Plan (APP), which the agencies must prepare and submit as an input to the Proposed Budget. Normally, the agencies prepare their respective APPs only after the GAA has been enacted: a practice that oftentimes delays the implementation of programs and projects and also reveals the tendency of agencies to define the specifications of the goods and services that they procure only after the Budget is enacted; hence these should have been accomplished during budget preparation and proposal.

The revised IRR likewise simplifies the submission of eligibility documents by the bidders. For one, the PhilGEPS certificate of registration suffices for the other documents that agencies used to submit. Other eligibility documents include the statement of the single largest completed contract and the statement of net financial contracting capacity or credit line commitment as proof of a bidder’s financial capacity. The reduced number of documents should not only encourage more bidders to participate in public procurement but also lessen opportunities for the agencies to disqualify bidders during the eligibility stage.
The revised IRR also seeks to reduce the cost incurred by the agencies in advertising bid opportunities in newspapers. In particular, it increases the threshold amounts for the procurement activities that must be advertised: for goods, from above P2 million to P10 million; for infrastructure, from P5 million to P15 million; and for consulting services, from P1 million to P5 million. Other key features of the revised IRR include the consolidation of all rules on the alternative modes of procurement in one set of guidelines, compared to the present situation in which these rules are fleshed out in several GPPB issuances.

In May 2016, the draft of the revised IRR was approved in principle by GPPB, after which, GPPB-TSO proceeded to refine said draft. In particular, development partners, including the WB and the ADB, are currently reviewing the IRR as well as the harmonized bidding documents. Once approved by the GPPB, the GPPB-TSO plans to disseminate the revised IRR together with the generic procurement manuals and the Philippine standard bidding documents. The GPPB-TSO likewise plans to roll out a series of intensive briefing and capacity building sessions for the oversight and implementing agencies, as well as for civil society organizations (CSOs).

Maximized the Procurement Service

The government issued A.O. No. 17 in 2011, which directed the agencies to use the PS in purchasing common-use supplies: from paper and pens to general cleaning materials. Such directive was also reiterated by the General Provisions of the annual GAA beginning 2012.

According to PS Executive Director Jose Tomas C. Syquia, the directive created a more conscious effort among procuring agencies to utilize the PS and maximize its bulk buying capacity as a fiscal management tool. The PS is now being tapped to procure for non-commonly used supplies such as information and communication technology (ICT) packages and software licenses. In 2016, the PS-PhilGEPS entered into a General Fare Agreement (GFA) with the Philippine Airlines, which grants the government a discount in procuring airline tickets—the top commonly-required item of government agencies, according to a survey conducted by PS. The GFA with PAL is projected to lead to PhP 1.3 billion in savings, as well as facilitate the ease in procuring airline tickets. The utilization of PS led to a savings up to 30 percent for the government (see Table 1).

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<th>Fiscal Year</th>
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<td>2012 - 2013</td>
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The administration also addressed the status of the personnel of PS. Since its establishment in 1978, all PS personnel were engaged through a job order basis. Not only that the set-up is not favorable for the employees, it also undermines the accountability of the employees towards the institution. In 2016, the Office of the President issued a memorandum creating four permanent senior official positions (Division Chief level) and reclassification of two senior positions, particularly the Executive and Deputy Director positions of the PS. The job-order personnel were likewise reclassified to contractual positions.

Expanded and Modernized the PhilGEPS

Along with the utilization of the PS, A.O. No. 17 also mandated the use of the PhilGEPS in all procurement activities of all the agencies. To increase their compliance to the rule to use the PhilGEPS, the government included the posting of bid notices and awards on the system as one of the main criteria in granting the performance-based bonuses (see Compensation Reforms). This strategy has been proven effective in getting the compliance of the agencies and is highly manifested in the increase of traffic in the website whenever the deadline of the uploading comes near.

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Aside from mandating the use of the PhilGEPS, road shows were conducted by the PS-PhilGEPS in order to raise the awareness of the agencies on the advantages of using the system: the wide dissemination of the bids in terms of prospective bidders and the savings from advertising costs. Posting bid notices in the PhilGEPS cuts down the advertising costs as it eliminated the requirement to post the bid in three major dailies. According to the PS-PhilGEPS, the projected savings from advertising costs from 2001 to 2014 amounted to PhP18 million. The use of PhilGEPS has likewise increased (see Table 1), in terms of both the amount of bid opportunities posted as well as the number of merchants utilizing the system.

Capitalizing on the vast potential of technology in fostering transparency, accountability, and efficiency in the procurement process, the country included the modernization of the PhilGEPS as one of its commitment in the Open Government Partnership. The government entered into contract with Innove Communications, Inc. in 2013 to modernize the existing software of the PhilGEPS and expand its current functionalities.
Table 3. Utilization of the PhilGEPS as of June 2016

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<td>Agencies</td>
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<td>12,804</td>
<td>15,772</td>
<td>18,341</td>
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<td>28,789</td>
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<td>Merchants</td>
<td>19,560</td>
<td>24,025</td>
<td>34,678</td>
<td>48,456</td>
<td>65,497</td>
<td>83,149</td>
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<td>Bid Notices Posted</td>
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<td>1,505,607</td>
<td>1,862,581</td>
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<td>Total ABC</td>
<td>4.49T</td>
<td>5.13T</td>
<td>6.04 T</td>
<td>7.84 T</td>
<td>9.11 T</td>
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<tr>
<td>Bid Awards Posted</td>
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<td>609,075</td>
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<td>Total Contract Amount Posted</td>
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<td>687,29 B</td>
<td>947,78 B</td>
<td>1,33 T</td>
<td>1,79 T</td>
<td>2.27 T</td>
</tr>
</tbody>
</table>

Source: PS-PhilGEPS

The modernization aims to enable e-bidding, a method by which the procurement process can be further streamlined and decrease if not totally eliminate human discretion and intervention in various stages of the procurement (see box).

More than tapping and maximizing technology, the modernization of PhilGEPS addresses contract management, one of the weak areas in Philippine procurement, as pointed out by PS Executive Director Jose Tomas Syquia and PhilGEPS Deputy Executive Director Rosa Maria Clemente.

Director Syquia said, “Most of the agencies in the Philippines follow a linear path in procurement. For them, procurement stops after the awarding of the contract to a winning bidder. But that shouldn’t be the case. The procurement process should be treated as a cycle; thus the need to extend into contract completion and payment. This is where the contract management comes in.”

### Phases of the PhilGEPS Modernization

#### PHASE 1: BASE SYSTEM REQUIREMENTS

**Phase 1A**
- Pending Task– pending tasks of the users are listed on the first page of the user page
- Central Registration Facility Administrators, Procuring Entities including Bids and Awards Committees, Oversight Agencies, Auditors, Civil Society Organizations and Multilateral Development Banks– facilitates user role management
- Government of the Philippines – Official Merchant Registry– central registration facility for suppliers, consultants and merchants, allows the upload of digital copies of eligibility documents
- Site Administration– facility for the system administrators to manage the system, specifically in terms of maintenance of reference files, terms and conditions, configure workflow, to name a few

**Phase 1B**
- Annual Procurement Plan– facility for the procuring entities to input their annual procurement plans
- Electronic Bulletin Board– facility for the posting of bid notices, uploading of bidding documents, including plans, drawings and bid supplies, creation of award notices and updates on the bid results and allows the registered merchants to browse the board
- Integrated Notices Publication– facilitates the publishing of all bids and awards notices posted via PhilGEPS to websites of government agencies through the Application Program Interface
- E-bid submission– facility for the submission of technical and financial proposal online
- E-payment for the E-bid submission- connected with bank/e-payment for the payment of membership in the PhilGEPS, bid documents and posting of bids and performance securities
- Security and Audit Logs– a feature that guarantees that all write events and access to sensitive data are captured in the audit trial and facilitates the authentication of bidders using the e-signature and Digital Signature Certificate (DSC)
- CSO and Auditor Module– provides a platform for CSOs and CDA auditors to monitor all the stages of procurement and submit their observation reports of results of bid opening and evaluation and inviting merchant for post-qualification
- Bid Opening, Bid Evaluation, Post-Qualification– facility for the opening of electronic bids, recording

**Phase 1C**
- Virtual Store (Common Use Goods)– allows the order and reserve of common-used goods listed in the E-Catalogue provided by the PS
- Virtual Store (Non-Common Use Goods)– allows the direct procurement, without public bidding from suppliers through the PhilGEPS VS for non-common-used goods listed in the E-Catalogue provided by the PS

More than tapping and maximizing technology, the modernization of PhilGEPS addresses contract management, one of the weak areas in Philippine procurement, as pointed out by PS Executive Director Jose Tomas Syquia and PhilGEPS Deputy Executive Director Rosa Maria Clemente.
Disseminate and Implement the Revised IRR

Delivering Measurable Results • Procurement Reform

Procurement Reform • Delivering Measurable Results

PHASE 2: MANAGEMENT INFORMATION SYSTEM

- Pre-bid Conference– for the conduct of online pre-bid conferences to respond to queries of prospective bidders
- Procurement Management Information System (MIS)– provides a comprehensive set of functionalities that capture all relevant information for procurement management to incorporate performance indicators to match the objectives of public procurement
- Feedback Mechanism– allows the users, e.g., observers and auditors, to provide feedback on the information posted on the website
- Fiscal MIS– connected to the Inventory Management System for tracking of stock availability
- Mobile App– to display PhilGEPS Electronic Bulletin Board and search facility on mobile (Android and iOS)

PHASE 3: E-CONTRACT MANAGEMENT (CONTRACT IMPLEMENTATION)

- Online Tender Acceptance– facilitates the response of the winning supplier/contactor to the Notice of Award/Notice to Proceed through the electronic signing of the documents, either by e-signature or DSC, if available
- Online Signing of the Contract Agreement– facilitates the online signing of contracts using the e-signatures/ DSC of the concerned authority and requires the countersignature of the contractor/suppliers
- Contract Management– targets efficiencies for both agencies and business with the following functionalities:
  - Online Contract Template Library– contains the library of contracts with common set of terms and conditions for the reference of the users
  - Online Issue of Notice to Proceed– verifies the receipt of electronically signed undertaking from the contractor before the release of the Notice to Proceed (NTP) and allows the issuance of the NTP to contractors online
  - Integration with E-bid Submission Module– facilitates the instant availability of information on the contract terms and other details on the contract to the Contract Management module and the processing of contractor payments based on the information made available from the E-bid Submission Module
  - Integration with Payment Module Database– facilitates the tracking of earlier payments made or advances by the contractor, cost overruns through the integration with the e-Contract
  - Contract Status Tracking– tracks contracts which are active, closed, and terminated, allows third party verification on the information on progress; and hosts the uploading of inspection reports, with photographs
  - Contract Variation– provides a workflow based on the approved contract variation and retains all explanations regarding the variation requirement, and generates contract variation letter/e-mail
  - Tracking Securities– among others, displays the details of the securities of bidders (tender security, performance security, and retention money) along with the date of issue, validity for proper and timely management of such securities, allows the management and tracking of securities and provides auto-alerts to procuring entities
  - Tracking Warranties– provides for the creation of an inventory of warranties of all goods and services, generates the alert on warranty expiry and flags the record that warrants action by the authority
  - Disputes or Resolution Management– provides a form to file complaints and tracks the handling process of the complaints as well as resolution status
  - Liquidated Damages Management– provides a form to fill out on the details of liquidated damages, an easy tool to calculate the liquidated damage whilst tracking the target against the delivery dates
  - Contract Analytics– captures the information on the project such as accomplished on the project vis-à-vis the time elapsed, the payments made, etc., in order to generate report

As of date, the PS-PhilGEPS has successfully completed the base system requirements of the modernization project. In 2015, the e-Bidding Parallel Run was implemented in two agencies, PS-PhilGEPS and DPWH. Later on, five pilot agencies were trained for the e-Bidding modules.

SHIFTING THE MINDSET ON PROCUREMENT

From Compliance to Performance and Achieving Results

“It is easy to blame the procurement law, but the real problem is the weak link between planning, budgeting, and acquisition. If the agencies only identify what they need long before they procure, they will be able to prepare the project specifications and other relevant procurement documents. Doing so encourages businesses to participate in procurement: after all, they won’t bid if the projects’ technical specifications are up in the heavens but their budgets are small.

“We need to capacitate a cadre of procurement professionals who can plan ahead, pin down their project specifications well, and realistically cost these projects. We also need agency heads who are committed to strengthening their agencies’ capacity for procurement, and who act expeditiously on procurement matters, such as the award of contracts to winning bidders. We must always remember: public procurement delayed is public service denied.”

Executive Director Dennis S. Santiago
GOVERNMENT PROCUREMENT POLICY BOARD - TECHNICAL SUPPORT OFFICE

The procurement system in the Philippines has come a long way. However, despite efforts to strengthen the agencies’ capacity to procure, it remains to be the most significant challenge to effective procurement. Among others, the government should further streamline the existing processes and build on what has been put in place in terms of maximizing technological innovations.

Hasten and Enforce Procurement Timelines

The time dedicated to the procurement process has greatly improved from the past: from six months to one year, now it is down to three months, and in some instances to 28 days. However, it is still imperative that the average procurement process be complied with to ensure the timeliness of the delivery of services to the people. Aside from further pushing the agencies to implement the Early Procurement Policy, the government should likewise explore other measures to hasten the process by, among others, ensuring the wide dissemination and implementation of the newly revised IRR.

Disseminate and Implement the Revised IRR

The revision of the IRR is expected to aid in hastening the procurement process while not reducing the embedded accountability controls. The government should be able to widely disseminate the changes effected in the IRR to ensure its effective implementation across all the agencies. Such efforts should include a sound communication strategy and an intensive capacity building program for procurement personnel. The existing bidding documents, templates, and manuals, as well as training modules and reference materials, also need to be updated to reflect the latest revisions of the IRR.
Provide a Conducive Environment for the PS

Proposals were made during the term of the outgoing administration to convert the PS into a government corporation; however, such moves have not yet borne fruit. The new administration should consider the corporatization of PS to ensure the financial viability and maximize the potential of the government’s bulk buyer. At present, PS functions like a GOCC as it doesn’t receive funding from the GAA: it provides for its own operating expenditures from the proceeds of its profits. It is important for PS to be corporatized so that it can function independently and make the necessary improvements in its organization and processes. The government may also seek alternative options to improve the organizational performance of PS and the welfare of its employees.

Strengthen the Capacity of Agencies and Professionals to Procure

Agency capacity remains to be the primary challenge to effective procurement. Areas that require intervention would be in the preparation of project specifications and cost estimates, as well as the preparation of the Annual Procurement Plans. Information from the GPPB-TSO show that poor procurement planning accounts for a huge chunk of delays in the procurement process.

“Agencies usually blame procurement for the delays in project implementation, but it is usually caused by poor planning. Biddings fail due to poorly prepared cost estimates and specifications. We in the Philippines usually plan several weeks or months before, in other countries, they plan for five years.”

Executive Director Jose Tomas C. Syquia

PROCUREMENT SERVICE

The full impact of measures to address the difficulties in the procurement under A.O. No. 46 still remains to be seen. Anecdotal accounts from the agencies suggest that providing additional items to accommodate full-time staff for procurement alone is not sufficient as it had been difficult for them to fill up the positions created: given the highly technical nature of the work, the market for procurement professionals is likewise tight.

The capacity of the BACs, along with their TWGs and full-time secretariats, can likewise be strengthened through continuous capacity development. The professionalization of procurement personnel should thus be given great attention: among the proposed means to help achieve this goal is the proposed establishment of a procurement institute.

More and more, the mindset of the agencies towards procurement needs to be changed. Often, procurement is viewed as an administrative task rather than as an effective tool for fiscal management.

Open and Inclusive Procurement

The GPRA provided a breakthrough for the participation of civil society organizations (CSOs) in the procurement process. However, such space has yet to be fully maximized by the CSOs. A list of the CSOs that can be invited to observe procurement proceedings, and their respective fields of interest, is already present. However, such a roster of CSOs engaged in procurement monitoring should be strengthened through a capacity development program for procurement observers. The establishment of a reporting mechanism for the feedback and reports of the citizens could also help broaden the engagement of citizens in public procurement.

Another untapped mechanism for citizen participation is the confirmation of the APCPI results. Two years after the roll out of the APCPI, in 2014, the confirmation of results was pilot tested. The pilot test revealed that CSOs found the validation a worthy activity and expressed their willingness to be engaged. However, they may require trainings and other capacity development activities. Likewise, they raised a concern on the operational expenses they would incur in the process of engaging the validation process.

Complete the Modernization of the PhilGEPS

The government should undertake the completion of the PhilGEPS modernization project in order to fully enable e-bidding. So far, only Phase I of the project has been implemented due to delays on the part of the service provider. Once the three phases are put in place, a complimentary capacity building on the e-bidding module should be rolled out.
OECD is an organization supporting governments in reforming their public procurement systems to ensure sustainable and inclusive growth and trust towards the government. The OECD – Development Assistance Committee, in partnership with the World Bank, formulated the Methodology for Assessing Procurement Systems (MAPS), the framework by which governments' public procurement systems are being assessed.

The PhilGEPS was launched as a replacement to the Electronic Procurement System which was pilot-tested by the government in 2000, patterned to theMex, the Canadian e-procurement system.


To date, the country has five existing CPARs, three major assessments in 2002, 2008 and 2012, and minor updates in 2003 and 2005.

The GPRA mandates each procuring entity to establish a single BAC composed of at least five but not more than seven members. The BAC is chaired by at least a third ranking permanent official which, in the case of departments, is an Assistant Secretary. Based on the IRR of the GPRA, the BAC is composed of at least five but not more than seven members. The BAC is chaired by at least a third ranking permanent official which, in the case of departments, is an Assistant Secretary.

The GPRA allows agencies to create separate BACs if the number and complexity of items to be procured warrants the same.

In January 2009, the GPPB, released Circular 01-2009, which first introduced the practice of procurement, short of award upon the approval of the NEP. However, the compliance among the agencies on the said policy was low, thus, the reiteration of the policy in 2010.

The first revision of the IRR of the GPRA was in 2009 and it covers for the application of the bidding documents for foreign-assisted projects.

The APCPI assesses the procurement systems of agencies through four pillars namely: Compliance with the Legislative and Regulatory Framework, Agency Institutional Framework and Management Capacity, Procurement Operations and Market Practices, Integrity and Transparency of the Agency Procurement System. The same pillars used in the CPAR, Procurement practices of agencies are subjected against 16 indicators and 40 sub-indicators.

Suggested confirmators for the APCPI include representatives from the private sector organizations such as the Philippine Institute of Certified Public Accountants and the chambers of commerce.

As a remedy, the DBM Legal Service recommended that the provision on early procurement during its conceptualization and drafting. The bill, however, was not passed by Congress.

The technical working group that worked on the provisions related to budget execution of the Public Financial Accountability Bill, of which I was a part, recommended a provision on early procurement during its conceptualization and drafting. The bill, however, was not passed by Congress.

As a remedy, the DBM Legal Service recommended that the early procurement provision in the PFM Bill be made part of the general provisions of the 2016 GAA. Thus, we now have the general provision on early procurement. Because of this provision, which now serves as the legal basis for the early procurement policy, hopefully more and more agencies implementing projects efficiently and on time.

Early Procurement: Just Do It!

Procurement reforms are one of the hardest reforms to implement. The early procurement policy is no exception.

My journey as a procurement practitioner started in 2009 when I was designated to be part of the technical working group (TWG) of the DBM Bids and Awards Committee (BAC). As a member of this TWG, I would be assigned a specific project to handle its procurement, from preparation of the bidding documents to the issuance of notice to proceed to the winning bidder. It was challenging at first—but you begin to understand the law more when you actually practice it.

In 2009 and 2010, the GPPB and the DBM issued guidelines on the implementation of the early procurement policy: the GPPB Circular 01-2009 dated January 20, 2009 and the DBM Circular Letter 2010-9 dated December 30, 2010. Both guidelines allow the start of the procurement of projects before awarding of contracts, which means the activity can be done even before the annual GAA is passed provided that the President has submitted the NEP to Congress.

At the DBM, these guidelines enabled us to procure, even before the start of the year, the requirements we needed routinely, such as water supply and janitorial and security services. This practice helped the DBM ensure timely supply of goods, as well as prevent the renewal of contracts. Despite these clear advantages, we found out that, anecdotally, only a few agencies had begun to comply with the early procurement policy.

I further learned that the agencies were skeptical about the validity of issuances that allowed procurement prior to availability of appropriations without a corresponding law to back it up. My counterpart operation bureaus in the other agencies relayed to me this anecdotal account when we would talk about underring and low performance of agencies. I personally did not find a reason for their concern as early procurement was allowed only until before the awarding of contracts, which meant there was no need to provide appropriations yet.

As of this publication, Domingo is an Attorney V of the Legal Service.

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Procurement is a crucial stage in the budget execution process. It is the act by which the government taps the most capable suppliers that can provide goods and services with the best quality and at reasonable costs and timeframes. Hinging on the policy thrusts of the Government Procurement Reform Act, the administration aimed to declog procurement, leverage technology, maximize the government’s bulk-buying power, and improve the capacity of agencies to procure.

**Speed**
Procurement is a complex and time-consuming process. It normally takes 3 to 4 months to procure a contractor for an infrastructure project. To hasten the process, the government introduced the Early Procurement Policy: upon the submission of the Proposed Budget, agencies could proceed with procurement activities. Hence, agencies may award contracts once the GAA is enacted and begin implementing projects at the start of the fiscal year.

**Digitization**
The government modernized the Philippine Government Electronic Procurement System (PhilGEPS): once a mere bulletin of bid announcements, it now supports a merchant registry, a bid notification feature, an integrated notice creation feature, an Auditor and Civil Society module, and e-Bidding. The PhilGEPS has also been improved to cater to more end-users and to now include a more robust Virtual Store, an Annual Procurement Plan module, and an E-Catalogue of common-use supplies procured in bulk by the government. It also has an electronic payment facility, a procurement management information system, and a contract management system. The government also incentivized agencies through the PBB (see pages 20-21) to comply with the requirement to post announcements of bids and awards through PhilGEPS.

**Value for Money**
The government leveraged its bulk-buying power to procure goods at the most affordable cost. It mandated agencies to use and maximize the Procurement Service (PS)—the government’s bulk buyer—to purchase common-use supplies, such as paper and computers. This process resulted in savings of 30 percent at normal market prices. The government also modernized the PS.

**Capacity of Agencies**
Procurement must be strengthened across the bureaucracy. Thus, the government enabled agencies—especially those with large volume procurement requirements (e.g., DPWH)—to create additional bids and awards committees (BACs) and to assign full-time procurement technical staff to support BAC operations and other procurement activities (see pages 20-21).

Since 2012, the Government Procurement Policy Board (GPPB) has been assessing the procurement performance of agencies through the Agency Procurement Compliance and Performance Indicator (APCPI) framework. Based on these assessments, agencies formulate action plans to improve processes and address problems identified. The technical support office of GPPB has also been providing capacity-building trainings to procurement personnel.

1 Administrative Order No. 46 s. 2015
GOVERNMENT COMPENSATION REFORMS

Competitive Pay to Incentivize Good Performance

IN A NUTSHELL

- Government pay should be hinged on: equal pay for work of equal value; competitiveness with the private sector; performance-based; and financial sustainability.
- In the past, the government sought to implement these principles through the Salary Standardization Law (SSL) of 1989 and its updates, SSL II in 1994 and SSL III in 2009. However, key factors had constrained the implementation of these principles:
  - Before SSL III, the ballooned fiscal deficit prevented salary hikes. In 2009, SSL III increased basic salary rates in four tranches up to 2012 and rationalized benefits.
  - Distortions in pay across government, e.g., excessive bonuses in GOCCs, liberal grant of Magna Carta benefits, and “pabaon” in the military.
  - Principle of SSL III for performance-based pay not fully implemented

- Since 2010, reforms for just, competitive, and performance-based pay have been pursued:
  - After the full implementation of SSL III, introduced SSL 2015 to bring salaries to at least 70 percent of market rates and institutionalize performance-based incentives
  - Addressed distortions: rationalized GOCC pay, clarified the provision of Magna Carta benefits, pursued military and uniformed pay reforms after ending “pabaon”
  - Introduced the Performance-Based Bonus (PBB) to reward performing employees

- Moving forward, the government should continue to address issues that constrain a fair, competitive, performance-based, and sustainable pay system:
  - Continue to improve revenue collections to fund increases in salaries under SSL 2015 without eating into productive spending
  - Continue to cure pay distortions, e.g., via military and uniformed pension reform
  - Cure issues in implementing the PBB to motivate public servants

In the public sector, an ideal compensation system is anchored on four guiding principles: (1) equal pay for work of equal value; (2) competitive pay with counterparts in the private sector; (3) performance-based compensation, in which the employees’ and their organization’s performance are linked to the pay they receive; and (4) fiscal sustainability, in which personnel services costs are maintained at manageable levels in proportion to total government expenditure. Implementing these principles help attract, retain, and motivate competent and committed public servants.

Ultimately, a fair, competitive, performance-based, and sustainable pay system helps the government deliver timely and quality services to citizens.

Since 1986, the Philippine government has pursued measures to abide by these principles. Foremost of such measures was the Compensation and Position Classification Act of 1989, or the Salary Standardization Law (SSL). The SSL sought to address pay disparities across government agencies by standardizing the compensation of all government employees. The SSL was subsequently amended in 1994 (SSL II) and in 2009 (SSL III). The amendments provided for additional financial benefits in order to adjust pay levels to address rising living costs as well as to standardize the allowances and incentives in government.

“...the implementation of all three laws improved government compensation and contributed to the upliftment of the economic status of public servants. The compensation reforms also increased the saleability of working for the government.”

Assistant Director Maria Lourdes Aganon
DBM Organization, Position Classification, and Compensation Bureau

SITUATION BEFORE 2010

The SSL III and Persistent Disproportions in Government Compensation

Before the enactment of the SSL III, the unstable fiscal situation (see Fiscal Management) prevented the government from bringing salaries closer to market rates. After a five-percent pay increase for all government employees in 2001, salary rates had remained stagnant because of a ballooned fiscal deficit and the increasing personnel services (PS) cost that reached an average of 33.8 percent of total expenditures annually from 2001 to 2005. With the fiscal crisis in 2004, increasing the salary rates would further constrain resources for capital outlays and priority programs.

In response, the previous administration began the Rationalization Program in 2004 in an attempt to curb the high PS costs, while modernizing the bureaucracy as well (see JLD sidebar on the Rationalization Program). When the fiscal deficit eased, the government made across-the-board salary adjustments in 2007 and in 2008. While across-the-board increases had provided the much-needed economic relief to employees, the problem, however, was that the salary rates were not benchmarked with the private sector.

Before the SSL III: Salary Hikes Hampered by Fiscal Constraints

By leveraging salary increases with responsibility and accountability, all three SSLs upheld the basic ethos of “equal pay for work of equal value.” Thus, all three SSLs had recognized, although not resulting in a significant monetary adjustment, the differences in duties and responsibilities of positions. Moreover, they had raised the salary grades of critical and hard-to-fill positions, as well as the qualification requirements, complexity of functions, and labor market conditions. The SSLs likewise sought to address the overlaps in the salaries of supervisors and subordinates, which had also been a cause of personnel dissatisfaction.

However, key factors had constrained the objectives of the SSL to establish a fair, competitive, performance-based, and sustainable pay. First, fiscal constraints that limited the government from raising salaries to be at par with the private sector, although the SSL III was enacted in 2009 when the deficit eased. Second, there were exemptions from the SSL. Third, bonuses and other additional benefits were not tightly linked to performance.
The SSL III: An Updated Framework for Competitive and Performance-Based Pay

Eventually, Congress passed Joint Resolution (J.R.) No. 4 in 2009, otherwise known as the SSL III, to bring salaries closer to market rates and enforce performance in the pay system. The SSL III upgraded the basic salaries in four annual tranches from 2009 to 2012, and in the process addressed distortions in salaries. The SSL III also standardized allowances and benefits, and introduced a performance-based incentive scheme “to reward exemplary civil servants and well-performing institutions.” The SSL III enforced all these elements through the Total Compensation Framework.

Components of Total Compensation as Rationalized by the SSL III

1. Basic Salary Plus Step Increments
2. Specific Allowances and Benefits
   a. Personal Economic Relief Allowance (PERA) – monthly allowance of P2,000
   b. Clothing Allowance – Annually at P5,000 per employee
   c. Year-end Bonus and Cash Gift – the year-end bonus is equivalent to one month basic salary while the cash gift is currently pegged at P5,000
3. Specific-Purpose Allowances and Benefits
   a. Representation and Transportation Allowances (RATA) – given monthly to division chiefs and up; RATA rates have increased over the years to keep up with rising costs
   b. Honoraria – token payments for services rendered beyond the normal duties and responsibilities, such as for serving as lecturers in seminars
   c. Hazard Pay – given to government personnel, such as health workers and uniformed personnel who are exposed to dangerous situations
   d. Subsistence Allowance – allowance for meals or sustenance
4. Incentives
   a. Incentives for the employee’s loyalty to government service; such as loyalty incentives and anniversary bonuses
   b. Incentives for the agency’s performance in exceeding financial and operational targets; such as the Collective Negotiation Agreement incentive and for the employee’s performance, such as the Productivity Enhancement Incentive

Distortions in Government Pay due to Exemptions

Even as the SSL III sought to standardize and rationalize the government compensation system, inequity remained because of exemptions from the SSL. In particular, 27 Government-Owned and Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs) had been exempt from the SSL. Moreover, by virtue of their respective charters, some of the GOCCs and GFIs enjoyed a certain degree of fiscal independence from the national government. Such exemptions were necessary to make the pay packages of GOCCs and GFIs, especially those with commercial operations, competitive with the market. However, such conditions were abused as excessive allowances and bonuses were granted to their officials and staff. For instance, an investigation conducted by the Senate Committee on Finance in 2010 found that the Metropolitan Waterworks and Sewerage System (MWS) gave 25 months’ worth of bonuses and allowances to its employees in one year (R. Chua, 2010). Moreover, because the compensation of members of the governing boards of GOCCs in the past had been regulated, various directors or trustees granted themselves excessive and unauthorized bonuses and other compensation “regardless of performance and with poor attendance records (GCC, 2013). Likewise, certain directors who were appointed to invest in corporations had claimed bonuses, profit-sharing, and stock options that should have otherwise accrued to their respective GOCCs (GCC, 2013).

Liberal Interpretation of Well-Meaning Magna Carta Benefits

Prior to the SSL III, Congress initiated provision of allowances under separate laws, such as those benefits stipulated in Magna Carta for specific professional groups: public health workers, public school teachers, social workers, and science and technology personnel. The so-called Magna Carta benefits aim to alleviate their economic conditions and to encourage skilled personnel to stay in government service.

However, the way these benefits had been implemented created distortions in government pay. First, the “unfairly liberal” interpretation of the Magna Carta laws meant that employees who were not the intended beneficiaries had received such benefits; for example, a bookkeeper working in a public hospital received Magna Carta benefits intended for medical personnel (INGITEGov, 2009a). Similar abuses had occurred in instances in which the full hazard pay were given to employees even if their exposure to health risk had been minimal; subsistence allowance were paid even on days off and non-working days; and, at times, double benefits were paid for the same purpose. Moreover, the Magna Carta laws do not specify the sources of funding; hence, savings were used to pay for these benefits. As the amount of savings varied among public hospitals, for example, workers therein did not receive the same amount of benefits. The same situation was true for health workers in local government units (LGUs), which had varying financial capacities to provide such benefits (Lavado, 2011).

The illegal “pabaon” for Generals

Likewise adding to the distortion in the government’s compensation system were outright abuses in the management of public funds to pay for unauthorized compensation. The typical example was the “conversion” of “savings” from unfilled military and other uniformed positions. Such savings were used to provide, among others, the notorious “pabaon” or gift for retiring military officials. What had enabled this misapplication to happen was the release of PS funding to the military for both their filled and unfilled positions: an exemption to the general rule in which government offices would only receive funding for their filled positions.

“Pabaon” was a tradition in the military to convert part of their PS savings for other purposes not authorized by DBM or by law. When the chief of staff retires from the military, he gets an amount—sort of a gratuity of what he should be receiving as part of the services he rendered to the military. There were anecdotal instances that the ‘pabaon’ can go as high as hundreds of millions.”

Assistant Secretary Tina Rose Marie L. Canda
DBM BUDGET PREPARATION AND EXECUTION GROUP

The illegal “pabaon” was being given in addition to the legally mandated pensions and other retirement benefits for the military and other uniformed personnel (MUPs). Adding to the inequity is that the retirement benefits of MUPs are paid by the government from the National Budget and not from a pension fund, such as the Government Service Insurance System (GSIS) to which civilian personnel contribute. The DBM has nonetheless tried to rationalize military pensions by keeping, starting 2009, a database of all military and uniformed personnel who retired as of this date.

Compensation Not Linked to Performance

The implementation of a performance-based incentive scheme “which integrates personnel and organizational performance” was not entirely true to the spirit of the SSL III. For instance, the Productivity Enhancement Incentive (PEI) provided each government employee between P5,000 to P100,000 yearly, regardless of their level of productivity or performance.

The SSL III, through JR No. 4, also institutionalized the grant of the Collective Negotiation Agreement (CNA) Incentive for “both management and rank-and-file employees of agencies with approved and successfully implemented CNAs in recognition of their efforts in accomplishing performance targets at lesser cost, in attaining more efficient and viable operations through cost-cutting measures and systems improvement.” Introduced by the previous administration through Administrative Order (A.O) No. 135 in 2005, the CNA Incentive required that the management and the employees’ union must identify in their CNA cost-cutting and systems improvement measures that they would jointly undertake. The CNA Incentive, paid yearly, was sourced from the savings generated from these cost-saving measures usually from key items under the Maintenance and Other Operating Expenses (MOOE) of an agency; such as electricity and paper. However, the CNA Incentive had been prone to abuse. Some agencies “forced” the creation of savings by intentionally underspending at the expense of key programs. Others bloated their budgets for MOOE to generate higher “savings” in order to fund higher CNA incentives. As a result, some agencies had provided huge CNA incentives even if they failed to deliver services effectively.
The Compensation and Benefits Study for the Public Sector, which covered actual pay rates in 2014, revealed that the government pay was, on the average, 45 percent below market. The salaries of sub-professional staff (SGs 1-10), such as administrative assistants and drivers, were found to be competitive. In contrast, professionals (SGs 11-24) were found to receive as low as 41 percent of market rates; while middle managers and executives (SGs 25-28) only about a third of the pay of their counterparts in the private sector (see Table 2). These findings gave urgency to propose another round of adjustments in the government compensation system, in addition to the decreased purchasing power of government employees by as much as 12.2 percent due to inflation from 2012 to 2015.²

A New Round of Hikes to Make Government Pay Competitive

The government developed a new compensation adjustment strategy for 2016 to 2019. Guided by the principles of the J.R. No. 4 and the findings of the compensation study, the government adopted the following parameters (see Table 2) to implement its third (2011) and the fourth (2012) tranches by a month earlier to June, from the original schedule of July as stated in J.R. No. 4.³

### Table 1. Breakdown of Implementation Cost of the SSL III

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>22.8</td>
<td>42.6</td>
<td>38.7</td>
<td>40.7</td>
<td>144.8</td>
</tr>
</tbody>
</table>

Three years after the last tranche of the SSL III in 2012, the administration proposed another round of salary increases to narrow the pay gap between the public and the private sectors.

In line with J.R. No. 4 s. 2009, which provided for a periodic review of the government’s Compensation and Position Classification System every three years, DBM initiated a compensation study in 2015, through a private consulting firm⁴, to determine the competitiveness of government pay in relation to that in the private sector and craft a compensation strategy to bring government pay closer to market rates.

### Parameters for the SSL 2015

- Raise the minimum salary (SG 1) from P9,000 to P11,068 a month;
- To attract and retain talent, bring the compensation of government personnel to at least 70 percent of the market median for all salary grades;
- Correct salary overlaps in order to recognize differences in duties and responsibilities;
- Strengthen the link between pay and performance, especially for those in higher ranks;
- Temporize the cost of benefits (i.e., GSIS premiums and PhilHealth contributions) and allow for higher take-home pay, especially for those in the lower salary grades.

The 2015 compensation adjustment would not impede development spending. The total PS cost as a percentage of the total Budget would continue to decline as projected: from 29 percent in 2015 to less than 25 percent in 2018. Capital expenditures, including infrastructure outlays, would continue to increase to 30 percent by 2018 as projected.

The proposed compensation adjustment, however, was not passed into law before Congress went on recess in February 2016 due to a deadlock on the issue of increases in pension of the military and uniformed personnel. Thus, President Aquino III issued E.O. No. 201 on February 19, 2016⁵ to effect the new compensation strategy. The E.O. increases the basic salaries of civilian personnel, and provides for the granting of the Mid-Year Bonus and the PEI amounting to P5,000 for all government employees by as much as 12.2 percent due to inflation from 2012 to 2015.²

### Table 2. Competitiveness of SSL 3 and SSL 2015 Rates Compared to Market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Professional (SGs 1 to 10)</td>
<td>• Utility Worker • Driver • Messenger</td>
<td>126% to 79% of market</td>
<td>154% to 88% of market</td>
</tr>
<tr>
<td>Professional (SGs 11 to 24)</td>
<td>• Economist • Agriculturist • Accountant</td>
<td>76% to 41% of market</td>
<td>86% to 70% of market</td>
</tr>
<tr>
<td>Middle Manager (SGs 25 to 28)</td>
<td>• Director I • Director IV • Executive Director</td>
<td>39% to 34% of market</td>
<td>70% of market</td>
</tr>
<tr>
<td>Executive (SGs 29 to 33)</td>
<td>• Assistant Secretary • Undersecretary • Secretary</td>
<td>32% to 23% of market</td>
<td>70% of market</td>
</tr>
</tbody>
</table>

Figure 1. Compensation Strategy under the SSL 2015

1. President Benigno S. Aquino III.
3. President’s Budget Message 2011.
4. 12
5. President’s Budget Message 2011.
employees. The PBB amount, meanwhile, will be based on the monthly salary rates starting in 2017. The E.O. also provides for the increase of hazard pay and the grant of a substantial Provisional Allowance and Officers’ Allowance, in lieu of base pay increase, for active military and uniformed personnel.

### Rationalized benefits in GOCCs

In 2010, the government imposed a moratorium in the grant of incentives in the GOCCs, pending a review by the Cabinet-level task force on the compensation system of GOCCs. Consequently, President Aquino issued E.O. No. 24 in 2011 to describe the rules governing the compensation of members of the Board of Directors or Trustees of GOCCs and government financial institutions. The E.O. set the maximum allowable compensation for members of the Board of Directors or Trustees based on the assets and revenues of the GOCC, as well as the maximum rates for per diem in board and committee meetings.

The Aquino administration standardized and rationalized the per diems of the Board of Directors of GOCCs that were subject of abuse before. It also initiated the drafting of the bill on the GOCC Compensation System, which was eventually passed by Congress as the GOCC Governance Act of 2011.

Asec. Myrna S. Chua
DBM ORGANIZATION AND SYSTEMS IMPROVEMENT GROUP

Subsequently, the Governance Commission on GOCCs (GCG), created through the GOCC Governance Act of 2011 (see Fiscal Management), determined the compensation and position classification system of the GOCCs, especially those that were SSL-exempt, based on their commercial operations and financial sustainability. The government adopted the Performance Evaluation System for GOCCs in 2013 to tie in incentives with performance. The GOCCs then started to use a performance scorecard as basis for granting performance-based incentives.

In 2016, President Aquino issued E.O. No. 203 to establish a Compensation and Position Classification System (CPCS) and a General Index of Occupational Services (IOS) Framework for the GOCC Sector, which were developed by the GCG after a compensation study. The CPCS, in particular, limited the total compensation of GOCC officers and employees to basic allowances and benefits, and variable pay.

### Clearer Parameters for Magna Carta Benefits

The administration likewise called for the re-evaluation of the funding and guidelines for Magna Carta benefits, particularly for health workers, in accordance with J.R. No. 4. The review resulted in issuances that clarify the grant of such benefits to health workers and science and technology workers.

One issuance was the DBM-DOH Joint Circular J.C. No. 1, s. 2012 that rationalized the guidelines on the grant of hazard pay, subsistence allowance, and longevity pay so that only deserving employees were paid those benefits. It prescribed the rules and regulations in providing said benefits, such as the hazard pay for public health workers at SG 19 and below. Their hazard pay should be based on the degree of exposure to high risk and low risk hazards, as well as on the number of workdays of actual exposure, but at rates not to exceed 25 percent of the monthly basic salary. However, in 2015, the Supreme Court ruled that the provisions of the DBM-DOH Joint Circular were unenforceable insofar as it lowers the hazard pay at rates below the minimum. A revised Joint Circular on Hazard Pay is currently being drafted by the DBM and the DOH. The said J.C. which will be issued in 2016, will prescribe the rules on the payment and rates of the hazard pay for public health workers.

Another joint circular, J.C. No. 1, s. 2013, was issued by the DBM and the DOST to provide for the rules and regulations on the grant of compensation-related Magna Carta benefits to scientists, engineers, researchers, and other science and technology personnel. Similar to the DBM-DOH circular, the DBM-DOST joint circular provided for the inclusion of the funding requirements of the Magna Carta benefits for government employees in the annual Budget. It also rationalized the guidelines for honoraria, per diem, hazard pay, subsistence allowance, and longevity pay.

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### The End of Pabaon: An Opportunity to Implement Reforms

The government pursued reforms to curb leakages in the incentives given to military and other uniformed personnel (MUPs). Dovetailing the revelation of the “pabaon” scheme, the government through the DBM withheld the release of budgets for unfilled MUP personnel to the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) until these institutions submitted to the DBM validated rosters of active personnel. These lists of personnel, as validated, were further verified against other personnel databases, such as actual payroll; records of the Employees Compensation Commission (ECC) to which all employees of the national government, whether uniformed or civilian, contribute; and the government servicing banks that handle the payment to soldiers and the compensation of MUPs.

Similarly, the DBM, the AFP, and the PNP agreed that the rosters of MUPs be rid of so-called “ghost” personnel and retirees. The administration likewise took the opportunity to implement other reform initiatives in the MUP sector, including the use of automated teller machine (ATM) cards with biometric data in releasing pensions to retirees. The “pabaon” issue also motivated the introduction of Cashless Purchase Cards (see Foster and Efficient Budget Execution) to curb abuses related to cash advances and the “conversion” of PS expenses to others.

“We also went after the pension leakages because we received anecdotal information that pensions were being received even by those who already died. We limited the number of pensioners who could receive their pension via checks; and we required the periodic updating of the pension list. We also requested the military and PVAO, agencies in charge of pension, to ask all pensioners to re-register using the ATM.

“Of course, it was not easy. They complained. They went to social media, to the media, to anyone who would listen. But because of this process of cleansing the pension roster, we were able to give back to the national government, in forward estimates, P1 billion each year for three years.”

Asec. Tina Rose Marie L. Canda
DBM BUDGET PREPARATION AND EXECUTION GROUP

### Linking compensation and performance: PBB and CNA

In 2011, President Aquino issued A.O. No. 25 that created a task force to develop a mechanism to link the compensation of personnel to their individual and their respective agency’s measurable performance, which gave rise to the Performance-Based Incentive System (PBIS) in 2012.

The PBIS provided for two incentives for qualified government employees: the PEI, which was a P5,000 incentive given across the board; and the PBB, a maximum P35,000 incentive (see Table 3) granted to employees based on their contributions in attaining their organization’s goals and targets. For the employees to be entitled to the PBB, an agency must meet all the conditions of good governance set annually by the A.O. 25 Task Force (see box); achieve at least 90 percent of each of Congress’ approved targets specified in the GAA; and achieve at least 90 percent of the agency’s priority commitments to the President as stated in their Secretary’s Performance Contract.

Good Governance Conditions for FY 2015

- Maintain/update agency Transparency Seal (Sec. 91 of 2015 GAA)
- The agency’s Transparency Seal must include posting of its system of ranking delivery units and individuals. Quality Management Certificate from an international certifying body or the agency’s Operations Manual, whichever is applicable.
- Maintain/update PhilGaps posting
- Maintain/update Citizen’s Charter or its equivalent
The PBB featured a rationalized distribution of incentives based on the performance of bureaus and individuals. It likewise provided a system of forced ranking for PBB eligible office and employees.

Based on performance, 10 percent of the delivery units were ranked by the department secretary as ‘Best Bureaus;’ while 25 percent were ranked as ‘Better Bureaus.’ The remaining 65 percent fell under the ‘Good Bureaus’ category. Within each ‘bureau’ or service delivery unit, employees were similarly ranked as ‘best;’ ‘better;’ or ‘good’ based on their individual performance. The SSL 2015 institutionalizes the PBB, which will be equivalent to one to two months’ basic salary depending on the ranking of the delivery unit starting in 2017.

### Table 3. PBB Rates of Incentives, 2016

<table>
<thead>
<tr>
<th>Group Performance Category</th>
<th>Individual Performance Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Bureau</td>
<td>Best Performer</td>
</tr>
<tr>
<td></td>
<td>35,000 (20%)</td>
</tr>
<tr>
<td></td>
<td>Better Performer</td>
</tr>
<tr>
<td></td>
<td>20,000 (35%)</td>
</tr>
<tr>
<td></td>
<td>Good Performer</td>
</tr>
<tr>
<td></td>
<td>10,000 (45%)</td>
</tr>
<tr>
<td>Better Bureau</td>
<td>Best Performer</td>
</tr>
<tr>
<td></td>
<td>25,000 (15%)</td>
</tr>
<tr>
<td></td>
<td>Better Performer</td>
</tr>
<tr>
<td></td>
<td>11,500 (30%)</td>
</tr>
<tr>
<td></td>
<td>Good Performer</td>
</tr>
<tr>
<td></td>
<td>7,000 (35%)</td>
</tr>
<tr>
<td>Good Bureau</td>
<td>Best Performer</td>
</tr>
<tr>
<td></td>
<td>15,000 (10%)</td>
</tr>
<tr>
<td></td>
<td>Better Performer</td>
</tr>
<tr>
<td></td>
<td>10,000 (25%)</td>
</tr>
<tr>
<td></td>
<td>Good Performer</td>
</tr>
<tr>
<td></td>
<td>5,000 (65%)</td>
</tr>
</tbody>
</table>

Note: Bureau refers to the delivery unit. The rates were also used in 2012 to 2014; in 2015 and beginning in 2017, the rates were pegged against the monthly basic salary of the individual employees.

Source: Executive Order No. 80, s. 2012

In the process, the PBB enabled the public servants to understand better their individual roles vis-à-vis the service delivery commitments of their agencies, as well as promote better teamwork and improve transparency and accountability. A World Bank study presented to the DBM (Hasanin and Banuri, 2014) on pay and performance reported that government employees perceived the PBB as having “induced improvements in management practices” and a “performance driver and motivation for public service.”

Moreover, since its implementation in 2012, the participation rate of the agencies in the PBB had increased from 96 percent in 2013 to 99 percent in 2014 (see Table 4) an indication that more heads of the agencies saw the value of the PBB as a driver in meeting their service delivery commitments. Likewise, the compliance of the agencies with the good governance conditions had increased from 88 percent in 2012 to 98 percent in 2014. Marked improvements had been recorded in the compliance rate for the Transparency Seal (see Fiscal Transparency) and the disclosure of procurement notices and awards through the Philippine Government Electronic Procurement System (see Procurement Reform).

### Table 4. PBB Participation Rates in 2013 and 2014

<table>
<thead>
<tr>
<th></th>
<th>FY 2013 (99%) 193 out of 192 agencies</th>
<th>FY 2014 (99%) 190 out of 192 agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Departments</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>OEOs</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>GOCCs</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>SUCs</td>
<td>111</td>
<td>111</td>
</tr>
</tbody>
</table>

The administration likewise made the grant of the CNA Incentive performance-based, in line with the intent of J.R. No. 4, as well as the provisions of A.O. No. 25. Employees become eligible only if their agencies meet 90 percent of their respective performance targets in the GAA as well as the Secretary’s Performance Contracts. To curb excessively high bonuses, the government capped the CNA Incentive at a maximum of P25,000 per employee starting in 2011. The DBM-issued circulars on the CNA Incentive likewise specified that the CNA Incentive be funded only from a limited set of allowable MOOE allotments: traveling expenses, communication expenses, repairs and maintenance, transportation and delivery expenses, supplies and materials, and utility expenses. The circulars issued beginning in 2014 likewise specified that the balances of allotments for programs, activities, and projects (P/A/Ps) which were discontinued or deferred, as well as allotments intended for the acquisition of goods and services to be delivered to the agency’s clients, could not be used as sources of funding for the CNA.

### CHALLENGES AND NEXT STEPS:

#### Is the Pay System Already Competitive, Performance-Based, and Sustainable?

The SSL 2015 was envisioned not only to increase government compensation but also to institutionalize the PBIS and other reforms that clearly link government compensation with measurable performance. As the 16th Congress had failed to approve this measure before its regular session closed. President Aquino issued E.O. No. 201 to effect the compensation adjustments. While allowed by J.R. No. 4 s. 2009, the fact remains that an E.O. is not a law that cannot easily be reversed. Beyond institutionalizing the SSL 2015 through law, however, the next administration may need to look into other laws and practices that affect the fairness, competitiveness, performance-orientation, and sustainability of the government’s compensation system.

#### Make Compensation Competitive

Under E.O. No. 201, government compensation will be at least 70 percent of the market median by 2019. In this light, the government must sustain the increase in revenue collections and the reduction of the fiscal deficit to finance the four tranches of compensation adjustments as well as to contain PS costs to less than 30 percent of the total Budget. However, proposed revenue-eroding measures pose risks to ensuring adequate resources for the salary adjustments. The continuing demand to increase salaries in order to beat inflation does not only create demands on the fiscal space but also have the effect of pressuring the private sector to hike salaries. There are reports of exodus of private school teachers to the public sector to enjoy better benefits (Sambalud, 2014).

#### Address Pay Inequities Within Government

Even with the issuance of E.O. 201, key distortions in the government compensation system could remain unaddressed if existing laws providing additional benefits would not be reviewed. First, on Magna Carta benefits, the provision of additional benefits to workers in hazardous jobs may be needed; however, the specific funding sources for those benefits should be identified to ensure the equitable implementation of the law. Second, even with the issuance of E.O. No. 201 for national government and E.O. No. 203 for the GOCC sector, pay inequities within government will remain because of the differing pay scales in these two issuances. While giving certain GOCCs a higher pay scale than those in the regular agencies may be justifiable as the former compete with the private sector, a review may be necessary in order to establish common compensation standards, whether in

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**Assistant Director Elena Regina Brillantes**  
**DBM BUDGET AND MANAGEMENT BUREAU FOR GOOD GOVERNANCE SECTOR**

“I believe no distinction should be made, in terms of compensation, among all government employees to attain a truly standardized compensation system across the entire bureaucracy…”
Another urgent issue is the looming crisis in the pension of the military personnel. Based on DBM’s projections, such pension cost will reach P73.09 billion in 2020 and overtake the total salaries of active AFP military personnel at P73.04 billion. As earlier discussed, inequities already exist between uniformed and civilian personnel, in which the former’s retirement and pension benefits are paid out of the Budget, while those of the latter come from their contributions to the GSIS. Thus, efforts to reform the MUP pension system must be pursued, including the development of a pension fund scheme that is a part of, or similar to, the GSIS.

“Pending the passage of the MUP Pension Reform Bill in Congress, EO 241 is just an interim measure. It has given the national government space to review the automatic indexing and the non-contributing policies under the current system. The current system is no longer sustainable since the national government can no longer foot the entire cost.”

Assistant Director Evelyn Peralta  
DBM BUDGET AND MANAGEMENT BUREAU FOR SECURITY, PEACE, AND JUSTICE SECTOR

Strengthen Performance-Based Compensation

The E.O. No. 201 strengthens the PBB by making it equivalent to one to two months’ salary depending on one’s performance. However, a number of concerns expressed by government employees about its implementation should be addressed. In particular, the government should continue its efforts in making individual performance assessments more rigorous and evidence-based, while ensuring that such assessments are not too cumbersome for managers and employees to carry out. As DBM Asec. Myrna Chua emphasized, “the major challenge in implementing the PBIS is how to make the system a truly effective tool in incentivizing and rewarding performance.”

Such efforts should be pursued in light of concerns on the forced-ranking system across and within agencies, there exist varying interpretations of the implementation mechanics and criteria for rating performance and ranking delivery units and individuals. Such varied appreciation of the mechanism has been creating skepticism as well as impressions that the forced-ranking system is unfair and subjective. In the DBM itself, a Perception Assessment Report[1] surfaced suggestions to reconsider the forced-ranking process as it lacked transparency, appeared to be “very subjective and too restrictive as it was mostly based on favoritism among employees. (As such, for the respondents, it is not an accurate measure of performance. (DBM, 2015b)” Respondents of the assessment also said that forced ranking “only encourages unhealthy competition instead of teamwork, increases tension, and creates faction/division among employees (DBM, 2015b).” To address some of these concerns, the A.O. 25 Secretariat conducted dialogues and orientations to level off understanding on the PBB guidelines. Moreover, the agencies were recently required to disclose their respective rating and ranking systems through their Transparency Seals.

NOTES

2 Across-the-board salary increases implemented by President Estrada through Executive Order (E.O.) No. 22 s. 2001 (10 percent); and by President Arroyo through E.O. No. 22 s. 2001 (five percent).
3 Across-the-board salary increases implemented by President Arroyo through E.O. No. 611 s. 2007 (ten percent), and No. 719 s. 2008 (10 percent).
4 As specified in provision d under 1. Governing Principles, Joint Resolution No. 4 (Authorizing the President of the Philippines to modify the compensation and classification of civilian personnel and the pay schedule of military and uniformed personnel in the government, and for other purposes).
5 Though Tourism Infrastructure and Enterprise Zone Authority (TIEZA) is SSL-exempt per Republic Act No. 9593, it still follows SSL provisions.
6 Magna Carta of Public Health Workers, Republic Act (R.A.) No. 7305
7 Magna Carta for Public School Teachers, R.A. No. 4670
8 Magna Carta for Public Social Workers, R.A. No. 9433
9 Magna Carta for Scientists, Engineers, Researchers, and Other Science and Technology Personnel, R.A. No. 8439
10 Translated to English from its original statement: ‘Upang magtanggap ng mga wikang Pilipino, ang mga layon at ususuan sa paggagaling, nanapag lumang na pinilas at nanalanta ng mga layon at ususuan sa paggagaling, na nanahimik na nga hakot.”
11 This is the schedule for the national government sector and GOCCs and GFIIs; while for LGUs, JR No. 4 s. 2009 mandated that the salary adjustments be implemented beginning January.
12 Towers Watson is a human resource consulting firm tapped by DBM to conduct the compensation survey.
13 Weighted average
14 Compounded inflation rate from 2012 to May 2015
15 The 13th Month Pay used to be divided into a mid-year bonus and a year-end bonus.
16 The total weighted average increase of 4.5 percent is composed of 27 percent from basic salary increases, 8 percent from the Mid-Year Bonus, and 10 percent from the PBB.
17 “Modifying the Salary Schedule for Civilian Government Personnel and Authorizing the Grant of Additional Benefits for Both Civilian and Military and Uniformed Personnel”
19 The CPCS covers the GOCCs whether these have been previously exempted from or covered by the SSL. It also does not apply to the GOCCs exempted from the GOCC Governance Act: the BSP, SUCs, cooperatives, local water districts, economic zone authorities, and research institutions. It also does not cover indirect compensation, such as life and retirement insurance benefits and provident fund benefits.
21 Introduced in 2012 per Executive Order (E.O. No. 80)
22 For FY 2015, the government modified the PBB in the interim by pegging amounts to the basic salary rates of employees rather than the fixed rates. A similar scheme was adopted under the SSL 2015.

The DBM Perception Report was prepared by the DBM’s Internal Audit Service based on the perception assessment it conducted in September 2015 at the DBM. The assessment was participated in by 253 rank-and-file employees.
This sample pay slip shows increases in basic pay and certain benefits of civilian employees of national government agencies as of the First Tranche Salary Schedule released in 2016. Three more tranches are scheduled from 2017 to 2019.

E.O. No. 201 also covers LGU personnel, subject to the LGUs’ financial capacity and other parameters.

### Annual Basic Salary
Scaled up by a weighted average of 27 percent, pre-E.O. No. 201 to the final tranche of E.O. No. 201. For this SG, the annual basic salary will increase by 11 percent in 2016 and by 53 percent in 2019 from pre-E.O. No. 201 rates.

### Mid-Year Bonus
A new incentive for all employees equivalent to one-month salary

### Performance-Based Bonus (PBB)
The Enhanced PBB is worth one to two months’ basic salary depending on performance will be effective by 2017 onward.

### Productivity Enhancement Incentive (PEI)
Rationalized to a fixed P5,000 each for all employees

### Year-End Bonus (YEB)
Equivalent to one-month salary plus a P5,000 cash gift

### Total Gross Pay
In 2019, this bottom line will become P1,060,115, a 53-percent increase from P693,128 at pre-E.O. No. 201, if 1.25 months of the Enhanced PBB and the same benefits are included.

Assumptions: This salary represents step 1 of SG 22 with maximum amounts for PBB (best employee in the best bureau) and the CNA Incentive. Computations exclude tax and other deductions.

## HOW WE MADE GOVERNMENT PAY COMPETITIVE

Attracting and retaining talent in government requires a competitive compensation package. Executive Order (E.O.) No. 201, s. 2016 increased compensation to at least 70 percent of market rates, rationalized previously abused bonuses, and strengthened the link between pay and performance.

The E.O. No. 201 rationalized other standard bonuses such as the PEI, PERA, YEB, U/CA, and CNA Incentive.

Collective Negotiation Agreement (CNA) Incentive: Capped at P25,000, given to employees whose agencies meet 90 percent of their performance targets in the GAA and the Secretary’s Performance Contracts.
The Struggle to Pass a Salary Hike

In April 2015, the DBM spearheaded the review of the government’s compensation system, three years after the full implementation of the Salary Standardization Law (SSL) III in 2012. The review aimed to benchmark government compensation against the private sector, and to identify a proper strategy to make government pay competitive. Some months after the review had begun, I was transferred from the Systems and Productivity Improvement Bureau to the Office of Asec. My new boss’ first assignment for me was to work on the proposal on compensation adjustment, dubbed SSL 2015. However, I was still in college when SSL III was passed in 2009, so I barely understood how it was crafted. At the same time, I also had little background in compensation-related matters.

Nonetheless, the potential of our SSL 2015 proposal, which my boss said would feature many improvements compared to its predecessor, encouraged me to take on the task. The proposal would be based on a more comprehensive study, which covered comparable positions in the private sector. Moreover, it would aim to increase not only the salaries of government workers, but also ensure higher take-home pay.

Finalizing the proposal was both challenging and inspiring. It meant late nights and weekends in the office, working to make sure that our figures tallied and that all our queries from various groups and personalities as to when the SSL 2015 proposal would be submitted. But the work was inspiring because I knew that once completed, this would lead to a more inspired bureaucracy, with a renewed spirit to be of greater service to the Filipino people.

Unexpectedly, the proposal was met with criticisms, if not opposition. Some people looked at the proposal solely based on the Salary Schedule, which only referred to the monthly basic salary. They focused only on the P500-increase per month and not on the additional one-month bonus. They compared what a higher-ranking official would get over the entry-level employee. While their observations might have been valid, presenting them in social media without the proper context painted the wrong picture. We were not increasing salaries for the singular purpose of doing so, but more important, we were adopting a compensation strategy that would address gaps in the current system, one of which was that managers and executives in the government were paid much less than their private sector counterparts.

Getting the President’s approval was a major milestone. As if the journey before the presentation to the House was not gruelling enough, the way to the Senate took a different turn. Receiving feedback that the compensation adjustment was “obuloy (alms)” and “barya (loose change),” and seeing a tarpaulin that said “oppose SSL 2015” was disheartening, to say the least. However, comments, such as, “This is a good proposal,” “This is very much needed,” and “We are excited for this to happen” brought me comfort and affirmation.

Despite discouragements and the negativity, I always tell myself that while we cannot please everybody, I know that I am part of an undertaking that will benefit all government employees and ultimately the rest of the country.

And, for me, that is what matters.

I believe that overall, the SSL 2015 was a success for the Philippine bureaucracy because it meant steering government compensation toward competitiveness. We should continue to strive for a more competitive and rewarding compensation system for the hardworking and dedicated public servants, which will lead to a more inspired bureaucracy, with a renewed spirit to be of greater service to the Filipino people.

1 As of this publication, Pedro is an Executive Assistant III of the Office of Asec. Chua.

The Difficult Task of Transforming Institutions

From 2004 to 2013, I was part of the implementation of a vital reform initiative, the Government Rationalization Program, which was mandated under Executive Order (E.O.) No. 366, s. 2004 to transform the bureaucracy into an effective and efficient institution.

I was a Budget and Management Analyst back then and had been only in the DBM for more than a year when I was assigned to handle the drafting of the said E.O., as well as its Implementing Rules and Regulations (IRR).

I was a bit concerned in undertaking the task since said documents would be presented and approved by the key officials of the government, such as the late DBM Secretary Emilia Boncodin and former Civil Service Commission (CSC) Chairperson Karina David, and eventually by the President. But with the guidance and effective supervision of my Division Chief and my Bureau Director at that time, I was able to draft these issuances.

Part of my task was to evaluate the rationalization plans submitted by seven agencies: Department of Agrarian Reform, CSC, Bureau of Corrections, Career Executive Service Board, National Defense College of the Philippines, Philippine Army, and the Philippine Military Academy. Consequently, when I became a Division Chief in 2012, I reviewed the draft action documents as regard the evaluation of the plans of about 15 agencies.

As these plans were approved by the DBM, we then came up with a rationalized organizational structure and staffing pattern for said agencies, which were vital in improving the quality of their service delivery and enhancing their institutional capacity.

It took us a while before we completed the evaluation of the plans since there were instances that the proposed functional, organizational, and staffing shifts of the agencies were not consistent with E.O. 366 and its IRR, as well as DBM rules and regulations.

1 As of this publication, Janda is a Chief Budget and Management Specialist of the Systems and Productivity Improvement Bureau.

I felt the gratitude of those who gained from this program. I particularly remember some employees, who were affected by the program and opted to retire from the service, approaching me and extending their gratitude to the DBM for this effort.

I am equally grateful for the deeper knowledge that I gained about the DBM’s organization as well as the operations of the agencies that I worked with on this reform, and for the exposure I had to the many people in the government that I met in the course of this program.

I feel fortunate also that I became proficient not only in evaluating and reviewing organizational proposals, but also in staffing modification-related concerns. My presentation, facilitation, and negotiation skills were also honed through the many consultation meetings, dialogues, and briefings in the course of implementing the program.

I would be willing to be part again of a similar initiative that the DBM may take in the future. Our experience and lessons learned in the conceptualization and implementation of this program would be helpful in making a similar reform effort successful.
LINKING BUDGETING AND RESULTS
Making Every Peso Count Through Measurable Performance

IN A NUTSHELL

- Governments should structure their Budgets and set up mechanisms to link expenditures with the agencies’ performance commitments and their actual results.
- In the past, the government introduced the Organizational Performance Indicator Framework (OPIF), but this major reform was constrained by:
  - The fragmentation of performance management in government
  - The quality of performance indicators and targets
  - The performance targets presented in a separate document
  - The limited coverage of indicators due to the structure of the Budget
- Since 2010, the government scaled up OPIF and made the link between budgeting and results clearer:
  - Established the government-wide Results-Based Performance Management System, (RBPSM) using the OPIF as a core framework
  - Improved the quality of performance indicators and targets and established the National Evaluation Policy Framework
  - Included the performance indicators—both outcomes and outputs—in the Budget itself through the Performance-Informed Budget (PIB)
  - Began restructuring the Line item” budgets of the agencies according to Programs through the Program Expenditure Classification (PREXC)

- Moving forward, the government should address key challenges to establishing an honest-to-goodness performance budgeting system:
  - Sustain the cohesion of the various oversight agencies
  - Further improve the quality and integrity of performance indicators
  - Close the accountability loop by strengthening the evaluation and reporting of the agencies’ actual performance against their targets
  - Complete the PREXC implementation and secure the buy-in of Congress

A government must utilize its scarce resources to deliver services to its citizens at the most reasonable cost and with measurable results. As such, governments “must create an institutional framework that enhances the probability that actual outcomes will conform to prescribed targets (Schick, 1998).” As discussed in a previous chapter, the annual Budget must be linked to the medium-term PDP so that limited resources are allocated and spent on programs that achieve the desired social and economic results or outcomes (see Linking Planning and Budgeting). As the government invests in the right priorities, each of its implementing agencies must produce the goods and services—or outputs—at the right cost and quality, and in line with their mandates. The agencies must efficiently deploy the various inputs needed—personnel, equipment, and other resources—to deliver the output (see Figure 1).

![Figure 1](image-url)

From Inputs to Outputs to Outcomes

SITUATION BEFORE 2010

Scarce Resources Wasted on Ineffective Programs

“Previously, the National Expenditure program and the GAA were simply composed of numbers and line items without clearly explaining where exactly the funds were going.”

Undersecretary Laura B. Pascua

DBM BUDGET POLICY AND STRATEGY GROUP

As early as the Third Republic, Philippine policies expressed the principle that spending must lead to measurable results. However, budgeting practices had traditionally been focused on inputs rather than outputs or outcomes.

In the process of formulating the annual Budget, the agencies’ proposals had been focused on the cost of personnel, equipment, and other inputs they needed in implementing their programs. Funding decisions had been based mostly on their requirements for such inputs, not on how much and how well they should deliver goods and services (DBM 2012). Moreover, the agencies’ budgets usually just “increased incrementally with little consideration of program duplication or overlaps, changes in agency mandates, or the impact of agency activities on attaining sector and societal outcomes (DBM 2012).”

Moreover, the form and structure of the Budget itself did not show a clear link between the appropriations of each agency and their contributions in meeting the agency’s objectives.”

Among the PFM reforms implemented in various countries is performance budgeting: where budget management shifts from controlling inputs and ensuring financial compliance, to a greater emphasis on outputs and outcomes. Such reforms involve the reclassification of spending according to strategic objectives, as well as changes in the processes of allocating resources and accounting for resource flows to ensure their link with performance objectives (Andrews et al., 2014). Schick (2014) states that the contemporary concept of performance budgeting is generally defined by two models. The first, performance-driven budgeting, assert that allocations are firmly based on formulas that are hinged on actual or expected results. In contrast, performance-informed budgeting views that a more optimal approach is to inform Budgets by including relevant data on results being achieved. “It is now widely understood that government cannot budget for results unless they manage for results (Schick, 2014).” As such, performance budgeting has increasingly been viewed as a subset of performance management, and it has thus been expanded outside the process of budget formulation and even outside the PFM process itself. These extensions or offshoots include initiatives that reduce ineffective or unnecessary spending, improve the monitoring and evaluation of programs and overall socioeconomic performance, hold political leaders and public managers accountable for policy and spending decisions, and empower citizens in making those decisions.

Figure 1.
The GAA has two contrasting features: “line items” in the budget, or specific appropriations for programs, activities, and projects (P/A/Ps) and lump-sum funds under the agencies’ budgets and Special Purpose Funds (SPFs). This manner of presentation makes it difficult to assess an agency’s performance—more so, how they contribute to attaining the country’s development goals.

At the turn of the 21st century, the government attempted to link expenditures with their desired results through the Organizational Performance Indicator Framework (OPIF). A pillar of the PEM Improvement Program, the OPIF sought to shift the focus of budgeting from inputs to outputs. Through this framework, the agencies focused resources on their mandated and core functions and on their respective P/A/Ps that would yield the most benefits. It also sought to enable the government to account for and report outputs delivered through the implementation of these P/A/Ps. Though supported by technical assistance, the OPIF was “homegrown and indigenized (DBM, 2011).” The OPIF was developed by DBM in coordination with other oversight agencies, such as NEDA.

"The OPIF opened the gate for performance-based budgeting. It became the avenue for agencies to better understand and appreciate their mandate.”

Dir Mary Anne Z. Dela Vega
DBM BUDGET & MANAGEMENT BUREAU FOR FOOD SECURITY, ECOLOGICAL PROTECTION, AND CLIMATE CHANGE MANAGEMENT

A key feature of the system was the OPIF Logical Framework (LogFrame): a management tool that “tells a performance story of why, what, and how a department or agency delivers goods and services to its external clients (DBM, 2011).” The “why” pertained to the goals that an agency contributes to achieving, expressed through its organizational outcomes as well as societal outcomes and the societal goals articulated in the PDP. The “what” and “who” pertained to an agency’s Major Final Outputs (MFOs); and the “how” referred to the P/A/Ps of the agency (see Figure 2). The OPIF LogFrame guided DBM and the agencies in identifying spending priorities according to those that were most “linked” to their MFOs.

Figure 2.

<table>
<thead>
<tr>
<th>OPIF Logical Framework</th>
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<tr>
<td>Why</td>
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<td>Sector Outcomes</td>
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<td>Organizational Outcomes</td>
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<td>How</td>
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<td>Societal Goals</td>
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<tr>
<td>NEDA Philippine Development Plan</td>
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<td>DBM Annual National Budget</td>
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Source: OPIF Reference Guide (2012). Department of Budget and Management

The introduction of the OPIF took about a decade and spanned the two previous administrations as it entailed a major shift in the government’s budgeting paradigm: from the fixation on the inputs to a focus on the outputs. After taking an early form in 1998, the OPIF was first formally introduced during the formulation of the Budget for FY 2000, although its full-scale use took a back seat to addressing the fiscal crisis at that time (see Fiscal Management). The OPIF was revived in the budget preparation process through the 2005 Budget Call. However, it was not until the 2007 budget preparation that the OPIF was “mainstreamed” in budget formulation, through the publication and release of the OPIF Book of Outputs, which presented the LogFrames, MFO-based budgets, and performance indicators and targets of 20 pilot agencies. The OPIF was subsequently expanded to include national government agencies, including the 112 State Universities and Colleges, in preparing the FY 2009 Budget (Oliveros, 2009).

While the OPIF was a major paradigm shift in budget management, it was implemented inadequately and was bogged down by several issues.

Figure 2. OPIF Logical Framework

Fragmentation of Performance Management Systems

As discussed earlier in this chapter, it is important to view performance budgeting not as a stand-alone system, but one that should be interwoven with the overall performance management system of a government. Thus, the OPIF attempted to connect the various levels of performance management in the government: from the agency level, which are under the responsibility of DBM through the Budget; to the sectoral and societal levels, which are expressed in the PDP (previously called the MTCPD) and are overseen by NEDA (see Figure 2).

However, the roll out of the OPIF in the past decade was limited to the assignment of performance indicators at the level of agencies’ MFOs. The organizational outcomes did not have corresponding performance indicators and targets. Moreover, while the MTCPD articulated the country’s various development goals, it did not have a clear-cut presentation of the information for the higher levels of performance. These gaps made it difficult for policymakers and citizens alike to relate the MFOs to the goals stated in the MTCPD.

Quality of Performance Information

The OPIF highlighted the identification of the agencies’ MFOs based on their mandates and their Performance Indicators with corresponding targets. The MFOs represent the goods and services that the agencies provide to external clients. The MFOs are then quantified by using Performance Information, which measures the agency’s performance in delivering outputs in terms of quantity (e.g., volume of applications processed by a frontline service agency), quality (e.g., satisfaction of citizens who filed the applications), timeliness (e.g., the amount of inputs entailed to process applications), and cost (e.g., the amount of inputs entailed to produce applications). Through these features, the OPIF sought to enable the agencies to report their performance in delivering outputs; and the President, Congress, and the people to hold the agencies accountable for producing their respective outputs. However, the agencies’ MFO-based performance information and targets were not yet crafted well at that time. For instance, these did not yet fully reflect the outputs of the agencies as some of the performance indicators were still based on inputs (e.g., “no. of phone calls” in certain agencies).

A more problematic issue had been the manner by which the government and individual agencies measured actual MFO performance against their targets—that is, if monitoring and evaluation mechanisms were present in the first place. In the OPIF’s progeny, DBM had attempted to focus its mid-year Agency Performance Review (APR) on the agencies’ physical performance. The APR, however, had remained focused on the agencies’ utilization of their budgets to decide whether their remaining funds for the year should be released: a fixation that had been motivated by chronic shortfalls in revenue collections and the supply of cash.

The OPIF Book Separate from the Budget

In 2006, DBM first released the OPIF Book of Outputs. As an additional supporting document to the Proposed Budget for 2007, which was also submitted by the Executive to Congress along with the other Budget books, the OPIF Book presented not only the budgets of the agencies according to MFO but also their corresponding performance indicators and targets. The maiden edition for 2007 presented the performance information of 20 pilot agencies.

However, the OPIF Book and the performance information it contained were still considered as separate from the Budget itself particularly the NEP, which served as the basis of the General Appropriations Bill. The NEP continued to have the “line item” structure of individual P/A/Ps serving as items of appropriation. Moreover, the process of building the OPIF Book entailed the assignment or attribution of P/A/Ps to each MFO in providing a cost to the latter—a process that tended to be complicated if a P/A/P contributed to two or more MFOs.

Worsening this situation was the fact that in many fiscal years the OPIF Book had been submitted late to be considered in the budget deliberations in Congress. Since the OPIF Book was not distributed together with the other budget documents, “it was not used in the budget review and approval of Congress,” said Dr. Romulo Emmanuel Miral Jr. of the Congressional Policy and Budget Research Department at the House of representatives (Ilagan, 2013).

These gaps contributed to the deliberations that were mainly focused on costs, inputs, and line items rather than on outputs.
Limited Coverage of the MFOs and Indicators

Another limitation of the OPIF was the structure itself. For one, the MFOs pertained only to the Operations25 of agencies, which generally pertained to their ongoing programs and activities that directly relate to the delivery of their mandates. Under the ‘line-item’ structure of the Budget, Projects—whether locally funded (LFPs) or foreign-assisted (FAPs)—were not included in the MFOs. Even if a project contributed to meeting the objectives of an MFO (e.g., the construction of classrooms, which supports the delivery of education services), said project was not normally factored into the performance indicators and targets for that MFO.26

Moreover, the assignment of performance indicators was limited to the agency-proper budgets, and not to additional sources of funds to the agency. These fund sources included SPFss,27 which are funds managed by the central government and released to the agencies based on their needs or when they meet conditions. Other fund sources are the Off-Budget Accounts and Special Accounts in the General Fund, which sit outside the GAA (see Budget Integrity). In other words, the OPIF did not provide the full linkage between an agency’s expenditures from all fund sources and its performance.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Budget Aligned with the Administration’s Social Contract

“Each peso must not only be spent efficiently and in a timely way but also, and ultimately, must lead to direct, substantial, and measurable benefits for our people.”

President Benigno S. Aquino III
President’s Budget Message 2011

Driven by its commitment to inclusive development, the Aquino administration intensified the rollout of PEM reforms to ensure the use of scarce resources lead to measurable results. Beginning with the ZBB, the government restructured the process of allocating resources so that these were focused on programs that fulfill the Social Contract with the Filipino People and the 2011-2016 PDP (see Linking Planning and Budgeting). At the same time, the government scaled up the implementation of the OPIF in order to clearly define the intended results that the agencies must deliver in implementing their programs.

Government-Wide Performance Management

To the administration, the OPIF was not just a performance budgeting tool; it was also an anchor in consolidating the fragmented performance management systems in government.

In 2011, President Aquino directed28 the establishment of the Results-Based Performance Management System (RBPMS) “to harmonize, unify, streamline, and simplify all existing monitoring and reporting requirements and processes” on performance management (OP, 2011). He also directed that the RBPMS use the OPIF and the PDP Results Matrix as underlying frameworks to be “used by all government agencies mandated to exercise broad oversight over the performance of all agencies in the government (OP, 2011).”

In developing the RBPMS, the government established a Results Framework (see Figure 3) to clearly connect the performance of individual employees,29 the outputs and outcomes of the agencies as indicated through the OPIF, and the sectoral and societal goals that are spelled out in the PDP. For one, it is noteworthy that the structure of the Results Framework conforms to the OPIF LogFrame.

Figure 3. The Results Framework

To provide a clear set of performance indicators for the sectoral and societal goals, NEDA also developed the Results Matrices (RMs)30 to accompany the PDP. The RM translates the desired societal goals and sectors indicated in the PDP into measurable targets (DBM 2012). By harmonizing the PDP-RM and the OPIF, the RBPMS addresses the disconnect of the OPIF to the PDP’s sector outcomes. The RBPMS likewise ties up performance with compensation as it is used as the basis in granting performance-based allowances, incentives, or compensation of government employees (see Compensation Reform).

Improving Monitoring and Evaluation

While Monitoring and Evaluation (M&E) should be an integral part of the whole planning and budgeting process, an assessment done for eight departments revealed that management of data is poor and most employees have little knowledge of M&E. Given the transition from input budgeting to results-based budgeting, the establishment of an M&E unit within DBM may be considered a necessity. Its establishment would define the measurement, assessment, reporting—for both financial and physical aspects—and tracking of the progress of programs and projects.

Sharpening the focus on results also requires the government to establish credible means to measure how individual agencies, and the government as a whole, actually deliver their performance commitments in terms of timeliness, spending, and achievement rates.

Another mechanism for this purpose was the Budget Performance Review, which was more focused on the OPIF,
but it had not been successfully undertaken. The Task Force on the RFPBs—eventually, the Office of the Cabinet Secretary—also monitored the performance of the agencies against their OPIF-based targets as well as strategic commitments to the President, particularly in the context of PBB (see Compensation Reform).

Eventually, the DBM and the NEDA formulated a National Evaluation Policy Framework to fill the gap in policies and standards on the gathering of evidence on the effectiveness of programs in delivering their intended results. Launched in 2015, the Policy Framework promotes guiding principles and standards on how the implementing agencies should conduct evaluations. For one, the Policy Framework set minimum criteria in conducting evaluations: the relevance, effectiveness, efficiency, and sustainability of programs and projects. It also required the agencies to formulate and maintain a rolling six-year evaluation agenda to coincide with the timeframe of the PDP; to establish capable and neutral evaluation units in their respective agencies; and to submit an evaluation plan together with the new program or project proposals that they propose for funding in the annual Budget.

The Policy Framework also emphasizes that the results of evaluations must be used to guide management response and improve the agencies’ performance, as well as to inform the planning and budgeting processes and the design of similar projects. It also set standards for the reporting and dissemination of the results of evaluations. Ultimately, the Policy Framework seeks to support evidence-based decisions, ensure the improvement of programs, and enshrine the accountability of the agencies to the citizens.

The DBM, for its part, recognizing the urgent need for an evidence-based result in the performance of the agencies, conducted a capacity assessment of selected departments to determine the current M&E capacity of the implementing agencies. Alongside this assessment, the Performance Monitoring and Evaluation Bureau (PMEB) evolved, which is mandated to ensure that PIB objectives are met and an effective monitoring and evaluation system and structures are institutionalized in the bureaucracy.

M&E capabilities are anticipated to be strengthened to generate quality M&E reports to support decision-making processes to further improve the Department’s performance. It will enable them to track and evaluate the achievement of its performance targets on their respective major final outputs and outcomes as against the government’s development priorities. The inclusion of monitoring and reporting on results will give evidence to make adjustments in the planned strategies/actions.

“The king may want to know what output, killang ng bawat kuwento sa resulta. Government has strong financial accounting and monitoring systems because each agency has a strong financial (budgeting and accounting) monitoring units. But there is no equivalent and equally strong non-financial monitoring in the agencies. Agencies cannot live without regular financial reports, but can live and go on asking for annual budgets even if its non-financial reports are of poor quality or even absent.”

Undersecretary Mario L. Belampagos
DBM BUDGET PERFORMANCE MONITORING & EVALUATION GROUP

Hand in hand with the National Evaluation Policy Framework is the Results-Based Monitoring, Evaluation, and Reporting (RBMER) policy, which was already approved in principle by the outgoing DBM Secretary. The policy is expected to contribute to the clarity and consistency in the definition of monitoring, evaluation, and reporting aspects. This is in conjunction with the Monitoring Handbook, which in tum, will guide implementing agencies on the performance of their monitoring functions on programs and projects.

Improved Performance Information

To ensure that the OPIF accurately reflected the results that the agency should deliver, the administration sought to improve the quality of performance information. In 2011, DBM initiated the review of MFOs and performance indicators and the restructuring of P/A/Ps. For one, the agencies reworked their OPIF-based budgets to ensure that their activities were linked to an MFO or aligned to the mandate of the agency. If not, these activities should be dropped and the freed-up resources could be used to augment funds for higher-priority activities within the same agency (DBM 2012). The agencies were also tasked to use the PDP-RM as a guide in refining their respective performance indicators.

Furthermore, with assistance from the European Union delegation to the Philippines, DBM issued the OPIF Reference Guide in April 2012 to help the agencies better implement the OPIF. The guide provides information from the basics, such as definition of OPIF concepts, to the more complicated, such as how to construct an OPIF LogFrame, how are P/A/Ps restructured, and budget performance review, among others.

This linking of P/A/Ps to MFOs and to the agencies’ mandates not only helped improve the quality of performance information but also improved budget estimation and prioritization.

The OPIF became the bridge to the next phase of performance budgeting.

“If not for OPIF, it would be difficult for us in DBM to get the performance information from the agencies.”

Director Mary Anne Z. Dela Vega
DBM BUDGET AND MANAGEMENT BUREAU FOR FOOD SECURITY, ENVIRONMENTAL PROTECTION, & CLIMATE CHANGE MANAGEMENT

Revamping the Face of the Budget through PIB

Hailed as one of the most important budgeting innovation in years, the Performance-Informed Budgeting (PIB) was introduced through the 2014 Budget to present both the financial allocations and the performance indicators and targets of each agency in the Budget itself.

Essentially, the PIB integrated the performance information, which used to be the OPIF Book, into the NEP. The change, however, was more than cosmetic. The reform largely made the performance indicators and targets subject to the scrutiny and approval of Congress as part of the GAA along with the financial appropriations. By giving Congress information on the outputs to be achieved by the agencies through their proposed budgets; therefore, enabling the legislative body to better scrutinize such proposals and hold the agencies accountable for their performance in the prior years.

The general provisions of the GAA since 2014 have emphasized that the performance indicators and targets indicated in the Budget “were considered the commitments and accountability of the respective heads of agencies.”

This way the reform sought “to strengthen the institutional checks and balances around the Budget;” and, ultimately, to empower citizens “to hold government institutions accountable for their performance (Abad, 2014).”

In its initial rollout, the PIB structured the P/A/Ps for Operations of the agencies according to the MFOs; and indicated performance information and targets at the output level in the Budget itself to premise the financial allocations. Other performance information was subsequently included in the Budget: the respective mandates, visions, and missions of the agencies; the sectors (based on PDP and the Social Contract key results areas to which they contribute. By this time, this move enhanced fiscal transparency as it put a clear story on where the funds would be spent and the expected results or outcomes from the government programs.

Taking the PIB a notch higher, the government adopted the Outcome-Based PIB, where the organizational outcomes of the agencies are assigned with performance indicators and targets.

The organizational outcomes “represent the results or outcomes that departments and agencies aim to achieve for their external clients” in the short- to medium-term. In implementing this phase of the PIB, the government enhanced the organizational outcomes of the agencies before assigning measures of their accomplishment of these outcomes. The Outcome-Based PIB continues to present the MFOs and their targets.

The inclusion of outcome indicators in the Budget strengthens the link between planning and budgeting, as the agency’s organizational outcomes are aligned with the sectoral outcomes stipulated in the PDP-RM. The reform allows also enables synergy among the agencies in attaining the sectoral outcomes and societal goals that they share. For instance, to attain the sector outcome “Globally competitive and innovative industry and services sectors;” several agencies must collaborate: DPWH and DOTC provide the needed infrastructure, such as roads and airports; DoE helps ensure ample supply of electricity; DTI helps foster a business-friendly environment, among others.

The Next Phase of the PIB: Program Classification

While an innovative paradigm shift, the PIB still faced key structural issues that prevented the government and the citizens from directly relying on the “line item” P/A/Ps of an agency to the delivery of its MFOs, and the MFOs to the achievement of the OOs. In the first place, the structure of the Budget continued to hinder the accurate presentation of the costs of attaining these MFOs and OOs.
As the next phase of the PIB, the DBM pursued the Program Expenditure Classification (PREXC) to enable the measurement of performance—at the output and outcome levels—for each of the programs of the agencies.

The PREXC moves the Philippines closer to program budgeting: a system where resources are allocated to “results-based” programs, reduces “line item” controls, and assigns performance indicators at the level of programs. Central to a good program budgeting system is program classification, where programs are appropriately defined as those that “bring together expenditures with a shared objective, the core of which is a common outcome which those expenditures are intended to achieve (Robinson, 2013).”

At the core of the PREXC is the restructuring of the budgets of an agency to categorize all its “line item” activities and projects under a set of major Programs. This shift required the redefinition of the PAIP, which used to refer to any of the programs, activities, and projects of an agency. Now, a Program is defined as “integrated grouping of activities and projects that contributes to a particular outcome of an agency. It constitutes all expenditures that are intended to achieve a common purpose or objective (DBM 2015a).” Moreover, unlike the MFO that generally covers ongoing programs and activities, the Program captures all the “line items” of an agency’s budget—both recurring activities and time-bound projects (LFPs and FAPs)—that contribute to the Program. These Programs are then grouped according to the OOIs to which they contribute. In contrast, the OPIF and the first phase of the PIB do not clearly present how the MFOs relate to the OOIs.

Subsuming all projects and activities under a Program they contribute to had enabled two things. First, performance indicators and targets—both recurring activities and time-bound projects (LFPs and FAPs)—that contribute to the Program. These Programs are then grouped according to the OOIs to which they contribute. In contrast, the OPIF and the first phase of the PIB do not clearly present how the MFOs relate to the OOIs.

Ultimately, the PREXC would enable policymakers and citizens to have a better idea of how much is needed for a Program to deliver more direct benefits to the citizens and influence the attainment of higher-level socioeconomic goals. In all, the PREXC would foster greater accountability, transparency, and effectiveness in the use of public funds.

The DBM introduced the PREXC in December 2014 by piloting the reform in six departments: DSWD, DoT, DILG (OSEC), DENR, DFA, and the National Kidney and Transplant Institute. The agencies received a series of briefings and handholding workshops to help them restructure their budgets according to the PREXC. The DBM started issuing PREXC advocacy materials (flyer and briefer) in June. These steps have been taken towards the possible full shift of the NEP itself to a PREXC structure for the 2018 Budget.18

“I think the PREXC is an improvement from the present system or structure that hopefully would lead to a simplified and efficient reporting and evaluation of our programs in support of the government.”

Deputy Chief Public Attorney Silvestre A. Mosing
PUBLIC ATTORNEY’S OFFICE

CHALLENGES AND MOVING FORWARD

Do we already have an honest-to-goodness performance budgeting system?

It has taken the country almost two decades to institute a results-based budgeting system. The journey may have been long and winding: it started with the OPIF in the late 90’s which took two administrations to implement; and it was fast-tracked under the Aquino administration with the rollout of the PIB and the introduction of the PREXC. However, the link can be tightened further. Performance budgeting must be optimized, along with other tools for the efficient allocation of resources (see Linking Planning and Budgeting), in prioritizing expenditures. Moreover, it must be leveraged further as a performance management tool by strengthening the monitoring, evaluation, and reporting of the results delivered by the agencies through their respective budgets.

This reform journey must be taken further to install a genuine performance budgeting system. For one, while the country’s laws promote performance budgeting, the specific reforms installed—from the OPIF to the PREXC—are still not enshrined in a law. Moreover, the use of performance information throughout the budget cycle require PFM practitioners in both oversight and implementing agencies to develop and strengthen the required competencies: from the design of programs with clearly defined and realistic performance targets to the reporting and evaluation of actual performance. The installation of a unified ICT-based system for the PFM (see Integrated PFM), which should also include non-financial performance information, should be continued. The following key challenges need to be addressed especially as the citizens themselves are demanding results that are greater in scope, number, and quality.

Cohesion in a Millieu of Fragmented Oversight

The current structure of the government—where the different oversight functions are scattered throughout various agencies—has been an obstacle to managing the overall performance of the national government. President Aquino’s instruction to develop the RPBMS—which builds on the earlier initiatives of oversight agencies to improve their collaboration on performance management—is a major step forward in dealing with the many deficiencies and duplication...that have resulted in redundant data, reports in different formats, delay in submissions, inaccurate results, and inefficiencies in performance monitoring, evaluation, and reporting (Office of the President, 2011).7

Short of merging such functions into one or a smaller number of oversight agencies, the incoming administration should ensure the clear delineation of roles in order to avoid duplication or conflict, particularly in requesting the agencies for performance reports. It should thus sustain the rollout of the RBPMS as a center for collaboration among the multiple oversight agencies to enhance the unity of government performance management. Moreover, a key element of the RPBMS—the Government Executive Information System—has not been set up. This situation, however, presents an opportunity: rather than build a separate system, the next administration could integrate the system for performance information management into the planned BTMS.43

Additionally, the next administration could consider setting up a performance delivery unit in the Office of the President to focus on the delivery of the President’s priorities. However, it should complement and not duplicate the role of the existing oversight agencies.

Are Those Indicators Real?

A key concern raised by policymakers and stakeholders alike is the credibility and accuracy of the performance indicators presented in the Budget. Recent developments, however, presented opportunities to address this challenge. One is the creation of the Philippine Statistics Agency (PSA) in 2013 through the merger of key statistical agencies in the government. The performance information that the agencies should use for the Budget and for their reports must be based on the statistics produced by the PSA, or they should follow the standards set by the PSA for official government data. Moreover, as
Getting Buy-In to Restructure the Budget Itself

As discussed earlier, the PREXC, dramatically restructures the Budget to intuitively align all the activities and projects of an agency under a set of major Programs. However, as PREXC is still being installed for implementation in the 2018 Budget, the next administration can make or break the reform.

The next administration’s support to continue the PREXC is required, especially as the restructuring exercise will require significant adjustments in other areas of the PFM reform. The Unified Accounts Code Structure (UACS) will need to be reconfigured—at least 15 codes of the 54-digit UACS code will need to be revised—to accommodate the PREXC structure (See Table 1).

The ongoing development of the Budget and Treasury Management System (BTMS)—a system that will enable the reporting of physical and financial performance—and other ICT-based PFM systems should likewise take into account the new PREXC structure. Along with the overall continuation of key PFM reforms, such changes will require the sustained support of the national leadership.

Moreover, the next administration will need to secure the support of Congress for the PREXC, not only because it could dramatically restructure the Budget but more fundamentally, to move toward a genuine performance budgeting and away from appropriating “line items” in the Budget. This age-old system has constrained a core principle of operational efficiency: “managers should be given discretion to run their operations as they best see fit and should be held accountable for results, including outputs produced (Schick, 1998).”

Robinson (2011) also emphasized that performance budgeting eschews “detailed control over the line-item composition of expenditure” as its focus should be on “the results delivered by the agencies.”

Closing the Budget Cycle Loop on Performance

The government has already unified the presentation of both financial and non-financial performance information in the Budget itself (i.e., the proposed NEP and the enacted GAA). However, the reporting of the actual performance of the agencies against their targets needs to be strengthened. For one, the lack of a comprehensive and whole-of-government report on non-financial performance continues to be a key gap in the country’s rating in global fiscal transparency standards (see Fiscal Transparency). More importantly, it is reasonable to expect Congress to demand from the Executive a report on how the latter met the targets that the former approved in the GAA.

In addressing this gap and closing the loop between the accountability and formulation phases of the budget cycle, the government must consolidate the recently introduced reporting practices. In particular, the results of the spending review-type mechanisms, as mentioned above, may be used as annexes to the Year-End Report. Schick (2014) emphasized that “[t]o be useful, a spending review should ask basic questions concerning purposes, priorities, and effectiveness, and it should be organized to facilitate policy responses to the evidence adduced in conducting the review.”

Table 1.

<table>
<thead>
<tr>
<th>From</th>
<th>Changes in the UACS Codes under the PREXC Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectors/Horizontal Outcomes</td>
<td>No. of Digits To Sectors/Horizontal Outcomes 5</td>
</tr>
<tr>
<td>Program/Project Purpose</td>
<td>PREXC Code (GAS, STO, Operation) 1</td>
</tr>
<tr>
<td>MFO/Project Category</td>
<td>Program 2</td>
</tr>
<tr>
<td></td>
<td>Sub-Program Sub-Program 2</td>
</tr>
<tr>
<td>Activity Level 1/Sub-Category</td>
<td>LFP and FAPs 1</td>
</tr>
<tr>
<td>Activity Level 2/Project Title</td>
<td>Lowest Level Activities/Project Titles 2</td>
</tr>
<tr>
<td></td>
<td>Project Titles 3</td>
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<td>15 16</td>
</tr>
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</table>

Source: Briefer on the Program Expenditure Classification 2016, DBM.
Performance-Informed Budgeting (PIB) improved output-based budgeting by presenting both financial and physical targets in the GAA. Through PIB, the GAA shows which funds will be spent and the expected results from each allocation. The DBM also shifted to outcome-based PIB to further link organizational outcomes with sector outcomes. In and across sectors, agencies work together towards a common societal goal.

Building on these reforms, Program Expenditure Classification (PREXC) will further link budgeting and results, down to the level of programs. Conceptualized in 2015, PREXC improved on PIB by restructuring an agency’s budget to group all recurring activities and projects under the different programs pursued by an agency to meet its objectives. The programs are then designed in terms of both outputs (i.e., services delivered to citizens) and outcomes (i.e., the results or benefits of such services). Thus, PREXC helps strengthen the monitoring and evaluation of programs. The full rollout of PREXC is expected in 2017 for the 2018 Budget. This infographic shows how PREXC works.

Organizational Outcomes (OOs)
Programs are grouped together under the OOs to which they contribute (e.g., to ensure a safe and reliable national road system). OOs are results produced by an agency which contribute to the achievement of the relevant mandate of that agency.

Program or Sub-Program Outcomes and Outputs
Integrated groups of activities and projects that achieve a common purpose (e.g., national road network program). These are measured in terms of outputs (e.g., length of roads constructed) and outcomes (e.g., quality of roads, travel time).

Activities and Projects (APs)
“Line Items” in the Budget on which funds are appropriated for recurring activities (e.g., maintenance of roads) or projects (e.g., construction of a road).

Key Result Areas
Ultimately, the implementation of activities and projects should contribute to the fulfillment of broader development goals (e.g., rapid, inclusive and sustained growth).

Sector Outcomes
OOs contribute to the goals of the sector to which they belong (e.g., improve access to markets and production areas). Sector Outcomes are results achieved by a group of agencies together toward the accomplishment of sector objectives.
It must be noted, however, that the proposed Budget bill—the NEP—had not been published. The “BESF Tables”, which was composed of the Budget: the BESF. Since 2002, however, the BESF in narrative form had not been published. The “BESF” was “an offshoot” of the NEP. In some instances, a PAP is costed under one MFO even if it also contributes performance targets to another, or in other instances, the PAP—or operating unit—is arbitrarily broken down to “attribute” costs to multiple MFOs.

In some instances, the GAA used the term “Programs” to refer to the General Administrative Services (GAS), or the expenditure categories pertaining to the overall administration and management of an agency. Support for one of the main purposes for the purchase of goods and services—like legal services, technology, and information—which support the delivery of an output or outcome as a unitary activity, is identified during budget preparation and legislation.

The annual GAA itself, as well as the orders issued by the President, targets, the monitoring of their progress and reporting to the President. The OCS was established by virtue of E.O. No. 99 (October 31, 2011) and was tasked to identify the priorities of the government’s five major strategic priority agenda (OP, particularly PMS and, in recent times, the OCS). The OCS’s strategic priorities are: removal of bottlenecks in the delivery of an output or outcome, as a unitary activity, is identified during budget preparation and legislation.
Public Expenditure Management Reform: Performance-Informed Budgeting

As defined by DBM, the PIB is a set of integrated processes that aims to improve the efficiency and effectiveness of public expenditure management. The National Budget Memorandum No. 117 dated March 1, 2013 PIB, which was first adopted in the GAA in 2014, aimed to strengthen the linkages among planning, budgeting, and outcomes; simplify budget presentation; and enhance transparency and accountability in the allocation of limited resources. As the Senior Officials of the DBM would always say: “Dapat may kuwento ang kwento. Each peso should have a story.”

This reform was initially prescribed by foreign consultants and by the DBM as part of the on-going Public Expenditure Management Reform (PEM), though there is no doubt that this is a very important reform.

The agencies expressed their desire to change some of the indicators of the PIB, which they could take ownership. Since they believe that if they ‘owned’ the indicators, they would be committed to the people and be held accountable. The good thing about the PIB is that it would help the lawmakers, especially during budget deliberations, to have a better grasp of how the agencies spend their budgets. Otherwise, the agencies might regard these indicators as just a means to comply, a situation that is highly possible because the PIB is the basis of the Performance-Based Bonus.

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The DBM has the capability to allow the agencies to make changes in their PIB so as to suit it to their local situations, and institutionalize it now that the reform is in its third year of implementation. Further, the DBM should allow the agencies to change their indicators in the PIB as long as it is in line with the mandate and P/A/Ps. The agencies would be more likely to use quantity indicators. The DBM nonetheless encourages the use of quantity and timeliness indicators in addition to the quality indicators since this will show what the agencies are really doing and how committed are they in implementing their programs and projects.

Reforming the reform, so to speak, is a major challenge that should be addressed and looked into. The lack of baseline information is one particular challenge, which is important in gauging the agencies’ targets and accomplishments in a specific period of time. Moreover, the quality of performance reflected in PIB may not be guaranteed. A mechanism to check and validate performance must be in place.

The PIB of the agencies should be revisited and re-assessed to ensure that the information being provided have concrete basis. This reform should be continued and adopted by the next administration because this is a concrete reform that will not just allow the agencies to show their worth, but as a whole, this will help the bureaucracy show the public that the government is serious in implementing programs.

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INSIGHT FROM A DBM JUNIOR LEADER

By Junaid M. Karim

“Kailangan natin malaman na ang pero ni Juan ay napupunta kung saan talaga ito nakaloob (We must know if Juan’s taxes go to where these are supposed to go.)”

Good governance is key to inclusive economic development. Most people think innovations are disruptive and out of this world. What people do not know is that innovations can create better solutions. Building something new requires a lot of time and effort. Obstacles and difficulties are expected to emerge along the way, but with persistence and teamwork these hindrances can be overcome.

Transparency and accountability are qualities that should be present in government. Here is where monitoring and evaluation (M&E) shows its importance. Knowing where the money went and how it was used is only half of it. The DBM as it dispenses its oversight function should also evaluate the performance of implementing agencies in order for us to address issues or concerns that arise in the implementation of the agencies’ programs and projects. We need to know which programs and projects we fund deliver the results we want. We need to identify what works and what does not. This information can help us make better decisions because they are evidence-based.

The need for information and the increasing demand for fiscal transparency and accountability paved the way for the creation of the Performance Monitoring and Evaluation Bureau (PMEB). Most people can be close-minded when it comes to trying something new. People can become complacent with the norm and may think that innovation is a negative thing. However, from what I have read and experienced, new ideas can create better opportunities and solutions.

By taking part in setting up the PMEB, I saw the importance of M&E.

A New DBM Bureau for Performance Monitoring and Evaluation

Our first challenge in setting up the bureau was turning the vision into action. Spearheaded by Usec. Mario Relampagos, the first months of the PMEB’s implementation were packed with learning opportunities. As a member of the newly established PMEB, I was driven by passion to help set it up and achieve its goals. This new challenge required a lot of grit and inspiration, of which Usec. Mario shared a lot, influencing me and other members of the bureau.

As a newly established bureau, one of the most pressing matters we had to address was integrating ourselves into the DBM. We had to answer these questions: What is our image or identity as a bureau? What output could we contribute to the DBM? Is it something new or just a duplication of the work of another department or bureau? We tackled these questions during the countless meetings that we had in and outside of the DBM. Under the leadership of Asst. Maxine Tanya Hamada, we saw a glimpse of who we wanted to be and what we wanted to do.

The most recent issue that the PMEB faced was the direction in which the bureau would go in relation to its M&E activities, the extent of analysis, and the sources of data, just to name a few. With the appointment of Dir. Tessie Gregorio as the new PMEB head, these concerns had been addressed gradually.

The bureau is still a work in progress but its end goal remains: “Gusto naming malagyan ng kwento ang kwento na maging malagyan ng kwento ang kwento para masigurado na walang nasasayang na pera. (We want to establish a clear story for each peso to ensure that no money is wasted).”

By Brian Carlo P. Bernal

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By Brian Carlo P. Bernal

1 As of this publication, Karim is a Senior Budget and Management Specialist of the Budget and Management Bureau for Food Security, Ecological Protection, and Climate Change Management Sector.

1 As of this publication, Bernal is a Budget and Management Specialist II of the Performance Monitoring and Evaluation Bureau.
INTEGRATED PFM SYSTEM
Leveraging Technology & People for Efficient & Effective Service Delivery

IN A NUTSHELL

- A functioning PFM system—supported by integrated ICT tools, streamlined processes, and capacitated professionals—is vital to the effective use of public funds.

- In the past, the 2010 PEFA assessment highlighted several gaps, especially in budget execution and accountability, resulting from a fragmented PFM system:
  - ICT systems on various PFM processes were not interconnected.
  - Cash management systems and account classification frameworks were fragmented.
  - Limited capacity of the agencies and PFM professionals

- From 2010 to 2016, the PFM oversight agencies—DBM, DOF, and COA—has collaborated to install the building blocks of an integrated PFM system:
  - Developed the conceptual design of an Integrated Financial Management Information System (IFMIS) and developed ICT systems that would form part of it
  - Installed the Treasury Single Account (TSA) to unify cash management
  - Adopted the Unified Accounts Code Structure (UACS) for all financial transactions
  - Capacitated public finance professionals through the PFM Certificate Program
  - Began the establishment of the Office of the Comptroller General (OCG)

- Moving forward, the government should consider the lessons learned from the last six years as it sustains its commitment to build an IFMIS:
  - Address technology and non-technology issues that hampered the implementation of ICT tools, e.g., internet connectivity, usability of ICT systems, readiness of users.
  - Stabilize the PFM policies and processes, e.g., UACS, while ensuring that ICT tools to be built are flexible enough to accommodate changes in policies and processes.
  - Pass a PFM law to formalize the OCG and continue efforts to strengthen its capacity to sustain the PFM Certificate Program, among others.

Public Financial Management (PFM) is defined as a “set of laws, rules, systems, processes used by sovereign nations to mobilize revenue, allocate public funds, undertake spending, account for funds, and audit results (Lawson 2015).” As Andrews et al., (2014) emphasized, PFM “consists of overlapping processes in a complex system,” which involves a wide range of government agencies “with peculiar characteristics, priorities, and interests.” Ultimately, the process of how governments manage resources should lead to results in the use of such scarce resources. Thus, a functioning PFM system should ultimately promote the sustained fiscal health of the government, ensure that financial resources lead to the actual delivery of services to citizens, and support public accountability.

To achieve such goals, governments worldwide have implemented various reform packages, particularly the development of financial management information systems (FMIS): “a set of automated solutions that enable governments to plan, execute, and monitor the budget by assisting in the prioritization, execution, and reporting of expenditures, as well as custodianship and reporting of revenues (W.B. 2010).” However, FMIS solutions require not only robust ICT tools. As the World Bank emphasized in a study (Dener, Watkins, and Doretrinsky, 2010), FMIS projects have prerequisites that must be completed even before the rollout of the ICT solution (see box), especially the harmonization and streamlining of PFM processes, and the strengthening of the capacity of institutions and individual PFM professionals.

Prerequisites of FMIS Solutions

- Functional aspects, including unified budget classifications, charts of accounts, commitment controls, and cash management
- Technical aspects, such as secure countrywide communication networks
- Human resources, particularly the presence of a core team of ICT specialists

SITUATION BEFORE 2010
A Fragmented PFM System Managed by Inadequately Prepared Institutions

The PEFA assessment undertaken in 2007 by the World Bank (W.B. 2010) highlighted several gaps and weaknesses in the Philippines’ PFM system, most notably in the execution and accountability phases of the budget cycle: in particular, the complex budget execution system (see Fast and Efficient Budget Execution), and the difficulty in assessing how the government spent according to the approved Budget (see Budget Integrity & Accountability). Cutting across these gaps were the lack of a government-wide ICT system and redundant financial reporting requirements. This “spaghetti-bowling” of systems and processes was aggravated by a bureaucracy that lacked the technical capacity to fulfill these requirements.

Islands of ICT Systems

The PEFA assessment highlighted the lack of a unified management information system capable of capturing resource flows from the national government to service delivery units, and of consolidating reports from such service delivery units. In addition, the PEFA report underscored the disconnected management information systems of the government—from personnel and payroll management to budgeting and accounting. These systems included the COA’s e-NGAS, which supported its National Government Accounting System (NGAS),1 the DBM’s E-Budget,2 the Budget Preparation Management System (BPMs),3 and the Government Manpower Information System (GMS),4 as well as the various ICT systems of the implementing agencies, if these were not dependent on manual processes.

Messy Traffic of Transactions

The lack of a unified ICT system for PFM, while significant enough a problem, is only the tip of the iceberg. First, the 2007 PEFA flagged the issue of a fragmented cash management system, which had made it difficult for the government to consolidate and deploy cash resources in a timely and accurate manner. Although coordination mechanisms have been in place,5 the current set-up—in which the DBM manages the release of cash allocations to the agencies and the DOF-BTr manages the supply of cash—has made the supply of cash resources to the agencies unpredictable, among other issues. Likewise, the government has had a Modified Disbursement Scheme (MDS) in place since 1990, through which the BTB has been providing the cash requirements to the agencies through government
The Ideal Integrated Financial Management Information System

Messy Traffic of PFM Reporting Activities

Moreover, the oversight agencies used disparate account classification frameworks for budgeting, accounting, and audit, and cash management. For one, the coding system used by the DBM to identify each line item program, activity, or project (P/A/P) in the Budget was entirely different from the account code system employed by COA's NGAS. It was nearly impossible to compare the Budget against the Annual Financial Report because of this and other systemic issues: notably, the complex fund release system, and the proliferation of lump-sum funds. The disparate account classification frameworks had also given rise to a multitude of financial reporting requirements by the COA, the DBM, and the DOF (see Figure 1). Without an automated and integrated government information system, the agencies' preparation of multiple financial reports and statements had been difficult, particularly for the agencies with regional offices and staff bureaus who had to consolidate reports manually. Because of these weaknesses, as the COA had observed, the system of budget execution is "vulnerable to double-payment of accounts payable, non-transparent realignment of funds, and diversion of funds to unintended uses." (www.pfm.gov.ph).

The root cause of the fragmented PFM system in the Philippines, in the end, could be the fragmentation of oversight functions among several agencies: most notably the NEDA, the DBM, the DOF, and the constitutionally independent COA. The PEFA assessment (WB, 2010) noted that this set-up tended to complicate the coordination required for the implementation of reforms: "An area that seems to suffer from this fragmented leadership is the integration of various information systems. The development of separate information systems for planning, budget preparation, budget execution, cash management, budget monitoring and reporting, foreign-assisted project management, and financial reporting could work effectively against meaningful coordination and meaningful reporting of actual outcomes (physical and financial) against [the Budget]."

While this institutional set-up has provided a degree of checks and balances among the agencies, coordination problems have prevented the smooth flow of financial processes—and the unified implementation of PFM reforms.

Recognizing the need to establish an integrated PFM system, career officials of the COA, the DBM, and the DOF-BTr began the work of developing a comprehensive PFM Reform Roadmap in 2009. Taking off from the findings of the PEFA assessment, they gathered several times to level off and unify their efforts toward the development of such reform. In January 2010, they signed a Memorandum of Agreement to foster the development of the Government Integrated Financial Management Information System (GIFMIS). In relation to this agreement, the PFM Reform Roadmap was endorsed in 2011 by the heads of the PFM oversight agencies and approved by President Benigno S. Aquino III through Executive Order (E.O.) No. 55 on September 6, 2011.

The GIFMIS would be an integrated ICT solution that could collect and organize financial information in a central database. The system would support the whole PFM process—from planning and budget preparation to financial reporting—and would be connected to the oversight agencies and the implementing agencies. Though not the sole reform promoted by the PFM Reform Roadmap, the GIFMIS was given an important place in it as the system would unify and automate the government's disjointed and largely manual PFM processes. As envisioned, the system would address the messy traffic of documents and reports, reduce manual processes that had been prone to human error, and enable greater financial management and control (see Figure 2). Additionally, the system was envisaged to empower the oversight agencies to monitor transactions and report on the status of government finances in real time, and enhance the citizens' access to information and facilitate their participation in fiscal governance.

Under Capacitated Institutions

As Andrews et al. (2014) highlighted, complexity is an expected characteristic of PFM: the phases of the PFM processes tend to overlap, and the system involves various institutions with distinct yet overlapping interests. This attribute seems to be the case of the Philippines' PFM system, which is characterized by the fragmented systems and messy flows as described above and in the other articles herein.

安装 the Building Blocks of an Integrated Financial Management System

“Government financial systems will be harmonized for efficient financial reporting, thus lessening the incidence of corruption and making each government agency accountable for their financials.”

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

Installing the Building Blocks of an Integrated Financial Management System

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

Worsening the situation, however, is the limited capacity of the agencies and individual public servants to navigate the already complex PFM system. The "normal" delays in the agencies' submission of required financial accountability reports, as well as the frequent audit observations pertaining to inaccurately recorded transactions, only indicate the weak capacity of the agencies to comply with reporting and accounting standards.

President’s Budget Message 2011

President's Budget Message 2011

President's Budget Message 2011

President’s Budget Message 2011
While the E.O. No. 55 put much emphasis on the development of the GIFMIS, the government was nonetheless conscious that installing ICT systems should not be the end-all and be-all of reform. Thus, the PFM Reform Roadmap promoted other major initiatives to integrate the PFM systems and processes of the government. For one, it emphasized that the GIFMIS required the harmonization of data structures, processes, reporting standards, as well as the government’s cash management mechanisms. Moreover, the Roadmap elevated capacity building as an important work stream. Finally, the implementation of the Roadmap itself—through the PFM Committee and a network of inter-agency working groups—reflected the government’s emphasis on synergy in the implementation of reforms.

**Sticking to the Vision yet Adapting to Realities**

To begin the work of building the GIFMIS, the PFM Committee, with the support of the Australian Department Foreign Affairs and Trade (DFAT) and other development partners, commissioned the development of a GIFMIS Conceptual Design to serve as blueprint for the rollout of the government-wide ICT system. Approved by the PFM Committee in April 2013, the Conceptual Design covered the specifications of the functional requirement, the institutional change requirements, change management, capacity building, and communication interventions needed to implement the GIFMIS (see Figure 3). The Conceptual Design prescribed a two-track approach to develop and implement the GIFMIS. Track 1 focused on the development of ICT systems for the management of human resources and personnel payments. Track 2 focused on the pre-requisites or core systems of the GIFMIS, such as the Treasury Single Account (TSA) and the Unified Account Code Structure (UACS). Aware that other countries took about a decade to roll out their GIFMIS on a full scale, the PFM Committee focused on integrating the systems of the COA, DBM, DOF, and BTR in the first phase of development, followed by the rollout of the system to the implementing agencies.

**An ICT Solution for Government Manpower**

Track 1 of the GIFMIS Conceptual Design entailed the development of an ICT solution to provide the government with real-time financial information on human resource and payroll: an expense class that constitutes about a third of the national government’s Budget. As envisioned, the Comprehensive Human Resource Information System (CHRIS) would be an integrated system that encompasses the full cycle of human resource management: from recruitment to retirement. It would enable the oversight agencies to track human resource matters on a real-time basis; and the implementing agencies to process human resource and payroll information and pay their employees’ salaries directly to their bank accounts.

However, several setbacks prevented the government from proceeding with the rollout of GIFMIS as originally planned. Some obstacles were the necessarily long process in unifying account codes and fulfilling other prerequisites; the failure of contractors and other technical partners to fully meet their obligations; among other technological and non-technological issues. In the face of these obstacles, the government soldiered on and continued the rollout of the building blocks of the GIFMIS, particularly the Budget and Treasury Management System (BTMS): a core system that links budgeting execution and treasury cash management.

With the support of the Australian DFAT and technical assistance from the US Treasury Department, the government developed the technical specification of CHRIS and bid it out to private systems developers. The contract was awarded in 2014 and the development process commenced. However, up until 2015, the winning developer failed to address recurring and unresolved technical deficiencies and other grounds, which put them in default. As such, the government decided to terminate the contract on January 26, 2016. In the face of this setback, the CHRIS Project Team devised a contingency plan: the enhancement of the existing GMIS, to include a Human Resource module.

The primary and immediate goal of the expansion and enhancement of the GMIS is to improve and enhance the current position budgeting system to provide enhanced data and processes management and control within the overall government manpower information functions. The long term goal would be the expansion and integration of human resource and payroll management. The policies and principles and specific goals identified for this project will include:

1. Implement a robust government position budget management and control system that would provide complete and accurate database of all positions, incumbents and authorized compensation in the whole of government;
2. Share comprehensive database, for both the DBM and the CSC, of government manpower that shall be updated on a regular basis by all departments and agencies to reflect all changes in positions and incumbents;
3. Improve functionality that would interface with the human resource and payroll management modules; and
4. Enable the elimination of payments to non-validated employees; and
5. Engage the CSC to the system, as the central human resource agency for the whole government.
Linking Budget Execution and Treasury Management

Following setbacks in the full-scale implementation of the GIFMIS, the PFM Committee decided in 2015 to focus on developing a core ICT system for the execution and accountability phases of the national budget cycle. This core system, the BTMS, would integrate budgeting, treasury, and financial management and reporting processes of the DBM and the DOF-BTr. In doing so, the BTMS would enable the collection and organization of financial information in a central database. The system would replace the DBM’s existing eBudget system and absorb its functionalities, and be linked to the BTr’s TSA.

In November 2015, the government signed the contract for the BTMS project with a joint venture of Free Balance Incorporated and Innove Communications. The BTMS is expected to go live in early 2017. After which, the government will procure licenses for the BTMS modules for the individual agencies. Such modules will enable the agencies to report their financial transactions directly into the BTMS. The complete rollout is expected until 2022 for all government agencies.

“The BTMS will complement the Updated PFM Reform Roadmap strategy in emphasizing an incremental approach and consolidating progress around a number of key PFM reforms. As such, the new system will be embedded in critical areas like the budget management processes at the DBM and the cash management processes at the BTr.”

Undersecretary Richard Moya
DBM OFFICE OF THE CHIEF INFORMATION OFFICER

Other ICT tools for PFM

Prior to the rollout of the BTMS, the DBM developed other ICT-based systems that would later on be integrated into the GIFMIS. For one, it introduced the Online Submission of Budget Proposal System (OSBPS) in 2013, in time for the preparation of the 2014 Budget, to facilitate the faster consolidation of the agencies’ budget proposals. Supplementing the BPMS, the OSBPS allowed the agencies to enter budget data directly into the web-based system and submit their proposals online. Together with the OSBPS, the government rolled out the Unified Reporting System (URS), which enabled the agencies to submit budget execution documents and budget and financial accountability reports online. The URS would be absorbed eventually by the BTMS.

Recently, the DBM also developed the Budget Cycle Analytics (BCA) Business Intelligence Solution with the support of the Australian DFAT. The system, which went live in January 2016, is an IT system capable of loading, organizing, consolidating, processing, and visualizing data from all phases of the budget cycle. It makes use of existing data generated by the DBM’s ICT systems (the BPMS, OSBPS, eBudget, and URS), and eventually the BTMS. The BCA provides the budget analysts and managers of the DBM with a powerful tool to produce better financial and physical performance analysis as well as management reports and dashboards. These tools should enhance decision-making related to addressing problems and issues during budget execution.

A “Single” Bank Account for the Government

The government strengthened its ability to manage its cash resources in real time and make the availability of funds to the agencies more predictable. With the support of the Australian DFAT and other stakeholders, the BTr developed the Treasury Single Account (TSA): a unified framework for the management of government bank accounts. The TSA is a set of banking arrangements that enables the government to have a consolidated view of its cash position on a daily basis, and manage the cash balances of individual bank accounts of the agencies. The TSA supports the government’s enforcement of the “One-Fund Concept” (see Figure 4), in which ideally all government financial resources accrue to the National Treasury—or at least visible to it, in the case of off-budget accounts. The TSA is managed by the BTr through the Bangko Sentral ng Pilipinas. It is supported by the TSA Reporting and Monitoring System (TRAMS), an ICT system that provides real-time information on cash resources.

To implement the TSA, the BTr inventoried all the bank accounts of government agencies, and closed those that were redundant or unauthorized. With the support of the BIR and the BOC, the BTr eliminated the old system in which banks that served as revenue collecting agents held the revenues they collected for five to 10 days. Under this old set-up, the agent banks earned by floating those resources to earn interest, but in the process delaying the government’s access to its cash resources. In its place, the BTr installed a system by which the government paid these agent banks with set fees. Through this, the government ensured that cash resources due to it were remitted immediately to the Treasury, thereby eliminating costs from banking transactions—an estimated P950 million annually.

A Single Language for All Transactions

The development of the GIFMIS and its building blocks required the harmonization of the disparate budget and accounting classification systems, reporting standards, and charts of accounts being used by the government. Thus, the Unified Accounts Code Structure (UACS) was introduced in 2013 and applied in the crafting of the 2014 Budget” through the collaboration of the COA, the DBM, and the DOF-BTr.

The UACS provides a single classification system for all financial transactions throughout the PFM cycle from budgeting to treasury cash management, accounting, and audit. Functioning like a barcode to be used in all financial transactions, the UACS assigns a unique 5-digit code (see Figure 5) for each budgetary item to be tracked accurately and consolidated into regular accountability reports. It serves as the backbone of the GIFMIS as it ensures that each item of expenditure uses a single code, from the time the DBM includes it in the Proposed Budget up to the moment that COA audits it. As President Aquino emphasized, the UACS is “foundational to the success of the PFM Reform Program, as it overturns the past regime of convoluted accounting, inaccurate reporting, and leakages (2015).”

Together with UACS, the DBM and the COA prescribed common formats for Budget and Financial Accountability Reports (BFARs). The COA also introduced the Revised Chart of Accounts for implementation beginning January 2014, “to serve as the new basis for tracking the revenue and expenditure transactions of all the agencies. The UACS was further improved in 2015 to make the code classification consistent with international standards, which was used in preparing the 2016 Budget. In particular, the Classification of the Functions of the Government (COFOG) was adopted to classify expenditures by sector.

Source: UACS website (www.uacs.gov.ph)
To facilitate the smooth implementation of this coding framework, a UACS Manual and a Primer were published to inform and guide UACS users, a series of training and seminars were undertaken to capacitate government employees, and a UACS Help Desk was established in 2014 to respond to the queries and concerns of the agencies. The Help Desk is manned by technical staff from the DBM’s Budget and Management Bureau and is available from 8:00 a.m. to 5:00 p.m., Mondays to Fridays. A UACS website (www.uacs.gov.ph) was likewise created to provide UACS users—from government financial managers to civil society organizations—access to information and materials on the UACS as well as to all UACS codes, including new account codes not reflected in the UACS Manual.

Enhancing the Bureaucracy’s Capacity to Implement PFM

Recognizing that technologies and systems are not enough, the government pursued efforts to build the capacity of PFM professionals to plan, budget, implement, account for, and report financial transactions. This view was also validated by a change readiness survey conducted in May 2012, which highlighted that government personnel, particularly those involved in PFM work, needed proper training on new PFM systems. The survey results nonetheless revealed “a strong agreement among managers and staff that the GIFMIS and other PFM reforms will improve transparency and accountability in their agencies and thus is beneficial to government agencies.”

“At the end of the day, it’s going to be contingent on people. We are going to fall and rise by the strength and competencies of people.”

Ma. Grace Pulido-Tan
FORMER COA CHAIRPERSON

Following the survey, the PFM Committee developed a PFM Competency Model in order to clearly define the competencies needed for PFM positions, identify competency gaps, and help determine appropriate training and other capacity building interventions. In 2013, a team composed of international and local technical experts, with the participation of 1,000 PFM practitioners from the various oversight and implementing agencies, crafted a PFM competency model to clearly define the skills set, and behaviors and attitude of PFM practitioners in the areas of budgeting, accounting, treasury/cash management, auditing, and procurement. Approved by the PFM Committee in January 2014, the Model was designed to support the current and future PFM systems and processes. To supplement the Model, a PFM Competency Dictionary was developed to define and explain the rationale for each PFM competency.

The Competency Model became the basis for developing the curriculum of the PFM Certificate Program (PFMCP). Officially launched in September 2015, the program seeks to make the capacity building of PFM practitioners more systematic and integrated. It offers competency-based training on the following tracks: foundation course, budgeting and performance, accounting, auditing, procurement, and cash management. Two of the six tracks of the Program have already been rolled out: the PFM Foundation track, and the Budgeting and Performance track. The PFM Foundation track provides core skills that would be useful even if guidelines change. The Budgeting and Performance track boosts the oversight agencies’ ability to make better decisions particularly in scrutinizing data provided by the implementing agencies. To support the PFMCP, a series of “training of trainers” sessions were held that would develop a pool of trainers who would be tapped to coach about 20,000 PFM practitioners.

Related steps were also taken to widen the access of government employees and the public alike to resources on PFM. For one, the government launched the PFM website (www.pfm.gov.ph) that would serve as an information portal on the reform program. The website contains news articles, reform updates, audio-visual materials, and other relevant reference materials. It also features a feedback mechanism to facilitate user interaction. It also sets up a “PFM Nook” in the libraries of the DBM and the NEDA, where manuals, handbooks, reports, and other learning materials of PFMP may be accessed.

“The training is very informative. I was able to learn new techniques in preparing a budget proposal.”

Lolita Estacion
DEPARTMENT OF TRANSPORTATION AND COMMUNICATIONS-OFFICE OF TRANSPORTATION SECURITY

“Establishing the Office of the Comptroller General is a clear commitment of the government with its mandate to promote sound, efficient, and effective management and utilization of government resources.”

Undersecretary Janet Abuel
DBM COMPTROLLER GENERAL GROUP

CHALLENGES AND MOVING FORWARD:
Can the GIFMIS Actually Be Built?

“Can the GIFMIS be built? Yes, absolutely! We have started it churning. Can it grow to its actual formation? Half of the answer lies on the appetite and temperament of PFM managers and of the PF in an organization.”

Undersecretary Richard Moya
DBM OFFICE OF THE CHIEF INFORMATION OFFICER

Building the core GIFMIS system in a short span of time encountered significant setbacks: fundamental and non-technology issues that needed to be sorted out, delays and other problems during the actual rollout of the ICT applications, and even its acceptability to the users. However, these hindrances did not mean the outright failure of the GIFMIS project. Comparatively, other countries had taken an average of about eight years, with a range of five to 10 years, to roll out their respective FMIS (Dener, Watkins, and Dorotinsky, 2011). As it stands, the Philippines’ progress so far does not deviate much from the global experience. Just the same, the recent PEFA assessment (WB, 2016) emphasized the need for the government to continue its efforts to build an FMIS as it “offers the government significant benefits in managing public monies more effectively...The establishment of an effective system also contributes directly to improving transparency and accountability.”

Since 2011, the government had managed to put the essential components of the GIFMIS in place. Most notably, the UACS and the TSA could be considered as the skeletal and nervous systems of the GIFMIS human body, so to speak. The rollout of the BTMS—a significant part of the GIFMIS brain—had also been jumpstarted. In relation to its human component—arguably the most important element of integrating the PFM system of the country—bold steps had been initiated to capacitate the bureaucracy and the key institutions. Even as the key ICT and institutional strengthening efforts have been ongoing, the next administration should be able to provide the much-needed resources to ensure their completion. The resources needed do not only concern financial support but also political will: the latter will be required especially to overcome the inertia of and resistance to reform.
A Robust System or More Islands?

Moving forward, the next administration should not only sustain the rollout of the BTMS but also chart a bold yet realistic roadmap for the completion of the GIFMIS after the BTMS is completed in 2017. Moreover, the next administration may consider building on the lessons learned during the first six years of developing this government-wide system. If at all, the most important lesson is that the success of the GIFMIS depends not on ICT alone.

Among the non-technology issues that emerged while creating the GIFMIS were the usability of the ICT systems and the readiness of the users. For instance, the rollout of the OSBPS and the URS has been hampered by the poor compliance of the agencies with the policy of using the said systems in submitting their budget proposals and accountability reports. The agencies’ PFM officers often cited the slow internet and other connectivity issues as reasons for failing to use the online systems—or why they opted to go physically to the DBM to encode their submissions. Apart from the real problem of internet connectivity, the DBM also realized that the agencies tended to submit their proposals and reports ‘online but on-site’ because they could seek readily the help of the DBM’s budget analysts and technical staff who were present (see Linking Planning and Budgeting).

It should also be considered that the ‘rushed’ development of the OSBPS and the URS in time for the 20% Budget preparation gave the DBM limited time to train the PFM staff of the implementing agencies to use the systems. These issues only emphasized the need for a more strategic and deliberate approach to handholding the users to ensure that ICT systems are embraced, understood, and applied.

The government should watch against the risks of further fragmentation of PFM systems. For instance, after the DBM introduced the URS to be used for the submission of the BFARs, the COA likewise introduced its own system in 2015—the Budget and Financial Accountability Reporting System (e-BFARS), and for the same purpose. This situation contradicted the core purpose of the GIFMIS to unify the systems of the PFM oversight agencies, and ultimately duplicated the reporting and compliance requirements of the implementing agencies. To address this situation, an inter-agency discussion has been opened and now ongoing between the DBM and the COA to explore the possibility of harmonizing their systems in order to generate a single report for both agencies to use. Eventually, such a common system for the online submission of reports should be supported by a joint issuance of DBM, the COA, and other concerned agencies. Just the same, this situation only highlighted the need for the PFM oversight agencies to deepen their cooperation, collaboration, and commitment to the vision of the GIFMIS.

Stability with Flexibility

Yet another drawback to the success of the GIFMIS and other ICT systems was the frequent adjustments to policies and processes even as these modifications were meant to improve on the PFM reforms. For instance, in the case of the OSBPS, the annual changes in the rules, procedures, and forms in submitting budget proposals required frequent adjustments to the system. These changes compounded the problem of limited time to cascade and train the agencies’ budget officers on the new functionalities of the OSBPS; the confusion on the submission rules and the functionalities of the system; and the overall weak compliance of the implementing agencies with the use of the system in submitting their budget proposals. In 2015, only 60 percent, or 182 agencies of the 304 accounted agencies completed the online submission of budgetary proposals for FY 2016.

The lesson here was two-fold: one, the DBM should beef up its in-house capacity, with the support of outsourced suppliers, to quickly adjust ICT systems in order to accommodate new policies; two, the ICT systems should be built in a way that allows for reasonable flexibilities to accommodate changes in business processes. At the same time, the government should begin to limit the changes or adjustments to the PFM rules and procedures if only to stabilize the PFM policies, rules, and procedures. One such policy regime that needs to be stabilized moving forward is the UACS. For one, the adoption of the PREXC structure (see Linking Budgeting and Results) will require another major adjustment in the UACS code structure. While the PREXC is a crucial reform that should be implemented—and it is slated for implementation in 2018—it will have the unfortunate consequence of again breaking the comparability of the UACS codes and budgetary data over time.

Aside from adjustments that the PREXC would cause, two other factors pose challenges to the long-term success of the UACS. One factor is the need to deepen the training of PFM professionals on the use of the UACS and to re-familiarize them with the system after the scheduled adjustments. The first time that the 54-digit structure of the UACS was introduced already encountered some resistance from the implementing agencies because of perceived difficulties in using it. The second factor is the need to convince Congress—and enable its technical staff—to adopt and utilize the UACS in preparing the General Appropriations Bill (GAB). For various reasons—from the outdated ICT system of Congress to the inadequate understanding of legislators of the benefits of the UACS—the GABs produced and the GAAs enacted since 2015 had left out the UACS codes. The former reason is currently being addressed through the development of an e-Appropriations system with the help of international donors. The latter one, however, will require the Executive to engage the 17th Congress, address their concerns, and enhance their knowledge of the UACS, and secure their acceptance of this foundational PFM reform.

The Fate of the Comptroller General

The lack of progress in Congress of the proposed PFM Law set back the organization of the OCG and the development of its functions, particularly its envisioned role as consolidator of government accounts and whole-of-government financial reporting. However, this is not the only hurdle in setting up the OCG: the Constitution itself assigns the responsibility to the OCG. In this regard, the dialogue between the COA and the DBM should continue, especially as the OCG will fill an important gap—management reporting on the government’s finances within the Executive—that the COA cannot fully perform for the Executive as it is constitutionally independent. Thus, the OCG has been focusing on strengthening and institutionalizing the LGU PFM (see Meaningful Devolution) and on the implementation of the PFMCPC.

Do not Lose Sight of the Human Component

As emphasized throughout this article, while technology provides an essential backbone, the human component is a crucial factor—rather, the most important one—of an integrated and functioning PFM system. As noted by the results of the change readiness survey tackled earlier, managers are vital in cascading to their staff the vision and benefits of the PFM reforms, and in competently implementing such reforms. Good leadership likewise enables the government to manage resistance and cultural issues that pose a challenge to reforms.

For capacity building efforts, the rollout of the PFMCPC on a wider scale—particularly the development and implementation of its four remaining tracks—will require the DBM to move closer towards organizing the PFM Institute. After all, thousands of PFM practitioners need to be capacitated on various PFM competencies. While the approval for the creation of such office has not yet been secured, the PFMI TWG has received technical assistance from the Australian DFAT and the Philippines-Australia Human Resource and Organisational Development Facility (PAHRODF). The PFMI TWG has also been taking steps to scale up the PFMCPC by continued training delivery; improvement of content and training design, and development of the pool of trainers. It has also started demand-communications with agencies for better appreciation of the need to send their PFM workforce to the relevant PFMCPC courses.

However, the PFMI TWG has been encountering key constraints, such as the dearth of experts in various fields of PFM who could serve as trainers; the difficulty in scheduling training delivery; improvement of content and training design, and development of the pool of trainers. It has also started demand-communications with agencies for better appreciation of the need to send their PFM workforce to the relevant PFMCPC courses.
Delivering Measurable Results  •  Integrated PFM System

The e-Budget system, introduced in 2004 and fully utilized and implemented in 2005, was designed to automate budget execution, particularly the processing of budget release documents.

The GMIS, introduced in 1995, effectively served as the DBM’s database for all approved positions of agencies, compensation, and their beneficiaries. The data generated from GMIS served as the basis for estimating the proposed Personnel Services (PS) expenses to be included in the Proposed Budget.

These mechanisms include the DBCC, Cash Programming and Monitoring Committee.

NEDA – planning and public investment programming, DBM, budgeting and, with Monitoring and Evaluation, DOF – revenue generation, cash and debt management, government corporate sector, among others, and with DBM for cash program, accounting and auditing.

The PFM Committee is composed of officials from COA, DBM, DOF, and BPS, and is governed by a committee of PFM Principals—the COA Chairperson and the Secretaries of DBM and DOF.

Earlier named as the Government Human Resource Information System.

Before it decided to tenant the CHRIS for private developers, the government attempted to develop a National Payroll System in-house through the National Computer Center (NCC). However, the pilot tests conducted in 2012 after the system was developed revealed various non-technology issues—such as the different ways used by agencies to compute their payroll–which would need a step back, address the fragmented policies on payroll management and other non-technology issues, and go straight to developing the full-scale CHRIS with a payroll functionality.

The rollout of URS for BIDs was implemented in November 2013 for the 2014 budget cycle (COA Circular Letter No. 2013-13 dated November 25, 2013) where the URS for BIDs was adopted by DBM in July 2014 for the harmonized budget and financial accountability reports.

Joint Circular (JC) No. 2013-1 dated March 5, 2013


Developed by the Organization for Economic Co-operation and Development (OECD) and promoted by the UN Statistical Division, the ULAC code is the classification and the 2011 version of the GAA with UACS codes.

A big change happened in 2013—the DBM, the lead agency for budget reforms, adopted the Unified Account Code Structure (UACS). To support the changes entailed by its implementation, the DBM, the lead agency for budget reforms, adopted the Unified Account Code Structure (UACS).

The OSBP Experience

I was in 2009 when I first experienced the department-wide rationalization. I was then with the Regional Operations and Coordination Service and was transferred to the Budget Technical Service. I was initially assigned at the Standards and Policy Division and then moved to the Budget Preparation Division (BPD).

My division mates in the BPD taught me how to use the Budget Preparation Management System (BPMs), into which we input the following: actual obligations of the preceding year, current appropriations of the current year, and proposed budget for the ensuing year. Encoding each agency’s data takes about a day, and three days for big agencies, such as the DPWH, the DENR, and the DepEd. We would render overtime or overnight work in order to meet deadlines.

The Budget Forum signals the budget preparation season that starts in January. By March, the agencies submit their actual obligations. By April, we at the BPD input into the BPMs these, data which are used in the Technical Budget Hearing (TBH). Consequently, the agencies submit their budget proposals in April. In June, our division enters into the system these data, which are used during the Executive Review Board. These occasions are the toughest for the BPD, notwithstanding we have other tasks, to name a few. We act as the technical secretariat during the Budget Forum and we sit in during the TBH. We also serve as the technical secretariat and in-charge of the minutes during the ERB. We proofread the drafts of the NEP and the BESF before and after printing, and effect all the errata.

A big change happened in 2013—the DBM, the lead agency for budget reforms, adopted the Unified Account Code Structure (UACS). To support the changes entailed by its use, the management customized the budget preparation systems.

As of June 2, 2015

Aside from the previously stated reasons, the PREXC was postponed to the 2018 Proposed Budget in order to establish a complete three-year series (2016 to 2017) where UACS codes and budgetary data are comparable, and can thus enable a meaningful analysis of budgetary performance over time. Alread, the introduction of UACS broke the time series for the adoption of COFOG for the 2015 GAA and the 2016 NEP broke the time series data of the budget by sector. For this reason, the DBM decided to publish the budget by sector for both COFOG structure and the old classification system.

To address this problem, the DBM had to publish the GAA as signed and enacted (without the UACS codes) as well as produce a supplemental version of the GAA with UACS codes.

These include the COA, the Civil Service Commission, and the GPPB-TSO relative to procurement.
HOW WE LAID THE FOUNDATIONS OF TECH-DRIVEN BUDGETING

The government envisions an integrated financial management information system (IFMIS) to make financial reporting more efficient, transparent, and accountable. Since 2010, the government rolled out various tech-driven tools to automate processes and harmonized account codes structure, financial reports, and cash management.

More important is the capacity of the people who will operate the system. Thus, the government introduced the PFM Certificate Program to improve the capacity of PFM professionals throughout the bureaucracy.

Unified Accounts Code Structure (UACS)
As the IFMIS’s backbone, the UACS provides a harmonized classification system for budgetary, treasury, and accounting processes across the government.

Treasury Single Account (TSA)
The TSA is a set of banking arrangements managed by the DOF-Bureau of the Treasury (BT) that gives the government a consolidated view of its cash resources. Through the TSA, it is as if the government transacts through a single bank account.

Budget Treasury and Management System (BTMS)
The BTMS will serve as an integrated system for budgetary, treasury, management, accounting, and reporting processes of DBM and DOF-BT.

Online Submission of Budget Proposals System (OSBPS)
Through the online and real-time submission of budget data, the OSBPS reduces paperwork in budget preparation.

Budget Cycle Analytics (BCA)
BCA enables cross comparison of UACS-based budgetary data, targets, and accomplishments to support analysis and decision-making.

Unified Reporting System (URS)
Like the OSBPS, the URS facilitates the online submission of Budget Execution Plans and Targets and Budget and Financial Accountability Reports (BFARs).

Unified Accounts Code Structure (UACS)
As the IFMIS’s backbone, the UACS provides a harmonized classification system for budgetary, treasury, and accounting processes across the government.

Enhanced Government Manpower Information System (GMIS)
The Enhanced GMIS will serve as a comprehensive and unified system to manage human resource information of agencies. It aims to expand and integrate manpower and payroll management.

Online Submission of Budget Proposals System (OSBPS)
Through the online and real-time submission of budget data, the OSBPS reduces paperwork in budget preparation.

Budget Cycle Analytics (BCA)
BCA enables cross comparison of UACS-based budgetary data, targets, and accomplishments to support analysis and decision-making.

Other components, such as agency modules to the BTMS are for development.
UACS: A Tough But Necessary Transition

By Maria Sofia T. Tejerero

Verified with the help of the BMFs and other DBM. Second, we spent considerable time attending meetings, seminars, and trainings. I considered this a challenge because it ate up hours that we needed for our regular functions. But, as administrators, we needed to be present, to discuss and agree on the procedure in issuing codes and address the other queries of the Consultant Team.

I enjoyed learning the UACS. In one of the trainings on the use of the UACS repository (a system used to administer and process the UACS code database), we needed to role-play as requester, reviewer, and approver—to check if the system was working or not. Since the only authorized person to approve the system should have the position of an undersecretary, some of us role-played as the undersecretary.

If not for the UACS, the maintenance or processing of request or issuance of codes would have remained manual, since the system was not linked. For instance, the use of Excel files as database for the codes would have required manual encoding of codes. Likewise, it made possible the synchronization of the DBM IT systems, e.g., BMPS, and eBudget.

The UACS improved the reporting system of the government as a whole. It helped harmonize the reports of the oversight agencies. The UACS turned out to ease up budget preparation, execution, recording, accountability, treasury, and accounting. I feel honored to be involved in this reform that brought about a great impact on the national government process.

Today, the UACS is being used by new DBM IT systems, such as the URS which is used in the online submission of targets and actual obligations of departments and agencies; the newly-developed BCA, which would be used in generating reports; and the on-going development of BTMS.

UACS: The 54-Digit Challenge

By Mary Joy O. de Leon

Resistance to change is human nature. Even the calmest, most composed of people would raise hell when asked to step out of their comfort zones.

The moment I flashed my presentation slide showing a 46-digit code to unify budget monitoring and reporting—the Unified Accounts Code Structure as we know it—before a crowd of more than a hundred fellow government workers, there was deafening silence. And almost immediately, a surge of side comments that sounded like bees buzzing were upon me. It felt like I was swarmed with a colony of wild bees that I disturbed while hunting for honey.

Everyone in the room could not hold back and speak their minds right at that moment, even after I assured them I would entertain questions at the latter part of the session. I had to pause awhile because I was overwhelmed by their reactions and I needed to think about how to bring them back to focus and tell them that ‘hanging on, this 46-digit code would actually make your work lives easier.’

The lowest opposition came from the operations staff, who perceived compliance to the coding system as additional workload. I understood their sentiments. After all, who would not be shocked if one were to use a 46-digit code in all the financial reports submitted to the oversight agencies? It would not help that the 46-digit code became eight digits more a year after. Hence, as a trainer, I bore the responsibility of allaying their fear of such a complex-looking code. As complicated as it seemed, the unified coding format would in the long run simplify reporting and monitoring of financial transactions and reduce time and effort wasted in duplicative paperwork.

At the end of each training, I would hope that they had agreed with my explanation that the UACS would reshape the way we do budgeting in two ways.

First, the UACS made the impossible possible: it unified previously different formats of reporting the budget as spent,

1. As of this publication, Tejerero is a Senior Budget and Management Specialist of the Budget Technical Bureau.
Government exists through the mandate of the people—as well as their taxes. Against a backdrop of corruption and ineffective service delivery in the past, the people installed the Aquino administration in 2010, which took a fresh mandate to restore trust between the government and its people. To honor the spirit of People Power, the administration increased transparency, citizen’s participation, and accountability in the way public funds were managed. Through these reforms, the Philippines became a global leader in fiscal openness.
FISCAL TRANSPARENCY
How the Government Improved Access to Budget Information

IN A NUTSHELL

- It is the government’s obligation to uphold the citizens’ right to access budget information.
- In the past, since the 2006 Open Budget Survey (OBS), the government had produced “some” or limited access to information on how public funds were spent:
  - Inadequate information on intended results and details of spending in the Budget
  - Reports had lacked detailed comparisons of actual spending against appropriations
  - Information had not been presented in forms that citizens can access and understand

- Since, the administration made more information available to and accessible by the public. The 2015 OBS now ranks the Philippines 4th in Asia and 21st in the world.
  - Reformed the use of lump sum funds through technology
  - PFM reforms made the Budget more comprehensive and aligned with results
  - Published comprehensive Mid-Year and Year-End Budget Reports
  - Required agencies to disclose information via the Transparency Seal and Open Data
  - Produced the People’s Budget to help citizens understand complex information

- Moving forward, the government should sustain the Philippines’ standing as a global leader and, more importantly, uphold citizens’ right to fiscal information.
  - Improve government capacity to produce highly technical information, e.g., long-term debt sustainability analyses and reliable performance targets
  - Increase the comprehensiveness of Budget Reports by presenting the actual spending and performance of all agencies and all of their programs
  - To uphold citizens’ access, pass the FOI, expand the People’s Budget, and improve agency compliance with transparency standards

Governments have the obligation to make information on the use of public resources accessible to their citizens. The High-Level Principles for Fiscal Transparency of the Global Initiative for Fiscal Transparency (GIFT) asserts, “[…] everyone has a right to seek, receive and impart information on fiscal policies (GIFT, 2012).” To ensure that governments fulfill this right, global standards have been established to assess the quality, credibility, comprehensiveness, timeliness, and accessibility of information produced throughout the budget process (see Table 1).

Table 1. Key Global Fiscal Transparency Instruments Applied to the Philippines

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<tr>
<th>Instrument</th>
<th>Description</th>
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<tr>
<td>Open Budget Survey (OBS)</td>
<td>Assesses budget reliability; transparency; assets and liabilities management; policy-based budgeting; budget execution; accounting and reporting; and external scrutiny.</td>
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<tr>
<td>Fiscal Transparency</td>
<td>Introduced in 1998 and last updated in 2014-2015 to establish good practices in budget reporting, fiscal forecasting and budgeting, and fiscal risks analysis and management.</td>
</tr>
<tr>
<td>Financial Accountability (PEFA)</td>
<td>A diagnostic tool introduced in 2005, with the latest version in 2016, to assess the performance of countries’ PFM institutions, policies, and systems over time.</td>
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Fiscal transparency enables better management of public resources and better performance. Evidence shows that fiscal transparency has “a beneficial impact to lowering deficits or debt, borrowing costs, and directly or indirectly limiting fiscal gimmickry,” and incentivises public officials to refrain from corrupt behavior (de Renzio and Wehner, 2015). It also helps build public trust by establishing an environment of public accountability, where the citizens can be assured that their voices are heard and their interests heeded by public officials.

SITUATION BEFORE 2010

Lack of Trust due to Lack of Fiscal Transparency

Even as PFM reforms had been pursued in the past to improve reporting and the quality of information on the budget, the situation in the past was characterized by low levels of public trust and investor confidence (see Introduction). As such, “[t]he Philippines presented the paradox of well-defined budget responsibilities, procedures, and reporting requirements but with the international perception of relatively high corruption levels (IMF, 2002).”

In the OBS, the Philippines had languished with the majority of 104 countries surveyed with inadequate fiscal transparency since 2006. Even if the country’s OBI score improved to 55 in 2010 (see Table 2), three of the eight budget documents remained unpublished. Key gaps in the other five had also remained undressed. The reviews against an earlier version of the IMF FTC (IMF, 2002 and 2004) and an assessment by the OBI held in 2006 to 2007 (WB, 2010) indicated some progress but also highlighted lingering fundamental gaps. The following summarizes these gaps, which were highlighted by the OBS and the IMF and PEFA assessments:
A detailed Budget with critical gaps

Information produced during the budget preparation and legislation phases had been generally comprehensive. However, past Budgets had failed to present essential information on their policy underpinnings and intended results. In particular, Budgets had been replete with lump sum funds which were not itemized into detailed programs, activities, and projects and were susceptible to abuse. Likewise, the Budgets had not presented adequate information and explanations on budgetary policies and the socio-economic goals they seek to achieve. The Budgets also lacked medium-term estimates of macroeconomic assumptions and fiscal targets, as well as economic sensitivities.

In relation to these gaps, the government had not also produced the Pre-Budget Statement (PBS) that should provide the policy framework in preparing the annual Proposed Budget. Moreover, the Budgets had not presented adequate information on performance: while the Book of Outputs was introduced, it had not contained complete and quality performance indicators and targets of the agencies. At times, the Book of Outputs had been produced too late to be considered during budget deliberations in Congress.

Poor reporting on Budget implementation

In contrast to the comprehensive information on the Budget, the reports on budget execution had lacked detailed comparisons of actual expenditures against approved appropriations. In particular, the Year-End Reports (YER) had been too broad to enable the detailed comparison of actual revenues, expenditures, and debt against targets. The structure and categories used for reporting actual year-end expenditure outturns in the Proposed Budget as well as in the COA Annual Financial Report (AFR) had not only been inconsistent with those of the Enacted Budget, but also lacked reporting at the level of appropriations.

Moreover, the Mid-Year Review (MYR), which should explain any adjustments in the middle of the year, had remained unpublished. The “general weakness in reporting on budget execution (WB, 2010)” was also the result of the lack of consolidated in-year budget execution reports, even if the line agencies submitted budget reports to the DBM; as well as the lack of comprehensive disclosures on procurement activities and limited information flows to and from primary service delivery units.

Limited citizens’ access to budget information

While available online as well as in hard copy, the Budget documents had not been in a format that citizens could easily understand, analyze, and re-use. The government also did not have clear and accountable policies and mechanisms for citizens to access budget information apart from those reflected in the Budget documents: the Freedom of Information Act had remained pending in Congress for 27 years. Moreover, the government had not produced a Citizens’ Budget in a regular and timely manner. Such a citizen-friendly summary of the Budget in various stages of the budget cycle could have helped the citizens understand highly technical budget information.

KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

How the Philippines Became a Global Leader in Fiscal Transparency

“It is easier to hold government and its officials accountable for the use of public funds if there are sufficient, understandable, and accessible data on which the public can assess official performance.”

President Benigno S. Aquino III
President’s Budget Message 2011

The bold reforms that the government has initiated since 2010 established the Philippines as a new global leader in the practice of fiscal transparency: In 2015, the country’s score in the OBI increased to 64, from 55 in 2010 and 48 in 2012, crossing over to the elite group of 24 countries of 104 surveyed with “adequate” budget transparency (see Tables 3 and 4).

Table 3. Philippine Performance in the OBI, 2006 to 2015

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<td>51</td>
<td>48</td>
<td>55</td>
<td>48</td>
<td>64</td>
<td></td>
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</tbody>
</table>

Performance Highlights

<table>
<thead>
<tr>
<th>OBI Score</th>
<th>Performance Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2015</td>
</tr>
<tr>
<td>Pre-Budget Statement</td>
<td>0</td>
</tr>
<tr>
<td>Executive Budget Proposal</td>
<td>57</td>
</tr>
<tr>
<td>Enacted Budget</td>
<td>100</td>
</tr>
<tr>
<td>In-Year Reports</td>
<td>96</td>
</tr>
<tr>
<td>Mid-Year Review</td>
<td>0</td>
</tr>
<tr>
<td>Year-End Report</td>
<td>0</td>
</tr>
<tr>
<td>Audit Report</td>
<td>52</td>
</tr>
<tr>
<td>Citizen’s Budget</td>
<td>0</td>
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</table>

Source: Open Budget Survey (2012 and 2015); IBP

The Philippines achieved these new heights in budget transparency not by merely publishing all budget documents: more importantly, the government addressed fundamental policy and technical issues in making budget information more available and accessible to the citizens.

Making lump-sum funds more transparent through technology

To rationalize the opaque lump-sum funds, particularly the controversial Priority Development Assistance Fund (PDAF), the administration launched in 2011 the Electronic Transparency and Accountability Initiative for Lump-Sum Funds (eTAILS), an ICT-based system that digitized the processing of allotment releases (SAROs) from lump sum funds which was proposed in 2008 for external funding from the Millennium Challenge Corporation. The system likewise automated the disclosure of these releases through a special portal on the DBM website (pdaf.dbm.gov.ph). The DBM pursued further improvements to the PDAF portal, for example, the system integrated social media tools to allow the citizens to report and submit photos or videos of PDAF-funded projects. This portal has been online since 2015.
the abolition of the PDAF in late 2013. In addition, the government had posted, though manually, releases from other lump-sum funds through the DBM website: the DepEd School Building Program (reports.dbm.gov.ph/sbp.php), the Internal Revenue Allotment of local government units (reports.dbm.gov.ph/ira.php), and the Calamity/NDRRM Fund and Quick Response Funds (www.dbm.gov.ph/?page_id=8427).

“Through the PDAF database, citizens could keep track of fund releases of legislators for each fiscal year. This information provides people with access to information to hold legislators accountable.”

Celso Alejandro Estioco
DBM INFORMATION AND COMMUNICATIONS TECHNOLOGY SYSTEMS SERVICE

PFM reforms improved the quality of the Budget

The PFM reforms introduced since 2010 have made the Budget more comprehensive. Efforts to reduce lump-sum funds and Special Purpose Funds (SPFs) have enabled the government to present in detail the appropriations for programs, activities, and projects (see Budget Integrity and Accountability). Similarly, the Unified Accounts Code Structure (UACS) has allowed the categorization and coding of these particular budget items in a clear and organized manner (see Integrated PFM System). To clearly present the budgetary policies vis-à-vis the socio-economic goals, the government since 2011 has published the Budget Priorities Framework (BPF) that presents the fiscal strategy and expenditure priorities that should guide the formulation of the Proposed Budget. The improved implementation of the Medium-term Expenditure Framework (MTEF) (see pages Linking Planning and Budgeting) and other initiatives have enabled the presentation of medium-term estimates of the economic assumptions, revenues, expenditures, and debt in the BPF and the Proposed Budget (BESF).

Moreover, since 2012, the DBCC has published the annual Fiscal Risks Statement (FRS) that discusses economic, external, climate change, and other risks to government finances; as well as information on the sustainability of national government debts, including contingent liabilities. With the FRS’s, the IMF-FTE had said that fiscal risks disclosure was “relatively strong in the Philippines compared to other countries (2015).” With the Performance-Informed Budgeting (PIB) in place, the link between budgeting and the intended results has been clearly shown, as the agencies’ performance indicators and targets are presented in the Budget (NEP and GAA) itself (see Linking Budgeting and Results). The Technical Notes to the Proposed Budget published by the DBM since 2014 provides comprehensive narrative explanations of how financial estimates link to achieving development goals and delivering services to the citizens.

“The Technical Notes, the People’s Budget, and other new publications emphasize that it’s not enough for the government to make technical budget data available. It’s an equally-important task for the government to thoroughly explain the story behind the data, and to translate that story into forms to which citizens can easily relate.”

Director Francis Y. Capistrano
DBM KNOWLEDGE MANAGEMENT AND FISCAL TRANSPARENCY SERVICE

Budget reporting now established

The DBCC Mid-Year Report (MYR), which had been issued since 2013, discussed the government’s economic and fiscal performance as of the first semester of the year; as well as the decisions of DBCC to modify economic, revenue, expenditure, and debt targets for the remainder of the year. The report likewise provided financial and non-financial information on the performance of major departments, programs, and projects. The DBCC also produced the YER since fiscal year 2012. This document essentially contained the same structure and information as the DBCC MYR, but with additional information on program-level performance and outlook for the following years. Related to this, Congress added a provision in the GAA since 2015 requiring the Executive to submit a Post Budget Status Report.19

The DBM also improved the timeliness and level of detail of the monthly Assessment of Disbursements; and produced new regular reports, through the DBM website, on the aggregate status of allotment releases, obligations, cash allocation releases, and their utilization. Because of these and other practices, the IMF rated the Philippines’ fiscal reports as “relatively comprehensive, frequent and timely, with many good and advanced practices (2015).”

“‘It’s very important to publish that [DBCC MYR and YER], not only for the benefit of DBM, the implementing agencies, or the oversight agencies. The most important there is to inform the public what happened to what has been approved by the Congress; because all the citizens should know where their taxes were spent.’

Director Rolando U. Toledo
DBM FISCAL PLANNING AND REFORMS BUREAU

A clearer set of agency disclosure standards

Coinciding with the 2012 GAA, the government introduced the Transparency Seal: a visual element or other hyperlink that all the agencies should feature on their official websites, conspicuously as to lead users to access key budget information16 (see box). To incentivize compliance, the government made the Transparency Seal an eligibility requirement for the agencies for the grant of performance-based bonuses (see Compensation Reform). By end-2014, 98 percent20 of all NGAs (departments and other executive offices), SUCs, and GOCCs had complied with the Transparency Seal (see Table 6).

In addition, the government had included other public disclosure requirements in the provisions of the GAA. These included a requirement21 for the agencies that implement infrastructure projects to post their respective websites for each project the project title, detailed description, nature and location, detailed estimates in arriving at the Approved Budget for the Contract, and the winning contractor and detailed estimates of the bid as awarded. Moreover, the government had required the agencies to post bid notices and awards online through the Philippine Government Electronic Procurement System22 (see Procurement Reform), and had made such a requirement in granting performance-based bonuses.

Table 6.

<table>
<thead>
<tr>
<th>Agency Compliance with the Transparency Seal</th>
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<tr>
<td>Type of Institution</td>
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<td>---------------------------</td>
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<tr>
<td>Departments</td>
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<tr>
<td>Other Executive Offices</td>
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<tr>
<td>Constitutional Offices</td>
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<tr>
<td>GOCCs covered by DBM</td>
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<tr>
<td>SUCs</td>
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<tr>
<td>Total</td>
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<tr>
<td>Compliance Rate</td>
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Information Required by the Transparency Seal

All government agencies, including Constitutional offices, SUCs, GOCCs, and LGUs should maintain a transparency seal on their official websites, to contain their:

i. mandates and functions, officials with designations, and contact information;

ii. approved budgets and corresponding targets;

iii. budget realignments;

iv. annual procurement plan, contracts awarded, and name of contractors;

v. status of implementation of programs or projects, including evaluation reports;

vi. physical and financial accountability reports required by COA and DBM;

vii. annual reports on off-budget or retained income, expenditures, and balances.

Source: Section 99 of the General Provisions, 2016 GAA (R.A. No. 10707)
Let citizens play around with the data

Aside from ensuring the availability and accessibility of budget information, the government sought to make this information available in open and machine-readable formats.24 The DBM began to publish the GAA, the NEP, and select tables of the BESF in open data formats in 2013. A task force25 of the DBM, the Office of the Presidential Spokesperson, and the Presidential Communications Development and Strategic Planning Office, with the support of the World Bank, developed the Open Data Philippines portal (data.gov.ph). The portal was launched in January 2014, featuring open data sets and visualizations of budget and procurement information, among others. The Open Data Task Force also developed data portals or special topics (see box). Similarly, the DBM uploaded Budget documents on its website in open data format.

Parallel to these, the Task Force pursued policy reforms to promote open data, such as the inclusion of a general provision in the GAA beginning 201526 that required all the agencies to make this information available in open and machine-readable formats. It also conducted various outreach and capacity building activities—such as master classes, seminars, and hackathons27—to promote the adoption and use of open data.

“We rolled-out outreach activities to demonstrate how civil society can leverage open data for civic causes. For example, we engaged CSOs on how they can use datasets from the DILG’s Full Disclosure Policy Portal to check LGUs’ performance.”

Gabriel Baleos
OPEN DATA PHILIPPINES TASK FORCE

Specialized Open Data Portals

- Faith.gov.ph – the government launched the Foreign Aid Transparency Hub in 2013 after Typhoon Yolanda for the disclosure of foreign aid pledges and actual receipts (cash and non-cash);
- Openpub.gov.ph – a transparency and monitoring and evaluation portal for the Bottom-up Budgeting program;
- Extractive Industries Transparency Initiative (EITI) Contracts Dashboard – the Task Force, DOF, and the EITI Philippines Multi-Stakeholder Group developed this dashboard (data.gov.ph/eiti) to catalogue mining and oil and gas contracts;
- Openroads.gov.ph – a dedicated portal for the disclosure of road construction projects and financing, initially for the Tourism Road Infrastructure Program of DPWH and DOT, and Farm-to-Market Roads of DA.

The Budget in forms that citizens understand

The DBM published the People’s Budget first in 2011, an annual publication that featured plain language and graphics-driven summaries of the budget policies and reforms, the macroeconomic assumptions and the fiscal program, the dimensions of the national expenditure program, and the priority programs and projects of the GAA, as well as the citizens’ guides to the budget process. Since then the People’s Budget had evolved from a summary of the Enacted Budget into a package of actions that bring budget information closer to the citizens. For one, the People’s Proposed Budget was introduced to summarize the Proposed Budget beginning fiscal year 2013. The DBM also translated the People’s Budget into Tagalog and Cebuano, released audio-visual presentations (AVPs), and produced flyers, infographics, newspaper advertisements, and other materials to reach more audiences physically and via social media. Moreover, to solicit stakeholder inputs and feedback on the publications, the DBM since 2013 had conducted research activities, such as targeted interviews, focus-group discussions, and readership surveys.

“[The People’s Budget] is one of the best ways of making budget information understandable to citizens... Even [a senator] would love the graphical illustrations.”

from a respondent of a People’s Budget readership survey

CHALLENGES AND NEXT STEPS

Can Citizens Now Use Budget Information to Hold Government Accountable?

“As we give citizens access to information, we give them recognition that they have a stake in government concerns: that they have the right to know, to understand, to be heard, to participate, and to help make government more efficient and effective.

So far, we have opened up our government to a great extent and we have been recognized locally and internationally for doing so. We should not backtrack. We should do more, because this is how we show our people that the government can be trusted.”

Undersecretary Janet B. Abuel
DBM COMPTROLLER GENERAL GROUP

The bold reforms in PFM that brought the country’s fiscal transparency policies and practices closer to international best practices had helped improve corruption perceptions, investor readiness, and public trust. Any reversal in fiscal transparency policies or backsliding from new practices28 would not only embarrass the Philippines internationally, but also impede progress in other PFM reform areas, such as improving the government’s ability to manage the performance of the agencies (see Fast and Efficient Budget Execution), and enabling a meaningful and evidence-based citizens’ participation (see Citizens’ Participation in the Budget Process).

In the future, the Philippines may be able to join the group of countries with “extensive”29 fiscal transparency in the OBI. To do so, the government must improve its capacity to produce useful fiscal information and make these accessible to the citizens (see Table 8). Furthermore, the government must address the lack of permanent enabling laws for fiscal disclosures and access to information; the delays in implementing ICT solutions that enable transparency; and the capacity of the CSOs and other stakeholders to use budget information.
Information gaps in the budget now more sophisticated

To address the remaining gaps in the comprehensiveness of Budget documentation, the DBCC and its member-agencies must improve their capacity to inventory, monitor, analyze, and disclose sophisticated PFM information: financial and non-financial assets; contingent liabilities and sustainability of government obligations over the long-term; tax expenditures, including incentives to investors; and the overall public sector financial position. Steps had been taken to address these gaps, particularly the efforts of the DOJ-BT to improve its ability to manage contingent liabilities, debt sustainability, and overall fiscal risks; and the consolidation of budget preparation reforms through the Two-Tier Budgeting Approach (see Linking Planning and Budgeting).

The capacity of the agencies to produce highly technical fiscal information—from accurate future forecasts of each program’s cost, to fleshing out expenditures into detail—should be improved. Moreover, the Program Expenditure Classification (PREXC), where all programs will have performance targets (see Linking Budgeting and Results), must require not only the improved technical capacity of the DBM and the agencies but also the support and capacity of Congress and the citizens. Finally, the passage of the Public Financial Accountability Act (see Proposed Philippine Public Financial Accountability Act) and the Freedom of Information Act would provide a permanent mandate to the country’s new fiscal transparency practices.

Reports need more detail on finances and performance

The DBCC MYR and YER should be sustained and made more comprehensive by presenting information on the financial and non-financial performance of all the agencies and all their programs according to the same classifications in the Budget. By doing so, data and information will be comparable, which will make validation for budget integrity easier and deepen the public’s understanding of such information. Therefore, the agencies should have the capacity to prepare the required accountability reports accurately and submit these on time, and the very structure of the Budget to facilitate reporting must be also considered (see Budget Integrity and Accountability). Certainly, timely and accurate submission, consolidation, and reporting should be in place, with the help of ICT tools that should eventually automate these processes (see Integrated PFM System).

Moreover, the DBM should put in place specific functions that focus on financial accounts consolidation and reporting as well as enforcement of monitoring and evaluation standards. Steps had been taken to address these gaps, such as harmonizing accountability reports and sustaining the implementation of the UIACS (see Integrated PFM System); installing technology-based solutions toward a full-scale GIFMIS which is a work in progress;19 and initial set-up of the Office of the Comptroller General (OCCG) as well as the Performance Monitoring and Evaluation Bureau in the DBM (see DBM’s Institutional Strengthening Efforts).

Build capacity to meet citizens’ demand for information

To deliver easy-to-understand and useful fiscal information to the citizens, the DBM needs to build a new set of competencies: translating highly technical information into “plain language” explanations and creative graphics; packaging data into open formats; addressing the citizens’ request for information; and even pushing out information through social media. However, these stakeholder-centric functions are currently performed by ad-hoc units.

The DBM must also systematize the monitoring of agencies’ compliance with the Transparency Seal and other mandatory disclosure requirements, and assign permanent offices to perform this function. Moving forward the DBM must prepare for its compliance with the Freedom of Information bill before its eventual enactment—by improving information, records, and knowledge management practices. To meet the increased demand from citizens for accessible and useful information, the DBM has begun to address organizational and systems gaps, particularly the adoption of a Quality Management System and the recent creation of the Knowledge Management and Fiscal Transparency Service (see DBM’s Institutional Strengthening Efforts).

“Although budget transparency across the world has improved incrementally over the last ten years, many countries that have increased their budget disclosures are still only providing limited amounts of budget information to their citizens. In contrast, the Philippines is one of only a handful of countries to break the barrier and move into the select group that disclose sufficient levels of budget information. It also complements advances in transparency with improvements in public participation in budgeting. The challenge now for the Philippines is to maintain consistency and not regress in its practices.

As the global fiscal environment gets tighter, the Philippines faces a challenge of improving the effectiveness and efficiency of every peso spent. This challenge is more effectively combated when supported by good quality data and information. This also means tapping into citizens, legislators, and others outside the executive who may be able to make suggestions and contribute information that can lead to more effective budget implementation. Ultimately, robust societies occur when there is a very strong bond of trust between citizens and the government.”

Executive Director Warren Kraftchik

INTERNATIONAL BUDGET PARTNERSHIP
Empowering Citizens  •  Fiscal Transparency

NOTES

1. The High-Level Principles were adopted by the United Nations General Assembly in 2003. G7 is a multi-stakeholder action network working to advance and institutionalize global norms and significant, continuous improvements on fiscal transparency and accountability in countries around the world (G7, 2014). Convened in 2011, G7 is composed of representatives from government (including the Philippines through the DBM) and international donor organizations, non-government organizations, and professional associations.

2. Countries with OBI scores below 60 have “inadequate” transparency; those with “adequate” transparency have scores of 61 and higher. In 2010, 96% of the 106 countries surveyed (97 percent) fall under this category.

3. Most notably, the enactment of the procurement law (see Procurement Reform, the establishment of internal control and audit, and the introduction of a new version of the Proposed Budget that presents agencies’ programs and budget targets, as well as submissions by the 2nd quarter of each fiscal year)

4. This unpublished document, produced by DBCC through DBM in 2009 and updated in 2010, discuss the recommendations of fiscal framework and expenditure policies for the preparation of the upcoming fiscal year’s Budget. The OBS did not consider the National Budget Call as adequate enough to be considered as a pre-budget statement because it is in contrast to “closed” licenses or “copyrights” which prohibit users from doing work we were able to make available online.

5. General Provisions Section 19 of the 2016 GAA mandates that the System “shall be the primary source and repository of information on government procurement.”

6. These include XLS, XLSX, CSV, HTML, and other electronic formats that are machine-readable and could generally be processed by users through Microsoft Excel and other similar programs. Some PDF files could also be open and machine-readable depending on their formatting (e.g., those which are not image-based).

7. These include Open Database License, Creative Commons, and other “copyleft” licenses that enable users to freely manipulate, re-use, and share data as well as use these to develop applications without prior approval of the data producer as long as the latter is acknowledged. This is in contrast to “closed” licenses or “copyrights” which prohibit users from doing work we were able to make available online.

8. The 2015 version of such provision (Section 24) mandated the Open Data Task Force to issue guidelines to implement this section.

9. These include Open Database License, Creative Commons, and other “copyleft” licenses that enable users to freely manipulate, re-use, and share data as well as use these to develop applications without prior approval of the data producer as long as the latter is acknowledged. This is in contrast to “closed” licenses or “copyrights” which prohibit users from doing work we were able to make available online.

10. This reform should be sustained for faster and efficient budget execution. The agencies should ensure the timely implementation of their programs and projects through early procurement and timely service delivery. To the next policymakers and leaders, they should be transparent and accountable to be an effective and efficient implementer of the budget execution.

11. As of this publication, Manasan is Budget and Management Specialist II of the Budget Technical Bureau, formerly known as the Budget Technical Service.

12. In 2015, manually prepared SAROs have been eliminated as well as the PDF’s Database system; the e-Budget system was the only one used in processing fund releases for easy and efficient budget operation. To prevent the reproduction of the release documents and the creation of fake SAROs, a policy was created only one copy must be printed using the security paper and upon approval, one copy is reproducible as the receiving document to the recipient agencies.

13. My working hours were often times extended. We would usually render overtime due to the lengthy and detailed process of releasing allotments to the department and the agencies. However, in 2014, the DBM implemented the GAARD, a new reform that would allow the agencies to obligate funds early on. This new regime brought about greater efficiency in budget implementation, thereby improving fiscal transparency and accountability in the government’s expenditure program. It practically eliminated the opportunity to create fake Special Allotment Release Orders (SAROs).

14. The GAARD required the regular posting of monthly allotment releases in the DBM website as part of transparency seal. Also posted are the budgetary documents, i.e., GAA, NEP, BESF, etc. Because of the GAARD, the country obtained the highest rank among the ASEAN countries in good governance and transparency. This success is not only credited to the DBM employees, but also to all stakeholders who were directly and indirectly involved in the success of the budget execution.

15. As public servant, I realized that working in the government is not easy as it demands time and effort, hard work, commitment, and dedication.

16. This reform should be sustained for faster and efficient budget execution. The agencies should ensure the timely implementation of their programs and projects through early procurement and timely service delivery. The next policymakers and leaders, they should be transparent and accountable to be an effective and efficient implementer of the public expenditure.
Fiscal transparency enables better management of public resources and better government performance. The Philippines adhered to best practices in fiscal transparency by publishing these eight essential budget documents regularly. Moreover, the government leveraged technology to improve the availability and accessibility of budget information to the public.

1 Budget Priorities Framework
This defines estimated revenues, expenditures, and debt based on assumed economic conditions, and also discusses the priority programs and provinces that agencies’ proposed budgets must reflect.

2 Proposed National Budget
This is composed of the Budget of Expenditures and Sources of Financing, the National Expenditure Program, and other supporting documents. Through major reforms, the Proposed Budget now includes detailed programs and projects, performance indicators and targets, and narrative explanations of proposed policies.

3 General Appropriations Act (GAA)
The GAA or Enacted Budget is the Budget approved by Congress and signed into law by the President.

4 In-Year Reports
These monthly and quarterly reports published by DBM and DOF track government’s actual revenues, expenditures, and debt management. Agencies also prepare and publish regular budget and financial accountability reports (BFARs).
- Regular online disclosure of:
  - DOF-BTr: Cash Operations Reports, Debt Statistics, etc.
  - DBM: Allotment Releases, Status of Obligations, Cash Allocations Releases, Disbursements
- Disclosure by agencies of Budgets, key programs, and BFARs via Transparency Seals

5 DBCC Mid-Year Report
It summarizes the government’s economic and fiscal performance, along with the status of major programs and projects, as of the first semester of the year. It also explains differences between actual performance and targets, and discusses target adjustments, if any, for the rest of the year.

6 DBCC Year-End Report
This provides a complete review of the government’s actual economic and fiscal performance and indicators. The performance of major programs and projects are also reported. Here, the actual outturns are reported against the original program set by the National Budget.

7 COA Annual Audit Reports
The COA publishes the annual financial report, annual audit reports, special audit reports, and others to evaluate the integrity and completeness of the financial accounts of the national government, individual agencies, LGUs, and GOCCs.

8 People’s Budget
Composed of publications and varied multimedia products, the People’s Budget translates technical information on the Budget into plain language and creative graphics. The People’s Budget is ideally published throughout all four phases of the budget cycle.

Technology for Transparency
The government leverages ICT tools and social media to produce and disseminate budget information to the public. Technology-driven transparency initiatives include a) the Open Data project; b) the Transparency Seal; c) online disclosure of releases from the erstwhile pork barrel fund; and d) online publishing of the eight budget documents and other budget reports.
BUDGET INTEGRITY AND ACCOUNTABILITY

How the Government Strengthened the Ecosystem of Accountability in PFM

IN A NUTSHELL

• Accountability requires the Executive to implement the enacted Budget faithfully; and that Congress, the COA, and the citizens are able to scrutinize how public funds are spent.

• In the past, weaknesses in the country’s PFM system made it difficult to examine how the Budget was implemented and opened avenues for the ‘pillage’ of public funds:
  - Special Purpose Funds (SPFs), Special Accounts in the General Fund (SAGFs), and Off-Budget Accounts (OBAs)
  - Frequent re-enactment of the Budget and the loose definition of savings
  - Fragmented reporting formats and systems of the oversight agencies
  - Weak oversight, particularly the weak capacity of Congress

• From 2010 to 2016, the government has built safeguards to ensure the integrity of the Budget and strengthen accountability over the use of public funds:
  - Reduced lump sum SPFs and rationalized the use of SAGFs and OBAs
  - Ended Budget re-enactments by approving the GAA on time for six consecutive years
  - Unified the reporting requirements imposed by the oversight agencies (COA and DBM)
  - Improved the reporting of the status of Budget implementation

• Moving forward, the government should further improve budget integrity and strengthen the ability of Congress and the COA to exercise their oversight on the Budget:
  - Address the complexity of the Budget structure
  - Limit the leeway of the Executive in adjusting spending during budget execution
  - Improve the capacity of the agencies to produce accurate and timely budget reports
  - Pass a PFM law, among others, to define Congress’ role in scrutinizing reports

Budget integrity means public funds are spent properly and according to the interests of the citizens. Thus, Budgets must be credible: actual spending must be consistent with the approved Budget (PEFA, 2011). Likewise, the information contained in fiscal and financial reports must be reliable: accurate, consistent, readily comparable with the Budget, and independently validated (IMF, 2015). In other words, public spending must be faithful to the Budget as approved by Congress and truthful to the citizens.

Timely, accurate, and consistent accounts of how public funds are spent vis-à-vis the approved Budget enable government managers to ensure that such funds are spent according to the Budget, address deviations in actual performance against the Budget, and assure citizens that their taxes are spent properly. Budget integrity thus enables accountability: oversight institutions—the COA and Congress—and the citizens are able to hold public institutions accountable in properly and effectively use public funds. Such “ecosystem of accountability” (IBP, 2015) establishes the foundation for efficient and effective public financial management, thereby promoting greater public trust in the PFM system and in the government in general.

SITUATION BEFORE 2010

Breakdown of Integrity and Accountability

Abuses in the use of public funds in the past are more fundamentally rooted in weaknesses in the Philippine budget system. These weaknesses were exploited in the previous administration to ‘pillage’ public funds: in particular, the so-called pork barrel fund and other lump sum funds; the Malampaya Fund, a Special Account in the General Fund (SAGF) that sits outside the Budget enacted annually by Congress; and the frequent Budget re-enactments that were open to discretion and abuse (Abad, 2016).

The political set-up in which the President is vested by the Constitution with vast powers and discretion in the implementation of the Budget was in part the root of these vulnerabilities (Boncodin, as cited in Abad, 2014). The inability of Congress to exercise a strong oversight function also contributed to these susceptibilities. As found by the PEFA and other independent assessments of the country’s PFM, these issues weakened the accountability of the budget process.

Discretionary Funds in the Budget and Off-Budget

The Special Purpose Funds (SPFs) are items included in the Budget but not yet allocated to the specific recipient-agencies during the budget preparation; these funds are released during budget execution. Certain SPFs are lump sum in nature, such as the Calamity Fund, because the specific activities or projects had not yet been identified during budget preparation. The lump-sum SPFs had tended to be opaque, even as rules govern their use as indicated by the special provisions for each SPF, as well as stall budget execution. Moreover, the SPFs had been presented outside the agencies’ regular appropriations in the Budget and transferred to the implementing agencies during budget execution. This procedure “result[ed] in higher levels of obligations than the original departmental appropriations” and made comparisons between the agencies’ approved budgets and their actual expenditures difficult (WB, 2010). The use of certain SPFs had led to abuses, such as the PDAF, which allowed corrupt practices and violated constitutional delineations between the Executive and the Legislature.

A particular type of SPF—the Unprogrammed Fund—provides the Executive with the flexibility to use additional resources when needed, but had been subject to criticism as well. Such “standby” appropriations are enacted as part of the GAA, but could only be utilized if the government incurs “windfall revenues” collections in excess of targets, new revenue sources not originally part of the estimates used in crafting the Budget, newly approved loans for foreign-assisted projects, and savings from programmed appropriations. The conditions for its use “were not followed strictly, resulting in abuse (Boncodin, as cited in HDN, 2009).”

Budget accounts that are “extra-budgetary,” e.g., the Off-Budget Accounts (OBAs) and the Special Accounts in the General Fund, had made accounting and reporting of government expenditures more complex. The collection of and use of funds from the OBAs and the SAGFs are not approved by Congress through the annual Budget; instead, they are authorized by existing laws.
These two types of funds are characteristic of lump-sum funds because the Executive, as authorized by existing laws, determines the specific programs and projects on which these funds are spent. These characteristics may have allowed grand-scale abuses in the past. For example, the Malampaya Fund, an SAGF intended only for energy development programs and projects, was spent instead on “priority development” projects. Certain releases from the Malampaya Fund, an SAGF intended only for energy development programs and projects, was spent instead on “priority development” projects. Certain releases from the Malampaya Fund during the past administration “opened up an arena for Napoles-type fake NGOs,” as discovered by a special audit conducted by the COA in 2013 (Abad, 2014). As to the OBA's, the PEFA found that “reporting on the activities of these revolving funds is poor (WB, 2010).”

**Loopholes in the Use of Flexibilities**

Under the Constitution, budget re-enactment is a fail-safe mechanism that allows the government to continue to operate despite the failure of Congress to pass a Budget on time. However, budget re-enactment “strengthens the President's control over allocations, owing to larger savings that can be disbursed at his or her discretion” (HDN, 2009). During the past administration, Congress failed to enact the Budgets on time. In three fiscal years—2001, 2004, and 2006—the previous year's Budget was re-enacted in full, while in other years, the previous GAA was partially re-enacted until a new one was passed. Because of the lack of clear rules on how re-enactment must be undertaken, the previous administration re-allocated “savings” from completed projects or non-recurring budget items to new programs and projects. From 2001 to 2009, an estimated 23 percent of the P2.462 trillion from re-enacted budgets during the period could have been released under the full discretion of the former President (Abad, 2014). Budget re-enactment also convolutes the accounting of expenditures: “so long as the recurrent pattern of delayed or non-approval of the GAA continues, however, [the] accurate accounting of the 'original' budget will continue to be difficult (WB, 2010).”

**Figure 1.** A Complex Budget

<table>
<thead>
<tr>
<th>Sources of Appropriations</th>
<th>Transfers During Budget Execution</th>
<th>Actual Spending by An Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part of the Budget Program</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The GAA Enacted by Congress for the fiscal year</td>
<td>The agency's budget</td>
<td>What an agency actually spends and accounts for in a given year</td>
</tr>
<tr>
<td>Agency-Specific Budgets</td>
<td>Savings from another agency or budget item</td>
<td></td>
</tr>
<tr>
<td>SAGFs</td>
<td>Release from SFF</td>
<td></td>
</tr>
<tr>
<td><strong>Additional Budget Program</strong></td>
<td>Release from re-enacted Budget includes “savings from completed projects”</td>
<td></td>
</tr>
<tr>
<td>Re-enacted GAA</td>
<td>Last year's unspent budget including savings</td>
<td></td>
</tr>
<tr>
<td>Continuing Appropriations</td>
<td>Possible additional releases to an agency if government attains windfall revenue</td>
<td></td>
</tr>
<tr>
<td>Unprogrammed Appropriations (SPF)</td>
<td>Release from earmarked revenues</td>
<td></td>
</tr>
<tr>
<td>Outside the Budget</td>
<td>Funds from an agency's retained earnings or other OBA's, if allowed by law</td>
<td></td>
</tr>
</tbody>
</table>

The use of savings is a flexibility given by the Constitution to the President and other constitutional offices to manage budget execution. However, this power to use savings from an item of appropriation to augment other budget items had constrained budget integrity and accountability. Boncodin (as cited in Abad, 2014) had said that such power had been “commonly subject to abuse” by “forcing” savings to fund personnel benefits as well as expenditures that were unrelated to any existing item of appropriations. Additionally, how savings were to be determined was unclear: the Human Development Network (HDN, 2009) said that unused or unreleased appropriations had been converted to “savings” which, in turn, were used to fund items not originally in the enacted Budget. Moreover, the limited monitoring and reporting of the budget execution had made it difficult to determine the extent of budgetary adjustments during the year (WB, 2010). The power to use savings likewise provided that “[the executive has no need to return to the Congress to secure supplemental appropriations... (this further limits the possibility of public scrutiny of budget execution and re-allocation (WB, 2010).”

The PEFA assessment (WB, 2010) flagged another peculiarity in the Philippines’ budgeting system: the continuing appropriations. Budget items for Maintenance and Other Operating Expenditures (MOOE) and Capital Outlays (CO) had a two-year validity. With frequent delays in the implementation of programs and projects, this period of validity gave the government elbowroom to utilize the appropriation in the following year without seeking new authority from Congress. However, in the succeeding fiscal year, “neither the government nor Congress had consolidated data on the continuing appropriations” as “these were only reported as ‘actuals’ on an ex post basis (WB, 2010).”

**Fragmented Reporting of Expenditures**

The COA and the Executive had used differing accounting classification systems during budget formulation and execution. The use of these disparate account code systems had made it difficult to track and account for the use of funds against the enacted Budget (WB, 2010). Likewise, the accountability reports that the COA and the DBM require the implementing agencies to submit had been disparate. These reporting requirements entailed different formats as well as separate submissions to the two agencies. The compliance of the agencies with reportorial requirements had been burdened due to these inconsistencies, as well as by the lack of an electronic system through which the reports could be submitted. Moreover, the accountability reports required by the DBM were not consolidated into regular, whole-of-government reports (WB, 2010).

**Weak Oversight**

The aforementioned issues had compromised the ability of Congress and the COA to hold the Executive accountable in the use of public funds. Moreover, the extent of oversight by Congress was rated as “moderate” by the 2010 OBS (IBP, 2010) because of its limited internal capacity and lack of mechanisms to regularly and independently scrutinize audit reports, among others. The same survey also rated the COA’s strength as “moderate” due to its limited resources to conduct audits and the gaps in its audit reports among others. In addition, the PEFA assessment (WB, 2010) flagged the COA’s dual mandate as “an independent, external audit body and an agency in charge of setting the government’s accounting standards and rules,” which deviates from the international standard of separating accounting and audit functions.
#### KEY REFORM INITIATIVES AND ACCOMPLISHMENTS

**The Groundwork to Restore Budget Integrity and Accountability**

“With greater budget integrity, faster spending does not only accelerate growth per se, but also ensures that agencies implement programs and projects efficiently and with greater accountability for the outcomes.”

President Benigno S. Aquino III
President’s Budget Message 2011

The Aquino administration had implemented key reforms consistent with the PFM Reform Roadmap, including fundamental changes in the structure of the Budget and the process of implementation and reporting. These key reforms aimed to ensure proper accounting for each peso spent according to the approved appropriations to deter corruption and abuse, as well as ensure that public funds deliver their intended results.

Thus, strengthening budget integrity and accountability accompanied the reforms, which at the same time complemented the efforts in enabling faster budget execution (see Fast and Efficient Budget Execution), integrating PFM systems (see Integrated PFM), and enhancing fiscal transparency (see Fiscal Transparency). Moreover, the improved information contained in the Budget, revised accounting and reporting standards, and the new government-wide reports enabled the COA, Congress, and the public to scrutinize how public funds were spent. With these reforms underway, the following specific reforms had laid the foundation for stronger budget integrity and accountability.

**Reduction of SPFs**

The SPFs had been reduced from 13 in 2010 to six in 2016. The items under Allocations to LGUs (ALGUs) had been reduced from nine to five in the same period (see Table 1). Only the National Disaster Risk Reduction and Management (NDRRM) Fund (formerly Calamity Fund), the Contingent Fund, and ALGUs (particularly the special shares) remained as lump sums, as their particular uses could not be determined reasonably during budget formulation. Other SPFs were disaggregated or had been transferred to the respective line agency implementers, such as key items under the line agency budgets. For example, under the DOH’s budget, premium subsidy to indigents, Pasig River Rehabilitation Commission (PRRC), fire code fees, and Kilos Asenso Support Fund rationalized for rules-based allocations and incentives.

**Rationalized OBAs and SAGFs**

Even as these funds were characteristic of lump-sum funds, the government endeavored to rationalize their use and make them more transparent. The Malampaya Fund, for example, was utilized to support programs and projects related to energy development. The P15.3 billion in releases from this fund supported the Sitio Electrification and Barangay Line Energy Development. The P15.3 billion in releases from this fund was utilized to support programs and projects related to energy development. The P15.3 billion in releases from this fund is utilized for the development of the Malampaya Natural Gas Project (Abad, 2014). In 2013, the government likewise has started to practice disclosing revenue, utilization, and balances from OBAs as part of the Proposed Budget, and improved the presentation of SAGFs and other earmarked revenues in the Budget documents.

Similarly, the government had rationalized the Unprogrammed Fund, first, by reducing it from P118.9 billion in 2010 to P67.5 billion in 2016. Second, savings from programmed appropriations under the GAA cannot be used any longer to support unprogrammed appropriations. Third, after the Supreme Court’s decision on the DAP (see Aftermath of DAP) as well as the recommendations of the IMF’s FTE in 2015 (see Fiscal Transparency), revenue collections in excess of target that may be used to fund unprogrammed appropriations had been limited to “any one of the identified non-tax revenue sources.”

**Table 1.** SPFs in the 2010 GAA and 2016 GAA

<table>
<thead>
<tr>
<th>Year</th>
<th>SPFs in the 2010 GAA</th>
<th>SPFs in the 2016 GAA</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5. Contingent Fund</td>
<td>5. Contingent Fund</td>
<td>Now under the DepEd’s budget</td>
</tr>
<tr>
<td>2010</td>
<td>7. E-Government Fund</td>
<td>7. E-Government Fund</td>
<td>Now under the budgets of the relevant agencies</td>
</tr>
<tr>
<td>2010</td>
<td>10. Miscellaneous Personnel Benefits Fund (MPBF)</td>
<td>5. MPBF</td>
<td>Significant part (e.g., funds for creation of new positions) under the agencies’ budgets</td>
</tr>
<tr>
<td>2010</td>
<td>12. Pension and Gratuity Fund (PGF)</td>
<td>6. PGF</td>
<td>Significant part lodged under the agencies’ budgets</td>
</tr>
</tbody>
</table>

Note: The list excludes automatically appropriated SPFs, such as Debt Service-Interest Payments, Net Lending, Tax Expenditure Fund, and ALGU-Internal Revenue Allotment. Source: 2010 and 2016 GAA.

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An End to Budget Re-Enactment

With the support of Congress, the administration ended the Budget re-enactments of the past. The Budget had been enacted on time for five fiscal years in a row, beginning with the 2011 GAA, the longest so far, post-EDSA. The end to Budget re-enactments had not only “closed a key means for unbridled presidential discretion (Abad, 2014)” but had ensured likewise their timely implementation. Henceforth, the administration had adopted a new budget preparation calendar, which started with the Budget Call in January and not in April, as was the past practice. As a result, the President had been able to submit consistently the proposed Budget to Congress one working day after delivering the State of the Nation Address (SONA) and not at the close of the constitutional deadline of 30 days after the SONA (see Table 2). The new budget calendar had also given Congress more time to scrutinize and approve the Budget bill.

Clarified Parameters for Savings

In its first three years, the administration had leveraged the President’s power over savings to address underspending through the Disbursement Acceleration Program (DAP) mechanism. Through the DAP and other reform measures, the government closed expenditure shortfalls thereby boosting economic growth. In 2014, even as the Supreme Court acknowledged the positive impact of the DAP, it invalidated certain acts under the DAP and clarified that mere unreleased appropriations and unobligated allotments could not be construed as savings (see Aftermath of DAP).

Henceforth, the administration clarified the definition of savings and the parameters for their use beginning with the 2015 GAA. First, savings cannot be declared from the final discontinuance or abandonment, or the non-commencement, of a program, activity, or project (P/A/P) due to the fault or negligence of the agency concerned. Second, savings may be used to augment a P/A/P, which is deemed deficient due to unforeseen modifications or adjustments, as well as re-assessment in the use, prioritization, or distribution of resources. Non-existing P/A/Ps cannot be funded by augmentation; also, the parameters of expenditures to be funded from savings must be within the scope of the existing P/A/P. In the same vein, the meaning of the realignment of funds was clarified in order to provide a limited yet reasonable flexibility to the heads of the agencies in managing their budgets. In sum, the Budget law required the government to submit regularly reports on the use of savings and the realignment of funds to Congress.

Harmonized Account Codes and Reports

As part of the PFM Reform Roadmap, the COA, the DBM, and the DOF harmonized their account codes, charts of accounts, and reporting formats. In the process, the Unified Accounts Code Structure (UACS) was introduced in 2013, which provided a government-wide classification framework for all financial transactions (see Integrated PFM). Also in

Table 2. Timeliness of Budget Legislation

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Issuance of Budget Call</th>
<th>Submission to Congress</th>
<th>Enactment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>March 10, 2000</td>
<td>July 24, 2000</td>
<td>2000 Fully re-enacted</td>
</tr>
<tr>
<td>2003</td>
<td>March 8, 2002</td>
<td>August 21, 2002</td>
<td>May 12, 2003</td>
</tr>
<tr>
<td>2004</td>
<td>May 5, 2003</td>
<td>August 6, 2003</td>
<td>2003 Fully re-enacted</td>
</tr>
<tr>
<td>2006</td>
<td>April 25, 2005</td>
<td>August 24, 2005</td>
<td>2005 Fully re-enacted</td>
</tr>
<tr>
<td>2009</td>
<td>May 2, 2008</td>
<td>August 27, 2008</td>
<td>March 12, 2009</td>
</tr>
<tr>
<td>2011</td>
<td>May 12, 2010</td>
<td>August 24, 2010</td>
<td>December 27, 2010</td>
</tr>
</tbody>
</table>

Source: National Budget Call, President’s Budget Message, and GAA for the relevant fiscal years.

Table 3. List of Harmonized BFRAs of COA and DBM

<table>
<thead>
<tr>
<th>BAR 1</th>
<th>Quarterly Physical Report or Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAR 1</td>
<td>Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (quarterly)</td>
</tr>
<tr>
<td>FAR 1.A</td>
<td>Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (quarterly)</td>
</tr>
<tr>
<td>FAR 1.B</td>
<td>List of Allotments and Sub-Allotments (quarterly)</td>
</tr>
<tr>
<td>FAR 2</td>
<td>Statement of Approved Budget, Utilizations, Disbursements, and Balances by Off-Budget Funds, quarterly</td>
</tr>
<tr>
<td>FAR 2.A</td>
<td>Summary of Approved Budget, Utilizations, Disbursements, and Balances by Object of Expenditures (for Off-Budget Funds, quarterly)</td>
</tr>
<tr>
<td>FAR 3</td>
<td>Aging of Due and Demandable Obligations (yearly)</td>
</tr>
<tr>
<td>FAR 4</td>
<td>Monthly Report of Disbursements</td>
</tr>
<tr>
<td>FAR 5</td>
<td>Quarterly Report of Revenue and Other Receipts</td>
</tr>
</tbody>
</table>

Source: COA-DBM Joint Circular No. 2014-1
Whole-of-Government Reporting

Since 2011, the DBM has published in its website reports on the status of allotment releases; consolidated statement of allotments, obligations, and balances; and cash allocation releases and their utilization (disbursements). This move has addressed the lack of whole-of-government reports on the status of the budget implementation. The government, through the DBCC, since 2013 has published the Mid-Year and Year-End Reports that provide a cohesive discussion on the state of the budget at these times of the fiscal year (see Fiscal Transparency). The GAA also requires the agencies and the national government to submit their respective reports regularly to Congress.

CHALLENGES AND MOVING FORWARD:

Fundamental Reforms for Budget Integrity and Accountability

The administration had laid the groundwork to restructure the Budget, streamline its execution, and improve the accounting and reporting of expenditures. However, the credibility of the budget continued to be undermined by the complexity of the Philippines’ budget framework (IMF, 2015). As a result, budget outturns generally deviate from the initial budget law in a way that makes comparisons difficult, although detailed data were regularly published (IMF, 2015). While the FTE noted progress through the new budget execution reports and the UACS, such reports were still incomparable with the enacted Budget. The FTE presented 12 priority recommendations, seven of which were related to budget integrity (see Table 4).

Table 4. Priority Recommendations of the IMF-FTE related to Budget Integrity

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
<th>Main Principle of FTC and Potential Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-Term Recommendations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Strengthen the executive branch’s capacity to consolidate and report fiscal statistics and data</td>
<td>Statistical Integrity: “Basic” to “Good”</td>
</tr>
<tr>
<td>2</td>
<td>Present all forecasts and reports with the same budget structure and prepare reconciliation tables</td>
<td>Comparability of Fiscal Data: “Basic” to “Good”</td>
</tr>
<tr>
<td>3</td>
<td>Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports with the same coverage</td>
<td>Budget Unity: “Good” to “Advanced”</td>
</tr>
<tr>
<td>4</td>
<td>Publish a detailed quarterly statement on the management of budget execution, including contingency provisions</td>
<td>Forecast Reconciliation: “Basic” to “Good”</td>
</tr>
<tr>
<td>Medium-Term Recommendations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Compile and report fully consolidated data for the public sector and its subsectors in line with international standards</td>
<td>Coverage of Institutions: “Basic” to “Advanced”</td>
</tr>
<tr>
<td>8</td>
<td>Establish a function for auditing of Annual Financial Reports (AFRs) separate from the function of preparing them</td>
<td>Audit of AFRs: “Not Met” to “Good”</td>
</tr>
<tr>
<td>10</td>
<td>Tailor budget flexibility to actual needs by streamlining earmarking and SPPs, including the Unprogrammed Fund</td>
<td>Supplementary Budget: “Not Rated” to “Good”</td>
</tr>
</tbody>
</table>

Further policy reforms would be needed, including amendments to laws, to reduce the complexity of the Budget dramatically, curb in-year changes while providing ample flexibility to government managers, and enable the accurate and timely reporting of expenditures. These policy reforms should be supported by capacity building of the agencies to improve their compliance with the required reports and continuing efforts to automate reporting via the planned IFMIS. Reforms to strengthen budget integrity and accountability may be considered a top priority by the incoming administration, as the citizens increasingly demand to know how the Budget is spent.

Simplify the Structure of the Budget

The structure of the Budget continued to hamper budget integrity and accountability even as lump-sum SPPs had been reduced in the 2016 Budget, because of a “large number of earmarking, special purpose funds, and automatic appropriations permanently authorized by other laws” (IMF, 2015), as the FTE had noted. In response, major policy changes had been proposed in the Public Financial Accountability bill. First, limit SPPs to only the NDRRMR Fund, the Contingent Fund, and Special Shares of LGUs. Second, rationalize the Unprogrammed Fund, such as limiting it to only two percent of total regular appropriations at 3.6 percent in 2016. Third, empower a permanent committee, composed of the COA, the DBM, and the DOF to review and recommend regularly the termination or modification of OBAs and SAGFs. Fourth, impose a “sunset provision” of three years for every new SAGF introduced by Congress.

Furthermore, policymakers and stakeholders may need to review the usefulness of the “line item” structure of the Budget. For one, the tens and thousands of P/A/Ps make the monitoring and reporting of the actual use of these appropriations—including in-year changes through the use of savings and realignments—cumbersome and even confusing. The line items were also not organized and presented intuitively, i.e., according to the programs linked to the desired results. This issue could be addressed through the PREXC, which would reorganize the line-item P/A/Ps according to major programs with corresponding performance targets (see Linking Budgeting and Performance).

Capable Agencies Wanted

The timely enactment of the Budget and the streamlining of fund releases had significantly curbed leakages. However, issues that complicate the accounting and reporting of actual expenditures against the original Budget had remained, especially those that had given the Executive “substantial leeway to shape both the allocation and composition of spending during budget execution” (IMF, 2015). First, the planned one-year validity of appropriations for the MOOE and the CO had been reverted by Congress to a two-year validity. Second, the President still has the power to declare and use savings, though this authority had been limited after the definition of savings was clarified. Third, the gradual release of appropriations as allotments, despite the GAA-as-Release Document policy (see Fast and Efficient Budget Execution) that established the practice of releasing them comprehensively to the agencies. Lastly, the very characteristics of the SPFs, the OBAs, and the SAGFs, as previously discussed. The proposed Public Financial Accountability Act seeks to address these gaps.

Stronger budget integrity and accountability would ultimately depend on the capacity of the agencies to program their expenditures realistically, implement their programs and projects timely and efficiently, and report progress accurately against the approved Budget. By improving the capacity of the agencies to design and implement their budgets efficiently, the government would have less need for flexibilities during budget execution.

Improve Capacity to Account and Report

The DBM closely coordinates with the COA to further improve the government’s accounting and reporting processes. Technology-based solutions, particularly the BTMS (see Integrated PFM), and increasing the capacity of the agencies in using these technologies would support the major PFM reforms. The UACS had significantly streamlined the way financial accounts were classified and reported, and provided the necessary backbone for the planned IFMIS. Further refinements would be required, however, given the shift to the PREXC, and the training of the agencies’ PFM professionals to use the UACS effectively should continue.
How About External Oversight?

The Executive should produce timely and accurate budget reports that are easily comparable with the approved Budget. However, in order to strengthen its “accountability ecosystem,” the Executive should also dialogue with Congress and the COA to strengthen their oversight capacity. In the case of Congress, its oversight was rated “weak” in the 2015 OBS primarily due to its constitutional independence. Howver, this rating did not reflect the conflict-of-interest as again highlighted by the 2016 PEFA and the FTE. While external auditing of individual government entities is the responsibility of a constitutionally independent Supreme Audit Institution—the COA—it is also assigned the task of compiling the government’s AFRs, thus compromising its ability to audit them (MF, 2015).

To address this situation, the DBM had proposed the creation of an office of the Comptroller General (OCG) within the department to monitor and ensure the agencies’ compliance with the COA’s accounting standards and audit findings, and consolidate quarterly and annual financial accounts of the government. The PFM bill seeks to formalize the OCG.

### Table 5: Compliance Rate of the On-line Submission of BFARs as of 1st Quarter of 2016

<table>
<thead>
<tr>
<th>BAR</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAR</td>
<td>12%</td>
</tr>
<tr>
<td>FAR 1A</td>
<td>11%</td>
</tr>
<tr>
<td>FAR 1B</td>
<td>12%</td>
</tr>
<tr>
<td>FAR 2</td>
<td>6%</td>
</tr>
<tr>
<td>FAR 2A</td>
<td>6%</td>
</tr>
<tr>
<td>FAR 3</td>
<td>0%</td>
</tr>
<tr>
<td>FAR 4</td>
<td>11%</td>
</tr>
<tr>
<td>FAR 5</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: ICTSS

### Notes

1. Integrity is commonly associated with honesty, which serves as “an antithesis to corruption” or the abuse of office (Armstrong, 2000). At the core of integrity, however, is “authenticity: building on the philosopher John Rawls’ definition of ‘integrity’ as a ‘trait of character, honesty, moral character, and commitment’ and Harvard law professor Lloyd Weinreb argued that ‘a democratic government has an obligation to engage in honest political deliberation and to publicly disavow and to prevent corruption to its citizens, to whom it is responsible (2006).’”

2. This article defends the elements of “budget integrity” by citing global norms that relate to “authenticity” in budgeting. These global norms include budget credibility or reliability, statistical integrity, the presence of control mechanisms, and independence, among others. Taken together, these norms not only emphasize “truthfulness” but also the dimensions of ethical behavior.

3. Not all SAGFs are “lump sum” in nature. For instance, the Budgetary Support to Taditional Bypassing the COA, DBM, and DOF issued Joint Circular (JC) Nos. 2013-01 and 2014-01 on the introduction and on the enhancement of the UACS.

4. The status of allotment releases and cash allocation releases and utilization are released monthly as these are based on DBM’s tracking of budget reports from government servicing banks. Meanwhile, the consolidated status of allotments, obligations, and balances is released quarterly, which is dependent on agencies’ submission of certain BFARs, which are likewise submitted quarterly.

5. The policy of one-year validity of MOOE and COC appropriations was adopted in the 2010 GAA. However, Congress, upon endorsement of the Executive, passed a resolution renumbering back to the two-year validity policy in order to secure ample funding for post-Filipina rehabilitation and reconstruction efforts. In the same year, Congress passed the 2010 GAA which allows continuing appropriations for MOOE and COC. However, even if the Executive stresses that the one-year validity policy is retained in the 2015 and 2016 Budgets, Congress reverted back to the two-year validity policy.

6. The DBM issued Circular Letter No. 2013-13 to prescribe the use of the on-line reporting system for the submission of Budget Execution Plans and Targets for 2015 and Subsequent Years. The guidelines on the use of the Updated Reporting System served as an attachment to the circular letter.

7. The status of allotment releases and cash allocation releases and utilization are released monthly as these are based on DBM’s tracking of budget reports from government servicing banks. Meanwhile, the consolidated status of allotments, obligations, and balances is released quarterly, which is dependent on agencies’ submission of certain BFARs, which are likewise submitted quarterly.

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Since 2010, the administration had implemented reforms to strengthen Budget Integrity: government expenditures could now be clearly accounted for according to the appropriations approved by Congress. These reforms enabled oversight institutions, especially Congress, and the public to hold government accountable in faithfully implementing the Budget.

Prior Year’s Appropriations
Using the past year’s Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

By ensuring that the GAA was enacted on time for six fiscal years in a row, the government ended the frequent re-enactment of the Budget in the past: a practice that delayed the delivery of services and gave the previous administration a vast amount of discretion to shift funds allocated for completed programs and projects.

Off-Budget Accounts (OBAs) and Special Accounts in the General Fund (SAGFs)
The government ensured the prudent and transparent use of OBAs and SAGFs. For example, the Malampaya Fund, an SAGF, was now strictly used for energy development-related projects. The government also started the practice of disclosing revenue collections, utilization, and balances from OBAs as part of the Proposed Budget and improved the presentation of SAGFs in the Budget documents.

Prior Year’s Appropriations
Using the past year’s Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

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Prior Year’s Appropriations
Using the past year’s Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

By ensuring that the GAA was enacted on time for six fiscal years in a row, the government ended the frequent re-enactment of the Budget in the past: a practice that delayed the delivery of services and gave the previous administration a vast amount of discretion to shift funds allocated for completed programs and projects.

Off-Budget Accounts (OBAs) and Special Accounts in the General Fund (SAGFs)
The government ensured the prudent and transparent use of OBAs and SAGFs. For example, the Malampaya Fund, an SAGF, was now strictly used for energy development-related projects. The government also started the practice of disclosing revenue collections, utilization, and balances from OBAs as part of the Proposed Budget and improved the presentation of SAGFs in the Budget documents.

Prior Year’s Appropriations
Using the past year’s Budget for the current year convoluted the accounting of expenditures. The government ended this practice not only to clarify the accounting of public funds but also to curb anomalies associated with it.

By ensuring that the GAA was enacted on time for six fiscal years in a row, the government ended the frequent re-enactment of the Budget in the past: a practice that delayed the delivery of services and gave the previous administration a vast amount of discretion to shift funds allocated for completed programs and projects.

Off-Budget Accounts (OBAs) and Special Accounts in the General Fund (SAGFs)
The government ensured the prudent and transparent use of OBAs and SAGFs. For example, the Malampaya Fund, an SAGF, was now strictly used for energy development-related projects. The government also started the practice of disclosing revenue collections, utilization, and balances from OBAs as part of the Proposed Budget and improved the presentation of SAGFs in the Budget documents.
I admit the transition was a difficult one. We had to deal with MPBF agencies to request for funding from either the PGF or the budgets, and so deficiencies emerged, necessitating the against the lump sum provided in the agency-specific releases for these new integrations were initially charged lodged under the MPBF. To optimize the available funds, filling-up of positions and PS benefits, which was formerly under the PGF; and the creation/lump sum integrated into the agency budget now includes allocation for which have been reduced by the amount focus on the reform relating to the PGF and the MPBF—the One of our division’s functions is to serve as fund Miscellaneous Personnel Benefits Fund (MPBF) for personnel-related expenses not integrated in the agency budget. Consistent with the thrust for transparency and accountability in budgeting, the DBM had reduced the number of SPFs in the annual budget from 13 to five. The SPFs that remained were the National Disaster Risk Reduction and Management Fund (NDRMF); the Contingent Fund; the Statutory Shares of LGUs; the Pension and Gratuities Fund (PGF) for terminal leave and retirement gratuity of optional retirees; and the Miscellaneous Personnel Benefits Fund (MPBF) for personnel-related expenses not integrated in the agency budget. One of our division’s functions is to serve as fund administrator of the multi-user SPFs. However, I will only focus on the reform relating to the PGF and the MPBF—the allocation which have been reduced by the amount already integrated into the agency budget. Therefore, the lump sum integrated into the agency budget now includes the requirements for the retirement benefits for compulsory retirees, which was formerly under the PGF; and the creation/filling-up of positions and PS benefits, which was formerly lodged under the MPBF. To optimize the available funds, releases for these new integrations were initially charged against the lump sum provided in the agency-specific budgets, and so deficiencies emerged, necessitating the agencies to request for funding from either the PGF or the MPBF. I admit the transition was a difficult one. We had to deal with issues that would crop up, such as those coming from the Regional Offices that would seek clarifications as to when a certain request should be charged against the agency-specific budget or the SPF. We would respond quickly, especially to issues that could be clearly addressed based on existing issuances. However, for cases that were not directly covered in the issuances, we discussed with, sought further clarification from, and coordinated with the DBM units concerned, particularly the OPCCB and the LS, to provide a basis for BTB responses through memoranda. For instance, a question was raised regarding the funding source for the terminal leave benefit of compulsory retirees not provided under the lump sum fund in the agency’s specific budget. We resolved the issue as we prescribed to optimize the agency-specific budget first before requesting for funds from the PGF. The integration of the funds for these benefits into the agency specific budgets likewise affected our reportorial function. Based on the Utilization Reports submitted to us by the bureaus and the Regional Offices, the charges against the particular purposes integrated in the agency budgets were lessened. Moreover, it simplified our monitoring work and gave us more time in doing other tasks. This reform made the agencies more accountable for the MPBF allocations. The DBM’s role is limited to fund release based on the agencies’ validated requests, which eliminated the cloud of doubt on the manner by which DBM releases these funds. In addition, with the funds already in the agency-specific budget, the recipient personnel would have less waiting time to receive their pertinent personal benefits as opposed to having to wait for the DBM’s evaluation and processing of agency requests. Indeed, the reform of reducing lump-sum funds in the agency budget brought more efficiency and accountability in the government.

LESS SFPS, MORE ACCOUNTABILITY

By Sarah Jane C. Abuel

The MPSAP is a Senior Budget and Management Specialist of the Budget Technical Bureau. A Brief on the Special Purpose Funds in the National Budget (Notes by Department of Budget and Management). October 2013.

SECRETARY GENERAL INQUIRY REPORTING

How We Improved Accountability Reporting and Collaboration with COA

I imagine that you work with two bosses who required you to accomplish a report with similar contents but in different formats: the first boss wanted it printed in portrait, and the other wanted the data presented in landscape — wouldn’t that be frustrating? For several years the various implementing agencies suffered the same thing. They were required to submit the same reports to the oversight agencies in varying formats.

In 2013, the COA and the DBM took efforts to harmonize these reports. However, when the Unified Accounts Code Structure (UACS), the GAAs-as-Release Document (GAARD) and the Performance Informed Budget (PiB) were implemented, the need to revisit the harmonized circulars turned up again.

I didn’t know that this initiative would have a major significance to me. Since these reports are done at the agency level, and as a Budget Analyst, as long as I receive the reports on time and have the data that I need, I thought I would not have any problem. However, these situations have given me a valuable lesson I would never forget.

I was tasked to become the cluster secretariat of the team responsible for revisiting, for the second time, the Budget Execution Documents (BEDs) and the Budget Financial Accountability Reports (BFARs), which was headed by a Cluster Head, our Director. The cluster was composed of the Directors and Assistant Directors or their representatives from the DBM Operations Bureaus, Fiscal Planning Bureau, Financial Management Service, Regional Office NCR, IV-A and IV-B.

I was then relatively new, with only a few years in the DBM and with no experience in writing a circular. I took the challenge nevertheless. A first time for me to decide to become more involved in the reform initiatives in the government, I learned to be more empathetic to others in the process.

By Joanna C. Navarro

Besides taking down minutes of the various meetings, I also had to initially draft the circulars as well the new report forms, based on the preliminary instructions of my Cluster Head.

It was also my job to incorporate the recommendations made during the series of cluster meetings into the draft circulars and forms. I was really amazed at how intellectual and dedicated the cluster members were. In every meeting, I was always in awe on how they thought about ideas and noticed even the smallest details that have potential impact, for example, the difference between a ‘budget year’ and ‘fiscal year.’

Collaborating with the COA is a bit more challenging—since they are located outside of the DBM and reaching them and making sure they would come during cluster meetings, which were always held in DBM, required a bit more effort. But overall, their representatives were very responsive and they really made sure to attend the scheduled meetings. Seeing each circular signed and implemented gave me feelings of fulfillment and pride, that all our efforts, patience, and perseverance finally paid off. It was a different experience for me knowing that for the first time, and hopefully not the last, I had been a direct part of such a great change in the whole of government.

I couldn’t be more thankful for the opportunity to become a catalyst of change in my own little way. The dedication and hard work of the people in the cluster inspired and revived my hope in a better Philippine government. Within the cluster, I saw examples of great leaders whom I would emulate and hopefully become a similar kind in the future – a leader who has great passion and care for the country and for others.

By Joanna C. Navarro

1 As of this publication, Abuel is a Senior Budget and Management Specialist of the Budget Technical Bureau.

2 A Brief on the Special Purpose Funds in the National Budget (Notes by Department of Budget and Management). October 2013.

3 As of this publication, Navarro is a Budget and Management Specialist II of the Budget and Management Bureau for Human Development Sector.
INTERNAL CONTROL

IN A NUTSHELL

- The heads of the government agencies are responsible for ensuring that all resources entrusted to them are managed and utilized properly and effectively. Thus, the agencies must set up robust internal controls and establish internal audit functions.

- Internal control and internal audit have been enshrined in Philippine laws since the 1960s. In recent times, the DBM, together with partner-agencies, has been putting flesh and bone to the policy for internal control and internal audit, through:
  - The National Guidelines on Internal Control Systems (NGICs), issued in 2008, which provide guidance to agency heads in strengthening their internal controls
  - The Philippine Government Internal Audit Manual (PGIAM), issued in 2011, which assists agencies in establishing their internal audit functions
  - Initiatives since 2010 that focus on creating awareness and capacitating the bureaucracy for NGICS and PGIAM, and in setting up internal audit services or units (IAS/IAU) in agencies.

- The 2016 PEFA assessment notes that key indicators pertaining to the strength of internal controls have improved. The potential of internal controls and internal audit as good governance tools can further be actualized through the following:
  - DBM’s current updating of generic manuals on controls pertaining to human resource management, quality management, and risk management systems
  - The scaling up of the PFM Certificate Program to include internal control and internal audit, and the establishment of means to assess the impact of trainings conducted
  - The government’s measurements of the baseline strength of the agencies’ internal controls and internal audit
  - The newly established the Office of the Comptroller General in the DBM, aimed at strengthening its oversight function on the agencies’ internal control and internal audit systems.

The heads of the government agencies are responsible for ensuring that all resources entrusted to them are managed, expended, or lawfully utilized and safeguarded against loss or wastage to ensure efficiency, economy, and effectiveness in the operations of government, as provided under Presidential Decree (PD) 1445, s. 1978, as amended.

Internal control, including internal audit, provides the foundation for stronger accountability and good governance in public service organizations.

Specifically, internal control refers to an organization’s plan and all the coordinated methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of accounting data, and encourage adherence to prescribed managerial policies. Moreover, the existence of a strong and responsive internal control system in an agency can significantly enhance the integrity of its operations, as well as improve its organizational outcomes to achieve the sectoral goals. In addition, it can lead to the attainment of the following:

- Stronger accountability;
- Ethical, economical, efficient, and effective operations;
- Improved ability to address risks to achieve general control objectives;
- Better systems of responding to the needs of citizens; and
- Quality outcomes and effective governance.

To achieve these objectives, the agencies need to set in place the five interrelated components of internal control: i) control environment, which is the scope and coverage of an organization’s internal control system that impacts on its structural and operational framework; ii) assessment of risks that an organization faces as it seeks to achieve its mission; iii) control activities, or strategies to mitigate such risks; iv) information and communication, which are vital to managing and controlling the agency’s operations; and v) continuous monitoring and improvement of the effectiveness of controls in ensuring that internal control remains attuned to the changed objectives, environment, resources and risks (INTOSAI, 2004).

The interrelated and direct relationship of said internal control objectives with the internal control components are shown in the following Internal Control Framework:

Source: NGICS Framework 2012

On the other hand, internal audit, as an integral component of an agency’s internal control system, supports the management, through independent and objective assessments of the functioning of internal controls, to help monitor the effectiveness of internal control and identify points for improvement. It is a strategic function in ensuring good governance throughout the bureaucracy, hence, helps establish transparency and accountability.

Schick (1998) defines internal control as a form of expenditure control which frees the managers of the agencies from having to obtain prior authorization from a central government body before taking action. Still, internal control requires them to comply with uniform standards in the management of resources or inputs and, thus, still constrains them from exercising broad discretion.
EVOLUTION OF INTERNAL CONTROL AND INTERNAL AUDIT IN THE PHILIPPINES

A Long History of Strengthening Agency Accountability

Internal control and internal audit in the Philippines have been enshrined in its laws since the 1960s. In contemporary times, the Constitution itself and key statutes provide the broad legal framework for internal control and internal audit. Promulgated during Martial law, the Government Auditing Code of the Philippines (P.D. No. 1445, s. 1978) made agency heads directly responsible for installing, implementing and monitoring sound internal control systems.

The Administrative Code of 1987 (E.O. No. 292) also emphasized the agency heads’ responsibility of ensuring that all resources are managed and utilized lawfully, safeguarded against loss or wastage and to ensure the most efficient, economical, and effective operations of the government. The said E.O. also established the Internal Audit Service (IAS) of key departments, such as the DPWH.

The subsequent issuances of the government which provided measures to strengthen internal controls and internal audit are as follows:

- Administrative Order (AO) No. 119, s. 1989 – directed government entities to strengthen their internal control systems in their fiscal operations, and organize systems and procedures, in coordination with the DBM
- Memorandum Order (MO) No. 277, s. 1990 – directed the DBM to promulgate the necessary rules, regulations and circulars for the strengthening of internal controls of government agencies
- AO 278, s. 1992 – mandated the head of the agencies to organize the IAS as an integral part of their organization
- AO 70, s. 2003 – reiterates the authority for the creation of the IAS and its functions

In view of the foregoing, the DBM issued Budget Circular No. 2004-4 and Circular Letter (CL) No. 2008-5 to provide the guidelines in the organization and staffing of IAS in agencies concerned.

RECENT MEASURES TO STRENGTHEN INTERNAL CONTROLS AND AUDIT

A Comprehensive Guide for Internal Auditors

Recent efforts in 2008 that were continued under the outgoing administration sought to strengthen the internal control systems and the internal audit functions of the government. In particular, the DBM sought to address policy and organizational gaps and help strengthen the capacity of the agencies for internal control and internal audit.

National Guidelines on Internal Control System

To guide the heads of the departments and the agencies in strengthening their respective internal control systems to better respond to the requirements of the publics they serve, DBM issued the National Guidelines on Internal Control Systems (NGICS) in 2008 through DBM C.L. No. 2008-8 dated October 23, 2008.

The NGICS, which contains the fundamental principles, policies and general standards, guides the heads of the agencies in designing, installing, implementing and monitoring their respective internal control systems, taking into consideration the requirements of their organization and operations, for better governance.

The subsequent issuances of the government which provided measures to strengthen internal controls and internal audit are as follows:

- NGICS provides the components of internal control by surfacing the Internal Control Framework (see Figure 1).

Philippine Government Internal Audit Manual

The DBM issued the Philippine Government Internal Audit Manual (PGIAM) through DBM CL 2011-05 dated May 19, 2011, to strengthen the establishment of the internal audit function in all government agencies. The manual complements the NGICS.

The Manual primarily aims to assist agencies in establishing their internal audit functions to promote, among others, effective, efficient and economical operations in government.

The PGIAM also helps internal auditors in identifying and prioritizing potential audit areas for appraisal, as they progress in the internal audit activity and describe the procedures logically from one activity to another to facilitate a structured and systematic approach in auditing.

Further, this manual clarifies the structural arrangement and administrative relationships in organizing the internal audit, detailing the process related to supervision, reporting lines, and qualifications of internal audit personnel, as it clarifies that the scope of internal audit is broad and encompasses the appraisal of the adequacy of internal controls, the conduct of management audit, and the evaluation of the results of operations (see box).

The audit process in the PGIAM includes four stages: engagement planning, execution, reporting, and audit follow-up (see Figure 2). The processes require the internal auditor to plan an audit engagement and implement the plan by using established standards or criteria. Subsequently, the auditor gathers evidence that support the given state of conditions or substantiate the causes of such conditions. On these bases, the auditor analyses the findings of facts and subsequently formulates the recommendations that are communicated in the form of formal reports. Afterwards, the auditor monitors the status of actions undertaken relative to the approved audit recommendations.

Three types of internal audit under the PGIAM:

- Compliance Audit – an evaluation of the degree of compliance with laws, regulations, managerial policies, and operating procedures in the government agency. A necessary first step to the two other types of audit, it includes an assessment of compliance with accountability measures, ethical standards, and contractual obligations;
- Management Audit – a separate evaluation of the effectiveness of internal controls adopted to determine whether they achieve the control objectives over a period of time or as of a specific date. It appraised the systems and processes, organizational and staffing structures, operations and management practices, records, reports and performance standards of the government agencies and units covered.
- Operations Audit – a separate evaluation of the outcome, output, process and input to determine whether government operations, programs and projects are effective, efficient and economical. In essence, it determines whether or not targets and expected results were achieved.

In essence, the NGICS seeks to, among others, strengthen accountability and ensure ethical, economical, efficient and effective operations. Further, it intends to improve the quality and quantity of outputs and outcomes and enable the agencies to better respond to the requirements of the publics that they serve.

Specifically, the NGICS provided the components of internal control by surfacing the Internal Control Framework (see Figure 1).

Figure 2. Four Stages of the Internal Audit Process under PGIAM
Rolling Out the NGICS and the PGIAM

Initiatives undertaken by the government since 2010 has focused mostly on creating awareness and capacitating the bureaucracy as these are imperative in creating a solid foundation for the NGICS and the PGIAM to take off.

Specifically, the DBM spearheaded the roll out the NGICS and the PGIAM, together with COA and Internal Audit Office of the Office of the President.

To operationalize the manuals, DBM led the capacity development of internal audit personnel in various national government agencies and the GOCCs. Together with the Development Academy of the Philippines, DBM designed the PGIAM Trainers’ Training Manuals that consist of eight modules, pilot-tested the same, and rolled them out through capacity-building trainings. In 2011, DBM conducted two batches of trainers’ training aimed at developing a corps of trainers in the government.

From 2012 to 2014, three phases of capacity-building trainings on NGICS or PGIAM were conducted, which were attended by personnel concerned from about 85 government agencies. Similarly, selected personnel from four government agencies—DOLE, DSWD, DBM, and DENR—attended an intensive training program through learning-by-doing. The DBM also rolled out the PGIAM on a whole of department basis in DepEd and DPWH; and on a limited basis in DOF, DOH, and DOJ.

Also, in 2012, senior officials from 57 agencies attended the briefings on Risk Management System - Principles and Guidelines as covered under ISO 31000:2009 and Risk Management—Risk Assessment Techniques based on ISO 31010:2009. The briefings were meant to instill among the officials a better understanding of the risks in their respective operations, putting them in a better position to come up with adequate controls that could mitigate the risks and enable them to achieve their respective organizational goals.

In 2015, the PFM Certificate Program (PFMCP) was launched (see Integrated PFM System). Its foundation track, which is offered to all PFM professionals, includes a course on internal control. As of writing, the Technical Working Group on the PFM Institute (PFMI TWG) is currently developing a dedicated Internal Audit track for the PFMCP.

WHAT REMAINS TO BE DONE?

A Renewed Emphasis on Strengthening Internal Controls

Have the efforts to strengthen internal controls, particularly to establish internal audit service/internal audit unit (IAS/IAU), brought strategic value to the government?

According to the 2016 PEFA assessment, key indicators pertaining to the strength of internal controls have improved. While the report cited the “extensive formal structure” of the government for internal control, “[t]he external audit observations and audit qualifications are too numerous to be fully satisfied with the implementation of these controls, thus risking budget outcomes.” Moreover, an internal DBM report dated April 30, 2015 shows that 19 department-level offices, two constitutional offices, one legislative agency, one office in the judicial branch, and 52 GOCCs have IAS/IAU.

From the time the NGICS and the PGIAM were promulgated in 2008 and 2012, respectively until the end of 2015, the attempt to institutionalize internal controls and the corresponding internal audit functions has remained a challenge. At the moment, the attempt to enforce the provisions of the NGICS and the PGIAM has yet to result in substantial outputs that are beneficial to individual agencies and the government in general. As one could glean from the latest PEFA assessment, the presence of adverse or qualified audit findings by the COA betray the continued weakness of internal control systems in key government agencies.

Moving forward, several measures need to be undertaken or are currently being developed to actualize the potential of internal control systems and internal audit as crucial elements to good governance in the management of public funds. Finally, the DBM should further strengthen its oversight functions on the establishment of internal controls and internal audit in the agencies. Already, the DBM has been playing this role by issuing guidelines and manuals on various aspects of the agencies’ internal control systems, and by implementing capacity-building activities. Moreover, the DBM also recently made adjustments to its organizational structure with the hope of strengthening its oversight function: the establishment of the Public Expenditure Management Bureau under the Comptroller General Group, which is tasked to, among others, formulate measures on internal controls for the implementation of the government agencies to ensure the integrity, accuracy, completeness, and reliability of government financial and management systems.

First, the DBM is currently updating the generic manuals on controls pertaining to three management systems: Human Resource Management System, Quality Management System, and Risk Management System. These initiatives fill in the dearth of specific guidelines on the establishment of these important management control systems in the agencies.

Second, most of the current initiatives concentrate on developing the capability of Internal Auditors and that they meet the necessary qualifications and competency requirements. The training programs that have been conducted must definitely be evaluated if only to find out whether the knowledge and skills gained translated into change in work behaviour and performance. As such, the PFMI TWG is currently applying the Kirkpatrick model in evaluating the satisfaction of the PFMCP’s participants, and it is currently developing an evaluation of their learning and behavior.

Third, the government should scale up its measurement of the effectiveness of internal control and internal audit. Monitoring efforts are currently focused on whether IAS/IAU are already established in the government agencies concerned. Eventually, the measurement should move into the extent of the accomplishments of internal control and internal audit units. For one, this requires the establishment of a baseline of the strength of the agencies’ internal control systems, which would eventually become the basis for further assessments of how control deficiencies or gaps in the agencies have been addressed. Moreover, the success of the PGIAM can be measured by looking at the strategic plan of said units and the quality of their internal audit processes, including reports.

Over the long-term, the effectiveness of internal controls could be measured by the following: (i) the amount of government assets safeguarded and/or other measures of the judicious use of government funds and facilities in the delivery of public services; (ii) the level of accuracy and reliability of accounting data; (iii) the level of efficiency, effectiveness, and economy of operations of the government agencies; (iv) the extent of compliance to laws and regulations of operating and support service systems; and (v) the extent of adherence to policies promulgated by the management of the agencies. Meanwhile, the effectiveness of IAS/IAU could be measured against their respective performance targets as determined by the head of the agency during performance monitoring and evaluation.
NOTES
1. Schick (1998) defines three types of expenditure controls: i) external control, wherein central agencies, such as Ministries of Finance, first provide authorization to line agencies and managers before they can spend public funds for specific items of expenditure; ii) internal control, where those who spend public funds have first-instance responsibility for ensuring the legality and propriety of their actions; and iii) managerial accountability, which gives managers broad discretion on how to utilize resources in exchange for greater accountability for the results of the use of inputs.
2. The earliest of such laws was the Internal Auditing Act of 1962 (RA 3456, as amended by RA. 4177), which provided for the creation, organization and operations of Internal Audit Service (IAS) as an independent staff unit in all national government agencies, GOCCs, and LGUs. The Integrated Reorganization Plan of 1972 (via P.D. No. 11) abolished the IAS and transferred their functions to the Financial Management Services of departments concerned.
3. During the BAICS completed in September 2014, IAS identified the adopting of a policy on risk management as an opportunity for improvement, as none has been adopted yet.
4. In particular, payroll controls, from C+ (PI-18) in 2010 to B+ (PI-23) in 2016, on the effectiveness of internal controls on non-salary expenditures, from D+ (PI-20) to B+ (PI-25), and internal audit, from D+ (PI-21) to C+ (PI-26).
6. While such manuals had been drafted in 2010, the DBM is currently revisiting and updating the same in coordination with relevant agencies concerned.
7. The Kirkpatrick model is a global standard for evaluating the effectiveness of training in terms of four levels: a) reaction; b) learning; c) behaviour; and d) results (from www.kirkpatrickpartners.com).
8. PEMB assumes this role in lieu of the SPIB, which has incubated internal control and internal audit policies and oversight in the DBM. It is also noteworthy that the SPIB led the implementation of the government-wide Rationalization Program (see Insight from a Junior Leader on Rationalization to, among others, ensure that the Rationalization Plans of agencies include the organization of IAS/IAU in agencies concerned.

**Learning Internal Audit by Doing It**

I was like meeting the parents for the first time. I did not know what to expect and how it would go when I was first assigned to the DBM Internal Audit Service (IAS) in 2009.

There were no experts on public sector internal audit in DBM then, and even now. There was only the NGICS to guide the DBM-IAS, which was composed of two divisions: the Management Audit Division and the Operations Audit Division. At present, we are five internal auditors in the IAS, headed by a Director IV and supported by two administrative staff. We did a self-study of the best practices around the globe to educate us on how to do our work. The experience was intense, much like visiting prospective in-laws.

The PGIAM came in 2011. We believed it to be our own “For Dummies’ book—the ultimate guide to the conduct of public sector internal audit. We were too excited that we dived headfirst into the series of lectures and seminars aimed to provide practical skills in what were theorized in the PGIAM. In 2012, we were engaged.

We began the first of three major phases of internal audit—the baseline assessment of internal control system (BAICS). We implemented this system, first in a selected DBM unit in 2012, and then expanding to all units in the central office in 2014. Most of the issues we uncovered during this phase were housekeeping-related. The experience was nevertheless fulfilling when Sec. Butch endorsed the implementation of our recommendation and as the auditees were cooperative in taking the necessary actions.

We accomplished the second phase of internal audit—the strategic planning and the audit engagement planning—on our own, without the aid of consultancy services. This phase is not your ordinary planning session in which the previous year’s accomplishments are assessed and the ensuing year’s performance targets are identified. With no one to guide us—not even the PGIAM as we found it too generic at times—we dared to explore the world of control risks, significance, and materiality in order to identify and prioritize auditable areas for a three-year period. We customized our templates and work papers and set benchmarks for the DBM. We were delighted that our Internal Audit Strategic Plan was approved as a whole by Sec. Butch in 2015.

We have moved on to the third phase: the audit proper, in which we learn the art of internal auditing through the conduct of management audit. Even at this phase, new questions arise, which are mostly related to whether or not we are on the right track.

Just like in a marriage, we recognize that adjustments should be made along the way. Perhaps the PGIAM may be revised or updated to include practical tips in the conduct of internal audit in order to better guide public sector practitioners. To date, there is no government agency in the country that has completed an audit the PGIAM way, and we in the DBM-IAS hope to be the first to come full circle. We would also like to document our practical experience in order to serve as a self-reminder or a reference for others. Given the strong support of top management and the cooperation of our auditees that we have today, I believe we are onto the beginning of a perfect relationship.

Internal auditors are often seen as faultfinders, and not as solution providers and good governance partners. But the internal audit function, when organized and operated in such a manner that warrants efficiency and effectiveness, can help promote transparency and accountability: especially for us in public service who are expected to do more with less, to do the right thing, and to do it properly.

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8. As of this publication, Gaces is an Internal Auditor III of the Internal Audit Service.
CITIZENS’ PARTICIPATION IN THE BUDGET PROCESS
How the Government Empowered the Citizens to Engage the Budget Process

IN A NUTSHELL

• Citizen participation in the budget process leads to a responsive budget allocation, enhances good governance, and improves the delivery of public services.

• In the past, despite a vibrant civil society sector in the Philippines, citizen engagement in the budget process has been limited due to lack of formal consultation mechanisms as well as the overall socio-political environment that constricted the democratic space.

• Since 2010, the Philippines now provides adequate opportunities for citizens to participate in the budget process—ranking 5th in the world in the OBS pillar on public engagement—because of the following reforms:
  - Developed the Principles of Constructive Engagement with CSOs to jumpstart the process of creating opportunities for participation in the budget process
  - Introduced the Budget Partnership Agreements (BPAs) between agencies and CSOs, a formal mechanism for the latter in budget formulation and execution
  - Implemented the Bottom-up Budgeting (BuB) to empower citizens in identifying and implementing poverty reduction projects with their local government units
  - COA introduced the Citizens’ Participatory Audit (CPA), a mechanism by which CSOs worked with COA in conducting performance audits in several government projects
  - Moving forward, the government should further deepen and strengthen citizen participation in the budget by considering the following:
    - Institutionalize and expand mechanisms like BPAs, BuB, and CPA that widened the spaces for citizen participation in the budget process
    - Improve the capacity of agencies to respond to the demands of citizens, e.g., providing information and feedback, and in implementing programs and projects
    - Set up participatory mechanisms in the legislation phase of the budget cycle

INSIGHT FROM A DBM JUNIOR LEADER

Aha Moment on That Thing Called “Internal Control”

By Sheryll Grace S. Aromin

We should remind one another that internal control is interwoven and embedded in our activities and systems. We likewise need to refresh one another’s memories that installing, implementing, and strengthening internal controls are grounded on sound legal bases. We should be cognizant of our role in the internal control systems of our organizations.

With the apparent success of the rollout of the National Guidelines on Internal Control Systems (NGICS) and the installation of internal audit units in almost all government agencies, the next challenge is to amplify the roles of the management and the employees in the design and implementation of internal control systems in their organizations. Levelling the awareness of all government employees as well as their clientele and stakeholders will help make them champions of strengthening their internal control systems.

Further, capacity-building programs, such as the PFM Certificate Program, provide opportunities for awareness and information-sharing through its experiential and reflective learning strategy. This program is a courageous step toward the right direction and a deeper appreciation of the NGICS and the Philippine Government Internal Audit Manual (PGIAM) among the agencies.

I am certain that the next batches of the PFM Certificate Program’s participants will learn the true concept of internal control and be able to confidently say, “Ako palang ay bahagi ng internal control ng aming ahensya. Sama mo part of the internal control system of my agency!” That, in turn, will be an “Aha!” moment for me.

Aha Moment on That Thing Called “Internal Control”

“Aha moment on that thing called ‘internal control’” is one expression of the ‘Aha!’ moments of many of the participants of the PFM Certificate Program. I learn about their realization as I am a trainer on Principles of Internal Control, a topic under the PFM Foundation Track of the program that aims to develop the competencies of PFM staff and practitioners in the government.

The more I listen to them, the more I learn that not all government employees know what internal control is, when and where it is found in their organizations, how it works and why it is enforced. It still remains a challenge to advocate proper understanding by each public servant of their essential roles in the internal control systems of their organizations.

Internal control, it seems, is an unpopular topic among government employees. Their understanding of the concept tends to skew toward the misconception that it is a stand-alone system in the organization. The concept even confuses and intimidates, making them believe that this expertise is only for external and internal auditors. Internal control is often wrongly associated with and understood as the sole function of internal audit.

This misconception should be addressed because internal control is built in, rather than built on, the organization. Moreover, internal audit only a part of the bigger picture of internal control. We should understand that while the direct responsibility to install, implement, and monitor a sound system of internal control is lodged with the heads of the agencies, each of us plays a significant role in the integrity and effectiveness of internal control systems in our organizations. Our tasks, no matter how mundane they may seem, are vital parts of our agencies’ internal controls. Without management’s support and the employees’ active participation, our offices will be like “sitting ducks,” easy and vulnerable targets for fraud, errors, and corruption.

1 As of this publication, Aromin is Internal Auditor IV of the Internal Audit Service. She is also President of the Budget Citizen for the Declaration of Genuine Employees’ Trusts.
Empowering Citizens • Citizens’ Participation

The GIFT® High Level Principles for Fiscal Transparency, which the UN General Assembly adopted in 2012, establishes public participation in the budget process as a civil right. It asserts that “[c]itizens and non-state actors should have the right and effective opportunities to participate directly in public debate and discussion over the design and implementation of fiscal policies.”

Governments should provide ample spaces for citizens’ participation in the budget process—directly as well as through civil society organizations (CSOs). Aside from participation being a right, it can also enhance the quality of governance and service delivery. Thindwa (2004, as cited in UNDP, 2007) said public participation gives people from the margins of society a voice to influence budgeting and governance in general, making these more responsive to their needs; enhances good governance practices as it makes budgeting more transparent and accountable; and, ultimately, improves the effectiveness of the delivery of services.

To enable public participation, Guthrie (2003; as cited in UNDP, 2007) said that the following pre-requisites must be met: a) a clear legal basis and operational framework, which clearly defines the roles and responsibilities of each party as well as the modes for their interaction; and b) a capacity building interventions, both on the demand (i.e. citizens) and supply (i.e. government sides. International fiscal transparency instruments—notably, the OBS, the IMF-FTC, and the PEFA—have recently been updated to set benchmarks for the quality of participatory budgeting practices and to measure the extent of public participation globally.

Despite growing global consensus on the potential impact of public participation in budgeting, the OBS 2015 report said that opportunities for such remain inadequate (IPB, 2015). GIFT emphasized that ambitious innovations in participatory budgeting and in fiscal openness as a whole in the last few years came from developing countries such as Brazil, Indonesia, Mexico, Moldova, and the Philippines (Guerrero, 2015).

**SITUATION BEFORE 2010**

Despite a Vibrant Civil Society, Limited Spaces for Participation in Budgeting

Civil society organizations in the Philippines—composed of non-government organizations (NGOs), people’s organizations, cooperatives, trade unions, professional associations, faith-based organizations, media groups, indigenous people movements, foundations, and other citizen groups—are widely seen as among the most vibrant and advanced in the world. The fight against Martial Law and the restoration of democracy in 1986 brought about the broadening of civil society, and a constitutional recognition of the importance of their participation in governance (Magno, 2015). In addition, the government enacted key laws, such as the LGC and the GPPA, that established participation of CSOs in various governance areas.

However, “the democratic space for CSOs has been expanded or constricted through the years depending on the inclinations of those in power (both elected and appointed leaders and bureaucrats), the general political conditions, and the positioning of CSOs with the incumbent political leaders, among other factors (ADB, 2013).” CSOs had to fight more intensely for this space as the truncated Estrada administration, provided the impetus for “the emergence of a set of core civil society beliefs about the back seat. Dressel (2012) nonetheless said that the difficult political environment during the Arroyo administration, as well as the truncated Estrada administration, provided the impetus for ‘the emergence of a set of core civil society beliefs about combating corruption and promoting good governance.’”

As early as 1987, CSOs began engaging the PFM process, particularly in the monitoring of local projects as well as in the lobbying for the cancellation of the Marcos regime’s onerous debts. The difficult period under the Arroyo administration saw the formation of highly technical CSOs and coalitions that engaged the budget process, particularly in budget legislation (e.g., lobbying in Congress), and, to an extent, budget execution and monitoring (e.g., Road Watch, Philippine National Budget Monitoring Project).

However, the spaces that the government opened for formal CSO participation in the Budget process had remained narrow. Boncodin (2008) pointed out, in particular, that participation during budget formulation is limited even as NGOs were represented in some policy-making bodies. No formal mechanisms were established to at least consult CSOs during budget preparation. She also noted that inadequate reporting by the government as well as the lack of a citizen-friendly summary or guide on the Budget had limited the ability of CSOs, more so ordinary citizens, to participate.

**KEY REFORM INITIATIVES AND ACCOMPLISHMENTS**

Creating an Inclusive and Participative Budget Process

“As we establish greater efficiency, integrity, and transparency in government, we must deepen the participation of citizens in the way public institutions operate. Only by doing this can we fulfill the vision of People Power.”

President Benigno S. Aquino III

President’s Budget Message 2011

As soon as he assumed office, President Aquino (2010) declared the “immediate need to define and institutionalize mechanisms for their effective participation in the planning and budgeting processes.” This declaration not only reciprocated the unrelenting support of citizens, including the CSO community, for his good governance campaign, but also recognized the indispensable role of non-government stakeholders in ensuring effective Public Financial Management.

President Aquino emphasized that the agenda of inclusive development through good governance could only be realized by empowering citizens in governance, especially in the PFM process. As he articulated in his Budget Message for fiscal year 2013, empowerment “means recognizing their power over their own government. It means giving them back that power, and, together with them, shaping the destiny of our nation (Aquino, 2012).”

At the start, the Administration had held discussions with CSOs to define the parameters of their engagement in the budget process. The first-ever workshop on CSO participation in budget work resulted in the formulation of the Principles of Constructive Engagement®. These principles were adopted later as the Open Budget Partnership’s “Declaration of Constructive Engagement®.” The constructive engagement approach consequently resulted in the introduction of the Budget Partnership Agreement (BPA), Bottom-up Budgeting (BuB); and COA’s Citizen’s Participatory Audit (CPA), among others.

The revitalized partnership between the government and CSOs, and the introduction of formal mechanisms, quickly put the country on the map as a global best practitioner of participatory budgeting. Based on the 2015 OBS, the Philippines ranked 5th in the world for opening up wide and formal spaces for citizens to engage the budgeting process. From providing “limited” opportunities to the citizens in engaging the budget process in 2012, the country garnered a score of 67 of 100 in 2015 on public participation, which equated to providing “adequate” opportunities to citizens. Such performance was achieved through the following unprecedented reforms in participatory budgeting.

“The DBM continues to find ways to better respond to the call of this administration for people’s participation in governance to improve transparency and accountability. Foremost of said efforts is the strengthening of civil society participation in the budget process.”

Assistant Director* Teresa M. Salud

DBM KNOWLEDGE MANAGEMENT AND FISCAL TRANSPARENCY SERVICE
Budget Partnership Agreements

BPAs are legal instruments that define a mechanism for CSOs’ formal engagement in budget preparation and execution at the agency level. Under these agreements, active and recognized engagement of CSOs with agencies would help improve the quality of budgetary allocation by identifying inefficient and ineffective programs, refining the geographical distribution of public investments, and improving the delivery of services, among others.

NBM No. 109 first introduced the concept of the BPAs in crafting the agencies’ budget proposals, which was piloted in six national government agencies and three GOCCs in preparing the proposed Budget for 2012. Subsequently, NBC No. 536 increased the coverage to 12 national government agencies and six GOCCs in preparing the proposed 2014 Budget. Furthermore, NBC No. 539 expanded the BPA mechanism to budget execution by tapping CSOs to provide evidence-based evaluations of the implementation of agencies’ programs and projects.

The BPA defines the roles, responsibilities, expectations, and limitations in CSO’s participation in the budget process. It is noteworthy that the BPA emphasizes the need for a rigorous and collaborative analysis of an agency’s programs and projects; thus, eligibility of CSOs put premium on those that had previously conducted monitoring, assessment, and evaluation of agency programs and projects. Subsequently, the partnership required agencies to provide information needed by their partner-CSOs (see second box).

Key Elements of BPAs (Per NBC No. 536)

(i) Roles, duties, responsibilities, schedules, expectations, and limitations
(ii) Schedules and timelines, including the dates and venue of consultations
(iii) Communication protocols and identification of NGA/GOCC and CSO counterparts
(iv) Other qualifying details as mutually agreed upon by the NGA/GOCC and CSO

Partner-CSOs’ recommendations and proposals, substantiated through rigorous analysis, should then be given priority consideration by the partner-agencies. The BPA process seeks to supplement the ZBB approach and other reforms to improve allocative efficiency at the agency level. However, the use of formal BPA does not preclude non-partner CSOs from submitting inputs to agencies; nor are agencies constrained from conducting consultations and other participatory budgeting exercises with CSOs that may not meet eligibility requirements for a formal BPA.

In 2013, following an assessment of the BPA process, the DBM further improved the BPA process. In preparing the proposed Budget for 2014 and succeeding fiscal years, the agencies were now tasked to submit a new budget summary of corporate operating budgets covering five years before the budget year (ii) Details of programs, activities, projects being reviewed or monitored by the partner CSO for the years abovementioned, by activity and allotment class
(iii) Details of physical accomplishments of specific programs, activities, or projects, to the extent practicable
(iv) Other pertinent information as enumerated in the BPA

Basic Data Accessible to CSOs

(i) Summary of NGA/GOCC Budget for current year, releases in the immediately preceding year, funds actually obligated or spent in the past three years; and for GOCCs, actual and proposed summary of corporate operating budgets covering five years before the budget year

Partner-CSOs’ input was to be prioritized. The SUCs entered into a BPA with their stakeholders, which would outline the roles and responsibilities of the parties, identify documents and references for disclosure, and specify the scope of the projects identified.

Complementary to further strengthening and institutionalizing the formal BPA process, DBM likewise recognized existing consultative mechanisms as avenues for CSO participation in the budget process: the Board of Trustees of the Philippine Commission on Women, the Tripartite Industrial Peace Council of the DOE, the Sectoral Councils of the National Anti-Poverty Commission, the Philippine Council for Agriculture and Fisheries of the DA, and the Joint Assessment and Planning Initiative of the DOH, among others.

Bottom-up Budgeting

While the BPA process contemplated the participation of more technically capable CSOs, the government also saw the need to establish a mechanism to enable broad-based participation of citizens. Thus, in 2012, the government introduced the BuB process to enable local CSOs and grassroots communities to engage the national budget process through the LGUs.

Secretary Abad (2014) said BuB sought to induce greater demand for participation in resource allocation from the communities and CSOs that LGUs served, and to push for a more meaningful process of devolution for LGUs (see article on Meaningful Devolution). For the latter, the BuB pushed for greater devolution by incentivizing LGUs to meet performance, accountability, and transparency standards and engage citizens thereby preparing LGUs to take on even more responsibility for service delivery. Additionally, BuB aimed at making national government agencies more responsive to the specific needs of the communities on the ground.

Introduced through Joint Memorandum Circular (JMC) No. 1, BuB was piloted during the preparation of the proposed Budget for 2013. The process initially covered 609 cities and municipalities that were tasked to convene Local Poverty Reduction Action Teams (LPRATs). Led by the local chief executive and composed of both CSO and government representatives, LPRATs formulated Local Poverty Reduction Action Plans (LPRAPs) containing projects and programs that directly addressed the needs of the poor and marginalized sectors of the LGUs. The LPRAPs should have been formulated through a participatory process that involved CSOs and other stakeholders in their respective communities. Moreover, these action plans would have to be consistent with a menu of priority projects for poverty reduction, and should have been endorsed not only by the local chief executive but also by at least three CSO representatives.

Subsequent issuances expanded the coverage of the BuB to all cities and municipalities at the time of preparation of the 2016 Budget, and enhanced the parameters of the process. The key features of the BuB process at this time included the following:

Use of Economic and Social Data. As early as the pilot stage, the BuB process required LGUs to collate relevant information, statistics, and other data to inform the poverty reduction planning. These data were to be obtained from the Community-NGAs and GOCCs with BPA

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<tr>
<th>Fiscal Year</th>
<th>NGAs</th>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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In 2016, the DBM, the Commission on Higher Education and the Philippine Association of State Universities and Colleges (PASUC) introduced the BPA in State Universities and Colleges (SUCs), wherein the latter consulted their respective stakeholders in formulating their budget proposals for 2017. This process required SUCs to formalize their consultations, organize assemblies, and invite representatives of students, faculty, other staff, and alumni to consult on proposed capital outlays to be prioritized. The SUCs entered into a BPA with their stakeholders, which would outline the roles and responsibilities of the parties, identify documents and references for disclosure, and specify the scope of the projects identified.
Based on local government systems and the National Household Targeting System, among other sources of information.

Local CSO Assemblies: Beginning with the preparation of the 2014 proposed Budget, the process required the conduct of city or municipal CSO Assemblies to be facilitated by the DILG and the NAPC. The schedule of the CSO Assembly should be announced and properly disseminated. The Assemblies included an orientation on the role of CSOs in local governance and the rationale and process of the BuB, the election of LPRAT representatives; the reporting of the status of BuB projects; a poverty situation analyses, among others.

Composition of LPRATs: Beginning with JMC No. 2, LPRATs were to be composed of CSO co-chairpersons, who were on equal footing with local chief executives. Moreover, JMC No. 3 instituted the process of electing CSO representatives to the LPRAT equal the number of government representatives. The CSO co-chairperson as well as the CSO signatories to the LPRAP were to be elected by the CSO Assembly from among the elected CSO representatives (see box).

Harmonization with Local Development Planning: The BuB process applied in the formulation of the 2016 Budget included efforts to harmonize the planning processes involved in BuB, the National Community-Driven Development Program (NCDDP),14 and local development planning. First, in the case of cities and municipalities undertaking the regular BuB process, LPRATs were institutionalized as a committee of the Local Development Councils (LDCs). Second, for those undertaking the enhanced BuB process (see below) as the barangay-level planning, the BuB process itself was integrated into the city or municipal planning process via the Enhanced LDCs.

Linkage with Community-Driven Development: An enhanced BuB process was introduced in preparing the 2015 Budget for municipalities that had graduated from, or were currently implementing NCDDP. In this case, the LPRAT was to be composed of 10 government representatives from the Enhanced LDC,15 four barangay development council (BDC) vice-chairpersons selected from the NCDDP; and five CSO representatives in the Enhanced LDC who were elected during the CSO assembly. At this time, the LPRAT served as the technical working group of the Enhanced LDC, which formulated the LPRAT and other plans16 for approval by the Enhanced LDC.

Project Menu: When BuB was piloted in 2012, the national government generally only funded LPRAPs selected from a limited menu of 26 programs and projects implemented by eight departments and two GOCCs. The menu has been expanded to 38 programs and projects implemented by 10 departments, two GOCCs,17 and three attached agencies.18 Even so, LPRAPs could include programs and projects outside the menu but would be for the LGU’s implementation through its counterpart funding. Moreover, LGUs with proven capability and that meet good governance standards were likewise tapped to implement key BuB-funded projects supported by funding from the national government.19

“Initially, the relationship between local chief executives and local CSOs in many areas were combative since many mayors were used to being the sole decision maker. After several cycles of BuB during which national government strictly enforced the participation conditions of the program, many mayors have come to realize that participation is good politics, and now have good relations with the CSOs involved in BuB.”

Assistant Director Patrick Wilson O. Lim
DBM FISCAL PLANNING AND REFORMS BUREAU

Good Governance. Since the BuB process was introduced in 2012, it sought to incentivize LGUs that adopt good governance and financial responsibility safeguards. For one, funds for BuB projects of an LGU would be released only if it passed the Good Financial Housekeeping component of the Seal of Good Local Governance; substantially implemented of its PFM Improvement Plan (see Meaningful Devolution); provided the required counterpart funding through its Annual Budget; submitted proper financial and physical accomplishment reports for projects in previous years; and enabled meaningful CSO and community participation throughout the BuB process;20 among other conditions.

Monitoring: Beginning with the 2013 Budget, BuB was expanded to the budget execution and accountability phase by tasking the LPRATs to convene quarterly to discuss and assess the status of the BuB projects’ implementation, and to submit quarterly accomplishment reports to the PRPAPs and the concerned regional office of the participating national government agencies. As mentioned earlier, CSO Assemblies should include a reporting on the status of the BuB projects. In 2015, the government launched the OpenBuB.gov.ph to serve as a transparency and monitoring and evaluation portal for the BuB, where projects were geotagged and their status updated regularly.

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<th>Table 2. BuB in Numbers</th>
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<tr>
<td>Fiscal Years</td>
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<td>2013</td>
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<td>2016</td>
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On BuB’s third year of implementation, the GIFT cited the reform as one of the innovative cases of public participation in the budget process across the globe. The BuB was chosen along with four other countries which was awarded the GIFT 8best Practices during the GIFT sessions at the Open Government Partnership (OGP) annual summit in Mexico City. According to GIFT, through BuB, “(c)ivil society representatives are selected in an all-inclusive assembly and join government officials in a planning committee to identify the projects to be funded (GIFT, 2015).”

Along with the GIFT citation, the Open Government Awards conferred BuB with one of 3 Gold Award in 2014 for its “radical attempt to empower citizens and at the same time shift how government operates.”

“Through BuB, people suffering from poverty who can be found in the bottom portion of the social and economic strata are given a new hope in life. It uplifts people's spirit by empowering them to improve their own lives. More than the economic gains, BuB gives them dignity.”

Dir. Gary R. Martel
DBM REGIONAL OFFICE XI

Barangay BuB

In 2015, learning from the experiences of BuB for cities and municipalities, as well as the NCDDP program, the government began laying the ground for BuB at the barangay level or Barangay Bottom-Up Budgeting (BBuB).

Envisioned to be a performance-based direct download to barangays, BBuB began with an assessment of all 42,036 barangays on good governance conditions and the capacity to implement projects. The good governance conditions included the Seal of Good Financial Housekeeping, the presence of a Barangay Development Plan, and the conduct of the scheduled Barangay Assemblies. For the capacity to implement projects, barangays were scored according to leadership, track record and public financial management.

Following these, JMC No. 8, issued in 2016, laid out the process for identifying the first batch of barangays to be covered in 2017. Identified projects should be in line with the delivery of basic barangay service and facilities and in support of disaster risk reduction and management.
Citizen Participation Audit

The CPA, in partnership with the Affiliated Network for Social Accountability in East Asia and the Pacific (ANSAs-EAP) with support from the Australian DFAT, launched the CPA in 2012. The CPA opened up the technical audit system to CSOs and private professional organizations as members of the audit teams led by COA. The reform strategy and audit technique upholds the people’s primordial right to a clean government and the prudent utilization of public resources. It is founded on the premise that public accountability can prosper only with a vigilant and involved citizenry.

The CPA’s first phase covered the audit of selected infrastructure projects. CPA teams composed of COA auditors and CSO-nominated and -COA-authorized or -deputized individuals were capacitated on how to conduct performance audits. Citizen participation in the work of COA was not limited to COA-led audits—it also took on the form of citizen feedback of red flags in the implementation of government projects. Through i-Kwenta.com, citizens could report Fraud Audits and volunteer to be part of the CPA. Aside from being a feedback portal, i-Kwenta.com also served as a knowledge-sharing site as it featured reports from previous rounds of the CPA, along with learning manuals and other audit-related materials.

Moving towards institutionalization and mainstreaming of the CPA, COA established the Project Management Office (PMO) under the office of the Chairperson. The PMO was designated as the lead office for projects in COA that were financed or assisted by foreign donor agencies. One of the PMO’s functions was to serve as a coordinating body within the Commission and the external stakeholders on all matters related to reform projects, such as the CPA.

The CPA led to immediate positive impact in project or related to reform projects, such as the CPA. The CPA opened up the technical audit system to CSOs and private professional organizations as members of the audit teams led by COA. The reform strategy and audit technique upholds the people’s primordial right to a clean government and the prudent utilization of public resources. It is founded on the premise that public accountability can prosper only with a vigilant and involved citizenry.

funding support from DFAT and the World Bank (WB). COA implemented the second phase of CPA in 2014. Under this phase, the CPA was expanded in scope to cover majority of COA’s Regional Offices and the Audit Group of the Department of Public Works and Highways, focusing in Farm-to-Market Roads projects in various regions using geotagging technology. The WB also provided CPA teams with training on data analytics and visualization which enabled them to synthesize and laymanize the CPA reports and develop People’s CPA reports.

Through the assistance of the Making All Voices Count, COA was able to include the audit of Disaster Risk Reduction and Management activities of selected LGUs, and the Water, Sanitation, and Hygiene (WASH) program in public schools of the Department of Education.

“COA’s experience with the CPA project has successfully developed models by which citizens can take part in the public sector audit process. This reform strategy reveals that even when two groups—state auditors and civil society groups—have different viewpoints, they can still work together to achieve shared goals and aspirations: to make sure that government agencies economically, efficiently and effectively implement programs to obtain the desired outcomes.”

Chairperson Michael Aguirre
COMMISSION ON AUDIT

Institutional Support to Participatory Budgeting Initiatives

The government, through the DBM, put in place technical teams that supported citizens’ participation in the budget process. The CPA organized units to support public participation: the CPA Desk that served as official liaison with CSOs and other citizen groups and administered the implementation of BPAs; the Reforms and Innovations Delivery Support Unit that supported the implementation of the BuB; and the Public Information Unit that worked with mainstream media as well as with citizens through social media. The CPA also introduced a new Budget Preparation Form (Form D), through which the agencies identified the proposals of CSOs through BPAs, the BuB, and other participatory mechanisms, and how the agencies decided on such proposals. Moreover, CPA conducted briefings and consultations for CSOs on budgeting matters, such as the annual consultation with CSOs on the proposed Budget.

The Future of the BPA

BPAs introduced an evidenced-based participatory budgeting process that likewise hinged on mutual accountability of both the agencies and CSOs (see Table 1). However, difficulties in implementing the BPA process by both government and CSOs were identified, including the dearth of CSOs that could meet the registration, accreditation, and other requirements to qualify as a CPA partner: the capacity of CSOs to undertake evidence-based evaluations of the agencies’ programs and projects; the inability of the agencies to readily give the information required by CSOs; as well as agencies’ poor performance in providing feedback to CSOs on how their inputs were considered. In addition, ANSA-EAP (2013) noted that implementation of the BPA in the early years did not provide enough elbowroom for CSOs and citizens to come up with sound recommendations or assessments on agencies’ budget proposals.

Moving forward, DBM should measure the different levels of CSO and citizen engagement in agency budget preparation and implementation, and apply policies or interventions based on those benchmarks. Agencies should likewise be further capacitated and incentivized to improve their engagement with CSOs and citizens, whether through the BPA or their existing mechanisms. A key element that should be strengthened is the feedback loop to and from stakeholders.

Improving and Institutionalizing BuB

Participation of CSOs in the BuB is likewise on an upward trend. The demand to participate did not emanate from citizen groups alone as LGUs realized they needed to engage CSOs in order to access greater resources from the national government. However, an assessment of PIDS in 2014 pointed to some key gaps. First, as in the case of BPAs, delays in...
the release of the guidelines for BuB gave CSOs and LGUs limited time to prepare their respective LPRAPs; this has been addressed with timelier release of the guidelines. Second, with the uneven rate of CSO participation across LGUs, PIDS recommended the mapping of CSOs in LGUs with scant participation in order to identify and engage existing citizen groups in their respective localities. Meanwhile, to manage the over-representation of some CSOs from the same sector, which caused imbalance in the types of projects identified, federations of CSOs could be explored. These efforts should be matched with continuous capacity-building of both LGUs and CSOs.

Another key weakness that hampered the BuB lay in the actual implementation of programs and projects identified through the process. Data from the OpenBuB portal (see table) shows the slow progress on the completion of projects. One of the factors that hindered the implementation of projects was the transfer of funds from NGAs to implementing LGUs. To facilitate fund transfer, the government had started the direct downloading of funds to LGUs by lodging the BuB funds for road infrastructure to the Local Government Support Fund (see Meaningful Devolution).

The PIDS assessment likewise pointed out the need to review whether BuB was achieving its expressed goal of alleviating poverty at the grassroots. At this time, such assessments would be difficult to undertake due to the absence of quality data at the municipal and sub-municipal level. The Bulletin guidelines emphasized the need to use data from community-based monitoring systems to develop roll-out to meet basic needs of projects. Overall, Congress and COA should provide ample opportunity and identify strategies to complement the Executive’s efforts to increase the voice and stake of ordinary citizens in the budget process.

Beyond the Executive: Participation in Oversight

The results of the 2015 OBS also showed that while the Philippines managed to move up the ranks of countries in terms of participatory budgeting, the most progress was concentrated in the executive branch via the BPA and BuB. In contrast, participation during budget legislation and audit remained inadequate. The OBS noted, for instance, that there were limited opportunities for CSOs to testify during Budget hearings in Congress. Similarly, even if COA had instituted the CPA and other mechanisms to engage the public in the audit process, these were still limited in scope. In both cases, as in the case of participatory budgeting systems of the executive, feedback provided to citizens on how their inputs were used remained limited, although mechanisms, such as COAs and i-Kwenta, had been introduced. Specifically on the CPA, the COA must continue institutionalizing the reform and expand its roll-out to more programs and projects. Overall, Congress and COA should provide ample opportunity and identify strategies to complement the Executive’s efforts to increase the voice and stake of ordinary citizens in the budget process.

**Table 3. Status of BuB Projects as of 4th Quarter of 2015**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Projects (as per GAA)</th>
<th>% of Completed and Ongoing Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>5,890</td>
<td>75.72</td>
</tr>
<tr>
<td>2014</td>
<td>22,879</td>
<td>68.80</td>
</tr>
<tr>
<td>2015</td>
<td>14,300</td>
<td>36.82</td>
</tr>
</tbody>
</table>

(as of 4th Quarter of 2015 | Source: openBuB.gov.ph)

**NOTES**

1. See End-Note #1 of the article on Fiscal Transparency for background information on GFT.
2. The 2012 edition of the OBS, for the first time, included 13 survey questions on public participation; this has since been increased to 16 in the 2015 OBS. The IMF FTC and the IFI Release added item dimensions that measure the extent of public participation in budgeting.
3. With the Concerned Citizens of Abra for Good Governance, which entered into a memorandum of agreement with the NEA and DBM, to monitor Community Employment and Development Program projects and reports, as well as the Freedom from Deception fund, which was formed to lobby against the onerous debts incurred by the Marcos regime.
4. The Transparent Accountable Governance program of the Philippine Governance Forum supported the formation of consortium of CSOs which worked in identifying and engaging various stages of the budget cycle. The Budget Watch Initiative/Budget Advocacy Group, spearheaded by the International Center for Innovation, Transformation, and Excellence in Governance (INCENTEG) and the Alternative Budget Initiative (ABI), which was initiated by Social Watch Philippines (SWP). Both were notably spearheaded by former government officials.
5. Principles of CSO Engagement as discussed in NBM No. 539.
6. The Declaration was signed in September 2010 by DBM Secretary Florencio B. Abad, representatives from Congress, as well as representatives from CSOs, among others.
7. The Memorandum was issued on February 17, 2011 and piloted BPAs in the DA, DAR, DepEd, DoH, DPWH, DSWD, NFA, NIA, and NHS/PHC.
8. Issued on January 31, 2012, with the following agencies added: DENR, DILG, DoJ, DOE, DOT, DDT, LRTA, NEA, and NIA.
10. The modifications were effected through the National Budget Call for the technical review of Proposed Bills to be presented, organized in November Nos. 539 and 539 remained in effect as the framework for the BPA process.
11. Summary of ODA/CSOs Feedback on Agenda Major Ongoing Programs and Projects: form C, in the preparation of the 2015 and 2016 Budgets. For the preparation of the 2016 Budget, the feedback from CSOs was used to prepare the budget form (form D).
12. Through the Cabinet Clusters on Human Development and Poverty Reduction (HDPR), and in the Good Governance and Anti-Corruption study, particularly for the Budget, DILG, DSWD, and the National Anti-Poverty Commission (NAPC).
13. For a time (during the implementation in 2013), the BuB was called the Grassroots Participatory Budgeting Process (GPBP). The government, however, reverted back to use of the BuB given its name recall.
14. Issued on March 8, 2012 by DILG, DSWD, and NAPC.
15. Identified by the HPDR Cluster as focus LGUs based on poverty incidence and conditions and participation.
16. JMC No. 2 on implementation and monitoring of BuB projects in 2013, issued on December 19, 2012, JMC No. 6 on the 2014 Budget preparation issued on December 20, 2013, JMC No. 9 on the 2017 Budget preparation, issued on November 26, 2013, JMC No. 6 on the Budget projects and succeeding years, and JMC No. 6 on the implementation of BuB projects for 2015.
17. The processes described in the succeeding paragraphs are based on JMC No. 6 unless otherwise stated.
18. Implemented by the DSWD with the support of the World Bank. The NCDAP—an iteration of the Kapi’-Bagu Laban sa Kaharingan—Comprehensive and Integrated Delivery of Social Services (RA-LAHICODSS) seeks to improve the access of citizens to basic services through promoting inclusive local planning, budgeting, implementation and disaster risk reduction and management.
19. In addition to the regular LDC members (mayor, all barangay chairmen, the chairman of the committee on appropriations of the sanggunian, the congressmen or his representative, and NGO representative), the Enhanced LDC includes one business leader (chair of the barangay development councils elected through NCDAP, at least five CSO representatives elected during the CSAS and a representative from a local business group.
20. Comprehensive Development Plan, Local Development Investment Plan, Executive Legislative Agenda, and Annual Investment Plan.
21. DA, DAR, DoJ, DILG, DSWD, DoH, DepEd, DILG, DIL, DoE, PHHealth and NIA. JMC No. 1 allowed LGUs to identify opportunities outside the menu, subject to the determination of HDPR and DBM if these can be accommodated by national government agencies.
22. In addition to those listed in footnote no. 21: DTI, DOST, TESDA, NAPC, MOPC, NIA, but excluded.
23. Community-Based Monitoring System and Community Food Production, Basic Education, Health, Disaster Risk Reduction Management, Local Roads, Water Supply, Irrigation, and Other Local Projects. In the 2015 Proposed Budget, a total of P1.17 billion under the Local Government Support Fund was earmarked for such BuB projects.
24. LGUs are required to submit documentary proof (attendances sheets, photos, minutes or highlights, etc.) of the CSAS Assembly, LPRAT preparation, as well as quarterly LPRAT meeting reports to project on projects’ status.
25. Namely, the Caloculan-Malahan-Nautotas-Valenzuela (CAMANAVA) Flood Control Project of the Department of Public Works and Highways, the Solid Waste Management Program (Garbage Sweeping and Collection) in Quezon City and the barangay health centers located in barangays with Conditional Cash Transfer beneficiaries in Marikina City.
27. Other functions of COA Project Management Office include (I) providing timely and accurate information to COA and its government partner agencies to facilitate decision-making, (II) coordinating discussions within COA and stakeholders to support project planning and implementation, (III) monitoring and updating status and status reports of project implementation and progress and (IV) performing other functions the Chairperson may assign.
28. The World Bank, in particular, has provided technical assistance in Geotagging training and creation of the Geostore, a computerized system for storing geotagged data and other data, a work space for audit teams to facilitate analysis and report preparation, and a medium for public display of geotagged data and results of audit (when the data and reports are made public).
29. House Bill (HB) No. 4113, the recommend bill from the House Committee on Appropriations, was adopted after being substituted on HB No. 283 by Representatives Cezar Patez, Anthony Bravo, and Ms. Leonor Greseng-Rodrigo. Similar bills were filed in the Senate by Senator Teofisto Guingona III – CSOs’ Participation in the National Budget Process Act (Senate Bill no. 5; Senate Bill (SB. No. 7). Bottom Up Budgeting Act (SB. No. 124), and Grassroots Participatory Budgeting Act (SB. No. 238) and Senator Anggy P. Ejercito-Estrada – People’s Participation in the National Budget Process Act of 2013 (SB. No. 1285).
30. The Philippines scored 67/100 overall on public participation, ranking 10th in the world, while the Philippines actually ranked 1st in the world, with a score of 86/100, if only the questions on participatory budgeting by the Executive is considered. In contrast, the Philippines scored only 9/100 on questions regarding public participation by the Legislature and the Supreme Court, respectively.

**As of 4th Quarter of 2015 | Source: openBuB.gov.ph**

**Empowering Citizens  •  Citizens’ Participation**
The respective RPRA T's and the National Poverty Reduction Action Team (NPRA T) review and approve the proposed programs and projects. Once approved, these projects may be funded in the Budget, through either of the following:

- Integration to the budget of participating national government agencies that will implement the projects (e.g., Department of Health for health facilities)
- Direct download to LGUs for implementation, provided that they have:
  - Seal of Good Financial Housekeeping
  - Proof of progress in the Public Financial Management Improvement Plan
  - Timely implementation of past BuB projects

LGUs are also required to provide counterpart funds for the implementation of the project.

In 2010, the administration began to open up the budget process to the participation of citizens, including civil society organizations (CSOs). It established formal mechanisms for participatory budgeting, such as the Bottom-up Budgeting (BuB), the Budget Partnership Agreements, and COA’s Citizen Participatory Audit. Through these mechanisms, the Philippines ranked 5th in the world for participatory budgeting as per the 2015 Open Budget Survey.

BuB was the most notable among these reforms. It empowered people in the grassroots with a greater voice and stake in crafting and implementing the National Budget. It also supported meaningful devolution by incentivizing LGUs to adopt good governance standards and engage their citizens.

HOW BOTTOM-UP BUDGETING EMPOWERED CITIZENS

CSO Assembly
BuB requires LGUs to hold CSO assemblies open to all CSOs in the locality. The assembly is conducted to: (1) select the CSO representatives to the Local Poverty Reduction Action Team (LPRA T); (2) discuss their locality’s poverty situation; (3) identify projects to propose to the LPRA T; and (4) discuss the status of ongoing BuB programs and projects.

Identification of Poverty Reduction Programs
The LPRA T, composed of equal number of representatives from the LGU and CSOs, convenes a series of workshops to formulate their LGU’s Local Poverty Reduction Action Plan (LPRAP). The LPRA T may choose from a menu of programs and projects in developing an LPRAP that suits their locality’s poverty situation.

Submission of Proposed Programs and Projects
The LPRAP must first be signed by at least three CSO members of the LPRA T before it may be considered for funding in the National Budget. These plans are submitted to the Regional Poverty Reduction Action Team (RPRA T) for checking and validation.

Funding the Programs and Projects
The respective RPRA T’s and the National Poverty Reduction Action Team (NPRA T) review and approve the proposed programs and projects. Once approved, these projects may be funded in the Budget, through either of the following:

- Integration to the budget of participating national government agencies that will implement the projects (e.g., Department of Health for health facilities)
- Direct download to LGUs for implementation, provided that they have:
  - Seal of Good Financial Housekeeping
  - Proof of progress in the Public Financial Management Improvement Plan
  - Timely implementation of past BuB projects

CSOs and citizens continue to be engaged during the implementation of BuB projects:

- CSO members of the LPRA T can observe the procurement of BuB projects.
- A group composed of LGU and CSO representatives visit BuB project sites for monitoring.
- Quarterly LPRA T meetings about the progress of BuB projects are conducted.
- Reports on the progress and status of all BuB programs and projects are submitted and posted online at OpenBuB.gov.ph.

Project Implementation
LGUs are also required to provide counterpart funds for the implementation of the project.
The Bottom Line of BuB

My first impression of handling an agency that implemented a BuB project would entail the regular tasks of a budget analyst like me. I was mistaken. I thought I would not be involved in targeting the areas where BuB projects would be implemented because the agencies’ regional offices do just that. I also thought that my skills and expertise would not be needed to do budget attribution since the agency identifies the components of a project or a program that would be undertaken under BuB. I thought it would be easy.

Like other reforms, BuB experienced birth pains, facing seemingly insurmountable challenges. There were cases when the projects identified by LGUs in their Local Poverty Reduction Action Plan (LPRAP) would be disapproved for not including them in their Annual Investment Plans. In other cases, projects would not correspond to their development needs as identified in the LPRAP workshops. At other times, some LGUs would not receive information from their NGA counterparts that there had been changes in their proposed projects. The attendance of civil society organizations (CSOs) in the planning workshops had tended to be uneven. Some project proposals would not be as detailed as needed.

LGUs had also proposed projects that were not in the BuB funding menu; even as those projects would benefit their constituents, they would be disapproved. Other proposals would fail to meet the minimum requirements set by the NGAs, apart from the LGUs’ incapacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding. To address these challenges, coordination meetings were conducted with the NGAs. These meetings resulted in this consensus, as recommended by DBM: work within the LGUs’ capacity to provide counterpart funding.

In the following years, the stakeholders became more receptive to the process. The menu for developmental projects was expanded to be more responsive to the needs of the communities. Discussions were held about including more BuB projects in an agency’s budget program for the year 2017 to encourage the CSOs to participate fully in prioritizing and implementing the projects in the communities. Implementing the BuB had not been easy. The guidelines issued and the series of workshops conducted to educate the stakeholders about the reform seemed inadequate to encourage them to participate. We need time to capacitate them in terms of complying with the process and the requirements. We need time to get the stakeholders—the government and the CSOs—to internalize the values and principles of the BuB.

Moreover, an effective monitoring and feedback system should be in place so we could measure the real success of the implementation. A strong network of CSOs should also be created; and government leaders should ensure that the guidelines are followed and project implementation is managed as well.

Even as it is hailed as a best practice in fiscal transparency, the story of the BuB does not end here. While I did not see firsthand the implementation of projects at the grassroots, the feedback of the stakeholders made me more open and receptive to change. “Hindi sayong ang bawot piso ni Juan,” so to speak, when the financial and physical targets of projects were being met, and when they did, I would recommend the continuation of such projects. The BuB had been one of the meaningful undertakings in reaching out to our fellow Filipinos in the poorest communities.

BuB is an extraordinary reform. The next administration of civil society organizations (CSOs) in the planning workshops had tended to be uneven. Some project proposals would not be as detailed as needed. Implementing the BuB had not been easy. The guidelines issued and the series of workshops conducted to educate the stakeholders about the reform seemed inadequate to encourage them to participate. We need time to capacitate them in terms of complying with the process and the requirements. We need time to get the stakeholders—the government and the CSOs—to internalize the values and principles of the BuB.

By and large the BuB has brought convergence among the stakeholders. It strengthens the capacity of the LGUs to make better plans, ensure that the budget achieves the targets, and effectively implement projects. Through the BuB, we institutionalize the participation of all stakeholders in the budget process.

1 As of this publication, Mendoza is a Senior Budget and Management Specialist of the Budget and Management Bureau for Food Security, Ecological Protection, and Climate Change Management Sector.

How BuB helped weave a Davao family together

A year ago, the Almagro family of Sitio Lubo in Santa Cruz, Davao del Sur was on the brink of falling apart.

Dennis and Jocelyn, parents to four children, would often fight over their failure to pay bills and to put enough food on the table. It did not help that despite being too hard-up to buy basic needs, Dennis would kill time drinking with his neighbors and playing tong-its; a card-based game that involves money which, albeit of little amount, could have bought them a kilo of rice.

Dennis’ gambling and drinking problems would have turned for the worse if not for a livelihood project that rang its curtain up in May last year.

The project, funded through BuB, was among those approved for funding under the 2015 Budget. Confident that their curtains—woven with buoyant hues and patterns—could compete with the more commercially available ones, the local Curtain Producers Association (CPA) proposed for funding for sewing machines, threads and textiles, and other materials needed to increase their production.

On May 5, 2015, the Department of Labor and Employment, through the local government of Santa Cruz, turned over to CPA 11 sewing machines, 32 rolls of plain cloth, and 35 rolls of printed cloth, and other tools and raw materials needed for making the curtains. All in all, the project cost P300,639.00.1

The increased volume in demand and production of the curtains gave Jocelyn and Dennis an opportunity to earn bigger. Together with their 41 other residents who are CPA members, they took turns in producing curtains. Seamstresses like Jocelyn get P300 for sewing an average of 50 standard curtains a day, and her husband Dennis, P840 for cutting 12 bundles.

1 Of the total amount, P261,426.00 was proposed by the local government unit and P39,213.00, by CPA, the civil society counterpart.

Based on anecdotes contributed by Director Gary Martel of the DBM Regional Office XI.
Conclusion

“Improving fiscal transparency has been a priority in the Philippines over recent years. The government’s PFM reform strategy has helped initiate a wide variety of reforms, which are beginning to bear fruit. In light of this, the evaluation against the IMF Fiscal Transparency Code is broadly favorable.”

IMF Fiscal Transparency Evaluation
June 2015
CONCLUSION

The main challenge for the new President and his Cabinet lies on building on the gains in the last six years in order to ensure his government can bridge more Filipinos to self-sufficiency, tackle the new and even more complex challenges to sustainable development; and ease the manner of doing business to attract robust investments from here and abroad. In other words, the next leadership must ensure more Filipinos, regardless of birth, gender, and origin, will share in the country’s progress.

The National Budget will continue to be at the center of achieving such progress.

Because of the reforms implemented so far, the new administration will inherit a much better PFM system—one that underscores the need to spend within means, invest in the right priorities, deliver measurable results, and empower citizens. However, six years is too short a time to bring irreversible progress. Much remains to be done in the government’s continuing effort to build a modern, world-class, and responsive system in managing the people’s taxes.

The new President and his socioeconomic team—in particular, the new Budget and Management Secretary, who will undeniably play a lynchpin role in the pursuit of further PFM and broader governance reforms—are expected by the people to sustain and expand the gains over the last six years, and decisively address lingering gaps or new challenges. The chapters and articles of this publication, hopefully, provide the next administration with key pointers for reflection and action as it crafts the next phase of the PFM reform agenda. This concluding chapter synthesizes the challenges that cut across the various reform areas and identifies possibilities for further reform.

A RECAP OF ACCOMPLISHMENTS THUS FAR

A New Baseline for Efficient, Effective, and Open PFM

No less than recent independent international evaluations of the Philippines’ PFM system—notably, the draft 2016 PEFA assessment, the 2015 IMF FTE, and the 2015 OBS—highlight significant progress in various areas, as discussed throughout the chapters of this publication and in this concluding chapter.

It is worth highlighting that the draft PEFA assessment—a comprehensive evaluation that cuts across all phases of the PFM cycle—saw marked improvements beginning in 2010: of the 28 indicators of the PEFA framework, the Philippines is now rated “A” or “B” in 17, from just eight in 2010 (see Table 1). Bold improvements in the transparency of public finances, the stronger link between development strategies and performance goals with expenditures, and the streamlined budget execution process made these gains possible: gains which were also observed by the IMF FTE and the OBS.

<table>
<thead>
<tr>
<th>Core Dimensions of Performance</th>
<th>A/B</th>
<th>C/D</th>
<th>Total Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credibility of the Budget</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Comprehensiveness and transparency</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Policy-based budgeting</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Predicability and control in budget execution</td>
<td>2</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Accounting, recording, and reporting</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>External security and audit</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
<td>17</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: 2016 PEFA Assessment (draft as of May 25, 2016)

Results of budget reform

The new administration may hinge on these accomplishments brought about by the bold budget and management reforms over the last six years:

- Better financial health by spending within means
  - Strategies to consolidate revenue collection, resource allocation, and debt management resulted in a more sustainable Budget, a more credible Budget forecast in the medium term, and a greater budgetary space to fill the gaps in social and economic development. Bold efforts to improve tax collections resulted in increased revenues without imposing new tax burdens on the people, save for the long-overdue reform of sin taxes on tobacco and alcohol. Through its debt management strategies, the government progressively reduced its debt stock in proportion to the GDP, towards below 40 percent by 2017. These efforts also cushioned the economy from external shocks and, more importantly, gained the renewed confidence of investors as evidenced by the investment-grade credit ratings. Moreover, the government managed to broaden the fiscal space and nearly-double the Budget in just six years.

- Greater strides in attaining progress by investing in the right priorities
  - The government ensured that public funds only go to programs and projects that address long-standing constraints to social and economic progress. By scrutinizing programs and projects for impact, fostering collaboration among the implementing agencies to achieve shared outcomes, ensuring that the budget responds to the pressing needs of sectors and geographic areas, and establishing a more precise estimate of overheads to make way for a bigger fiscal space, the government was able to increase socioeconomic spending to P65 of every P100 of the Budget, and infrastructure to 5 percent of the GDP. The result: classroom gaps were closed, the entire national road network was finally paved, universal healthcare was pursued, and the economy’s major drivers, such as tourism, were better supported; while those that have historically lagged, such as agriculture and manufacturing, were given greater assistance.

- Making every peso count by delivering measurable results
  - The last six years saw dramatic improvements not only in the pace of releasing funds and implementing projects, but also in establishing the link of financial performance with the agencies’ desired goals. These accomplishments were done through groundbreaking reforms such as transforming the GAA into a release document for most expenditure items; dismantling roadblocks to seamless release and use of the budget, which included the DAP as a stimulus to faster spending when it was needed; refining the OPIF to create a Performance-Informed Budget hinged on measurable results; creating a rewards and compensation scheme that places merit on performance while making it at par with the private sector; and enhancing the performance-Informed Budget’s link with the PEA星座.
sector, and leveraging systems, technology, and people to consolidate every step of the PFM process. The draft PEFA report noted that in between the two assessment rounds, “it is clear that the government of the Philippines has improved its PFM performance markedly.” In particular, the Philippine government made great strides in improving the predictability and control in budget execution.

Creating greater spaces to empower citizens – The 2015 round of the Open Budget Survey placed the Philippines among the global leaders in fiscal transparency and participation: among 102 countries, it ranked first in ASEAN, fourth in Asia, and 21st in the world for producing substantial information about the budget. The country also managed to rank fifth in terms of participation, thanks in part to Bottom-up Budgeting and similar “revolutionary” initiatives. Likewise, the IMF-FTE lauded the country’s improved state in terms of fiscal transparency. Seven of the FTE’s 36 indicators were rated “advanced” public participation, fiscal legislation, frequency of in-year reporting, environmental risks, specific fiscal risks, coverage of stocks, and coverage of flows. On the other hand, 16 indicators—among them, timeliness of budget and medium-term budget framework—were rated “good.”

Impact so far
A decade ago, the Philippines lagged behind other countries in terms of achieving and spending for development. The PFM reforms rolled out in the last six years have enabled the government to invest heavily in poverty reduction and inclusive growth.

Economic development – From decades of anemic economic growth, the Philippines has emerged as one of the fastest-growing in the region and will soon be among the largest economies in the world. From 2010 to the first quarter of 2016, the country’s GDP growth has averaged 6.22 percent, 38 percent higher than the previous decade (i.e., 2000 to 2009) and two and a half times bigger than the average GDP between 1980 and 1989. Spending on infrastructure, one of the main drivers of economic growth, also witnessed significant growth from the previous decade, now at 5.0 percent of the GDP from languishing between 1 and 2 percent in the past two decades.

Poverty reduction and human development – Massive investments in improving education, healthcare, housing, and social welfare, as well as the creation of more jobs, have enabled the recovery of the “lost decade” in poverty reduction. Investments in Mindanao and Visayas have seen double-digit increases in the last few years, in line with the government’s bias for areas that need the most urgent interventions in terms of magnitude of poverty and disaster risk. Additional investments in health, education, and social protection have likewise improved. So far, poverty incidence among individuals has been reduced to 26.3 percent in the first semester of 2015, from 28.4 percent in the same period of 2009. If sustained, inter-generational poverty can further be reduced.

Goverance and anti-corruption efforts – A great number of PFM reforms implemented in the last six years have improved the country’s state of governance. Policy and fiscal decisions that allowed the intensified pursuit of tax evaders and corrupt officials have restored public trust in the government and hence afforded it a greater legroom to institute more critical reforms. The Philippines saw an improved performance both in Transparency International’s Corruption Perceptions Index (from 134th place in 2010 to 85th place in 2014), and in the World Governance Indicators, particularly in critical bellwethers such as Government Effectiveness, Rule of Law, and Voice and Accountability.

Toward inclusive development
Considering the gains discussed in this report, it cannot be denied that the country has managed to sustain the growth trajectory, lift more families out of poverty, and restore citizens’ trust in public institutions. However, the greatest challenge remains: address inequality by ensuring equitable growth and redistributing wealth. For one, the Gini coefficient, which measures income inequality, while marginally better than in the 1990s, has remained nearly flat in the last 10 years.

Moreover, a task that shares the same importance as building the new PFM roadmap, it will be naïve however for the government to think that reforms should lead to the creation of a “perfect” system. While the core elements of a good PFM system should be institutionalized, reforms should be nimble and flexible enough to respond to the evolving challenges in public finance that any government faces and equally evolving approaches to solve such challenges. The following synthesizes the cross-cutting challenges to the sustainability of reforms established by the Aquino administration as well as the gaps that require further and bolder reforms:

Policy strength
Many of the bold PFM reforms introduced in the last six years do not yet have a permanent policy basis in law apart from the annual GAA. At the same time, there are contradictory elements in the Philippines’ policy environment for PFM.

Push for a Public Financial Accountability Act – In order to institutionalize beneficial reforms, there is a need to enact a fresh and comprehensive legal framework on PFM for the Philippines. Thus, towards the latter part of its term, the administration developed and proposed a Public Financial Accountability Act that modernizes the legal framework for PFM, addresses gaps especially on the balance of powers between the Executive and Legislature, and institutionalizes key reforms or the principles that these reforms seek to fulfill (see Proposed Philippine Public Financial Accountability Act). Unfortunately, the bill was not passed in the 16th Congress. It is hoped that the new administration and the 17th Congress will support and even further improve upon the proposed landmark measure.

Manly Line-item Budgeting and Program Budgeting – A cross-cutting structural issue that resides in the country’s policy framework for PFM is the existing structure of the Budget. Indeed, the decades-old “line item” structure supported some key reforms: for instance, the disclosure of specific items of expenditure in the Budget, improved transparency, and curbed abuses related to “lump-sum” funds forced the agencies to plan better and specify their expenditures, and bolstered the implementation of the GAA-as-Release Document Policy. However, the “line item” structure has created challenges in the allocation and accounting of funds (see Budget Integrity and Accountability) as well as the reporting of their use (see Fiscal Transparency). In the hands of the Executive from being able to utilize available funds during contingencies (see Budget Integrity and Accountability), and the attribution of performance indicators to expenditures (see Linking Budgeting and Results).
Likewise, line-item budgeting — in the sense that Congress needs to approve each program, activity, or project (P/A/P) as an appropriation, and that the Executive needs to release funds on the basis of specific P/A/Ps—runs counter to the direction of modern public expenditure management to strengthen managerial accountability by loosening the grip on “line item” controls. Achieving such is certainly easier said than done, for the legislators themselves expect to see the line items in the Budget—in particular, which programs and projects will be implemented in their respective jurisdictions and for their constituents—and to exercise their power to make modifications to the Budget, particularly to “insert” P/A/Ps that benefit their constituencies.

The arguments for retaining line items in the Budget are indeed valid. But equally, if not more, compelling are the benefits of moving towards the international practice of program budgeting: where expenditures are appropriated at the level of major programs which have set performance indicators in terms of outputs and outcomes. However, it is not as if line item budgeting and program budgeting cannot be synergized—at least for the moment, until the agencies’ internal controls and accountability systems are strengthened, and until Congress grasps the benefits of program budgeting, PREX (see Linking Budgeting and Results)—which reorganizes all “line item” P/A/Ps according to major programs—is a move towards that direction. Such a reform may also help achieve efficient planning, fund utilization, monitoring and evaluation, and accountability reporting of spending and performance.

Institutional capacity

As one may glean throughout the chapters, the success of PFM reforms more and more require efforts to strengthen the capacity of public institutions and individual public servants to roll out new PFM policies and standards and, ultimately, deliver services to citizens better than before.

Strengthen the capacity of implementing agencies. — The implementation of reforms have remarkably streamlined and strengthened the PFM processes at the level of the central or national government. However, reform efforts need to be intensified at the level of the implementing agencies for greater impact. Specific PFM functions—from the formulation of forward estimates and design of programs to the establishment of internal controls and reporting of financial and non-financial performance—need to be strengthened in each implementing agency. In a way, reforms also need to be suited to the unique situation of each agency (see Linking Planning and Budgeting and Priority Expenditures).

As such, DBM and other oversight agencies should strengthen their ability to hold the implementing agencies to strengthen their financial management practices. Toward this, DBM established the Comptroller General function to strengthen, among others, the oversight of the agencies’ internal control, internal audit, accounting, and reporting systems (see Integrated PFM System); the PFM Certificate Program and the proposed creation of the PFM Institute to intensify capacity building efforts for PFM professionals; the Monitoring and Evaluation function, to help the agencies strengthen their respective M&E systems (see Linking Budgeting and Results); apart from other efforts to strengthen its institutional capacity (see DBM’s Institutional Strengthening Efforts).

Help agencies spend up their spending. — To decisively address the problem of underspending, an increased effort to strengthen the service delivery capacity of the national agencies is required. After the central government has already streamlined its budget execution processes (see Fast and Efficient Budget Execution) and improved the availability of funds (see Fiscal Management), it is now more evident that the slower-than-expected pace of fund utilization and service delivery are hinged upon the weak capacity of the individual agencies to implement programs and, in the first place, to design effective and implementation-ready programs and projects (see Linking Planning and Budgeting) with embedded M&E systems (see Linking Budgeting and Results).

Broad reforms, such as Account Management Teams and, later on, the Full-Time Delivery Units, need to be scaled up into institutionalized spending and performance monitoring processes. Agency-specific interventions—such as the strengthening of DPWH as the infrastructure agency by, among others, creating more positions for civil engineers and other crucial professions—need to be scaled up. In doing so, the actual organizational structures of key service delivery agencies may need to be reviewed and, if necessary, revamped.

Empower local governments to deliver services. — But perhaps a more fundamental issue is this: why is the national government saddled with so many service delivery functions, down to the very retail level, such as the construction of barangay health centers and local roads? The problem of sluggish spending provides an impetus to speed up the devolution of resources and basic service delivery functions to local governments. The Local Government Units (LGUs) are, after all, in a better position to know their localities’ and constituents’ development needs and to deliver basic services on the ground. Shifting such functions to the LGUs allows the national government a greater focus on its core functions: such as economic growth through investment, national defense, and foreign relations and trade.

Certainly, the LGUs — much like the national government agencies, if not to a greater extent—are also beset with problems of poor capacity and, in the first place, poor financial management practices. As a way of preparing the LGUs to absorb more resources from the national government as well as to capacitate them to generate resources on their own, DBM and other agencies implemented key reforms to help improve their financial stewardship, service delivery capacities, and the state of transparency and participation in their respective communities (see Meaningful Devolution and Citizen’s Participation in the Budget Process). Such efforts may also be intensified in light of the announced plans of the new administration to eventually shift the government to a federal form.

Strengthen Congressional Oversight. — The PEFA, the OBS, and the FTE highlight the glaring gaps in the ability of Congress to scrutinize the Executive’s finances and the results delivered (see Budget Integrity and Accountability). It is certainly incumbent upon Congress, as a constitutionally independent pillar of the government, to implement policies and establish mechanisms for PFM oversight: from the regular scrutiny of financial and audit reports (e.g., the public accounts committee mechanisms of the United Kingdom and other Westminster systems), to strengthening the technical ability of Congress as an institution to analyze, and even challenge, the macroeconomic forecasts, cost estimates, and other budgetary assumptions of the Executive (e.g., the Congressional Budget Office of the United States).

On the side of the Executive, many of its PFM reforms seek to help strengthen Congress’ power of the purse: the improvement of financial disclosure and reporting practices (see Budget Integrity and Accountability), the inclusion of performance indicators in the Budget itself (see Linking Budgeting and Results), and the production of new publications—both technical and in layman form—that provide narrative explanations of the Executive’s Proposed Budget (see Fiscal Transparency), among others. Also requiring a deep reflection is the relationship between Executive and Congress: not only in terms of the balance of powers between these institutions, but also in terms of the dynamic political culture that underpins such a relationship. While this documentation does not attempt to expound on the needed change in the politics of budget legislation, a special article (see The End of Pork As We Know It) presents possibilities on how the paragraphs of legislators (i.e., the needs of their districts and constituents) could be addressed within the boundaries set by the landmark decision of the Supreme Court on the “pork barrel” system, within the fiscal framework and development priorities of the national government, and in line with moves to further decentralize fiscal authority to the LGUs.

Technology and innovation

While the government leveraged technology to the widest extent possible in order to improve certain areas of PFM, one of the main components of the PFM Reform Roadmap—that is, the envisioned information system for the whole of government—has been downscaled, if not stalled altogether. Effective Continue the IFMIS. — As recommended by the draft 2016 PEFA assessment, the next administration should sustain the “development of a comprehensive, integrated accounting and financial information system” as it is seen to dramatically improve the efficiency, transparency, and accountability of the Philippine PFM process. However, in doing so, the next administration needs to take cognizance of the lessons from the outgoing administration’s attempts to build an IFMIS.

Key ICT solutions that will form the backbone of GIFMIS are in place or, in the case of the BTMS, currently being rolled out. It must be emphasized that additional components or modules to be installed to complete the IFMIS need to be robust and comprehensive yet flexible to allow eventual updates to the system in the event of adjustments to PFM policies and processes, as well as technological advancements. In other words, the development of IFMIS require the government to adapt to and leverage new technological developments that could enhance PFM practices. For instance: cloud computing has been leveraged in the development of ICT systems; and likewise, social media has been tapped to promote budget information and engage the citizenry online.
The ‘Non-Tech’ Side – However, the foremost lesson is this: the non-technological side is of equal, if not greater, importance as the technological tools. Among the crucial “non-tech” issues are the fragmented accounts coding and treasury cash management systems, which the UACS and the TSA currently address. The ability of the bureaucracy to procure such a sophisticated system should likewise be strengthened. And once rolled out, the most important component of such ICT systems—the people who will process data, manage transactions, generate and make use of reports, among others—need to be capacitated. Such people-centric efforts include bureaucracy-wide intensive training programs (e.g., the PFM Certificate Program) and opportunities for continuous learning and innovation through, among others, knowledge management tools. Overall, ambition and technical feasibility need to be balanced (see Integrated PFM System).

Stakeholder support

The success of reform initiatives hinge significantly on the support and demand of citizens for such reforms, as well as the willingness of the implementers in the bureaucracy to adopt and adapt to new policies and practices.

Build a stakeholder base for reform – To better assess the impact of the gains secured in the public expenditure front during the last six years, one question needs to be asked: is there greater public appreciation for the reform initiatives? As such, it will be useful for the new administration to conduct a deeper scoping of public opinion as an important input in mapping out the next phase of the PFM reform agenda.

It could be argued that the turn of events midway into the Aquino administration only indicate the increased public demand for a more transparent, efficient, and effective manner of utilizing public funds. Despite these crises, independent opinion surveys show that the public, particularly the investment community, appreciated the reforms introduced in the last six years. In the Social Weather Stations’ Enterprise Survey on Corruption, DBM’s sincerity in fighting corruption has improved from “bad” in 2009 to “neutral” in 2015 (SWS, 2015). Likewise, the latest Global Competitiveness Index (GCI) saw improvements from 2010 to 2015 in the country’s overall rank—by a cumulative 38 places—as well as in indicators reducing the wastefulness of public spending and the diversion of public funds. More broadly, the country’s rank in the Corruption Perceptions Index (CPI) has improved by a cumulative 38 places from 2010 to 2015 (see Table 2). All three metrics, however, show backsliding from 2013 to 2015, although the end-2015 performance is still better than at the beginning of the Aquino administration’s term. Such improved perception should be sustained and further improved—and the setbacks regained—in order to solidify the support of stakeholders for further reforms.

Bureaucracy supports reforms when benefits are clear – As for the government workforce, there seems to be a broad support in the bureaucracy for the continuation of fundamental PFM reforms. An internal study conducted by DBM in 2015 shows a generally good perception for the continuity of governance and budget reforms. Overall, 42 percent of responses are for the continuation of such reforms, while an additional 29 percent of responses are also for continuity but the reforms should be improved. Feedback from the client agencies of the DBM was also generally positive—28 percent positive, compared to 12 percent negative.

It is equally necessary to put in place clearer and stronger incentives for the implementation of new policies and changing the old ways of planning, budgeting, spending and monitoring the budget. Gleaned from the results of the internal study of the DBM, the reforms which received broad support from DBM and other agencies seem to be those that provide a clear and immediate benefit to their work. The best example is the GAA-as-Release Document—69 percent of DBM employees said it should be continued, and 58 percent of them received positive feedback from client-agencies on the reform—as it removed duplicative steps in releasing allotments and thus eased the work of PFM professionals (see Insights from Junior Leaders).

Other reforms which gained broad support from both DBM’s employees and other agencies include the early preparation and duplicative steps in releasing allotments and thus eased the work of PFM professionals should be continued, and 58 percent of them received positive feedback from client-agencies on the reform—as it removed duplicative steps in releasing allotments and thus eased the work of PFM professionals.

It will thus be useful for the next administration to scope the opinion and sentiments of the PFM practitioners within and outside the DBM on the reforms implemented thus far and how existing PFM reforms be sustained, improved, and scaled up.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Institutions</td>
<td>124</td>
<td>121</td>
<td>99</td>
<td>81</td>
<td>75</td>
<td>83</td>
</tr>
<tr>
<td>Diversion of Public Funds</td>
<td>135</td>
<td>127</td>
<td>100</td>
<td>79</td>
<td>78</td>
<td>100</td>
</tr>
<tr>
<td>Wastefulness of Government Spending</td>
<td>118</td>
<td>109</td>
<td>86</td>
<td>63</td>
<td>60</td>
<td>81</td>
</tr>
<tr>
<td>Transparency of Government Policymaking</td>
<td>132</td>
<td>120</td>
<td>97</td>
<td>92</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

Sources:
- Corruption Perceptions Index (2010 to 2015), Transparency International
- Global Competitiveness Report (2010 to 2015), World Economic Forum

PROSPECTS FOR FURTHER PFM REFORM

Finding the Optimal Pace, Manner, and Impact

The abovementioned options or considerations are being presented by DBM under the Aquino administration based on the lessons it has gained in the implementation of reforms over the last six years. Overall, it is hoped that this documentation project helps the newly elected administration and newly appointed Budget Secretary in taking stock of the baseline situation from which they will formulate the next phase of the PFM reform agenda.

Apart from the considerations on the strength of the PFM policy, the capacity of institutions, the robustness of the ICT backbone, and the support of stakeholders both external and internal, the new leadership of DBM should also consider lessons on the pace, manner, and impact of implementing the PFM reforms as a crucial input to the new reform agenda.

The “reform fatigue”

An important concern raised by officials and staff of DBM in the internal survey, as well as the PFM practitioners in the other agencies, is the so-called “reform fatigue.” Though welcome, the high level of ambition of the PFM Reform Roadmap itself, in addition to the frequent and usually concomitant introduction of “opportunistic” reforms, had resulted in a lack of proper pacing and sequencing.

The successive implementation of reforms—which entail frequent adjustments in policies and processes—have caused confusion among PFM practitioners who have had little time to understand, implement, and embrace these reforms. The fast pace of the reform has left little room for DBM and other oversight agencies to handhold the implementing agencies in implementing new policies and processes.
Managing Reforms

Given the experience in the last six years, it would be advisable for the new administration to come up with a bold yet realistic agenda for further reform, with focus on managing their pace and sequence, rolling out the crucial ones first. Moreover, such a reform roadmap should incorporate a deliberate change management and information, education, and communication (IEC) strategy that gives sufficient time and attention to help the bureaucracy adopt and adapt.

More broadly, the level of ambition of the reform effort may be managed through prioritization—that is, training focus on the institutionalization of key big-ticket reforms that have yielded or will have the greatest impact in modernizing the Philippines’ PFM system; and setting a window period to allow the bureaucracy fully adopt the reforms and see the gains from such. Certainly, the fundamental gaps seen so far—the reliability or credibility of the budget, and the ‘downstream’ accountability indicators; gaps which the Aquino administration had begun to address but have not fully solved—will require decisive action to solve.

Ultimately, the process of shaping the next phase of the PFM reform may, at the least, require a thorough and open discussion with key stakeholders. After all, the budget process is not merely technical or managerial in nature. It is primordially social and political: as such, the citizens who must benefit from the prudent use of their taxes should continue to lie at the heart of the process of reforming PFM.

NOTES

1 In particular, the DBM Secretary is chairman of the DBCC; a principal of the PFM Committee under E.O. No. 55 s. 2011; and chairman of the GPPB; among many other leadership or membership roles in other collegial committees of the government which steer good governance reforms.

2 A value closer to zero means decreasing inequality.

3 In 2015, the DBM-IAS conducted a series of surveys and focus-group discussions to gauge the perception of DBM employees, as well as the feedback they gather from client agencies, on budget reforms.

4 A total of 60 percent of DBM respondents either answered that they did not receive feedback or did not answer the survey at all. Because of this, the DBM-IAS recommends that a baseline survey of client agencies’ perception of the reforms need to be pursued.
THE PROPOSED PHILIPPINE PUBLIC FINANCIAL ACCOUNTABILITY ACT

How This Law Can Help Cement PFM Reforms

IN A NUTSHELL

- A PFM law sets the policies and rules on how the Budget is formulated, legislated, enacted, and reviewed. It should enable the effective management of the Budget to meet a country’s development objectives.

- To review and revise the Philippines’ currently-outdated and fragmented legal framework on PFM, the administration proposed a Public Financial Accountability Act in 2015 to:
  - Address gaps in the country’s PFM system, in line with international practices
  - Provide a permanent basis for reforms introduced since 2010
  - Strengthen Congress’ power of the purse

- The proposed measure, composed of nine parts and a total of 79 sections, seeks to:
  - Establish fiscal responsibility principles that any administration must uphold
  - Mandate the stronger link between planning and budgeting
  - Strengthen Congress’ power of the purse by limiting the Executive’s discretion and emphasizing the legislature’s role to scrutinize the Executive’s Budget performance
  - Institutionalize reforms for efficient budget execution and financial management
  - Strengthen accountability and reporting through, among others, the Comptroller General
  - Uphold transparency and participation throughout the budget cycle

- To date, the bill remains pending in Congress. To prepare for its enactment, the government:
  - aligned current policies and regulations with the bill’s provisions
  - invested in capacity-building efforts for PFM professionals in public service
  - in particular, DBM completed its institutional strengthening efforts to better monitor the performance of the agencies and enforce standards of fiscal openness

“What matters now is to ensure that PFM reforms are sustained and even further escalated beyond the present Administration. It is, thus, the duty of Congress—who holds the power of the purse—to pass legislation that enforces greater accountability in the use of public funds.”

Senator Ralph G. Recto

SENATE BILL NO. 2719, FILED IN THE 16TH CONGRESS

A PFM law or budget system law is “a formal expression of the rules that govern budgetary decisions made by the legislature and the executive (Fanforb and Lienert, 2010).” Such a law defines the roles, processes, timelines; and standards that govern the PFM process. These laws define countries’ budgeting systems according to their unique governance and political systems, as well as their different socio-economic and cultural settings. As such, it is inappropriate to set a model or “one-size-fits-all” law for countries; instead, these laws may be based on certain basic principles (see Table 1; Lienert and Jung, 2004).

Table 1. Ten Basic Principles of Budget Systems Laws (Adapted from Lienert & Jung, 2004)

<table>
<thead>
<tr>
<th>Principle</th>
<th>Summary Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Authoritativeness</td>
<td>Decision-making authorities are clearly specified in each stage of the process.</td>
</tr>
<tr>
<td>2. Annual Basis</td>
<td>The Budget is provided for a 12-month period.</td>
</tr>
<tr>
<td>3. Universality</td>
<td>All revenues and expenditures are included in the Budget.</td>
</tr>
<tr>
<td>4. Unity</td>
<td>The Budget presents all receipts and payments at the same time.</td>
</tr>
<tr>
<td>5. Specificity</td>
<td>Revenues and expenditures are presented in detail.</td>
</tr>
<tr>
<td>6. Balance</td>
<td>Expenditures are balanced by revenues and financing.</td>
</tr>
<tr>
<td>7. Accountability</td>
<td>Accountability of the Executive to the Legislature, within the Executive, and to an independent external audit body are clear.</td>
</tr>
<tr>
<td>8. Transparency</td>
<td>Roles and definitions are clear and Budget information is made public.</td>
</tr>
<tr>
<td>9. Stability</td>
<td>Budgetary objectives are set through a medium-term framework.</td>
</tr>
<tr>
<td>10. Performance</td>
<td>The expected and past results of programs are reported in the Budget.</td>
</tr>
</tbody>
</table>

Source: COA-DBM Joint Circular No. 2014-1

A PFM law should enable the effective management of the Budget to meet a country’s development objectives. As such, countries enact new laws or amend existing ones for various reasons: “to introduce budget reforms – perhaps as a result of a budget crisis; to change the balance of power between the legislature and the executive; to enhance macro-fiscal stability; to enhance transparency and accountability in the budget system (Lienert and Jung, 2004).”
REFRESHING THE OUTDATED AND FRAGMENTED LEGAL FRAMEWORK

The Need for a Modern and Reform-Oriented PFM Law

PFM in the Philippines is currently governed by a collection of laws, executive decrees and orders, implementing rules and regulations, and other policy issuances (see sidebar). The Fiscal Transparency Evaluation (FTE) on the Philippines has stated that the Philippines’ PFM framework “suffers somewhat from fragmentation... full transparency would suggest that it also be clear, self-consistent, and easily accessible (IMF, 2015).” More recently, the draft 2016 PEFA Assessment on the Philippines’ PFM system highlights the “review and revision of the legal framework for PFM to ensure clarity, control, and comprehensiveness” as a crucial step to address weaknesses in budget credibility, legislative oversight, internal controls, accounting, and financial reporting. It is also noteworthy that the last comprehensive law on PFM was enacted in 1987, as Book VI of the Administrative Code.

Thus, the legal framework on PFM in the Philippines needs to be updated to reflect the new policies that have been introduced since 2010. These reforms include those that enhance budget preparation, fast-track budget execution, restructure the budget to emphasize performance, and introduce best practices in fiscal openness. As discussed in the concluding chapter, many of these new reforms require a permanent mandate through law to be made irreversible. A number of these reforms are also still being completed, and a law will help ensure that these initiatives will continue toward their full evolution.

Moreover, gaps in the legal framework surfaced throughout the implementation of PFM reforms. Most significantly, the landmark decision of the Supreme Court on the PDAF (see The End of Pork Barrel as we Know It) brought to fore the need to clearly delineate the roles of the Executive and Congress in PFM. The parameters on the use of savings have been clarified as long-term fiscal sustainability analyses. In early 2015, the inter-agency working group produced a draft bill and began engaging legislators who could be potential champions of the bill. After several discussions between the working group and the legislators, the following provisions also highlight other fund sources of the agencies and ensure their proper release and use. However, these GPs and SPs can be changed annually depending on the policies to be proposed by the Executive and approved by Congress. These many GAA provisions also illustrate the fragmentation of the PFM legal framework in the country, as “in many instances these provisions mention the various regulations the NAs must abide by to avoid them from being overlooked (IMF, 2015).” In addition, a number of GP s pertain to SAGFs and OBAs which, as the FTE noted, “are created by separate laws outside the budget process and tend to define one-off regimes that do not always appear to be consistent with the overall budget framework (IMF, 2015).”

The origins of the PFM bill

The work to develop a proposed PFM bill began in mid-2014, in the aftermath of the Supreme Court rulings on the PDAF and the DAP. At that time, the initial results of the FTE were presented to DBM and other PFM oversight agencies. While it validated the results of bold PFM reforms that had been introduced since 2010, the FTE report highlighted lingering policy gaps that needed to be cured: from core problems with data integrity and comparability in fiscal reporting to the lack of long-term fiscal sustainability analyses.

To help institutionalize recent PFM reform efforts and bridge gaps between law and praxis, DBM spearheaded initial work to determine the potential elements of the proposed measure. Shortly after, an inter-agency working group—composed of DBM, DOF, BTi, GCG, and COA—developed the proposed PFM bill. International development partners assisted the government in developing the measure, such as the Australian Department of Foreign Affairs and Trade (DFAT) through the Australia-Philippines PFM Program and the IMF through a technical assistance mission in October 2014.

The current legal framework on PFM in the Philippines

The 1987 Constitution itself provides the foundation for PFM as it defines the roles of institutions and how these relate to each other as well as sets fundamental budget and management policies. Foremost of such policies are that the disbursement of funds must be based on appropriations provided by law (Article VI, Section 29.1); and that the President must annually submit to Congress a Budget of Expenditures and Sources of Financing as basis for the GAA (Article VIII, Section 22).

These foundational policies in the Constitution are further fleshed out through law. The most comprehensive of such laws is Executive Order (E.O.) No. 292 or the Administrative Code of 1987, which sets aside an entire book to national government budgeting. The Administrative Code also defines the PFM functions of key oversight agencies. Book VI covers chapters on budget policy and approach, preparation, authorization, execution, accountability, and expenditure of appropriated funds. The law also introduces the fundamental link between planning and budgeting, which underscores the sound use of the budget as a tool for long-term development. Book VI of the Administrative Code of 1987 is patterned after the Budget Reform Decree of 1977. Presidential Decree (P.D.) No. 1177.

Specific laws relevant to the PFM process include the Government Auditing Code of the Philippines, P.D. No. 1445 of 1978, which defines the policies and guidelines on government auditing and the accounting of public funds, as well as the functions of COA. The Local Government Code of 1991, Republic Act (R.A.) No. 7160, mandates that 40 percent of the national government’s internal revenue taxes be distributed to the local government units (LGUs) as internal revenue allotment (iRA), and sets forth rules on the fiscal administration of the LGUs. The Government Procurement Reform Act of 2003, R.A. No. 9184, unifies the country’s previously fragmented regulations on government procurement and makes it competitive and transparent (see Procurement Reform).

Another important aspect of the Philippines’ legal framework on PFM is the annual GAA itself. It contains general and special provisions (GPs and SPs) that set rules on how the Budget should be released, spent, and adjusted if necessary. These provisions also highlight other fund sources of the agencies and ensure their proper release and use. However, these GPs and SPs can be changed annually depending on the policies to be proposed by the Executive and approved by Congress. These many GAA provisions also illustrate the fragmentation of the PFM legal framework in the country, as “in many instances these provisions mention the various regulations the NAs must abide by to avoid them from being overlooked (IMF, 2015).” In addition, a number of GP s pertain to SAGFs and OBAs which, as the FTE noted, “are created by separate laws outside the budget process and tend to define one-off regimes that do not always appear to be consistent with the overall budget framework (IMF, 2015).”

The Executive and its oversight agencies on PFM issue rules, regulations, and guidelines on how to implement these laws. The President, for one, issues Executive Orders (E.O.s), Administrative Orders, and other directives on the management of public finances. Key orders issued by President Aquino include E.O. No. 43, which directs all the agencies to align their expenditures with the key result areas of his Social Contract with the Filipino People; and E.O. No. 55, which organizes the PFM Committee, composed of COA, DBM, DOF, and BTi. The DBM, as an oversight agency, also issues memoranda, circulars, and guidelines to ensure that the National Budget is prepared, executed, and accounted for efficiently and effectively. Perhaps the most important issuances that DBM produces annually are the Budget Call and Budget Priorities Framework to guide the preparation of the Budget, and the guidelines on the release of funds.
Objectives of the Public Financial Accountability Act

As Senate President Drilon has emphasized, ‘the passage of this bill will fortify the government’s accountability to the people for its use of public funds through a more efficient public financial management that facilitates greater transparency and the delivery of direct, immediate, and substantial services’ (Drilon, 2015).

The bill, as filed, has three main objectives. First, this landmark bill aims to address the gaps in the country’s PFM system and adhere to international standards and best practices. As Senator Angara has pointed out, “lack of clarity opens the opportunity not just for sub-par implementation, but also for outright abuse. The foregoing measure aims to rectify this situation by clarifying via law—a veritable first—the country’s public finance management policy framework (Angara, 2015).”

The bill also promotes the permanence of PFM reforms introduced thus far. Representatives Abad, Bag-ao, and Robredo have said that reforms that require government to promote sound fiscal management—from crafting the medium-term fiscal strategy, to submitting regular fiscal reports—should be institutionalized through law as these “will ensure that people’s needs are addressed and government services reach their intended constituents (Abad, Bag-ao, and Robredo, 2015).”

Last but not the least, the proposed legislation strengthens Congress’ power over the purse and increases its authority to oversee the management of the Budget. In his version of the bill, Senator Recto has stressed that strengthening Congress’ oversight on the Budget will enable it “to better scrutinize the President’s budget proposal and to hold agencies accountable for the propriety and the results of the use of their public funds (Recto, 2015).”

LET PFM REFORMS TRANSFORM

Summary of the Proposed Public Financial Accountability Act

“It is hereby declared the policy of the State to ensure accountability and integrity in the use of public resources by ensuring transparency, fiscal responsibility, results-orientation, efficiency, and effectiveness.”

The Proposed Public Financial Accountability Act

As a pioneering legislation in PFM, the proposed Act aims to be comprehensive in its approach. Its scope encompasses the entire PFM cycle, from budget preparation to budget accountability. If enacted, the law will not only apply to the NGAs but also to the GOCCs and the LGUs. In addition to those already set forth in the Constitution and existing laws, the proposed Act defines additional functions of the key players of the PFM process: from Congress and COA, to the Presidency and its oversight agencies, and down to the NGAs.

This section summarizes the key features and provisions of the bill as filed by Representatives Abad, Bag-ao, and Robredo (H.B. No. 6117).11

Fiscal Responsibility12

To institutionalize reforms for the prudent management of the Budget, the bill enshrines Principles (see box) to which any administration must adhere. Against these principles, an administration must identify policy objectives that it seeks to achieve, and which will be monitored by Congress and the citizenry. The proposed Act will require any new administration, through DBCC,13 to issue a Statement of Fiscal Policy. This document, which must also be updated at the midterm of the administration, must set realistic and measurable macroeconomic and fiscal targets to be achieved during the six-year term. The bill also requires the government to publish a Medium-Term Fiscal Strategy (MTFS) annually to flesh out these fiscal policy goals in detail and the measures to achieve such goals. The MTFS should, among others, include policies, strategies, and targets for revenue, debt, deficit, expenditure, and fiscal risk management. The setting of medium-term fiscal goals—an international best practice—also enables the linking of the government’s fiscal program with its medium-term PDP.

The proposed measure requires the government to report its performance against the targets and plans stated in the aforementioned documents. Thus, the proposed Act requires DBCC to produce the Mid-year Fiscal Report and the Annual Fiscal Report. Both reports must present economic and fiscal outturns for the period against the targets stated in the MTFS, as well as actual expenditures against their approved appropriations. The proposed Act also recognizes the need to provide the government with enough flexibility to address the impact of economic shocks, natural disasters, and other exigencies on its financial health. Still, it requires the President to report deviations to Congress, their reasons, and strategies to address these through the MTFS and the Fiscal Reports.

To address the issues of macroeconomic fiscal sustainability over a longer period, the bill requires NEDA, with DBCC, to prepare and publish a Long-term Vision Report. This report will evaluate whether existing government policies will continue to be effective over the next thirty years, considering a variety of changes that may take place. It must be first published within two years after the PFM law is enacted, and updated every six years thereafter. The Long-term Vision Report enhances the government’s current practice of publishing the medium-term PDP by providing it with a 30-year outlook on the country’s development.

Linking Planning and Budgeting14

A stronger link between planning, budgeting, and performance ensures that the government spends public funds on the right priorities and with measurable results. Thus, the proposed Act aims to institutionalize reforms introduced in the last six years to ensure that the allocation of resources is consistent with the government’s development goals and performance in the past.

First, the proposed Act binds the new policies and practices that changed the way the Executive had prepared the budget. Foremost of which is the Budget Priorities Framework, which translates the PDP into the budget preparation process (see Linking Planning and Budgeting). The Framework must spell out the fiscal targets consistent with the MTFS, priority areas for expenditure, the available fiscal space, and other requirements. The bill also establishes governing principles for budget preparation: agencies’ proposed budgets must be hinged on the PDP; these are thoroughly evaluated against the agencies’ capabilities; and all sources of funds available to an agency must be considered in determining its recommended budget.

Second, the bill institutionalizes key PFM reforms by setting the minimum requirements for the form and content of the Proposed Budget submitted to Congress. For instance, it scales up Performance-Informed Budgeting by requiring the National Expenditure Program (NEP)—the document that is in the form of the GAA to be enacted—to follow the Program Expenditure...
Third, the bill strengthens the planning and budgeting linkages within each agency. At the level of the NGAs, such linkages have been weak and have resulted in poorly designed spending plans and underperformance. Thus, the proposed Act requires the NGAs to produce Annual Plans, which must have a medium-term scope, be consistent with the PDP, and contain detailed information on their budgets, projects, and performance. To emphasize the supervision of the executive departments over their attached NGAs and GOCOs, the bill mandates all departments to incorporate the plans of their attached entities in their respective Annual Plans.

Fourth, the proposed Act establishes a clear cycle from budget preparation to reporting at the agency level. For one, the bill requires the routine Monitoring and Evaluation of the agencies’ spending on their programs and projects. Feedback from the evaluations will be used to inform succeeding budget proposals, thus ensuring a practice of rational budgeting. Moreover, the proposed measure mandates the agencies to produce Annual Reports on their finances and their non-financial performance compared against the Annual Plan. The agencies will also be required to submit monthly and quarterly reports on their financial and non-financial performance.

Second, the bill further clarifies the definition of savings and the parameters for their use, consistent with the Supreme Court’s decision on the DAP. For one, savings may not be declared from discontinuance, abandonment, or non-commencement of a program, project, or activity (P/A/P) if it is due to the fault or negligence of the agency. The use of savings may be applied to augment a deficiency in any existing P/A/Ps that arises from unforeseen modifications or adjustments or adjustments to costs for justifiable reasons. Moreover, the President and other constitutional officers are required to report the use of their respective savings to Congress and the public on a regular basis. The bill also sets rules on realignment, defined as “the limited flexibility given to NGAs to reallocate, modify, or change the details within an existing P/A/P which shall not entail any augmentation (Part V, Section 39).” This rule recognizes the need to provide leeway to managers in the agencies to move funds within a P/A/P based on their assessment on how funds should be used. Funds cannot be transferred or realigned across P/A/Ps.

Third, the bill limits the extent of Budget re-enactment to curb the Executive’s discretion in using the previous year’s GAA in the event Congress fails to pass a new Budget for the year. For one, the aggregate level of the Re-enacted Budget is limited to the same total amounts in the previous GAA or the BESF, whichever is lower. Appropriations for completed P/A/Ps are also excluded from the re-enacted GAA. As a Re-enacted Budget will tend to have a lower amount overall than the original GAA, and thus limiting the ability of government to deliver services, the bill effectively creates an incentive for both the Executive and Congress to ensure that a new Budget is enacted on time (see Fast and Efficient Budget Execution).

While the bill enhances Congress’ power of the purse through the abovementioned provisions, it also enhances the legislature’s responsibility over the proper management of public funds. First, it fleshes out its role of monitoring and reviewing the government’s financial and non-financial performance against the appropriations it approved. As the bill requires the Executive and individual NGAs to submit plans and reports at various stages of the PFM process, the bill explicitly gives Congress the responsibility of reviewing such documents. To facilitate this additional responsibility, it authorizes Congress to use any of its existing committees or bodies, or to create new ones, in order to fulfill this function.

The proposed Act also introduces the new practice of requiring a Financial and Budgetary Information Sheet for each proposed revenue-eroding or expenditure-adding bill filed by legislators. The information sheet must include estimates of the financial impact of such bills over the medium-term. Simply put, Congress must provide a supporting document that elaborates on the proposed bill’s impact on the country’s financial health for the sake of transparency and better-informed decision-making on fiscal matters.

Efficient Budget Execution and Financial Management

Better financial management enables faster and more efficient budget execution and service delivery. Thus, the proposed Act supplements recent reforms that streamline and clarify financial management processes to ensure speed and integrity (see Fast and Efficient Budget Execution). The bill institutionalizes the GAA-as-Release Document policy by mandating the government to “commence release of Public Funds covered by an Appropriations Law as soon as such law comes into force” (Part IV, Section 31). It also authorizes the agencies to undertake early procurement activities even prior to the passage of the GAA. The measure also provides a legal framework for further reforms that streamline budget execution, such as the one-year validity of appropriations and the shift to cash-based budgeting. Meanwhile, to facilitate the implementation of programs and projects that take more than a year to complete, the bill authorizes the agencies to enter into Multi-Year Contracts upon an agency’s adherence to DBM’s guidelines and issuance of a multi-year obligatory authority.

Congress’ Power of the Purse

The Constitution enshrines the core PFM principle that the disbursement of funds must have the imprimatur of Congress through appropriations laws. Various provisions in the proposed Act seek to increase the involvement of Congress in the management of the State’s coffers. Together, these provisions strengthen Congress’ check-and-balance role with the Executive in budgeting and management.

First, the proposed Act rationalizes funds that have, in practice, been excluded from closer scrutiny by Congress and have given discretion to the Executive on how these funds should be spent. It limits the types of SPFs that Congress may include in the Budget to only the National Disaster Risk Reduction and Management Fund (NDRR&M), the Contingent Fund, and the Statutory Shares of LGUs. Other SPFs may only be created if the details of expenditures under each could not be determined during budget preparation. The bill also reforms Unprogrammed Appropriations by clarifying their coverage and the parameters for their use. Among others, it limits such standby appropriations to two percent of the total amount of the GAA, requires that expenditures from such are spelled out in the GAA in detail, and constrains the Executive from activating such if doing so will compromise its fiscal targets.
The bill also contains provisions that enforce the One-Fund Concept, where all public monies ideally accrue to the General Fund or, at the very least, are visible to the Treasury. Enforcing this concept will provide more efficiency in the management of cash resources—whether these are in the General Fund or are “off-budget.” Furthermore, the proposed bill rationalizes SAGFs and OBAs by mandating their review for modification or termination every three years. New SAGFs may only have a maximum lifespan of three years, subject to extension only if their purpose still needs to be served.

Moreover, the bill institutionalizes the Treasury Single Account (TSA) to enable the BT to manage the government’s cash resources in real time. The bill defines the TSA as a banking set-up handled by the BT “wherein the government transacts all monies collected, received or paid by NGAs in one bank account or a set of linked bank accounts and gets a consolidated view of its cash position on at least, a daily basis (Section 46, Part V).” To implement the TSA, the bill gives the BT the authority to transfer balances from an agency’s bank account to the TSA, close any NGA bank account, or revoke the authority of an NGA to open bank accounts.

Accountability and Reporting

A PFM system will only be truly functional if responsibilities are fulfilled at each level of the government. Thus, the bill seeks to strengthen the ecosystem of accountability in PFM by enhancing oversight functions and accountabilities (see Table 2).

As previously mentioned, the proposed Act enhances the oversight functions of Congress to enable it to hold the government and individual agencies accountable. COA already has the Constitutional duty to independently audit the financial accounts of the government and its individual agencies. In fulfilling this role, COA has the power under the Constitution and the law to set accounting and reporting standards. At the lowest rung of the accountability chain, the heads of the agencies are responsible for attaining successful financial management in their respective agencies, particularly by fulfilling these accounting and reporting standards, and implementing internal controls.

However, a significant gap in the accountability chain exists: the lack of a function within the Executive that enforces these accounting standards, reporting requirements, and internal control mechanisms across all agencies. To bridge this gap, the bill proposes the creation of the Office of the Comptroller General (OCG) under DBM. This office is envisioned to assist COA in enforcing the accounting and auditing rules that it sets, as well as to monitor how the agencies address COA’s audit findings. Apart from this, the bill tasks OCG to set internal control standards and ensure their implementation in all the agencies: a function that COA, as supreme audit institution, cannot be expected to fulfill. According to DBM Usec. Abuel, such a function strengthens accountability in the PFM system “by putting in place the working framework, policies, structure, rules and processes, among others” to hold government accountable.

The OCG will also take charge of producing the consolidated financial reports of the government on a quarterly and annual basis, for reporting to the President, Congress, and COA. The OCG will prepare these consolidated accounts based on the in-year and annual reports that all the agencies are required to submit (see Table 2). To facilitate the reporting process, the proposed Act mandates OCG to oversee the implementation of an integrated FMIS for the government and to capacitate PFM professionals throughout the bureaucracy.

Table 3. The PFM Accountability Chain: from Congress to Implementing Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Additional Responsibilities in the Accountability Chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congress</td>
<td>• Monitor and review government performance against requirements of appropriations and relevant laws.</td>
</tr>
<tr>
<td>COA</td>
<td>• Set accounting and auditing standards, and conduct independent audits of government agencies’ accounts.</td>
</tr>
<tr>
<td>DBM-OCG</td>
<td>• Formulate measures on effective internal controls to be implemented by individual agencies.</td>
</tr>
<tr>
<td>Heads of Government Agencies</td>
<td>• Fulfill accounting and reporting requirements.</td>
</tr>
</tbody>
</table>

Transparency and Participation

As the primary stakeholders in their country’s development, the Filipino people must have a say on how their taxes are allocated and spent. Thus, the bill lacks in the reforms that have made the Philippines a global leader in fiscal openness.

First, to increase public access to budget information, the bill mandates the government to publish the public the various plans and reports it is required to produce. In addition, the bill requires DBM to publish a Calendar of Disclosures that shows a timeline of the publication of all budget documents and information to be mandated by the bill and its implementing rules. The bill also institutionalizes the People’s Budget that helps the public understand budget information easier. Apart from sustaining the current practice of publishing citizen-friendly summaries of the Proposed and Enacted Budgets, the proposed measure also requires DBM to publish summaries of the Statement of Fiscal Policy and the Annual Fiscal Report. The proposed Act also establishes basic standards for the accessibility of budget information: plans and reports should be automatically posted online; and statistics should be published in open data format.

Second, the bill obliges the government to develop and enforce mechanisms that enable the participation of citizens—including the CSOs and other stakeholders—in all stages of the budget process. In particular, the proposed measure institutionalizes the award-winning Bottom-Up Budgeting (BuB) process (see Citizen’s Participation). The bill tasks DBM and DILG to lead the implementation of such process to empower grassroots organizations and communities in identifying local poverty reduction and development needs to be considered in preparing the Proposed Budget. The bill also instructs DBM and other relevant Executive agencies to develop participatory budgeting policies on budget preparation, execution, and accountability; the House of Representatives and the Senate on participation in budget legislation; and COA, on participatory audit.

Figure 3. What’s in the TSA?
AS THE PFM BILL IS STILL PENDING IN CONGRESS

Steps Taken to Prepare for the Public Financial Accountability Act

“...To encourage the passage of the proposed PFM Act, we have to show to our legislators the benefits and successes that we have had with the implementation of the PFM reforms, which the Bill aims to institutionalize.”

Assistant Secretary Amelita D. Castillo

DBM POLICY AND STRATEGY GROUP

By narrowing policy gaps and scaling up landmark reforms introduced by the Aquino administration, the proposed law will put into place a comprehensive and modern legal framework on the PFM, which is aligned with international best practices. Unfortunately, the bill remains pending in Congress at the committee level. Director Rowena Ruiz of DBM’s Legal Service states the difficulty in securing the consensus from all stakeholders as a primary challenge in the passage of the bill. Thus, it is hoped that the next administration will consider the bill a priority measure in the 17th Congress.

Given the extent of policy changes to be made through the bill, the government has started to prepare for the implementation of the law by aligning current policies and regulations with its provisions and capacitating PFM professionals in the various agencies. It must also be noted that the once enacted, will also require the government to formulate Implementing Rules and Regulations (IRR) to give flesh and bone to the broad principles and policies established by the bill. It will also require the government to develop a Transitory Plan for provisions that may not be implementable immediately after the bill’s enactment.

Thus, DBCC is in the process of creating a Fiscal Calendar that incorporates key reforms in the budget cycle. In addition, DBM has ensured that the general and special provisions of the 2016 NEP as well as the consequent Proposed Budget for 2017—are aligned with the provisions of the pending bill. The PFM Certification Program (see Integrated PFM) is likewise being implemented and scaled. In addition, DBM is completing its institutional strengthening efforts (see DBM’s Institutional Strengthening Efforts) to strengthen its new functions: from performance monitoring and evaluation to the enforcement of fiscal openness standards.

NOTES

1 Such budget system laws include but are not limited to Public Finance Acts, Organic Budget Laws, Financial Management Acts, Fiscal Responsibility Laws, among others (Lienert and Fanboim, 2010).
2 Lienert and Jung (2004) refer to principles 2 to 6 as “classical principles,” which are mainly associated with budget preparation and approval, and principles 7 to 10 as “modern principles,” which pertain to budget reporting and the Executive’s obligations to report to the legislature on the results.
3 Fanboim and Lienert (2010) argued that while it is not possible to prescribe the optimal number of laws that should constitute a country’s legal framework on PFM, “in general, there is a strong case for consolidating all functional areas of the budget system into a single law, although other ‘specialist’ laws may be adopted to cover particular areas of budgeting, such as procurement, debt management, and local government finance.”
4 Book VI on “National Government Budgeting” of the Administrative Code contains over seventy provisions similar to those found in the Budget Reform Decree of 1977.
5 The SC rulings on DAP are dated July 1, 2014 and February 3, 2015.
6 Aside from IMF and DFA T, the World Bank was also actively involved in providing assistance to the endeavour.
7 All of these bills had the long title “An Act to Enforce Greater Accountability in Public Financial Management (PFM) by Strengthening Congress’ Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation, and Other Purposes.”
8 The E.O. was promulgated during the “revolutionary government” stage of the administration of President Corazon C. Aquino, and before the 1987 Constitution took effect, thus, it has the force of law.
9 Up to 77 sections out of 92 sections in the PD 1177, and 80 sections in Book VI of the EO No. 232 are essentially identical.
10 General Provisions (GPs) pertain to policies and regulations that apply to all appropriations in the GAA. The GPs cover receipts and income, expenditures, personnel amelioration, and the release and use of funds. Special Provisions (SPs), meanwhile, are policies and regulations that apply to specific appropriations.
11 Rather than through a linear fashion, this section discusses the key provisions of the bill according to key principles. For brevity, many of the provisions of the bill are not discussed in detail, e.g. the penal clauses.
12 Provisions discussed here are Part IV, Sections 12 to 17.
13 The bill specifies that the DBM, in coordination with the DoF, NEDA, and OP, should prepare the Statement of Fiscal Policy, and the MTFS for approval by the President. The DBM serves as chair of the DBCC.
14 Provisions discussed here are Part IV, Sections 19 to 25, and Part VI, Section 59 to 60.
15 Discussed here are provisions spread out through the bill which seek to strengthen Congress’ oversight function: Part II, Section 18; Part IV, Sections 19 and 25 to 26; and Part V, Sections 38 to 40.
16 Apart from the House Committee on Appropriations and Senate Committee on Finance, a Joint Congressional Oversight Committee on Public Expenditures (JCOCPE) had also been organized by Congress to regularly examine the budget performance of the government. Meanwhile, key legislators have proposed new mechanisms—notably House Speaker Feliciano R. Belmonte, Jr. had called for the creation of a public accounts and audit committee that will, among others, review audit reports and hold agencies accountable for these address audit findings. The Executive’s inter-agency committee deemed it fit to craft the relevant provisions of the bill in a manner that gives Congress the flexibility to organize itself to fulfil its oversight roles.
17 The Financial and Budgetary Information Sheet is a “softer” requirement that is designed to be more acceptable to Congress. In contrast, an earlier-proposed Fiscal Responsibility Bill or “pay-go” bill requires that each revenue-eroding or expenditure-adding bill be filed with a measure that compensates for its projected fiscal impact (i.e. a new tax or other revenue-generating measure, or a measure that reduces other expenditures).
18 Provisions discussed here are Part IV, Sections 19, 29, 30 and 33; and Part V, Sections 40 to 48.
19 Provisions discussed here are Part IV, Section 8; and Part VI, Sections 5B to 68.
20 The creation of the OCG seeks to address a key issue highlighted by the PEFA (Bl: 2010) and the FTE (IMF: 2010) the COA is also assigned by the Constitution to compile the government’s Annual Financial Report (AFR). This set-up puts COA in a conflict-of-interest situation, as it could not reasonably be expected to independently audit the AFR (see also: Budget Integrity and Accountability).
21 Provisions discussed here are Part VII, Sections 69 to 71.
22 While DBM has revised the special provisions of the 2016 NEP due to recent developments, these are still more or less aligned with the provisions of the pending bill.
The proposed Public Financial Accountability Act seeks to modernize the Philippines’ legal framework for PFM, which is governed by a mix of laws and regulations on budget management. The proposed law seeks to align the country’s PFM practices with international standards, institutionalize reforms in budgeting, and strengthen Congress’ and the public’s oversight on the budget through greater transparency, accountability, and participation. In particular, the bill will cement the following reforms and practices under each of the four phases of the budget process.

**Phase 1: Preparation**
- Requires a national Medium-Term Fiscal Strategy (MTFS)
- Links the POP with the annual Budget through the Budget Priorities Framework
- Institutionalizes Performance-Informed Budgeting, which links proposed appropriations to agencies’ performance targets
- Clarifies the form and content of the Proposed Budget, which includes the Fiscal Risks Statement
- Requires agencies to formulate Annual Plans with strategic priorities, performance targets, programs and projects, etc., to support their budget proposals

**Phase 2: Legislation**
- Rationalizes lump sum SPF and the Unprogrammed Appropriations
- Clarifies the parameters for SAVINGS, AUGMENTATION, and REALIGNMENT, in line with the Supreme Court’s decision on DAP
- Clarifies parameters for the re-enactment of the GAA to reduce discretion of the Executive
- Limits SAGFs to a three-year period, or until the fulfillment of their purpose, whichever comes earlier

**Phase 3: Execution**
- Institutionalizes the GAARD to streamline the budget execution process
- Authorizes Early Procurement and Multi-Year Contracts
- Sets a one-year validity for appropriations
- Regularly reviews Special Funds (O&As) and SAGFs which are funds not subjected to the annual budget legislation process
- Enforces the TSA to enable the effective and real-time management of available cash resources

**Phase 4: Accountability**
- Requires the government to publish Fiscal Reports against its MTFS
- Requires agencies to publish quarterly reports on their performance, and to enforce internal controls
- Creates the OCG to enforce public accounting and internal controls, and to prepare consolidated financial reports
- Institutionalizes the People’s Budget and fiscal transparency practices
- Sustains BU and requires other participatory budgeting mechanisms
- Mandates Congress to monitor the government’s performance against the GAA, and to review reports mandated by the Act

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1. Filed in the 16th Congress by Senators Ralph G. Recto (SB No. 2719), Franklin M. Drilon (SB No. 2750), and Juan Edgardo M. Angara (SB No. 2777); and Representatives Maria Leonor Gerona-Robredo, Arlene J. Bag-ao, and Henedina Abad (HB No. 6117).
DBM’S INSTITUTIONAL STRENGTHENING EFFORTS
Beefing Up an Institution That is at the Center of PFM Reform

IN A NUTSHELL

- Since 2010, DBM has been at the forefront of implementing PFM reforms which have profoundly changed the way public funds are managed today.

- Thus, DBM pursued institutional strengthening efforts that entailed three lines of action. Below are the major initiatives and key changes in each:
  - DBM institutional strengthening efforts
    - Formation of six functional groups and designation of group heads to streamline the rollouts of reforms in and outside of the agency
    - Creation of new organic offices to perform specific PFM functions and additional positions to support the implementation of reforms
    - Improvement of systems and processes
    - digitization of processes in the budget cycle and everyday work of the employees
  - Building the capacities of DBM’s workforce
    - Rollout of DBM 100 and DBM Tibay as a series of capacity development initiatives for DBM staff and leaders
    - Expansion of HR functions to improve recruitment and management of employees, through strategic partnerships
  - Moving forward, DBM should monitor the effectivesiveness of the reorganization efforts, manage trends in attrition and the looming retirement of one-third of its workforce, maintain and eventually upgrade its standard of service to the new requirements of the ISO

““The DBM has been adopting institutional strengthening measures to fortify and upgrade its organizational capability to lead the implementation of various public financial management reform initiatives, and ensure that DBM’s efforts are sustained, become irreversible and scaled-up.”

DBM Department Order No. 2016-9

The bold PFM reforms implemented since 2010 has profoundly changed the way public funds had been managed. The DBM was at the forefront of introducing such reforms, and it would be incumbent upon the people who championed these reforms to keep up with the challenge of constantly innovating for change.

In DBM’s case, these reforms required it to strengthen its “M” function more.

For instance, various fiscal management reforms increased revenue collections and widened the fiscal space (see Fiscal Management). “The concern, unlike before, was not about where to get money but how to use it,” said Director Cristina B. Clasara of the BMB for Human Development Sector. In the past, DBM had been accustomed to a culture of control: they had been fixated on reining in on expenditures in the last decade, when revenues constantly fell short. Today, the glut of resources compels it to shift gears: to streamline processes so that funds can move faster, make sure that these funds are used effectively to deliver results, and improve transparency and accountability throughout the PFM process.

Thus, DBM took various initiatives to strengthen its capacity as an institution that was leading PFM reforms throughout the bureaucracy.

“The rationale behind DBM’s institutional strengthening initiatives is the commitment to improve service delivery,” said Undersecretary Richard E. Moya, head of the Technical Working Group (TWG) on DBM’s Institutional Strengthening Efforts. These initiatives included enhancing DBM’s organizational structure, streamlining its processes to adhere to international standards of quality, and, perhaps most importantly, investing in the capability of its people. These efforts should bolster DBM’s ability to sustain, strengthen, and scale innovations beyond 2016.

REORGANIZING DBM TO BUILD ITS MUSCLE FOR PFM

““The reorganization is meant to provide the institutional structure to address gaps in the budget process.”

Assistant Secretary Myrna S. Chua
DBM ORGANIZATION AND SYSTEMS IMPROVEMENT GROUP

In 2014, DBM through its TWG on Institutional Strengthening Efforts conducted a thorough review of the department’s existing structure, mandate, and performance goals to determine areas of improvement. The assessment revealed that its organizational structure needed enhancement so that it could sustain and scale up PFM reforms.

Key strategies were taken to modify the organizational structure, functions, and operations of DBM. First, the responsibilities of DBM Senior Officials were recalibrated, which effectively created six functional groups. Related functions were then aligned by regrouping existing organizational units. In addition, organic offices were created to perform PFM functions essential to sustaining PFM reforms, which at that time were underdeveloped.

The DBM used a two-stage approach to pursue these strategies: an Interim Set-Up and a Re-organized Set-Up. The Interim Set-Up, which was rolled out in April 2015, instituted key organizational changes immediately to support ongoing reforms. This stage entailed adjustments in the names, functions, and staffing complement of existing DBM units, which did not require approval by the President. The Reorganized Set-Up involved the creation of new operational units, sub-units, and additional positions, as well as new bureaus or services that would need authority from the President.
Both stages of the reorganization were inclusive: functional group heads were required to cascade the plans to their units and personnel, and consultations on the proposed changes were held with officials and staff and the union of employees. The department is now composed of six functional groups: Budget Policy and Strategy (BPS); Budget Preparation and Execution (BPE); Organization and Systems Improvement (OSI); Budget Performance Monitoring and Evaluation (BPME); Comptroller General (CG); and Internal Management (IM). The functions of these groups and key changes to their operational units are described as follows: (see organizational chart on page 284 to 285).

Budget Policy and Strategy
The BPS Group leads the formulation of fiscal policies that shape the annual Budget and serves as DBM’s arm in leading the DBCC. It also coordinates the implementation of PFM reforms, and in fact has incubated many of these: from the ZBB (see Linking Planning and Budgeting) to the new DBCC fiscal reports (see Fiscal Transparency).

To sustain such reforms, DBM strengthened the BPS Group’s ability to conduct fiscal policy and research, access international best practices, and incubate innovations in PFM. First, the Fiscal Policy and Reforms Bureau (FPRB) had been expanded from four to six divisions as it absorbed the functions of the Reforms Division concerning the conceptualization and management of the rollout of budgeting innovations, the enhancement of its core fiscal planning functions, and the sustainability of new practices.

The Department Legislative Liaison Office (DLLO) has been lodged under the BPS Group to help it better coordinate the formulation of DBM’s official position on proposed new laws with fiscal implications.

Budget Preparation and Execution
The BPE Group would continue to lead the core of DBM’s operations: the preparation of the annual Budget, the release of the approved budgets of agencies, and the analysis of agencies’ financial and physical performance. The group had been essential to mainstreaming key PFM reforms, notably the GAA-as-Release Document, the PIB, and the UACS, among others.

A landmark change in the BPE Group mirrored DBM’s efforts to deepen the link between the development plan and the annual Budget: the regrouping of the Budget and Management Bureaus (BMBs) according to the five priority sectors – BMBs A to E – were renamed and the sectors and agencies that they cover were regrouped (see Table 1).

The Budget Technical Bureau (BTB) has been renamed to better reflect its expanded role in developing, promulgating, and coordinating budget preparation and execution guidelines and processes. The BTB would continue to administer the Contingent Fund, the Miscellaneous Personnel Benefits Fund, the Pension and Gratuity Fund, and the Unprogrammed Fund.

The DBM has likewise strengthened its sixteen Regional Offices (ROs) through additional technical positions. An additional RO was created for the new Negros Island Region. While the head of the BPE Group would continue to give technical supervision to the ROs on budget preparation and execution, the ROs had been placed under the general supervision of the head of the CG Group.

Organization and Systems Improvement
This new group handles the development of policies and guidelines on organization, staffing, compensation and position classification, as well as systems and productivity improvement-related measures that are intended to achieve efficiency and enhance productivity in government.

The Organization, Position Classification, and Compensation Bureau (OPCCB) and the Systems and Productivity Improvement Bureau (SPIB), which were formerly under the Policy Group has been transferred to the OSI Group.

Moreover, as part of the implementation of the DBM’s institutional strengthening efforts, the supervision of the Budget and Treasury Management System (BTMS) Project and other PFM IT systems of the DBM has been transferred from the OCIO to the ICTSS. In addition, the provision of technical and administrative support services to the PFM Steering Committee will now be under the supervision of the FPBR.

Finally, the activities being undertaken by the DBM relative to the implementation of the Medium-term Information and Communications Technology Harmonization Initiative (MITHII) Program have been transferred to the SPIB.

| Table 1. Regrouping and Renaming of BMBs |
| From | To | Coverage |
| BMB-A | BMB for Economic Development Sector (EDS) | Agencies: DDO, DPWH, DOT, DTC, NEDA, MinDA, Joint Legislative-Executive Councils, SPFs: Feasibility Studies Fund |
| BMB-B | BMB for Human Development Sector (HDS) | Agencies: DepED, DOH, DOE, DSWD, CHED, KWF, FDCP, ILHURB, HUDCC, MTRCB, NPC, NCCA, NCIP, NIPC, NAP, DDB, PCW, PSC, PDPA, SUCs (policy supervision) |
| BMB-C | BMB for Good Governance Sector (GGS) | Agencies: OP, OVP, Congress, CSC, COA, COMELEC, DBM, PCCO, PCDSPD, PLLD, PMIS, AMLC, GAB, GCS, NTCC, PhilRacom, GOCCs (policy supervision and review of corporate budgets) |
| BMB-D | BMB for Security, Peace and Justice Sector (SPJS) | Agencies: The Judiciary, Ombudsman, CHR, ARMM, DPA, DILG, DOJ, DND (including ODO), CFO, DDB, NCMC, NCA, NSC, CRAPP, PDEA, SPFs: International Commitments Fund, Allocations to LGUs (administration of IRA, Special Shares, and other allocations) |
| BMB-E | BMB for Food Security, Ecological Protection and Climate Change Management Sector (FSPCCMS) | Agencies: DA, DAR, DOE, DENR, DOST, CCC, ERC, FPA, PRRC, SPFs: NDRRMM Fund, E-Government Fund |

Source: Section 4.4 of D.O. No. 2015-7, as amended

Performance Monitoring and Evaluation
The reforms that DBM has introduced, notably the PIP, reoriented budgeting from input-based to results-based (see Linking Budgeting and Results). This fundamental shift has required DBM to strengthen its monitoring of the implementation of the agencies’ budgets and evaluation of the results achieved. The BPFME Group was thus created to be DBM’s arm in leading, with the NEDA, the formulation of an M&E policy framework and its implementation across the agencies.

To give flesh and bone to this functional group, a BMB was converted into the Performance Monitoring and Evaluation Bureau (PMEB) a bureau whose primary role is to strengthen policies, standards, and methodologies related to M&E. The PMEB was also tasked to supervise the program evaluations that DBM should regularly conduct. Furthermore, DBM organized an ad-hoc Strategic Performance Delivery Staff (SPDS) to monitor and fast track the implementation of priority programs.
Comptroller General

The DBM took initial steps in realizing the proposed Office of the Comptroller General (OGC): a new function under DBM that would strengthen its oversight and management of PFM policies and the reporting of the government’s consolidated finances (see Budget Integrity). Toward this end, a BMB was converted into the Public Expenditure Management Bureau (PEMB), tasked to formulate and enforce internal control standards across the agencies’ implementation of accounting and auditing rules set by the COA as well as rules on financial reporting: operationalize the IFMIS (see Integrated PFM); and develop competency-based policies for PFM positions throughout the bureaucracy.

On the latter, DBM took steps toward creating the proposed Public Financial Management Institute (PFMI) under the Comptroller General Group. The DBM convened a PFMI Technical Working Group (TWG) as an interim set-up. Composed of the staff from the Training and Information Service (TIS), the said TWG would continue to implement PFM capacity-building initiatives such as the PFMI Certificate Program (PFMCP, see Integrated PFM). In June 2016, D.O. No. 2016-9 created two additional divisions under PEMB for the PFMCP pending the creation of the PFMI.

The OCG and PEMB were also tasked to formulate PFM policies and guidelines for the implementation of the LGUs (see Meaningful Devolution). The ROs and the Regional Coordination Unit were also placed under the supervision of the head of the CG Group to emphasize the need to strengthen PFM practices of LGUs.

Internal Management

As DBM enhanced its core functions and organization, it must likewise strengthen the management of its internal affairs and its ability to cater to the needs of its staff. Thus, the operational units under the IM Group were strengthened so that DBM could manage its internal affairs.

In particular, the Administrative Service (AS) was beefed up with the creation of new divisions. First, its Human Resources Development Division (HRDD) and the new HR Management Division (HRMD). In doing so, the HRDD could invest more effort in managing the performance and career development of DBM’s workforce; while the new HRMD would take charge of recruitment, compensation management, and personnel relations. Second, a Procurement Management Division (PMMD) was created under the AS to conduct activities such as procurement planning, the provision of secretariat services to the department’s Bids and Awards Committee, and post-award contract management and administration, pursuant to A.O. No. 46 and NBC-558 (see Procurement Reform).

The Corporate Planning and Reforms Service (CPRS) was also reshaped before it was renamed into the Planning and Management Standard Division (PMSTD); it absorbed the Management Division, and its Reforms Division was transferred to FPRB. These changes would enable the PMS to focus on preparing and consolidating the annual plan and targets of the Department. and monitoring and evaluation of the performance of the different DBM units under the annual plan and targets.

With a stronger focus on database and network management, as well as IT support to DBM offices, the Information and Communication Technology Systems Service (ICTSS) was transferred to the IM Group from the OSI Group. ICTSS likewise provides support to agencies on the use of technology tools such as the OSBPS, GMIS, and URS for budgeting and reporting.

The Finance Service (FS) would focus on improving the formulation, implementation, and accounting of DBM’s budget. The FS and the PMS would continue to tighten their coordination in order to deepen the link among planning, budgeting, and performance monitoring in DBM.

The DBM’s Legal Service (LS) was also strengthened by adding lawyer positions and creating an additional division to support the provision of legal services required by DBM.

The DBM likewise restructured the TIS to effect a new strategic direction: to capacitate the PFM practitioners across the bureaucracy through the PFMI; and to strengthen knowledge management within DBM to support the institutionalization of reforms. For the latter, the TIS was renamed the Knowledge Management and Fiscal Transparency Service (KMFTSS); to serve a dual role. First, as an internal support function, KMFTSS would lead the organization capture, documentation, storage, retrieval, and use of DBM’s knowledge assets.

Second, as an externally oriented function, it would support policy and operations, to institutionalize fiscal transparency improvements (see Fiscal Transparency) by enforcing budget transparency policies and institutionalizing DBM’s publications, including the People’s Budget.

Strengthening the Office of the Secretary (OSEC)

The OSEC has played a key role in implementing PFM Reforms in the Aquino administration. For one, DBM strengthened the Internal Audit Service (IAS) through providing additional staff so that it could adequately help strengthen internal controls in the agency (see Internal Control).

Since 2010, ad-hoc units has been created under the OSEC to perform new functions: the CSO Desk for DBM’s engagement with CSOs and the development of participatory budgeting mechanisms (see Citizens’ Participation); the Public Information Unit (PIU) to proactively communicate the Budget through the mainstream media, social media, and other means; the Strategic Communication Unit (StratComm) to develop the People’s Budget and other materials that promote PFM reforms; and the Reforms and Innovations Delivery Support Unit (RIDU) as the secretariat of the Cabinet Cluster on Good Governance and Anti-Corruption (GGAC) and coordinator of the Philippines’ engagement in the Open Government Partnership (OGP).

IMPROVEMENT OF SYSTEMS AND PROCESSES OF DBM

“When we aim for our government to spend within its means, on the right priorities, and with measurable results, our procedures and practices for doing so should be well-documented, regularly monitored, and further improved.”

Secretary Florencio Abad

DBM

The DBM enhanced its systems and processes, through technological innovations, to lessen clerical work and make way for more analytical work. Moreover, these internal reforms streamlined and strengthened the agency’s processes to adhere to international standards, most notably those of the International Organization for Standardization (ISO).

Digitization of Processes and Systems

The incorporation of technology in the budget processes was one of the highlights of the reforms implemented by DBM during the Aquino administration (see Integrated PFM). Initiatives to digitize the PFM processes not only facilitated the work of DBM employees but also embedded transparency in their work. For instance, the UACSs—now housed in the IFMIS—properly tagged the programs, activities, and projects in the Budget for their easier monitoring. According to Mr. Rainier Diaz of the PEMB, this initiative cut the time previously spent on asking data from each bureau in order to monitor projects. The OSBP and the URS likewise lessened the need for DBM staff to encode data manually from the agencies’ budget proposals and reports, thus enabling them to save time and focus on analysis.

The DBM likewise implemented internal ICT reforms that transformed the work of its staff. First, DBM in 2011 adopted Google Enterprise for its email and other cloud-supported needs. The Gmail and Google Drive facilities, for instance, continued to be heavily used by DBM in disseminating memoranda, circulars, and internal orders. In 2013, the DBM also set up the Document Management System (DMS): a customized facility that would handle the receiving, routing, tracking, releasing, and archiving of official documents issued or received by DBM. The DMS enabled easy follow up on and tracking of the numerous documents that circulate within the agency (DBM, 2015).

DBM’s ISO Quality Management System (QMS) Certification

On October 29, 2015, DBM made history by being the first to obtain a department-wide ISO™ 9001:2008 QMS Certificate on its first try. The certification aims to make an organization more operationally effective and efficient. The DBM’s ISO certification puts a stamp of quality on its entire budget and management process: policy formulation, preparation and management or administration of the national Budget, and the monitoring and analysis of performance (DBM, 2014; Almazan, 2015). As the Chair of the Government Quality Management Committee, which oversees the agencies’ adoption of ISO Quality
Thus, in 2012, the agency launched DBM 100, a pilot program on organizational development. The program aimed to lay the foundation for the personal and professional development of its employees. To sustain reforms, it is necessary to invest in the current and future leaders of DBM. However, no department-wide program had been in place in the past administrations to cater to the personal and professional development of its employees.

BUILDING THE CAPACITIES OF DBM’s MOST IMPORTANT RESOURCE

“One of the major roles of management is to provide the best possible environment for their people so that they, in turn, can produce their best possible results or even surpass expectations.”

Undersecretary Clare G. Amador
DBM OFFICE OF THE SECRETARY CHIEF OF STAFF

Investing in the professional growth of public servants is key to improving the overall performance of an agency. To encourage both dedication and innovation in their work, a public sector organization must identify employees as essential to the organization’s success and develop their leadership capabilities (Paschane, 2012; Yusoff, 2005).

Indeed, without the commitment and talent of the officials and staff, the reforms pursued in the last six years would have been fruitless. While the leadership provided strategy and direction of the DBM, the employees concretized the vision of change. Therefore, DBM’s management encouraged various efforts in human resource (HR) and organizational development: from more training opportunities to changes in HR management policies.

Making DBM a Learning Organization: DBM 100 and DBM Tibay

To sustain reforms, it is necessary to invest in the current and future leaders of DBM. However, no department-wide program had been in place in the past administrations to cater to the personal and professional development of its employees.

Thus, in 2012, the agency launched DBM 100, a pilot program on organizational development. The program aimed to lay the groundwork for DBM to become a learning organization, in which human resources were developed to their fullest potential, and where continued learning was used to improve its overall performance (Yusoff, 2005). It opened with the two-day Foundations of Leadership Excellence (FLEX) module, which included sessions to identify the individual employees’ personal visions and collective aspirations for the team, how one behaves and interacts in a team, and how different elements of an organization influence each other. Directors of DBM at the time also went through additional training on Systems Thinking and how this approach was relevant in implementing DBM reforms. The Committee on Organizational and Human Resource Development (COHRD) and the AS-HRDD worked with the OSEC to run DBM-wide activities from 2012 to 2013.

Employees who participated in the first run of FLEX gave positive feedback, which included an expression of support for the agenda of reform pursued at the time. Almost two and a half years later, in a post-project assessment, graduates of FLEX were able to recall leadership concepts introduced during the program and continued to appreciate the ongoing reforms (Bombarda, 2015). Apart from FLEX, other initiatives included the Alternative Learning Sessions, which provided DBM staff a venue to gain and share knowledge on topics and issues relevant to them: from Technical Writing and Complete Staff Work to the foundations of Inclusive Development.

Taking off from the momentum gained by FLEX, the OSEC re-conceptualized and improved DBM 100 to create DBM Tibay. Launched in 2015, it employed a two-tiered approach in instilling a culture of performance in DBM. For mid-level managers, the program sought to enhance their ability to coach and mentor their staff. For the staff, the program provided training on personal leadership, effective communication, shifting paradigms, and on giving and accepting constructive feedback (OSEC, 2019). DBM Tibay entailed three waves of capacity development initiatives. First of these was the Executive Coaching Program which aimed to create a culture of coaching. The six-month intensive program featured a process where the participants develop and implement action plans on their respective leadership and personal goals, guided by professional coaches in meeting these goals. It also included modules on coaching and mentoring methods, sessions on the Philippine political economy, and other learning activities to acquire soft leadership skills, such as effective communication. The participants who completed the program were then certified as DBM Executive Coaches.

“The Executive Coaching Program, the first of its kind in the department, shows that there has been a paradigm shift in DBM to be more people-oriented.”

Director Carmela S. Fernan
DBM REGIONAL OFFICE VI

Second, the Performance Excellence Seminars (PES), which builds on FLEX by reinforcing the values of integrity, responsibility, teamwork, commitment, and nation building, both in their personal and professional development. PES is a two-day session that focused on deepening interpersonal and intrapersonal relationships, systems thinking and creative problem-solving, and other skills that enhance the self-leadership of employees. After undergoing the PES, the 1,200 staff of DBM Central Office and the ROs who participated in the program were also assigned to formulate professional and personal goals. Their superiors who underwent the Executive Coaching Program were tasked to coach them.

“PES reminded me that each budget I prepare for a port or airport isn’t just about the numbers, it’s about the welfare of the people—how we maximize allocation of limited funds will affect their well-being.”

Andrew G. Ursolini
DBM BUDGET AND MANAGEMENT BUREAU FOR ECONOMIC DEVELOPMENT SECTOR

Third, the Junior Leadership Development (JLD) Program, which was initiated for the young leaders who have the potential to assume management positions in the future. The five-month program featured workshops, ideation sessions, exposure trips, and other similar activities. One assignment given to the participants was to write essays on their personal experience and insights in implementing reforms—all of which are featured in this publication. The JLD participants also implemented special projects, such as organizing a good governance and PFM reform forum for students and the youth; and producing an audio-visual presentation, which was featured during the 80th Anniversary Celebration of DBM.

“The JLD Program was an effective laboratory where leadership skills were further honed, friendships were built, and networks were strengthened. It has inspired us to commit to a life of servant leadership and to become genuine ‘Lingkod Bayani.”

Sheryll S. Aromin
DBM INTERNAL AUDIT SERVICE
Moreover, DBM Tibay involved more partners, and on a stronger partnership with senior officials and administrative officers to encourage training to the staff. It was designed based on two assessments. The program heightened the use of social media and email for continued interaction within DBM community, which facilitated communication with and the involvement of the ROs in the program. DBM Tibay provided a people-centric complement to the institutional strengthening measures of DBM as the employees underwent training and capacity development.

Usec. Clare G. Amador, who spearheaded DBM 100 and DBM Tibay, emphasized that the programs were “part of a bigger platform of empowerment and capacity development.”

Boosting HR Development

The expansion of DBM’s HR functions reflected its new approach to HR development and management: more in-depth and strategic rather than transactional. These efforts allowed DBM to compete with private companies in providing benefits to employees in the workplace. “Reforms were done to empower HR and make it a vital part of the institute, so we could focus more on DBM’s best capital—its people,” said Lolita P. Matias, Chief Administrative Officer of HRDD.

The creation of the new HRMD builds on the recruitment innovations that were jumpstarted in 2010. At that time, Secretary Abad recognized a gap in the manpower needs of the department, created by the freeze hiring by the previous Secretary. To close this gap, DBM opened up applications for positions to younger people, whether from the private sector or anyone who was willing, whether from the private sector or anyone who was willing, whether from the private sector or anyone who was willing, whether from the private sector or anyone who was willing, whether from the private sector or anyone who was willing, whether from the private sector or anyone who was willing.

In 2015, DBM forged a partnership with Kalibrr, an online job search and recruitment platform. Beyond merely providing an online bulletin board for job openings, the platform makes use of data analytics and leverages social networks to help DBM reach more potential and appropriate candidates for their openings. In addition, the agency produced more creative recruitment material and participated more actively in job fairs of the top universities in the country. Through these and other initiatives, DBM aims to inspire more young Filipinos to consider jobs in the public sector, as it is as viable a working place as the private sector.

The HRMD also recently developed a Competency-based Recruitment Selection and On-Boarding System, which was supported through training from the Australian Government. This system requires the profiling of at least two hundred positions in DBM to identify the specific competencies each position requires. The system enables DBM to recruit applicants whose technical competencies match with those of the “ideal” candidate. Moreover, it allows the HRMD to test for equally important factors, such as dedication, teamwork, and other soft skills.

While DBM built its recruitment activities, it also doubled its efforts to provide incumbent employees with more training and career growth opportunities.

When the Australian Government saw DBM’s commitment in pursuing PFM reforms, it approached the department to offer scholarship opportunities to its staff. In 2015, seven scholars were sent for further studies in Australia through the Australia Awards Program. In 2016, 10 candidates went for the scholarship. The DBM provides qualifications for applicants to apply then the OSEC accepts nominations for the award, which are usually for graduate studies on public financial management. One of the requirements for nominated candidates is to take an English proficiency test administered by the Australian Government. This scholarship is one of the concrete opportunities that DBM provides its employees for further professional development.

The HRDD has made efforts to become a strategic training hub as it strengthened its coordination with Directors, Assistant Directors, and Division Chiefs in determining the training needs of and improving the trainings programs for the employees. In addition, the HRDD has established measures to provide training opportunities to employees. In 2015, DBM forged a partnership with Kalibrr, an online job search and recruitment platform. Beyond merely providing an online bulletin board for job openings, the platform makes use of data analytics and leverages social networks to help DBM reach more potential and appropriate candidates for their openings. In addition, the agency produced more creative recruitment material and participated more actively in job fairs of the top universities in the country. Through these and other initiatives, DBM aims to inspire more young Filipinos to consider jobs in the public sector, as it is as viable a working place as the private sector.

In addition, for these efforts to continue will depend largely on the agency’s incoming leadership—and the people it will inspire to stay or join the organization. Interviews with its staff and officials revealed that its character is hinged on the values of diligence, professionalism, and stewardship. Many of the reforms and other changes it had instituted have been fruitful because the employees themselves took ownership of its vision to become a “World Class” PFM agency, as well as recognized the direct impact of such reforms on the way they work.

Constant Change?

The DBM made significant changes to its staffing pattern, created new offices, transferred functions, and redefined roles of existing positions. Given their relatively recent implementation, DBM faces the challenge of properly monitoring and evaluating the effectiveness of the reorganization efforts undertaken during the outgoing administration. Moreover, the creation and expansion of offices meant more physical space requirements, although the AS has been taking steps to address this constraint. The succeeding management should evaluate the effectiveness of the organization’s structural changes for continuous improvement and innovation in order to meet future demands.

Table 2.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Population</th>
<th>Share of Total</th>
<th>Average Years in Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby Boomers</td>
<td>98</td>
<td>13%</td>
<td>35</td>
</tr>
<tr>
<td>55-59</td>
<td>141</td>
<td>19%</td>
<td>32</td>
</tr>
<tr>
<td>50-54</td>
<td>102</td>
<td>14%</td>
<td>26</td>
</tr>
<tr>
<td>Generation X</td>
<td>42</td>
<td>6%</td>
<td>22</td>
</tr>
<tr>
<td>35-39</td>
<td>50</td>
<td>7%</td>
<td>15</td>
</tr>
<tr>
<td>Millenials</td>
<td>65</td>
<td>9%</td>
<td>11</td>
</tr>
<tr>
<td>30-34</td>
<td>87</td>
<td>12%</td>
<td>6</td>
</tr>
<tr>
<td>25-29</td>
<td>100</td>
<td>14%</td>
<td>3</td>
</tr>
<tr>
<td>20-24</td>
<td>48</td>
<td>7%</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: AS-HRDD data as of January 2016

Retaining Talent and Attracting New Blood

Yet another key challenge that the institution faces is a potential bleed of talent due to anticipated retirements and other trends. In a study conducted by the KM TWG and the AS-HRDD, about a third of DBM’s incumbent permanent officials and staff are aged 55 and above and would retire within the next five years. At the other end of the age spectrum are the “Millenials” who are now 34 years old and below and comprise about a third (32 percent) of DBM’s population. The same shows for those who were born in 1980 and later, and who were hired by DBM beginning 2001: 60 percent have stayed with DBM. However, the 40 percent have left the service after staying for an average of about three years.
Further improvement of systems and maintaining the DBM QMS Certifiable to ISO 9001 requirements

Efforts to digitize processes in budgeting and DBM’s internal management modernized the way work gets done in the department. However, glitches in technology still need to be addressed and smoothened out. While the effectivity of the DBM ISO QMS Certificate is until September 14, 2018, the implementation of the DBM ISO 9001:2008 QMS has to undergo Surveillance Audits by the CIP in 2016 and 2017 to ensure the department’s continued compliance with the ISO standards and the department’s policies and processes. However, the ISO 9001:2008 QMS standards would be globally phased out effective at the end of September 2018. Hence, the DBM should start working out its migration to the new version of ISO 9001:2015 before the DBM ISO 9001:2008 QMS Certificate expires. Though the re-certification process may be just as tedious as the original, DBM officials and staff have embraced the need for an ISO Certification: in the realization of the Department’s vision to be an institution composed of highly competent and motivated public servants who observe the highest standards of professionalism and integrity to provide quality delivery of services.

Should these trends continue, DBM faces the risk of losing a significant part of its current workforce and knowledge base. The situation, however, presents an opportunity: to pay attention to the need to properly document and share the “institutional memory” of senior staff, move deserving staff up the ranks; and in doing so, strengthen succession planning practices, adapt to the trend of attrition and attract new blood by continuing to promote innovative practices, and enhance DBM’s credibility as a reform champion. To take advantage of these opportunities, DBM must sustain its efforts in strengthening HR development, as well as in scaling up organizational learning and knowledge management endeavors. These efforts, as well as how the new phase of PFMR reforms will take shape will also be instrumental in addressing the so-called “reform fatigue” among DBM officials and staff.

From Fear to Trust: A Reflection

T hey said that public service is thankless—more so, if you work in a strategic and powerful agency as the DBM. You would nearly have a love-hate relationship with the public you serve: the agencies with whom you need to be strict, like a parent as we set rules, monitor performance, and execute punishment when needed; and the general public, for whom you ought to be transparent and open, but opening yourself up for criticism and misinterpretation.

Six years of this kind of experience, nevertheless, strengthened my heart.

Despite international recognition for budget transparency and participation, unprecedented public investments in social and economic services, and institutionalizing frameworks and performance metrics for budgeting, the DBM sits alone, unrecognized for much of the work it has done here locally.

Historically, the DBM has been a silent worker that draws strength from its professional and diligent workforce. In its silence, however, there are cracks. My experience here involved sensing some fear, some distrust, and some silos. Gaps were perceptible between the decision-makers and the implementers, the leaders and the staff, the “organic” staff and the so-called “outsiders,” the central and the regional offices, and among and within teams.

Perhaps these dynamics developed over the years—over changes in the leadership, the political climate and the people’s needs; over the lack of capacity building, or the lack of basic support systems for government employees. There was basic trust (or perhaps, courtesy), a modest platform.

But to move forward, we needed more than the technical competence our jobs required of us. We had to improve our relationships, work on these relationships with one another, with each office and team, with our client agencies, and with the public we serve—to do our work purposely despite our limited time and circumstances.

The DBM embarked on the difficult task of rebuilding trust in government: from becoming part of the Open Government Partnership to publishing layman versions of the GAA; from welcoming CSOs to the budget process to handholding the government agencies for performance budgeting in creating a culture of empowerment for the people we serve and the people in government. We pursued capacity building and team building activities across units and locations. We strengthened the connection between the staff and the management. We opened access to information and scholarships. We organized town hall meetings and dialogues at various levels, and we established an internal communication system. The result was far from perfect, but it was a good start.

The DBM Tibay, the unfriendly deadlines of the reforms we have set, and the obligatory engagement of the DBM with our stakeholders forced us to know the people we work with and the people we serve. Despite the unsettling relationship-building, the results have shown that conversations, ideas, and the networks amongst us have been enriched: work is now easier to do.

Thus, we moved from fear to trust, from silence to empowerment, from merely working to rediscovering meaning in our work. The DBM emerged at the heart of governance reforms: vilified, but holding strong with integrity.

I have learned that the joy of experiencing life is about why you do what you do, your connection to the people you’re with, and who you become in the process, and not so much about what you have achieved. The DBM has strengthened my heart—to face crazier challenges, take greater risks, and be consistently sincere—making it even more formidable and ready for public service. I know I am not the only one.

Thank you, DBM.

The DBM—a team of genuine public servants—will keep building trust in government. From merely calling themselves “good soldiers,” they now form the stronger family of empowered Filipinos who will stand for good governance. And that is just the beginning.

Amador served as Chief of Staff of the Office of Secretary Florencio B. Abad from June 2010 to June 2016. She spearheaded the DBM Tibay, which includes the Junior Leadership Development (JLD) program.
The DBM had pursued institutional strengthening efforts to support the sustained rollout of reforms. Aside from investing in its human resources and streamlining its systems, DBM also fine-tuned the organization of its bureaus, offices, and units to enhance the agency’s service delivery and performance.

**Office of the Secretary**

Oversees the exercise of the mandate of DBM and the discharge of its power and functions. Comprised of the DBM Secretary, his Undersecretaries and Assistant Secretaries, and their respective offices.

**Internal Management (IM) Group**

Oversees the provision of administrative, internal planning, legal, human resource management and development, knowledge management, finance and management services within DBM.

- **Administrative Service (AS)**
- **Finance Service (FS)**
- **Information and Communications Technology Systems Service (ICTSS)**
- **Knowledge Management and Fiscal Transparency Service (KMFTS)**
- **Legal Service (LS)**
- **Planning and Management Service (PMS)**

**Comptroller General (CG) Group**

Develops and reviews public expenditure management policies, standards, and internal controls, for compliance of DBM and other agencies, including LGUs. The Group is also tasked to strengthen the capacity of agencies and PFM professionals in implementing such policies and standards.

- **Public Expenditure Management Bureau (PEMB)*
- **Regional Coordination Unit (RCU)**

**Budget Preparation and Execution (BPE) Group**

Conducts budget preparation activities and supervises budget execution in coordination with other DBM units, oversight and other agencies.

- **Budget Technical Bureau (BTB)**
- **Budget Management Bureau (BMB) for Economic Development Sector (EDS)**
- **BMB for Human Development Sector (HDS)**
- **BMB for Good Governance Sector (GGS)**
- **BMB for Security, Peace and Justice Sector (SPJS)**
- **BMB for Food Security, Ecological Protection and Climate Change Management Sector (FSEPCCMS)**

**Budget Performance Monitoring and Evaluation (BMPE) Group**

Develops and implements monitoring and evaluation (M&E) frameworks and systems that link the expenditures of agencies with measurable results, and provides strategic M&E reports for policy recommendations and decision-making.

- **Performance Monitoring and Evaluation Bureau (PMEB)**

**Budget Policy and Strategy (BPS) Group**

Conducts fiscal policy research and planning, oversees the review of legislation and executive issuances that impact budget allocation, conceptualizes and manages budgeting innovations, and acts as Secretariat of the DBCC.

- **Fiscal Policy and Reforms Bureau (FPRB)**
- **Department Legislative Liaison Office (DLLO)**

**Organization and Systems Improvement (OSI) Group**

Develops policies and guidelines on organization, staffing, compensation and position classification, as well as measures on systems and productivity improvement to enhance efficiency and improve service delivery in government.

- **Organization, Position Classification and Compensation Bureau (OPCCB)**
- **Systems and Productivity Improvement Bureau (SPIB)**

**Attached Agencies:**

- Government Procurement Policy Board—Technical Support Office (GPPB-TSO)
- Procurement Service (PS)

*PEMB includes two (2) divisions to handle the PFM Certificate Program
**Items are currently lumped or straight listed under OSEC

Sources: SPIB, DBM Department Orders Nos. 2014-4 and 2015-7, as amended

This fine-tuned organizational structure enables DBM to continue championing reforms. In addition, DBM must maintain compliance with ISO efforts, sustain human resource management initiatives, and strengthen knowledge management.
In 2011, the DBM initially attempted to revisit the DBM’s organizational structure based on its 2009 Rationalization Plan. This initiative, however, was put on hold as the DBM needed to focus on spending up spending. In a way, the postponement gave the DBM an opportunity to consider the latest PFM reforms introduced from that time in revisiting its organizational structure.

Section 84 Institutional Strengthening and Productivity Improvement in Agency Organization and Operations and Implementation of Reorganization Mandated by Law of the General Provisions (GP) of the 2015 GAA states that “The government shall adopt institutional strengthening measures to enhance productivity and improve service delivery.” This was reiterated and elaborated on in Section 90 of the GP of the 2016 GAA. However, Section 89 of the GP of the 2016 GAA states that the creation of third level positions—a.e., 25 positions and up—require Presidential Approval.

These steps or strategies were expressed in various internal orders of the DBM, particularly Department Order (D.O) No. 2014-4, “Delineation of the DBM’s Institutional Strengthening Efforts under an Internally Set-Up,” dated April 11, 2014; as amended; and D.O. No. 2016-9, “Implementation of the Department of Budget and Management’s (DBM) Institutional Strengthening Efforts under a Reorganized Set-Up,” dated June 16, 2016.

D.O. No. 2014-4 defined six (6) functional groups (see subsequent portions of this section) and identified the Senior Officials (i.e., the Undersecretaries and Assistant Secretaries) which lead these functional groups.

The DBM’s previous organizational structure was composed of three functional groups: Budget and Management Policy, Budget and Management Operations, and Corporate Affairs.

1. A Bureau, Service, Offices, and other units permanent and ad-hoc of the DBM as well as their respective sub-units (e.g., divisions and sections under Bureau, Services, and Offices).

D.O. No. 2015-7 specifically identified the need to create organic offices for the formulation and implementation of a monitoring and evaluation (M&E) policy framework, and the development, review, and refinement of public expenditure policies and standards, including the operationalization of the integrated PFMS.

Implemented through D.O. No. 2015-7, as amended.

These modifications adhered to the “scrap and build” policy wherein existing vacant fund positions will be abolished to create items concerned.

Consistent with Section 89 of the GP of the 2016 GAA which authorizes the President to create new and modify the existing offices and positions in the Executive Branch whenever public interest warrants, the DBM submitted a request to the Office of the President (OP) in November 2015 for authority to create the proposed Director IV/SG 28 and Director III/SG 27 positions for the Bureaus/Services concerned. To date, said DBM request is still under review of the OP.

The Budget Union for the Declaration of Genuine Employees’ Thrust (SPIB).

The BPSG was known as the Budget and Management Policy Group under the 2009 Rationalization Plan. The BPSG controls many of the functions that it used to have, except those pertaining to organizational, staffing, and compensation management (see OSI Group).

Usec. Laura B. Pascua and Asoc. Amelita D. Castillo, both career officials, lead the BPS Group.

FPBB used to be known simply as the Fiscal Planning Bureau.

The Reforms Division used to be part of the COPRS (now PMSI). The Assistant Director position of COPRS was also transferred to FPBB. In effect, the Bureau now has two Assistant Director positions.

DLDD is still under OSEC but is currently being supervised by the functional heads of the BPS Group.

The BPE Group was known as the Budget and Management Operations Group under the 2009 Rationalization Plan and largely retained its original functions. The Group still retains BTB and five of the BMBs; while two of its functions were moved to other groups.

Usec. Luz M. Cantor and Asoc. Tina Rose Marie L. Canda, both career officials, lead the BPE Group.

See Linking Planning and Budgeting.

There were originally seven BMBs, but the other two—BMB-F, which covered GOCCs and BMB-G, which handled the LGUs’ shares in the National Budget as well as certain SPFs like the Calamity Fund and the former Philippine Social Security Board—were phased out together with their groups, and their functions modified (see succeeding sections of the article).

Formerly the Budget Technical Service

An IT system that would link the financial processes of the DBM and the Bureau of the Treasury (BT) in order to collect and organize government financial information in a central database to support the performance of the following PFM functions: Budget Management, Commitments Management, Payments Management, Receipts Management, Cash Management, Accounting, and Fiscal Reporting.

The MMDA was retained under the jurisdiction of the ROC-NCR.

Initially, the BMB-A was renamed as the BMB for Economic Development and Food Security Sector but the coverage of the DA was transferred to the BMB-E. Hence, the said bureaus were renamed accordingly.

These functions which were previously with BMB-F were transferred to the BMB for Good Governance Sector. Apart from these are the evaluation of budget proposals of chartered GOCCs requesting budgetary support from the national government, formulation of policies, standards, and guidelines on organization, staffing, and compensation of GOCCs under the DBM. Its functions also include the preparation of position papers on bills or executive issuances with budgetary which are related to GOCCs, including the concerns of the local water districts.

It was transferred to the BMB for Security, Peace, and Justice Sector from BMB-G. Specifically, this is the administration of the IRA, special shares of LGUs in the proceeds of national taxes, and other allocations.

The Group, also informally called the “M&E Group,” is led by Usec. Mario L. Relampagos, a career official, and Asoc. Maximina Tanyo M. Hamada, a career official. The Group was tasked to support the development of the DBM’s M&E function.

The Group still retains BTB and its functions were redefined.

The administration of ZBB studies (see Linking Planning and Budgeting) was transferred from FPBB to the PMEB.

The BMB-G was renamed into the PMEB and its functions were redefined.

The WSS Group, once divided and reporting directly under the PME Group’s lead senior officials, was created as an interim set-up.

The BMB-F was renamed into the PMEB and its functions were redefined.

Internal control policies were initially developed and incubated by the SPIB.

Under the interim set-up, the FPMB TWG is composed of the Training Division and other staff of the TIS.

The transfer of the Management Division from the former Financial Management Service (now FSI) was already effected under DBM Office Order No. 2016-15 dated March 31, 2016.

See previous note.

Prior to the formal renaming of TIS into the KMFTS, the DBM issued ODO No. 2015-263 on June 16, 2015 to establish the PFMI TWG and the KM TWG. The latter was composed of the TIS-Information Division and the OSEC-StratComm. The KM TWG was responsible for the documentation of budget reforms implemented since 2010, as published through its “Our Reform Story”.

It will have three divisions, namely Knowledge Management Division, Fiscal Transparency Division, and Publications Division. The first two divisions correspond to each of the two (2) overall functions of the Service; while the third division caters to both functions.

Knowledge assets include those which are explicit, e.g., records, documents, data, and other ‘hard’ forms of knowledge; and those which are tacit, e.g., the ‘institutional memory’ of Senior DBM officials and staff experience, networks, and other ‘soft’ forms of knowledge.

In budgetary parlance, “OSEC” is used to refer to a whole Department in contrast to its line agencies. In this particular instance, “OSEC” refers not to the whole DBM but to the offices and personnel reporting directly to the Secretary.

Substantiated by an interview with Mr. Rainer Diaz, OIC Supervising Budget and Management Specialist of the Public Expenditure Management Bureau.

Substantiated by interviews with employees from BMB-EDS and BMB-HAQ.

Substantiated by interviews with CAO Lolita Matias and Usec. and OIC Richard Moya.

The ISD is a global federation of bodies that administer national standards and helps to develop international standards for services, products, and systems. ISO 9001:2008 pertains to a set of quality management system standards used worldwide to assure consistency of product quality and reliability.

“Institutionalizing the Structure, Mechanisms, and Standards to Implement the Government Quality Management Program SQMP.”

Systems Thinking is defined as the process of understanding how things influence one another within a whole. Within an organization, systems are composed of people, structures, and processes.

The Budget Perception Assessment Report was conducted by the Internal Audit Service from September 7–21, 2015 upon the instruction of Secretary Abad, while the E.C.A.R.T. (Happiness, Engagement, Accountability, Responsibility, Trust, and Initiative) Survey and focus group discussions were conducted by i-C.L.D Consulting, Inc. from October 20–November 5, 2015.

Substantiated by an interview with Ms. Lolita P. Matias, Division Chief of the AS-HRDO.

Specifically by the Philippines Australia Human Resource Organization and Development Division.

The SPDS, now 2016 Facility.

In the production of the January-March 2016 issue of the DBM Bulletin, KM TWG interviewed over fifteen employees in the DBM for the article entitled “Our Reform Story.”

Thirteen percent of the DBM population are currently aged 60 and above and are eligible for early retirement in 2016, unless they stay on until the mandatory retirement age of 65. An additional 19 percent of those aged 55 to 59 at present and could retire within five years from now if they opt for early retirement, to a maximum of ten years if they opt to stay until mandatory retirement.
The budget and management reforms implemented since 2010 have strengthened the manner by which the government prepares, authorizes, implements, and accounts for the use of the National Budget. The four phases of the Budget Cycle overlap in continuing cycles. While the Executive implements the Budget for the current year, it also prepares the Budget for the next fiscal year or defends it before Congress. At the same time, the government monitors, evaluates, and reports on actual performance year-round.
A. BUDGET PREPARATION

1. Budget Call
   Jan of Prior Fiscal Year (FY)
   The Budget Call announces the budget requirements.

2. Citizen Engagement
   Before Tier 1 & 2 Proposals
   Agencies engage citizens through participatory budgeting.

3. RDC Consultations
   Before Tier 1 & 2 Proposals
   Agencies consult with Regional Development Councils (RDCs).

4. Program Convergence
   Before Tier 1 & 2 Proposals
   Agencies consult with Regional Development Councils (RDCs) to ensure alignment.

5. Agency Tier 1 Proposals
   February of Prior FY
   Agencies prepare their Tier 1 proposals.

6. Tier 1 Deliberations
   March of Prior FY
   Tier 1 deliberations occur.

7. Budget Priorities Framework
   April of Prior FY
   The budget priorities framework is developed.

8. Agency Tier 2 Proposals
   May of Prior FY
   Tier 2 proposals are submitted.

9. Tier 2 Deliberations
   June to July of Prior FY
   Tier 2 deliberations take place.

10. Presentation to the President and the Cabinet
    July of Prior FY
    Proposed budgets are presented to the President.

11. Consolidation, Validation, and Confirmation
    July of Prior FY
    The budget is consolidated and validated.

12. The President’s Budget
    July to August of Prior FY
    The President submits the budget to Congress.

B. BUDGET LEGISLATION

1. House Deliberations
   August to October of Prior FY
   The budget bill is reviewed by the House.

2. Senate Deliberations
   September to November of Prior FY
   The budget bill is reviewed by the Senate.

3. Bicameral Deliberations
   November of Prior FY
   The bicameral budget is finalized.

4. Ratification and Enrolment
   December of Prior FY
   The budget is ratified and enrolled.

5. Enactment
   December of Prior FY
   The budget is enacted.

C. BUDGET EXECUTION

1. Early Procurement Activities
   October to December of Prior FY
   Procurement activities are initiated.

2. Budget Program
   October to December of Prior FY
   The budget is implemented.

3. Allotment Release
   January (Comprehensive) and Throughout FY
   Allotments are released.

4. Obligation
   Throughout FY
   Agencies incur obligations.

5. Cash Allocation
   January (Comprehensive) and Throughout FY
   Cash allocations are made.

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1A Fiscal Year is a period of twelve months in which a government plans its management of money.
2The DBM issues the National Budget Call for NGAs, including SUCs, and the Corporate Budget Call for GOCCs.
3Citizen engagement, consultation with RDCs, and Program Convergence Budgeting do not happen sequentially. Rather, these must be conducted before agencies submit their proposals for Tier 1 (February) and Tier 2 (May).
4The 2017 Proposed Budget is scheduled to be submitted to Congress just before the Constitutional deadline, or on August 24, 2016, in order to give the incoming Duterte administration a chance to review the Proposed Budget which was prepared during the Aquino administration.
D. BUDGET ACCOUNTABILITY

1. Performance Targets
   January of FY

   Budget accountability starts with the setting of targets that agencies are to be held accountable for. With the Performance-Informed Budget, the GAA now contains the targeted outcomes, outputs and performance indicators of each agency. These targets are also reflected in agencies’ BEDs (see “Budget Program” under Budget Execution), which effectively serve as the agencies’ plans for the year.

2. Citizen Engagement
   Throughout FY

   To empower citizens during Budget Accountability, the government ensures transparency—agencies disclose their budgets, reports, and other relevant information through the Transparency Seal; and make available data in open format. In addition, the government also publishes the People’s Budget along with other technical documents and reports.

   Citizens participate formally in the monitoring of programs and projects through BPA’s, BUB, and other mechanisms. In addition, CSOs participate in the audit process through the COA’s Citizens’ Participatory Audit.

3. Monitoring and Evaluation
   Throughout FY

   Agencies must set-up and implement monitoring and evaluation mechanisms to ascertain the effectiveness of the programs and projects on which they spend. Agencies must have internal control mechanisms to ensure that public funds are spent and accounted for properly.

4. Agencies’ Accountability Reports
   Monthly and Quarterly

   Agencies submit Financial Accountability Reports on a monthly or quarterly basis, as required by the DBM and the COA. These reports are submitted online through the Unified Reporting System.

5. Performance Review
   Throughout FY

   The DBM reviews the financial and physical performance of agencies against their targets. Review mechanisms include: the ZBB, to evaluate the efficiency and effectiveness of programs; and the FTDUs, to closely monitor agencies’ performance and address bottlenecks proactively.

6. In-Year Reports
   Monthly and Quarterly

   The DoF and the DBM regularly publish snapshots of the government’s fiscal performance, revenue collections, debt, and expenditures.

7. DBCC Mid-Year Report
   By September of FY

   The DBCC publishes a comprehensive report on macroeconomic developments, the fiscal situation of the national government, and the performance of key programs and projects. The Mid-Year Report also discusses any adjustments that the DBCC makes to the government’s economic projections and fiscal targets for the rest of the year.

8. DBCC Year-End Report
   Within the Following FY

   The DBCC publishes another comprehensive report covering the full year. Compared to the Mid-Year Report, the Year-End Report provides more discussions and details about actual revenue and expenditure outturns against program, and the financial and physical performance of priority programs.

9. Audit
   Within the Following FY

   The COA reviews the accounts of each agency to ascertain if public funds are used properly, according to the law and standards, and with value-for-money. The COA produces audit reports for each agency: a whole-of-government Annual Financial Report, as well as Special Audit Reports. The DBM uses COA’s Audit Reports in confirming agency performance, determining budgetary levels for agencies, and addressing issues in fund usage.

Bibliography


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