

# **Beyond the Basics: The Philippine Case**

*Benjamin Diokno*

## **Introduction**

Going through any public-sector reform process is difficult given the various contending forces which push and pull at the public sector. Yet, fiscal and budget reforms are essential because the quality of public financial management determines, to a large extent, the country's macroeconomic stability and the quality of its governance. There is no question about this, especially since the quality of program delivery by government is now considered as one of the determinants of growth.

It is indeed important for countries undergoing reforms to learn from the successes and failures of others. The literature on reforms undertaken in other countries provides lessons to those who are still in the process of formulating a reform agenda. But one should always keep in mind the importance of a contextual perspective, the diversity of country problems, and the responsibility of the countries themselves, which are best placed to do so, to decide where to place their emphasis.

The manner of reform implementation and sequencing of the reforms are key issues. In the Philippines, the different oversight agencies in government are at different stages of their own reform agenda. However, these "reform silos" point to common objectives, that is, enhancing aggregate fiscal discipline, ensuring strategic allocation of resources, and encouraging better operating efficiency in agencies. There is an ongoing effort in the Philippines to coordinate these objectives for a

holistic and more strategic approach which would build on the synergies and capitalize on the reinforcing effect of the different components of public management reform. Budgeting is being linked to the development planning exercise. Budgeting, cash management, accounting and auditing functions both at the oversight and agency levels are now being integrated. We consider interdepartmental coordination very important as a way to build support, and avoid inconsistencies and bottlenecks in the implementation process.

## Where Are We Going?

The Department of Budget and Management of the Philippines (DBM) has embarked on an ambitious and mutually reinforcing package of public-sector reforms that includes the strengthening of public expenditure management systems and the restructuring or reengineering of the core government.

Because of the interdependence and reinforcing effect of these two reforms and the extent of studied dysfunctions in the structure of government and weaknesses in the budgeting system, the government decided to integrate the implementation processes of these two reforms so as to facilitate their implementation. But more importantly, the Asian financial crisis and the election into power of a new administration offer the window of opportunity for the implementation of these politically sensitive reforms.

For the medium term, the DBM is changing the way it formulates and allocates the budget through the installation of a Medium-Term Expenditure Framework (MTEF), the strengthening of performance monitoring, and the gradual simplification of budgeting rules to enable government managers to manage their resources to attain better performance. This effort is being supported by an institutional development grant from the World Bank. The components of this project include the installation of an MTEF, which is a three-year rolling ex-

penditure framework that will allow the tracking of funding requirements of ongoing agency programs and projects for the next three years. This framework will link annual budgeting decisions to medium-term spending constraints indicated by the macroeconomic framework and the resulting fiscal plan. Thus, it will ensure that future financial implications of new spending and savings decisions in any given year's budget are consistent with medium-term fiscal policy targets. Moreover, with the specification of multi-year sectoral ceilings which will be approved by multi-sectoral Planning Committees and serve as the basis for the annual budget ceilings of agencies, the framework will pave the way for the restructuring of the budget toward the priority programs of the administration and introduce greater transparency in budget formulation. Unlike in past years, resources under this framework will be projected conservatively.

Another component of the expenditure management improvement project is increasing accountability for performance. This involves the development of effective and acceptable indicators of performance for line agencies. Performance measurement will improve public-sector performance through better accountability mechanisms and systems that give feedback to the budget process. Specifically, we hope that performance measurement will rationalize the accountability of public officers and employees; promote allocative and operating efficiency; and promote client orientation, as the performance culture becomes pervasive.

Together with this last component is the gradual delegation to agencies of some of the present high-level controls over agency spending, in return for increased control over the medium-term profile of total budget spending and increased information on the magnitude and quality of agency expenditures. Here, we take special notice of the sequencing issue. Sequencing for each of the components of the improvement program is being given utmost consideration.

Started in October 1997, this expenditure management improvement effort counts as part of its accomplishments the

initial integration of the planning and budgeting exercises for the year 2000 budget, and the conceptualization of a performance management system for the national government.

Central to the public-sector reform of the Philippine government is the Reengineering of the Bureaucracy for Better Governance Program. This program offers a new paradigm of governance that will determine the scope, level, quality, and focus of government intervention in society. It will rationalize the distribution of functions between the government and the private sector, between the national and local governments and among government agencies in the context of the government's thrusts toward globalization, liberalization, and decentralization. This reform effort was triggered by the existing observed dysfunctions in the bureaucracy and the seeming lack of philosophical foundation of governance.

At the request of President Estrada, a bill has been filed in Congress that will grant to the President full authority to reorganize the executive branch. Pending the enactment of the bill, the DBM has been encouraging agencies to review their programs and projects to be able to refocus them toward new priorities of government. A few departments and agencies such as the Bureau of the Treasury, Department of Health, and Department of Social Welfare and Development have initiated department reorganization processes.

## How Do We Get There?

Public-sector management reform is in the Ten-Point Agenda of the Estrada presidency. Hence, from day one of the administration, we have been setting in place the proper environment for the reform. First, the DBM has been working toward getting the support from the important stakeholders: Congress, the private sector, and the national agencies. We have drafted a Budget Accord in recognition of the important role of the Congress in supporting budgeting and expenditure manage-

ment innovations. Intended to be passed as a joint resolution by both houses of Congress, the Accord aims to promote better coordination with Congress in the different phases of budget implementation. The Accord will set in place the fiscal targets of the MTEF including the policies and parameters for program implementation and reporting mechanisms that will be adhered to by both the Executive and Congress for the medium term.

A Budget Dialogue Group was also formed consisting of the private-sector business, basic and NGO, secretaries of key departments, and heads of leagues of provinces, cities, and municipalities. The creation of this group is envisaged to generate support for the medium-term reforms and the identification of needed budget systems reforms. Support for the reforms from the oversight and implementing agencies is also being solicited through various budget dialogue forums, and interagency and committee arrangements. This effort will be strengthened as the capacity building and change-management component of the expenditure management improvement project takes off. We believe that strengthening financial management capacities in the implementing agencies and not only at the oversight level will be the key toward the internalization of fiscal discipline, technical efficiency, and performance focus in government.

Second, because providing resource predictability is needed to reap the benefits of an MTEF, starting this year release procedures are being streamlined. We have instituted the “what-you-see-is-what-you-get” (WYSIWYG) policy. Under this policy all appropriations for ongoing and specific agency programs for which funds were appropriated by Congress are deemed released at the beginning of the year with the General Appropriations Act (GAA) serving as the spending authority. Thus for 1999, the first year of this new arrangement’s implementation, some 80 percent of the budget was deemed released at the start of the year and agencies were able to obligate for the implementation of agency programs and projects. This was made possible with the abolition of Congressional “pork barrel” funds in the agency budgets.

We are moving away from the highly disruptive imposition of across-the-board expenditure cuts and reserve impositions. We intend to deal with changes in the fiscal scenario through the well-measured release of lump-sum budgetary funds and the undertaking of a mid-year assessment of financial and physical accomplishments of agencies.

Third, settling expenditure arrears, which resulted from the squeezing of expenditures as a result of the Asian economic crisis, is also one of the immediate priorities of the government for this year. Some P60 billion or 40 percent more than in the previous year, was set aside from the 1999 disbursement program to enable the early settlement of arrears. A direct payment system to external creditors has been installed through the government banks, and the list of creditors paid is posted on the DBM Web site for increased transparency and streamlining of release procedures.

The Philippine government is committed to maintaining macroeconomic stability and fiscal consolidation as a fundamental component of sustained growth. However, to nurture early economic recovery, it is disposed to incur a higher fiscal deficit from the original target of P17.9 billion to P68.4 billion in 1999, compared with the 1998 deficit of P50 billion. It is our intention to progressively reduce the budget deficit and attain a balanced budget by the year 2002.

The DBM, together with the Department of Finance and the Commission on Audit, is also strengthening the financial management systems in government both at the oversight and agency levels. The effort involves several components:

- simplification and refinement of accounting systems to yield additional information useful for budget management;
- review of financial management capacities at the agency level to address weaknesses which may have resulted from decentralization and the retention of manual systems;

- development of an integrated financial management information system (IFMIS) to promote data sharing and streamline the external reporting system in government; and finally
- strengthening of the procurement and bidding procedures in government.

At the DBM, the initial phase of the development of an IFMIS has begun with the development of a Budget Execution and Tracking (BEAT) system. Initially, the system will allow the tracking of releases to agencies and the monitoring of actual expenditures from agencies. DBM will be working to improve agency financial management systems by enhancing the agency module of the BEAT system. This will set the platform for the devolution of financial management to the agencies. A strong interagency effort should therefore be emphasized for the success of reform in this area. There is an ongoing effort with the World Bank to assess and strengthen the financial management systems of agencies through systems reengineering and capacity building.

With regards to procurement reform, we are closely coordinating with the Commission on Audit toward the installation of an electronic bid board which will greatly enhance the transparency and reduce the cost of bidding processes for supplies and equipment. The government now spends some P16 billion yearly for the purchase of supplies and materials, including medicines and textbooks, and another P7–P10 billion for furniture and equipment including IT equipment.

To enable the DBM to better serve its client-agencies, the public, and the donor community, we have sought authority from the President to reorganize the Department. We propose to set up one-stop shops in our operating bureaus which will allow the integration of the results of performance monitoring, financial analysis, and organizational review to provide feedback for decisions concerning the approval and release of funds. We are also setting up a bureau specifically to handle

all matters related to foreign-assisted projects (FAPs) in order to strengthen the DBM's interface in the review and approval of projects in the Investment Coordinating Committee and to facilitate budgetary actions related to FAPs. We are streamlining our release procedures to lessen the number of documents and signatures required for the release of funds.

## Conclusion

In conclusion, the four-pillar approach suggested by A. Premchand in chapter 3 is a matter of particular relevance to our country. In fact, most of the components of this approach are being addressed in the reforms being instituted in the Philippines. The Philippines has still a long way to go to improve public-sector management. The task ahead of us is formidable. We have no illusion that problems will not be encountered along the way. But with the assistance of the private sector and the agency stakeholders, as well as the donor countries and institutions like the ADB, the World Bank, IMF, AusAID, and CIDA, we are confident that we can carry out the reforms necessary to meet the challenges of the new millennium.