

## **Recent Philippine budget reforms: separating the chaff from the grain, the whimsical from the real**

**Benjamin E. Diokno**

---

The budget rules enshrined in the Philippine Constitution are fiscally sound. When adhered to they make budget deficits easier to manage. Many policymakers, however, have chosen to ignore these rules. On the long list of budget reforms proposed in the past quarter-century, two emerge as real game changers: the Fiscal Responsibility Act and the Results-Based Multiyear Budget Framework, both of which require legislation. An important reform not on the list, however, is the proposal to limit the president's power to defer, rescind, or reserve expenditure of appropriations authorized by Congress. This is a major challenge in a country where the president is strong while Congress is weak.

**JEL classification:** H610

**Keywords:** budget process, budget reforms

---

Is the set of current budget rules sound? If not, what should be the focus of budget reforms in the future? What is the set of budget reforms being pushed by the Aquino III administration? Which of these proposed reforms are old and which are new, which are real and which are whimsical?

### **1. The theory of budget institutions**

The budget process consists of four phases: the formulation of a budget proposal within the executive branch of government; the presentation and approval of the budget in Congress (the legislature); the budget's implementation by the executive department; and the auditing of the budget as exercised by an independent commission on audit or a general auditing office that reports to the legislature. Two issues are crucial in this process. The first pertains to the voting procedures that lead to the formulation and approval of the budget. The second is the degree of transparency of the process itself.

With respect to the voting procedures leading to the preparation and approval of the budget, two types of budget institutions or rules can be distinguished:

hierarchical and collegial. Hierarchical institutions are those that assign strong prerogatives to the prime minister (or treasury or finance minister), who may overrule spending ministers within intragovernmental negotiations in the process of preparing the budget. Hierarchical institutions limit the legislature's capacity to amend the government's budget proposal. Collegial institutions, on the other hand, emphasize democratic consultation at every stage of the budget process, from preparation to legislation and implementation. Spending ministers may carry as much weight as their treasury, finance, or budget counterparts in determining their respective budgets. An extreme case is one in which an opposition-controlled Congress effectively blocks the budget proposed by the president. It has been argued that hierarchical institutions are better in the sense that they are more likely to enforce fiscal discipline, avoid unmanageable and persistent deficits, and implement fiscal adjustment measures with little delay.

Transparency is the other crucial issue. This should not be confused with simply dumping tons of information onto the agency's Web site. The information provided should be useful and understandable to ordinary citizens. The modern budgets of developed industrial countries are extremely complex, indeed sometimes unnecessarily so, and one might wonder whether the complexity is deliberate, a way of creating opportunities for "creative budgeting". Some governments fudge budget data to meet restrictions imposed by statutes or by their respective constitutions. Others conceal liabilities by either shifting them to future budgets or using funds that are "off budget". Another common practice is to make overly optimistic projections or assumptions regarding macroeconomic variables (e.g., projecting higher gross domestic product [GDP] than warranted), so that revenues are overestimated and spending needs underestimated.

There are two ways to deal with the problem of transparency. The first is by setting standards to be followed. The second is by constituting independent agencies that check on the accuracy of the budget. The Congressional Budget Office (CBO) in the United States, which is staffed by professional economists, is an example of such an independent agency.<sup>1</sup> Each year, the CBO issues three major reports to assist the budget committees and Congress in its work on the budget. These include the following: first, an annual report on the economic and budget outlook for the United States, estimating spending and revenue over the next ten years; second, a report analyzing the president's budget; and third, a report presenting various options for the budget. The third report presents options including spending cuts and increases, tax cuts and increases, and its implications on broad policy choices. In the Philippines, however, no such body with the same stature and competence exists.<sup>2</sup>

---

<sup>1</sup> The US Congressional Budget Office was established as part of the Congressional Budget and Impoundment Control Act of 1974.

<sup>2</sup> The Philippines' Congressional Planning and Budget Department (CPBD) was created by Congress in 1990 under the secretariat of the House of Representatives. The Senate created its own Legislative Budget Research and Monitoring Office (LBRMO).

Budget rules and institutions do matter. They could spell the difference between chaos and order. Without any structure and rules, a legislature would not be able to produce a budget to guide the spending program of the government.

The budget is considered the most political piece of legislation that is approved by Congress every year. Since a representative is voted to represent a district, the budget must incorporate the conflicting interests of representatives with geographically based constituencies. Some legislators represent small, rural areas while others represent large, urban communities. These conflicting interests address two problems—namely, the determination of the size of the budget, and the allocation of projects among different districts.

In theory, the effect of geographically based constituencies on the overall size of the budget is a much bigger budget (or higher deficit) than warranted. This is because while representatives will generally ask for spending programs that benefit their district, they will typically ignore how these programs are to be financed. Consequently, the representatives will systematically fail to internalize the true cost of financing such projects.

## 2. Budget rules in theory and practice

The Philippine Constitution lays down clear rules on the budget process: the president proposes the budget, Congress authorizes it, then the president implements the budget as authorized by Congress. An independent constitutional body, the Commission on Audit ensures fiscal accountability. Existing budget rules are, by and large, sound, and it is useful to recall the logic of the established process.

First, *the president submits to Congress a Budget of Expenditures and Sources of Financing (BESF)* within 30 days after the State of the Nation Address (on the fourth Monday of July every year).<sup>3</sup> The budget prepared by the Department of Budget and Management (DBM) is the product of close to five months' consultation with department heads, regional councils, and local governments. In preparing their respective budget proposals, department secretaries are expected to consult with their stakeholders.

The BESF is a comprehensive document. It covers all agencies and funds, current and capital expenditures, and all foreign-assisted projects (both the local counterpart and loan proceeds). It contains information on macroeconomic assumptions, the infrastructure program, sources of financing, public debt, financing mix, local government finance, and financial positions of major corporations. The document has a three-year time frame (the past, the current, and the ensuing fiscal year).

Second, *the House prepares the General Appropriations Bill (GAB), based on the BESF*. The implication of this rule is straightforward. The House cannot

---

<sup>3</sup> In fact, the president submits at least four documents—namely, the BESF, the Budget Message, the National Expenditure Program (NEP), and the Staffing Summary.

prepare the GAB without the BESF. Since the BESF is comprehensive, so is the budget bill, as is to be expected. A comprehensive budget is superior to one that is fragmented—that is, where there are several appropriations bill voted on separately, which is the practice in the United States. In theory, comprehensive budgets should result in smaller governments and lower deficits since the trade-offs among budget proposals are directly addressed. This is not necessarily so when the different budgets are reviewed and passed separately.

Third, *Congress may decrease but not increase the budget as submitted by the president*. The Constitution provides that “Congress may not increase the appropriations recommended by the President for the operation of the Government as specified in the budget”.<sup>4</sup>

Fourth, *the prior year’s budget is automatically reenacted if Congress fails to pass the national budget on time*. This removes the uncertainty that the government may have to shut down in the event that the budget is not approved on time. The Constitution provides: “If by the end of any fiscal year, Congress shall have failed to pass the general appropriations bill for the ensuing fiscal year, the general appropriations law for the preceding fiscal year shall be deemed reenacted and shall remain in force and effect until the general appropriations bill is passed by Congress.”<sup>5</sup>

Fifth, *the president has line-item veto power*. The Constitution provides: “The President shall have the power to veto any particular item or items in an appropriation, revenue, or tariff bill, but the veto shall not affect the item or items to which he does not object.”<sup>6</sup> The line-item veto power allows the president to veto any item (budget line or provision) that is inserted by legislators, which the president finds inconsistent with existing laws (for example, cuts on debt service, which, by law, is automatically appropriated) and budget priorities.

These budget rules, individually and collectively, strengthen the president’s ability to control the deficit. In practice, however, current budget rules can be improved upon, and the following reforms appear to be needed:

First, *a law that strengthens the one-fund concept*. The Constitution already implicitly adopts the one-fund concept by providing that no money shall be paid out of the treasury except in pursuance of an appropriation made by law. To fully implement the principle, however, all revenues, regardless of source should be remitted to the national treasury—including not only taxes but also nontax revenues, incomes from gambling (e.g., the Philippine Amusement and Gaming Corporation [PAGCOR] and the Philippine Charity Sweepstakes Office [PCSO]), and royalties (such as the Malampaya Fund). What is needed is legislation requiring the proceeds from PAGCOR, PCSO, and Malampaya royalties

---

<sup>4</sup> Article 6, Section 25(1).

<sup>5</sup> Article 6, Section 25(7).

<sup>6</sup> Article 6, Section 27(2).

to be transferred to the treasury, with their use henceforth to be determined by Congress. It should be noted, as an aside, that these funds were a martial law creation. Under a democratic regime, it is only proper that their use should be subject to the annual budget process, going through direct appropriation by Congress rather than simply through the approval of unelected officials.

Second, *the Freedom of Information Act*; the passage of such an act would enhance transparency, responsibility, and accountability in the use of public funds.

Third, *the Budget and Impoundment Control Act* (BICA). Such an act would expedite program implementation. It also enhances transparency since citizens would then know exactly how their money is being spent. The BICA would obligate the president to release funds in accordance with the approved general appropriations act. The congressional power of the purse will be restored. Today, the president holds that power completely, as he may implement the budget anyway he wants.<sup>7</sup>

### 3. Sequencing of reforms

Major public sector reforms, including budget reforms, do not happen overnight. They must be well designed, carefully sequenced, and properly implemented. For reforms to be preserved, they must be cast into appropriate laws. This is to guarantee the perpetuation of reforms notwithstanding changes in administration. Reforms that are not anchored on a new law or an amendment of existing laws tend to be weak and would likely not endure.

While there is no “one-size-fits-all” by way of sequencing reforms, some good models may be instructive. One example is the sequence of steps discussed by Bahl [2009] in the context of fiscal decentralization reform. These steps may well be applied to budget reforms as well:

Step 1: *Hold a national discussion on the issues.* This may take the form of a debate, possibly in the context of an election or the report of a national commission created for the purpose.

Step 2: *Do the policy design and develop a White Paper.* The national discussion should produce a policy paper that lays out goals of the program and the strategy for achieving these goals. The paper is akin to a road map; it should not be limited to policy but must address some key issues related to country’s public management.

Step 3: *Pass the law.* Passing a new law that would change the existing political hierarchy ideally requires careful design and legislative handling. On the other hand, others argue for a “big bang” approach and “getting on with it” while

---

<sup>7</sup> It should not be difficult for the incumbent president to support the BICA. In 2009, then senator Benigno Aquino III filed Senate Bill 2995, “The Budget Impoundment Control Act”.

the opportunity is at hand. An example of the latter is the Indonesian approach, wherein a decentralization law was passed even before an appropriate policy design was in place.

Step 4: *Develop the implementing regulations.* It may not be possible to come up with a law that takes care of all contingencies. Hence, important issues may be clarified in the preparation of implementing regulations. This happens when there is pressure to get on with the bill as soon as possible.

Step 5: *Implement the program.* Having the law does not mean it will necessarily be implemented smoothly. For example, because a decentralization law was passed in Indonesia even before a policy design was in place, the lack of clarity in expenditure assignment and inadequate tax assignment remained as significant constraints. Such “birth pains” can sometimes last for many years.<sup>8</sup>

Step 6: *Monitor, evaluate, and retrofit.* A major policy reform, no matter how carefully designed, may have some kinks in its initial phase of implementation. These kinks may be addressed in the design of the implementing rules and regulations. In some cases, amendments to the original law may be necessary.

In another context, Campos and Syquia [2006] document the steps needed for a successful procurement reform program. The requirements are a well-researched study of existing procurement process and proposed policy changes, strong political support from the president and the congressional leadership, and support from civil society organizations. A necessary condition for the successful public policy reform is strong political support from the president.

#### **4. Major budget reforms of the Aquino administration: separating the chaff from the grain**

The history of budget reforms in the Philippines is a long one (see Appendix A)—some successful, some ongoing, some stalled, some abandoned. It is in light of that long history that the following observations seem in order:

##### *4.1. Fiscal Responsibility Act*

Of the administration’s ten major budget reform proposals (Table 1), the following require legislation: the Fiscal Responsibility Act (FRA) and the Program Budget Approach. While these are excellent measures that would foster fiscal discipline and public accountability, these have not progressed far in the legislative mill.

The Program Budget Approach (PBA) was preceded by many measures in the past: from Synchronized Planning-Programming-Budgeting (SPBB) during the

---

<sup>8</sup> In the Philippines, the last-minute switching of “basic health care” for “basic education” caused the delay in the implementation of the 1991 Local Government Code for a few years.

time of Mrs. Aquino to the Medium-Term Expenditure Framework (MTEF) during the time of Presidents Estrada and Arroyo. The MTEF is complemented by the Organizational Performance Indicators Framework (OPIF), which was introduced in 2000 and in the next succeeding budget calls (2001 and 2002).

**TABLE 1. Major budget reforms of the Aquino administration: a rapid assessment**

Particulars	Comments
1. Fiscal Responsibility Act (FRA)	The FRA has been on the policy agenda since the Estrada years, or at least in the last 15 years. This is an excellent measure to foster fiscal discipline and careful budget planning. The measure is pending in Congress.
2. Public-Private Partnership (PPP) Initiative	The target was ₱180 worth of PPP projects in 2011. In 2012, ₱22.1 billion was set aside to fund PPP infrastructure and capital outlay for the DPWH, Department of Agriculture, and the Department of Transportation and Communications. To date, the performance of the PPP's initiative has been dismal. See Diokno [2014c].
3. Zero-Based Budgeting (ZBB)	An old way of preparing the budget, ZBB consists of a review of all existing programs to ascertain their continued relevance. This had been introduced first, during the first year of the Corazon Aquino administration, and second, during the final years of the Arroyo administration. It is an ideal way of allocating scarce financial resources. One criticism is that it is difficult to implement and is time-consuming.
4. Rationalization of budgetary support to government-owned and controlled- corporations (GOCCs)	The objective is to cut allocation to GOCCs by 40.7 percent—from from ₱39.3 billion in 2010 to ₱23.3 billion in 2011. In reality, budgetary support to GOCCs rose to ₱58.7 billion in 2011, ₱63.4 billion in 2012, and ₱77.8 billion in 2013.
5. Raising revenues	Tax effort—that is, taxes as percent of GDP—has remained flat: 12.1 percent in 2010, 12.4 percent in 2011, 12.9 percent in 2012, and 12.2 percent in the first three quarters of 2013. (Source: Department of Finance)
6. Performance Challenge Fund	The amount of ₱754 million was used to augment the resources of 516 local government units that will attain a “Seal of Good Housekeeping” in various areas of governance. While this makes good political sense, it also causes local authorities to be indebted to officials of the Department of the Interior and Local Government, which does not make economic sense, as it goes against the grain of promoting fiscal autonomy. Local officials are less likely to confront “hard budget constraint”. Local governments already get 40 percent of all internal taxes. In 2014, the internal revenue allotment (IRA) will be ₱309 billion, or 13.6 percent of total national budget.
7. Administrative Order (AO) 25 creating an Inter-Agency Task Force on the Harmonization of the National Government Performance Monitoring, Information and Reporting Systems	AO 25 was signed by Arroyo. In 2012, Aquino III signed Executive Order (EO) 80 to further strengthen performance monitoring and appraisal systems. It directs the adoption of Productivity Enhancement Incentive (PEI) and the Performance-Based Bonus (PBB) in the national government. This is a marginally useful budget reform.
8. Program Budgeting Approach	This involves planning the budget according to strategic objectives of the government. It follows from a long line of reforms from synchronizing planning, programming, and budgeting to MTEF and OPIF. The approach has no legislative cover since the form and content of the budget have remained the same. It is an excellent step forward if supported by a new law prescribing the revised form and content of the budget. But it requires clear understanding by the bureaucracy and the concerned legislative staffs of the concepts of inputs, outputs, and outcomes. It also requires willingness on the part of the executive department to strictly adhere to the budget authorized by Congress.



Particulars	Comments
9. Bottom-Up Budgeting (BUB)	The purpose is to consult the public on managing and allocating public funds. In 2013, 595 of the poorest municipalities and cities were able to develop Local Poverty Reduction Action Plans (LPRAPs) after consultation with the civil society organizations (CSOs) and local governments. In 2014, the coverage of the BUB will be expanded to 1,233 cities and municipalities. This runs counter to the essence of representative democracy in which citizen-voters elect their representative to make policy decisions for them. This is made difficult by the existence of some 40,000 CSOs in the country. Which CSO will represent what sector of society? This is less a real budget reform than a scheme for political consolidation.
10. The General Appropriations Act (GAA) as basis for obligational authority	This reform is not new, having been in place during the truncated term of Mr. Estrada in what is called “What-You-See-Is-What-You-Get” budget release procedure. The SARO would still be needed to obligate appropriations funded out of special funds and lump-sum appropriations in agency budgets.

#### 4.2. Program Budget Approach

The Program Budget Approach was prematurely applied in 2014. A new budget law prescribing a new form and format needs to be passed in order to sustain the budget reform. The desire for multiyear, performance-based budgeting has existed within the executive branch for the last 15 years. But it requires the approval of a law prescribing the form and content of the budget in order to incorporate the proposed changes. Otherwise, the reform will not be taken seriously and might not be sustained after Mr. Aquino’s term.

The reform was to be reflected in a new budget format for 2014, when Annex A (Volumes 1 and 2) supplemented the 2014 National Expenditure Program (NEP). It was clear that the new budget format was rushed. The agency’s major final outputs (MFOs) and performance indicators were uneven in quality, adequate for some, insufficient for many, and totally absent for others. Congress did not really know what to do with the Annex. In the final analysis, Congress focused on the NEP, and practically abandoned Annex A (Volumes 1 and 2). Since inconsistencies between the NEP and the Annex A cannot be ruled out, the General Provision of the General Appropriations Act (GAA) states:

Section 3. Details of the FY 2014 Budget. The details of the budgetary programs and projects authorized herein, attached as Annex A (Volumes 1 and 2) “Details of the FY 2014 Budget” shall be considered an integral part of this Act. Said amounts and details should be consistent with those indicated herein. *In case of discrepancy, the amounts provided herein shall be controlling. (Emphasis supplied)*

#### 4.3. Public Private Partnership (PPP)

The Public-Private Partnership (PPP) initiative has failed to take off in any big way. The PPP modality is not novel, however. It is old wine in a new bottle and



was used extensively during the early years of the Ramos presidency, when the administration had to address the lack of power supply in the country.

The huge infrastructure gap for the Philippines is widely recognized by international financial organizations, policymakers, economists, and the general public. Of the ASEAN-6 countries<sup>9</sup> the Philippines had the second-poorest quality of public infrastructure.<sup>10</sup> Out of 144 countries, the Philippines ranked 98th, while Vietnam ranked 119th in overall quality of public infrastructure.

The Aquino administration's performance in implementing PPP projects has been disappointingly dismal. After almost four years, only eight PPP projects have been awarded. The very first (and smallest) project, the Daang Hari Highway, even today is only one-third complete.

#### 4.4. Zero-Base Budgeting

Zero-Base Budgeting (ZBB) was adopted, but it was either improperly applied or not given a chance to work. ZBB is a healthy departure from a budget preparation system that provides new appropriations based on those of the preceding year and where the underlying assumptions are rarely questioned. ZBB is not new, having been around for quite some time.

But it has also been criticized as being too difficult to implement and very time-consuming, as compared with traditional incremental budgeting, which is simpler. For a developing country with a weak and often corrupt government bureaucracy, it makes sense to design a simpler budget system. Even developed countries have problems implementing ZBB. Its vulnerability to political influence and pressure has led to ZBB being largely abandoned except in the public sector [*The Economist* 2009].

If it worked as it was supposed to, ZBB should have led to the convergence of actual spending and the planned budget. But nothing of the sort happened in 2011 (the first year ZBB was applied), nor in 2012 and 2013. In fact, there were large deviations between planned and actual spending on such items as personal services, infrastructure and other capital outlays, subsidy and equity contribution to GOCCs.

During the three-year period, deviations in personal services spending ranged from -6.8 percent to -7.7 percent, -13.7 percent to -34.2 percent in infrastructure and other capital outlays, 32.4 percent to 123.4 percent in subsidy, and 616.7 percent to 914.3 percent in equity contribution to GOCCs. One might ask: was the application of ZBB real or contrived?

Recent events may partly explain the large differences between actual spending and planned budgets. Stung by criticism that the Aquino administration

<sup>9</sup> That is, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

<sup>10</sup> World Economic Forum, 2013 *Global Competitiveness Report*.

TABLE 2. National government disbursement performance: 2011–2013 (in billions and in percent)

	2011			2012			2013					
	Program	Actual	Deviation Percent	Program	Actual	Deviation Percent	Program	Actual	Deviation Percent			
<b>CURRENT OPERATING EXPENDITURES</b>	1368.7	1289.5	-79.2	-5.8	1442.6	1410.9	-31.7	-2.2	1588.2	1519.2	-69	-4.3
Personal services	542.4	500.4	-42	-7.7	585.7	542.6	-43.1	-7.4	624.4	581.7	-42.7	-6.8
Maintenance and other operating exp.	215.2	201.2	-14	-6.5	254.6	256.7	2.1	0.8	317.9	282.9	-35	-11.0
Subsidy	20.5	45.8	25.3	123.4	31.8	42.1	10.3	32.4	45	66.3	21.3	47.3
Allotment to LGUs	229.6	229.6	0	0.0	218.6	218.6	0	0.0	241.8	241.8	0	0.0
Interest payments	321.6	279	-42.6	-13.2	317.7	312.8	-4.9	-1.5	332.2	323.4	-8.8	-2.6
Tax expenditure	39.4	33.5	-5.9	-15.0	34.2	38.1	3.9	11.4	26.9	23	-3.9	-14.5
<b>CAPITAL OUTLAYS</b>	319.7	250.1	-69.6	-21.8	374.1	339.3	-34.8	-9.3	381	344.3	-36.7	-9.6
Infrastructure/other capital outlays	241.7	159.1	-82.6	-34.2	298.2	250.8	-47.4	-15.9	303.4	261.8	-41.6	-13.7
Equity	1.8	12.9	11.1	616.7	2.1	21.3	19.2	914.3	1.3	11.5	10.2	784.6
Capital transfers to LGUs	72.2	70.2	-2	-2.8	71.3	67.2	-4.1	-5.8	76.3	71	-5.3	-6.9
CARP - land acquisition and credit	4	7.9	3.9	97.5	2.5	0	-2.5	-100.0	0	0	0	0
<b>NET LENDING</b>	23	18.1	-4.9	-21.3	23	27.4	4.4	19.1	14.5	16.6	2.1	14.5
<b>GRAND TOTAL</b>	1711.4	1557.7	-153.7	-9.0	1839.7	1777.6	-62.1	-3.4	1983.7	1880.1	-103.6	-5.2
Memorandum items:												
Revenues	1411.3	1359.9	-51.4	-3.6	1560.6	1534.9	-25.7	-1.6	1745.9	1716.1	-29.8	-1.7
Surplus/deficit	-300.1	-197.8	102.3	-34.1	-279.1	-242.7	36.4	-13.0	-237.8	-164	73.8	-31.0
In percent of GDP	-3.3	-2.0			-2.5	-2.3			2	-1.4		
Infrastructure, actual, based on BESFt+2	170	152.1	-17.9	-10.5	215.2	186.1	-29.1	-13.5	265.7	222.5	-43.2	-16.2
Infrastructure in percent of GDP	1.9	1.6	-0.3	-16.9	2.0	1.8	-0.2	-9.9	2.2	1.9	-0.3	-13.3
Gross domestic product, nominal, P billion	9045	9735.5			11011	10564.9			11952	11546		

Source: Department of Budget and Management, National Government Disbursement Performance, various years.

was moving at snail's pace in executing projects and disbursing funds, the Department of Budget and Management (DBM) adopted a policy Budget Secretary Abad called "spend it or lose it". The policy allowed DBM to impound appropriation if the agency was unable to spend its budget by the third quarter of the fiscal year.<sup>11</sup>

Yet again this raises the issue of the effectiveness of the ZBB approach. If the national budget was prepared using ZBB, then DBM staff should have carefully scrutinized every item or activity contained in the 2011 budget. Why rearrange the Congress-authorized budget in the second half of the year if the budget was well prepared? The "use-it-or-lose-it" policy gives the woefully wrong signal that budgeting should not be taken seriously. The reason for spending so much time and effort in preparing a budget is undermined when DBM can impound, confiscate, and hoard the budget in the middle of the year. And to think that appropriations for some maintenance items and capital outlays have a lifetime of two years.

The budget may be seen as a contract between the executive department and Congress under which the former delivers some level of government service for a given appropriation. When an agency's budget is impounded in the middle of the year because it fails to spend (or obligate) the authorized budget, then that agency's ability to deliver services it committed to Congress is severely curtailed.

Assume that for X appropriation, Department A promises to provide Y level of output or service. By impounding, say, half of the budget so that Department A's budget is effectively reduced to X/2, the output is also likely to be reduced by half. In the next budget season, how will the head of department explain to Congress his failure to deliver on his commitment?

#### 4.5. Reduce budgetary support to GOCCs

The Aquino administration failed to deliver on its promise to reduce budgetary support to GOCCs. In fact, however, support has risen and actual disbursements have exceeded appropriations.

President Aquino promised that "allocations to GOCCs in terms of equity and subsidy contribution and net lending, will decrease by 40.7 percent, from P39.3 billion in 2010 to 23.3 billion in 2011, in view of the need to rethink government support of questionable GOCC programs, particularly those implemented by such agencies as the NFA, Light Rail Transit Authority (LRTA), Metro Rail Transit Corporation (MRTC), and other GOCCs whose programs/projects are still under evaluation".<sup>12</sup>

<sup>11</sup> See Diokno [2014a, 2014b, 2014d].

<sup>12</sup> 2011 Budget Message of President Aquino, *Official Gazette, Republic of the Philippines*, 24 August 2010.

But the reality is that, instead of decreasing, the president's proposed expenditures for GOCCs have risen and keep on rising. Worse, actual expenditures have consistently exceeded what the president proposed and what Congress authorized for disbursement.

In 2011, Aquino proposed a ₱20.5 billion subsidy to government corporations; actual disbursements came to ₱45.8 billion, or a 123.9 percent deviation from the original planned spending. The planned subsidy to government corporations rose to ₱31.8 billion in 2012 and to ₱45.0 billion in 2013. But actual expenditures exceeded planned spending by ₱10.3 billion, or by 32.4 percent in 2012, and by ₱21.3 billion or 47.3 percent in 2013.

The deviation in equity contribution was even more staggering. During his first three years in office, Aquino proposed modest equity contribution to government corporations: ₱1.8 billion in 2011, ₱2.1 billion in 2012, and ₱1.3 billion in 2013. But actual spending was way out of line: ₱12.9 billion (163.2 percent deviation) in 2011, ₱21.3 billion (914.3 percent deviation) in 2012, and ₱11.5 billion (784.6 percent deviation). These huge deviations negate the announced presidential public policy commitment to reduce budgetary support to GOCCs. They are also suggestive of flawed budget planning.

**TABLE 3. Budgetary support to government corporations, 2011–2013  
(in billions and in percent)**

Particulars	2011				2012				2013			
	Program	Actual	Deviation	Percent	Program	Actual	Deviation	Percent	Program	Actual	Deviation	Percent
Subsidy	20.5	45.8	25.3	123.9	31.8	42.1	10.3	32.4	45.0	66.3	21.3	47.3
Equity	1.8	12.9	11.1	616.7	2.1	21.3	19.2	914.3	1.3	11.5	10.2	784.6
Total	22.3	58.7	36.4	163.2	33.9	63.4	29.5	97.0	46.3	77.8	31.5	68.0
Net lending*	23.1	18.1	-4.9	-21.3	23	27.4	4.4	19.1	14.5	16.6	2.1	14.5

Source: Department of Budget and Management, National Government Disbursement Performance, various years.

\*Net lending refers to advances by the national government for the servicing of government-guaranteed debt during the year, net of repayments on such advances. It includes loans outlays or proceeds from program loans lent to government corporations.

#### 4.6. Raise tax effort

Aquino promised but failed to raise enough revenues to finance the budget. Tax effort (tax revenues as a percentage of GDP) has remained flat: 12.1 percent in 2010, 12.4 percent in 2011, 12.9 percent in 2012, and 12.2 percent in the first three quarters of 2013.

The highest tax effort of 17 percent was registered in 1997. The tax system was doing well before the 1996/97 tax reform program. After the reform, however, tax

effort headed south.<sup>13</sup> The failure to boost tax efforts to around 16 percent limits the government's ambitious spending program.

#### *4.7. The Performance Challenge Fund*

The Performance Challenge Fund is not a budget reform. It is more a political tool to increase the administration party's influence among local officials. The amount of ₱754 million was used to augment the resources of 516 local government units that will attain a "Seal of Good Housekeeping" in various areas of governance. The rating system is flawed in that it is self-rating rather than one carried out by an independent, unbiased think tank or academic institution. It makes good political sense, however, since local authorities who received financial grant over and above their share from the Internal Revenue Allotment would be indebted to the Department of the Interior and Local Government (DILG) officials.

The fund goes against the spirit of promoting fiscal autonomy, an objective of the 1991 Local Government Code. Local officials should learn to live within their means and confront a "hard budget constraint". Local government units already get 40 percent of all internal taxes. In 2014, the internal revenue allotment (IRA) will be ₱309 billion, or 13.6 percent of total national budget.

#### *4.8. Strengthening performance monitoring and appraisal system*

Executive Order 80, which seeks to strengthen performance monitoring and appraisal systems, is only a marginally useful tool for improving performance rather than improving budget allocation. It rewards performance through the grant of performance-based bonuses. It was preceded by Administrative Order 25, which aims to rationalize, harmonize, streamline, simplify, integrate, and unify efforts to monitor performance of government agencies. It created an interagency task force (IATF) that would develop a common performance scorecard and government executive information system. It mandates all government agencies to create a Performance Management Team (PMT).

#### *4.9. Bottom-Up Budgeting (BUB) approach*

The Bottom-Up Budgeting (BUB) approach is an extension of previous initiatives to involve the regional development councils in the budget process; it appears to be more of a political tool to get the support of favored civil organizations. In previous administrations there had been initiatives to institute a comprehensive and decentralized project monitoring and evaluation systems

---

<sup>13</sup> To understand this seeming contradiction, see Diokno [2005].

through the Regional Project Monitoring and Evaluation Systems (RPMES). The focal point of RPMES is the regional development councils (RDCs), agencies that are expressly recognized in the Constitution. The Ramos administration introduced the Regional Budget Allocation Scheme (RBAS), giving RDCs a direct role in determining actual programs and projects to be implemented in their respective regions, provided these were consistent with overall development and investment plans. These plans were those not prioritized by local governments or national agencies. The RBAS orders the Development Budget Coordination Committee (DBCC)<sup>14</sup> to set aside a Regional Allocable Fund (RAF) for the 15 regions' proposed priorities or plans. The RBAS has not been sustained since members of Congress came to view the RAF as an election fund.<sup>15</sup>

In contrast, the focal point of BUB is an amorphous body of some 40,000 civil society organizations. Joint Memorandum Circular 1, Series of 2012<sup>16</sup> requires the endorsement of CSOs from the community for any funding. The purpose of the BUB initiative is to provide policy guidelines, processes, responsibilities, and timelines to guide the participating agencies and selected focus LGUs in the bottom-up planning and budgeting approach to be applied in the preparation of the 2013 budget. The intended beneficiaries are at least 300 of the 609 selected focus cities and municipalities identified and approved by the Human Development and Poverty Reduction Cluster (headed by the social welfare and development secretary). In 2013, the authorized budget was ₱8.397 billion. In 2014, the coverage of the BUB program was expanded to cover 1,233 cities and municipalities with an appropriation of ₱20.031 billion (see Table 4).

**TABLE 4. Bottom-Up Budgeting (BUB) programs/projects by departments**

Particulars	2013	2014	2013	2014
	Amount (in million)		Percent Share (%)	
<b>DA</b>	<b>4279.1</b>	<b>8326.7</b>	<b>51.0</b>	<b>41.6</b>
Various programs and projects	4279.1	8326.7		
<b>DAR</b>	<b>103.4</b>	<b>509.5</b>	<b>1.2</b>	<b>2.5</b>
Support services for agrarian reform beneficiaries	103.4	509.5		
<b>DENR</b>	<b>302.9</b>	<b>401.7</b>	<b>3.6</b>	<b>2.0</b>
National greening program	302.9	344		
Various Environmental Management Bureau programs	0	57.7		

<sup>14</sup> The DBCC is a cabinet-level interagency committee responsible for budget planning and preparation. It is chaired by the budget and management secretary and co-chaired by the finance secretary.

<sup>15</sup> "Regional Budget Determination and Allocation: A Policy Revisit," <http://dirp4.pids.gov.ph/ris/dps/pidsdps9929.pdf>.

<sup>16</sup> DBM-DILG-DSWD-NAPC Joint Memorandum Circular 1, Series of 2012, 8 March 2012.

Particulars	2013	2014	2013	2014
	Amount (in million)		Percent Share (%)	
<b>DepEd</b>	<b>437.6</b>	<b>1449.3</b>	<b>5.2</b>	<b>7.2</b>
Provision and maintenance of basic education facilities	437.6	1082		
Computerization program	0	14		
Health and nutrition services	0	80		
Textbooks/instructional materials	0	15		
Creation of teaching positions	0	2		
Various programs and projects	0	256.3		
<b>DILG</b>	<b>1132.5</b>	<b>2249.8</b>	<b>13.5</b>	<b>11.2</b>
Potable water supply projects	1132.5	2249.8		
<b>DOE</b>	<b>27.9</b>	<b>70.9</b>	<b>0.3</b>	<b>0.4</b>
Household electrification in off-grid areas using renewable energy systems	27.9	70.9		
<b>DOH</b>	<b>829.1</b>	<b>1355.2</b>	<b>9.9</b>	<b>6.8</b>
Health facilities enhancement program	829.1	869		
Family health and responsible parenthood	0	108		
Infectious disease prevention and control	0	80		
Environmental and occupational health	0	102		
Other programs/projects	0	196.2		
<b>DOLE</b>	<b>108.9</b>	<b>504.4</b>	<b>1.3</b>	<b>2.5</b>
Trainings (livelihood)	108.9	327		
Reintegration services	0	1		
Rural emergency employment services	0	7		
Other programs/projects	0	169.4		
<b>DOT</b>	<b>1.4</b>	<b>175.4</b>	<b>0.0</b>	<b>0.9</b>
Tourism standards development, regulation and accreditation	1.4	175.4		
<b>DSWD</b>	<b>947.1</b>	<b>2638.5</b>	<b>11.3</b>	<b>13.2</b>
Protective services	947.1	1252		
Sustainable livelihood program	0	894		
Disaster risk reduction related projects	0	3		
Implementation of various programs/projects	0	489.5		
<b>DTI</b>	<b>10.4</b>	<b>532.6</b>	<b>0.1</b>	<b>2.7</b>
Promotion and development of small and medium industries	10.4	532.6		
<b>DPWH</b>	<b>30.5</b>	<b>0</b>	<b>0.4</b>	<b>0.0</b>
Various projects	30.5	0		
<b>TESDA</b>	<b>0</b>	<b>394.3</b>	<b>0.0</b>	<b>2.0</b>
Various projects at TESDA regional/provincial offices	0	394.3		
<b>ARMM</b>	<b>0</b>	<b>1346.8</b>	<b>0.0</b>	<b>6.7</b>
Various projects	0	1346.8		
<b>PHIC</b>	<b>49.7</b>	<b>0</b>	<b>0.6</b>	<b>0.0</b>
Health insurance premiums	49.7	0		



Particulars	2013	2014	2013	2014
	Amount (in million)		Percent Share (%)	
<b>NEA</b>	<b>136.6</b>	<b>75.6</b>	<b>1.6</b>	<b>0.4</b>
Sitio electrification program	136.6	75.6		
<b>TOTAL</b>	<b>8397.1</b>	<b>20030.7</b>	<b>100.0</b>	<b>100.0</b>

## Notes

1. In 2013, 595 of the poorest municipalities out of 609 target LGUs were able to develop their LPRAPs.
2. In 2014, the coverage of the BUB is expanded to 1,233 cities and municipalities.

In practice, the BUB is a tedious and time-consuming process. The biggest program beneficiaries have been the Department of Agriculture (41.6 percent), the Department of Social Welfare and Development (DSWD) (13.2 percent), the DILG (11.2 percent), and the Autonomous Region in Muslim Mindanao (6.7 percent)—all headed by favored allies of the administration. The BUB program violates the essence of representative democracy, where citizens elect their representatives to make policy decisions for them. This is made difficult by the existence of some 40,000 CSOs in the country. (Which CSO represents what sector of society?) Effectively, the scheme gives national government officials the power to choose who among the many CSOs can participate in the BUB program. One may say this not as real budget reform but a scheme for political consolidation.

#### 4.10. GAA as basis for obligatory authority

Finally, the reform seeking to use the General Appropriations Act as the basis for obligatory authority, though not novel, is a move in the right direction. This was already adopted during the truncated term of Estrada in what was called the “What-You-See-Is-What-You-Get” budget release procedure. What the public pronouncement did not make clear is that special allotment release orders (SAROs) are still required to obligate appropriations funded out of special funds and of lump-sum appropriations in agency budgets.

### 5. Concluding remarks

Any real reform needs to be well thought-out and cannot be whimsical or arbitrary. This means reform has to be the product of broad consultation with affected stakeholders—citizens, bureaucrats, heads of departments, and members of the legislature if the reform requires legislation.

Since Congress exercises the “power of the purse”, its concurrence is needed in any major change in the budget process. The key message is that one cannot ignore the politics of change. A reform that seeks to realign the power structure must be done within the legal and constitutional framework. Otherwise, the reform will be short-lived and unsustainable.

For any major public sector reform to succeed—and this includes budget reform—a “champion” at the highest level of government is required. The reform needs the strong support of the president and of the leadership of both houses of Congress. The Local Government Code of 1991 is an example. What was arguably the most sweeping law to change the country’s intergovernmental structure and fiscal rules was championed by then president Corason Aquino and had the support of both the Speaker of the House and the Senate president.<sup>17</sup> In like manner, the successful approval of the Public Procurement Reform Act can be attributed to the strong political support at the time by then presidents Joseph Estrada and Gloria Macapagal Arroyo, and Congress.<sup>18</sup> Meanwhile, one may argue that the failure to pass the Freedom of Information (FOI) Act—an essential piece of legislation that would promote transparency and fiscal accountability in government—is largely due to the lack of political support from the president. Despite his 2010 campaign promise to push for the FOI’s approval, Aquino’s attitude toward the bill has been lukewarm at best, and hostile, at worst. It comes as no surprise therefore that the FOI bill has languished in Congress for almost four years.<sup>19</sup>

Of the list of budget reforms pushed by the Aquino administration, however, the two with the highest potential payoffs are the Fiscal Responsibility Act and the Performance-Based Budgeting System, which includes the Medium-Term Expenditure Framework and the Organizational Performance Indicators Framework. Both of these require new legislation. In addition, the new medium-term results-based budget approach requires better and more relevant output and outcome indicators for all agencies.

A crucial budget reform missing from the list, however, is the proposal to limit the power of the president to impound appropriations—namely, “An Act Regulating the Power of the President to Defer, Rescind, or Reserve Expenditure of Appropriations Authorized by Congress”.<sup>20</sup> This is relevant in light of alleged abuses of the power to augment on the part of the executive branch. Impoundment refers to the executive’s refusal to release funds authorized by Congress, for whatever reason. Such power is open to abuse, as alleged by complainants in the Disbursement Acceleration Program (DAP) case.<sup>21</sup> It is ironic that both President Aquino III and DILG Secretary Mar Roxas, when they were senators, had supported a version of the budget impoundment control act. Then senator

---

<sup>17</sup> For a description of the political economy of fiscal decentralization in the Philippines, see Diokno [2009].

<sup>18</sup> See Campos and Syquia [2006] and Appendix C of Corduneanu-Huci, Hamilton, and Ferrer [2012].

<sup>19</sup> As of this writing, the Senate had approved its version of the Freedom of Information bill, but the House version has yet to be taken up at the House committee level. The House Speaker has promised to have the FOI bill approved before the end of the current Congress in 2016.

<sup>20</sup> Management System International and Coffey International Development [2009].

<sup>21</sup> Nine groups of lawyers, legislators, academics, and other concerned groups have filed a case with the Supreme Court raising the constitutionality of the acts of the Executive Department related to the DAP.

Aquino filed Senate Bill 2995 or the “Budget Impoundment Control Act”, while then senator Roxas filed Senate Bill 2995 or the “Budget Impoundment Control Act” and Senate Bill 2996 or the “Budget Reform Act of 2009.” Now that both are in a position to push for this vital budget reform, however, they have decided to keep quiet.

The political reality is that for most politicians, where they stand on key issues mostly depends on where they sit.

*UP School of Economics*

(The very able research assistance by Aaron Zibeon Sanchez and Madeiline Alora is gratefully acknowledged.)

## References

- Bahl, R. [2009] “Promise and reality of fiscal decentralization” in: S. Ichimura and R. Bahl, eds., *Decentralization policies in Asian development*. Singapore: World Scientific.
- Campos, J. and J. Syquia [2006] “Managing the politics of reform: overhauling legal infrastructure of public procurement in the Philippines”, World Bank Working Paper No. 70, Washington, DC.
- Corduneanu-Huci, C., A. Hamilton, and I. Ferrer [2012] *Understanding policy change: how to apply political economy concepts in practice*. Washington, DC: World Bank.
- Diokno, B. [2005] “Reforming the tax system: lessons from two tax reform programs”, Discussion Paper 0502, School of Economics, University of the Philippines Diliman, March.
- Diokno, B. [2009] “Decentralization in the Philippines after ten years?” in: S. Ichimura and R. Bahl, eds., *Decentralization policies in Asian development*. Singapore: World Scientific.
- Diokno, B. [2014a] “DAP: good or evil”, *BusinessWorld*, 30 January.
- Diokno, B. [2014b] “Did the president usurp the congressional power of the purse?”, *BusinessWorld*, 12 February.
- Diokno, B. [2014c] “Economic understanding: new meaning of PPP: post Pnoy projects”, *ManilaSpeak.com*, 4 March 2014.
- Diokno, B. [2014d] “Fudging the budget rules”, *BusinessWorld*, 5 February.
- The Economist* [2009] “Idea: zero-base budgeting”, 26 January.
- Ichimura, S. and R. Bahl, eds. [2009] *Decentralization policies in Asian development*. Singapore: World Scientific.

Management Services [2006] “Effectiveness of the budget allocation system of the government”, Report No. 2005-05 Special Study, Commission on Audit, 5 July.

Management System International and Coffey International Development [2009] “Power of the purse reform in the Philippines: proposed revisions to the 1987 Administrative Code (Book VI)”, Contractual Obligation Under Agreement No. 6043-001-53-14, US Agency for International Development, July.

### **Official Documents**

2011 Budget Message of President Aquino, *Official Gazette*, Republic of the Philippines, August 24, 2010.

DBM-DILG-DSWD-NAPC Joint Memorandum Circular No. 1, Series of 2012, March 8, 2012.

“Regional Budget Determination and Allocation: A Policy Revisit,” <http://dirp4.pids.gov.ph/ris/dps/pidsdps9929.pdf>.

## Appendix A

### Corazon Aquino (1986–1992)

#### 1. Agency Mandate Review (AMR)

**Objective:** For agencies to create and implement only projects and programs that are in line with their objectives/thrusts/ mandate.

**Accomplishments:** Enhanced departmental coordination. Clearer delineation of agency responsibilities.

#### 2. Regional Project Monitoring and Evaluation Systems (RPMES)

**Objective:** To institutionalize comprehensive and decentralized project monitoring and evaluation systems that could promptly respond to problems of projects or programs at the lowest level.

**Issuances:** Executive Order 376, establishing the RPMES, setting forth its objectives, defining its scope and coverage, requiring the formulation of a manual of operations and for other similar purposes.

The Cabinet Action Committee on Implementation Assistance (CACIA) introduced RPMES in consultations with the regional development councils (RDCs).

#### 3. Synchronized Planning-Programming-Budgeting System (SPPBS)

**Objective:** To enhance planning-programming-budgeting linkage. Specific objectives: (1) formulate an operational and realistic Medium-Term Philippine Development Plan (MTPDP), (2) coordinate plans and programs with annual budget preparation, (3) establish a framework to synchronize the budget process at all levels, and (4) decentralize budget planning and budgeting power and authority.

**Issuance:** Memorandum Order 295, series of 1990, directing the adoption and implementation of the SPPBS.

**Assessment:** The SPPBS was only partially operational both vertically and horizontally due to gaps between and among development plans and investment and expenditure programs and the complexity of the system.

**Reference:** [http://www.lawphil.net/executive/execord/eo1991/eo\\_463\\_1999.html](http://www.lawphil.net/executive/execord/eo1991/eo_463_1999.html)

### Fidel V. Ramos (1992–1998)

#### 1. Regional Project Monitoring and Evaluation Systems (RPMES)

Amended EO 376 by signing EO. 83 on 1 June 1993.

It further delineated the roles and procedures of the project monitoring committees (PMCs) at various levels, and to expand them to include the participation of NGOs, and to establish a national project monitoring committee that will oversee the system.

**Issuances:** Administrative Orders 309 and 291 clarify that RPMES shall be used as well in tracking foreign funds programmed and utilized for social reform agenda (SRA) programs and projects under official development assistance (ODA).

#### 2. Simplified Fund Release System (SFRS) (1995 onward)/New System of Releasing Public Funds

**Objective:** To expedite and standardize the release of funds across agencies in line with the policy thrust of the government.

The SFRS is a system that standardized the release of funds across agencies that are similarly situated in line with specific policy initiatives of the government.

DBM, in consultation with the agencies, prepares the agency budget matrix (ABM). The ABM serves as the basis for the timing, composition, and magnitude of the release of the budget. Based on the updated resources and economic development thrusts consistent with the cash budget program, the allotment release program (ARP) is prepared. The ARP prescribes the guidelines in the prioritization of

fund releases. It serves as the basis for the issuances of either a general allotment release order (GARO) or a special allotment release order (SARO) to authorize agencies to incur obligations. The DBM releases the notice of cash allocation (NCA) on a monthly or quarterly basis.

**Reference:** DBM, "The Budgeting Process." <http://www.dbm.gov.ph/wp-content/uploads/2012/2013/PGB-82.pdf>

### **3. Regional Budget Allocation Scheme (RBAs)**

**Objective:** To give RDCs a direct role in determining actual programs and projects to be implemented in the region, provided these are consistent with overall development and investment plans. These plans were those not prioritized by local governments or national agencies. The RBAs order the Development Budget Coordination Committee (DBCC) to set aside a regional allocable fund (RAF) for the 15 regions' proposed priorities/plans.

**Assessment:** Congress resisted the scheme since members of Congress viewed the RAF as an election fund.

**Reference:** "Regional Budget Determination and Allocation: A Policy Revisit", <http://dirp4.pids.gov.ph/ris/dps/pidsdps9929.pdf>.

## **Joseph E. Estrada (1998–2000)**

### **1. Simplified Fund Release System (SFRS) (1995 onward)/New System of Releasing Public Funds**

**Objective:** To improve cash management, reduce uncertainty in cash flow, and enhance transparency and accountability.

A simplified budget release procedure was instituted based on the General Appropriations Act (GAA), called what-you-see-is-what -you get (WYSWYG). Instead of issuing the GARO, the GAA becomes the basis for the release of the regular budgets of agencies.

The internal revenue allotment (IRA) was released in full with no need for request for budgetary releases. The regular monthly releases were done through the depository banks. The notice of cash allocation (NCA) was released on a quarterly, rather than monthly, basis. Direct payment to contractors and suppliers through government banks.

The procedures for payments of accounts payable (APs) and terminal leave/retirement gratuity were revised to speed up payment of accounts payable and to assure prompt payment of retirement gratuities to government retirees. Faster payment of APs reduces the cost of government projects since private contractors do not have to include the cost of money due to long delays.

### **2. Government Procurement Reform**

**Objective:** To restart procurement reform, which had begun during the final years of the Corazon Aquino administration. The program seeks to "increase competition, reduce delays, and limit the discretion of the bids and awards committees" in the government procurement system.

**Description:** A major study on the need for procurement reform and how to move forward was completed.

An electronic procurement system was launched. This reduced procurement costs because of better locating capacities for local and global suppliers. The new system included the following features: a public tender board, an electronic bulletin board for posting of bid opportunities and decisions; suppliers registry, a list of accredited suppliers; and an electronic catalog, which features common-use goods, supplies, and materials that agencies purchase.

**Major accomplishments:** (a) supported thousand agencies, published tender notices, and distributed them to more than 30,000 vendors, according to the Asian Development Bank; (b) establishment of the Electronic Bid Board System, which became the basis for improvements in succeeding computer-based system in the Philippines.

### **3. Public Expenditure Management Improvement Project (PEMIP)/ Philippine Public Sector Management Reform Program**

**Objective:** To enhance aggregate fiscal discipline, improve resource allocation, and promote operating efficiency at the agency level. The major components of the PEMIP are the Medium-Term Expenditure Framework, the Agency Performance Measurement System and Agency Managerial Flexibility, and Performance Incentives. A component of PEMIP is the Organizational Performance Indicators Framework (OPIF).

The move to link budget to planning started in 1999.

### **4. Organizational Performance Indicators Framework (OPIF) or Results-Based Budgeting**

OPIF was part of the PEMIP that started in 1998. It seeks to improve accountability for results at the following levels:

**National government:** OPIF aligns the agency Major Final Outputs (MFOs) with sector outcomes and societal goals identified in the MTPDP and Millennium Development Goals (MDGs), so that the President and Congress may report results to the public.

**Department/Agency:** The agency head reports to the President and Congress on the outputs delivered for the inputs provided.

**Unit:** OPIF requires managers to identify spending programs that support specific MFOs.

**Individual:** OPIF helps public sector employees understand how their activities/tasks they perform and the outputs they are accountable for contribute directly to the attainment of unit outputs, department MFOs, sector outcomes, and societal goals.

**Comment:** this is an initiative internal to the Executive Department. This exercise has no formal legislative approval.

### **5. Performance Informed Budget (PIB)**

See items [Public Expenditure Management Improvement Project \(PEMIP\)/ Philippine Public Sector Management Reform Program and Organizational Performance Indicators Framework \(OPIF\) or Results-Based Budgeting](#).

## **Gloria M. Arroyo (2001–2010)**

### **1. Regional Project Monitoring and Evaluation Systems (RPMES)**

Arroyo further rationalized RPMES by signing EO 564 in 2006. In addition, she issued EO 789 to enhance project performance monitoring and evaluation systems.

**Reference:** <http://www.gov.ph/downloads/2009/03mar/20090330-EO-0789-GMA.pdf>.

### **2. Government Procurement Reform**

Republic Act 9184 otherwise known as the Government Procurement Reform Act of 2003 was approved on January 10, 2003. The objectives of the reform is to provide for the modernization, standardization and regulation of procurement activities. The reform works on the following principles: (1) transparency in the procurement process and in the implementation of procurement contracts; (2) competitiveness by extending equal opportunity to enable private contracting parties who are eligible and qualified to participate in public bidding; (3) streamlined procurement process that will uniformly apply to all government procurement; (4) system of accountability in the procurement process and the implementation of government contracts; and (5) public monitoring of the procurement process and the implementation of awarded contracts.

It requires the setting up of a comprehensive E-procurement system, known as PhilGEPS. It established the Government Procurement Policy Board (GPPB).

**References:** World Bank. "Philippines: Public Expenditure and Financial Accountability." May 2010.



### **3. Public Expenditure Management Improvement Project (PEMIP)/ Philippine Public Sector Management Reform Program**

The first Sectoral Effectiveness and Efficiency Review (SEER) was conducted in 2001. The first Agency Performance Review (APR) was conducted in 2003. Capability-building workshops and training were conducted from 2009 to 2003 for oversight agencies (18) and individual agencies (20). The first ODA Portfolio Review was conducted in 2003

**Challenges:** (1) refining multiyear resource constrained planning, (2) completing inventory of contingent liabilities, (3) enhancing the predictability of revenues, (4) cascading performance management system down to personnel appraisal, (5) shifting to a performance-based compensation system, and (6) advocating PEM reforms in Congress.

**Reference:** Emilia T. Boncodin, “Introducing Results-Based Approaches into Public Sector Management Processes: The Philippine Experience,” paper presented to the 2nd International Roundtable on Managing for Development Results, Marrakech, Morocco, 5 February 2004.

### **4. Organizational Performance Indicators Framework (OPIF) or Results-Based Budgeting**

Since 2007, agencies have been presenting their activities, outputs, outcomes, and performance indicators in a logical framework, which is published annually in the OPIF book of outputs. Major final outputs and indicators are reflected in agency budget proposals, execution, and accountability reports to DBM.

**Major criticisms:** The quality of performance or results information is uneven and is found to be generally poor. The analyses are limited due to insufficient specification of indicators and targets by agencies. MFO indicators are a mix of outcome, output, activity, and process indicators, which indicate confusion about the focus of accountability of agencies. Many programs, activities, and projects continue to exist but are not aligned with MFOS, and thus do not contribute to the attainment of sector outcomes and societal goals. Management systems for analyzing and integrating performance information remain largely inadequate in many departments, including oversight agencies.

These limitations suggest the need to improve the capacity of agencies to move to the next level (performance management) and to strengthen the capacity of oversight agencies to use results information.

### **5. Results-Based Performance Management System (RBPMS) Across All Departments/ Harmonization of Monitoring, Information, and Reporting Systems**

**Objective:** Administrative Order 25 aims to rationalize, harmonize, streamline, simplify, integrate, and unify efforts to monitor performance of government agencies. It created an interagency task force (IATF) that will develop a common set performance scorecard and government executive information system. All government agencies should create a performance management team (PMT).

### **6. Performance Informed Budget (PIB)**

See items ~~Public Expenditure Management Improvement Project (PEMIP)/ Philippine Public Sector Management Reform Program and Organizational Performance Indicators Framework (OPIF) or Results-Based Budgeting.~~

## **Benigno S. Aquino III (2010–)**

### **1. Simplified Fund Release System (SFRS) (1995 onward)/New System of Releasing Public Funds**

General appropriations Act (GAA)-as-release takes effect on the first working day of the fiscal year. DBM hailed this move as “signaling a new regime—the first of its kind in the country’s governance history—that establishes the General Appropriations Act (GAA) as the government’s official budget

release document. The claim is an exaggeration and a lie. The GAA-as-release document had been done during the Estrada years. It is not true that the SARO will no longer be needed; it will still be needed to obligate appropriation funded out of special purpose funds as, for example, the Calamity Fund and Contingent Fund, and lump-sum appropriations in agency budget.

**Reference:** Department of Budget and Management, National Budget Circular No. 551, Dated 2 January 2014.

## **2. Public Expenditure Management Improvement Project (PEMIP)/ Philippine Public Sector Management Reform Program**

**Objective:** The reform plans to achieve fiscal discipline, allocative efficiency through the MTEF and OPIF, and operational efficiency through the SEER and APR.

## **3. Results-Based Performance Management System (RBPMS) Across All Departments/Harmonization of Monitoring, Information, and Reporting Systems**

Aquino signed in 2012 Executive Order 80 to further strengthen performance monitoring and appraisal systems. It directs the adoption of a productivity enhancement incentive (PEI) and the performance-based bonus (PBB) in the national government.

**References:** CSC Memorandum Circular 08, RBPMS implementation in agencies: [http://excell.csc.gov.ph/MC2013/mc8s2013rbpms\\_agencies.pdf](http://excell.csc.gov.ph/MC2013/mc8s2013rbpms_agencies.pdf).

**Link to EO 80:** <http://www.gov.ph/2012/07/20/executive-order-no-80-s-2012/>

## **4. Performance Informed Budget (PIB)**

National Budget Memorandum No.117: Performance Informed Budget (PIB)

**Objective:** To present the agency's budget alongside its performance targets and outcomes in contrast to the traditional line-item budgeting approach adopted in previous budgets. Under the new PIB structure, an agency's budget already identifies specific major final outputs and performance indicators within the budget.

**Comments:** The new structure has not been approved by Congress. Hence, Congress passed the GAA with two annexes showing the new budget structure. The new structure needs improvement. It suffers from the old criticism that the quality of performance or results information is uneven and is found to be generally poor. The analyses are limited due to insufficient specification of indicators and targets by agencies. MFO indicators are a mix of outcome, output, activity, and process indicators, which show confusion about the focus of accountability of agencies. Many programs, activities, and projects continue to exist but are not aligned with MFOs, and thus do not contribute to the attainment of sector outcomes and societal goals.

## **5. Bottom-Up Budgeting (BUB) (Based on DBM-DILG-DWSD-National Anti-Poverty Commission Memorandum Circular No. 1, Series of 2012 issued on 8 March 2012)**

The purpose of the BUB initiative is to provide policy guidelines, processes, responsibilities, and timelines to guide the participating agencies and selected focus LGUs in the bottom-up planning and budgeting approach to be applied in the preparation of the FY 2013 Budget. The intended beneficiaries are at least 300 of the 609 selected focus cities and municipalities identified and approved by the Human Development and Poverty Reduction Cluster. The amount authorized was ₱8.397 billion. In 2014, the coverage of BUB program was expanded to cover 1,233 cities and municipalities with an appropriation of ₱20.031 billion. The civil society organizations (CSOs) were assigned a key role in the inclusion of projects to be funded. The memo states that the list of projects requires the endorsement of CSOs from the community before it can be considered by the national government for inclusion in its budget. In addition, the local council must approve the list of projects through the issuance of a council resolution.

**References:** DBM-DILG-DSWD-NAPC Joint Memorandum Circular No. 4