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On the cusp of budget transformation: the work for an inclusive budget process under the Aquino administration

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The revelation of massive abuses of "pork barrel" funds has focused public attention on the budget process and the use of public funds more generally. This paper locates the source of abuse in the country's weak and extractive political institutions, especially in the wider environment of patronage politics. Machinations used to despoil the Budget in the past—through "pork barrel" funds, reenacted budgets, congressional insertions, and the Malampaya trust fund, among others—are described and explained, with some details of their magnitudes provided. On the other hand, previous and ongoing initiatives undertaken by the Aquino administration to reform the budget process are explained. Present and planned reforms emphasize inclusion through transparency and wider citizens' participation, as well as through improvements in government rules and procedures. Ultimately, the recent scandals are a welcome development that amplifies popular support for ongoing reforms in the budget process and encourages reform-minded sections of government to take even bolder steps.

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1. A critical crossroads

As of this writing, the Ombudsman has filed the first group of plunder and other charges against high government officials and other individuals who allegedly conspired to abuse pork barrel funds, particularly the Priority Development Assistance Fund (PDAF). These cases are significant not only because of the gravity of the charges and the prominence of those charged but also because these are a milestone in the quest to transform the way government manages public funds.

Revelations of the PDAF scam of 2007–2009 came in the second half of 2013, three years into the Aquino administration's pursuit of governance reforms that have led to the generally acknowledged stellar growth and renewed competitiveness of the Philippine economy. The turn of events serves as a sobering reminder of the importance of sustaining reforms to bolster confidence in the economy and achieve the administration's goal of inclusive development. After all, the PDAF scam is about public funds that were supposed to benefit the poor but were allegedly pocketed wholesale by a few powerful individuals and their accomplices. It, therefore, threatens to undermine the very credibility and rationale of public spending and taxation. It serves as a warning to all against complacency and is an indication of the further work and vigilance needed from all to cure inefficiencies, plug leakages, and instill greater integrity in systems of public financial management.

The justifiable public outrage in the wake of the scandal expresses the desire of the citizenry for a greater voice and vote in how government is run and how taxes are used; it is a reiterated demand for good governance and public accountability. Far from taking a dim view of these events, however, we believe these can bode well for this administration's own budget reform agenda, for the situation presents a rare political opportunity to make a qualitative leap in the effort at finally instituting prudent and responsive government spending (*paggugol na matuwid*).

This paper is part of what we hope can be the start of a candid dialogue with economists and other keen observers of public policy on the Aquino administration's pursuit of major reforms to cure institutional failures in the budget process. Proceeding from the fact that the budget process is not merely a technical but also a preeminently political process, we first discuss how the general context of the Philippines' political economy has resulted in institutional weaknesses of the budget process, particularly the mechanisms that have opened the door to past abuses. A succeeding section details the initiatives the administration initially took to help address the problem and the deeper reforms that subsequently became possible as a result of strong public clamor after the pork barrel scandal. A final section considers whether and how such reforms will endure for the future.

2. Patronage and institutional failures in the Philippine budget process

The National Budget (henceforth "the Budget") is in principle the clearest expression of any government's socioeconomic development agenda. Boncodin[1] [2008] characterized the Budget as an important instrument for development through raising resources and allocating these to achieve socioeconomic goals, particularly the financing of goods and services that enhance human development. To support these goals, public expenditure management should achieve *aggregate*

[1] As cited in Human Development Network (HDN) [2009] and PIDS [2009].

fiscal discipline or "spending within our means", *allocative efficiency* or "spending on the right priorities", and *operational efficiency* or "spending with measurable results" (Schick [1998], as also cited in Abad and Capistrano [2013]).

The budget process is thus necessarily one of the central institutions[2] that comprise the state. However, it is not merely a technical, financial, and economic institution but primordially a political one. Boncodin [2008], for one, emphasized that the Budget is a political tool for exercising power and decision making; after all, the four stages of the budget process—preparation, legislation, execution, and accountability—involve the interaction of government branches along both formal rules (i.e., as stipulated in the Constitution and the laws of the land) and informal, often unwritten, norms (i.e., traditions, behavior, relations, and exchanges). Ultimately, this process determines who gets what, where resources are distributed, when and how public monies are spent, and, most important, why such resources are spent for particular purposes.

The quality of institutions is an important—if not the primary—determinant of development, as Acemoglu and Robinson [2012] argue. They assert that the nature of political institutions shapes how economic institutions operate, which in turn determine the prosperity or poverty of nations. They propose a rough but useful classification of institutions as either *inclusive* or *extractive*. Inclusive political institutions promote the broad distribution of power in society, fostering inclusive economic institutions that create secure property rights, advance a fair and open market, and provide public services that level the playing field. Extractive political institutions in contrast concentrate power in the hands of a few, who then structure economic institutions to extract wealth at the expense of the rest of society.

How then can the Philippine budget process, as both an economic and a political institution, be characterized? This section illustrates how, for the most part, the Philippine budget process has been "extractive", as evidenced by institutional failures in the recent past.

2.1. The budget process as an arena of patronage

The budget process is not only a *dynamic process* of decision-making subject to inherent tensions but also an *arena of political confrontation* between and among competing interests [DfID 2007]. Indeed, the Philippine budget process has been a game among political actors with conflicting demands who compete to get a larger pie of the nation's scarce resources. The fact that budgeting is a political process is in itself neither surprising nor objectionable. The real issue is whether the politics

[2] "Institution" refers not only the formal branches of the state (e.g., Congress), but more primordially the rules, norms, and practices, both formal and informal, that govern society. North [2003:1] succinctly described institutions as "the incentive systems that structure human interactions".

that largely influences the budget process is truly in accord with the requirements of genuine development and the long-term interests of the people, especially the disadvantaged. Unfortunately, the highly unequal distribution of wealth and power in Philippine society and the weakness and immaturity of our political institutions thus far make that ideal difficult to achieve.

The budget process indeed reflects the political economy of the country, which is the cause of the lack of social control and accountability and encourages impunity among political leaders. Numerous scholars have attributed the political and economic underdevelopment of the Philippines to the historically ingrained dominance of oligarchic elites. A notable example is Hutchcroft's [1998] analysis of the Philippines as a "patrimonial" oligarchic state, where an underdeveloped state apparatus—its weak bureaucracy, in particular—has been captured by a powerful, rent-seeking oligarchic class, and has been unable to adequately respond to economic challenges and the needs of the poor.[3]

Moreover, despite the Philippine political system being formally democratic, the lack of genuine political parties with coherent programs and mass constituencies has enabled such elites to evade accountability. This is undergirded by the long-standing situation of poverty and inequality, which reduces people to a desperate state of dependence and encourages them to enter into relations of patronage with elites. The relationship between the strong executive and the elites, which dominate Congress and local governments, has likewise been characterized by patronage-based exchanges. All in all, these characterize the Philippines as a "patronage-based state" [Hutchcroft 2014: 196].

Patronage-based relationships, which prevail in both local and national arenas, have been financed through the budget process—through what is popularly referred to as "pork barrel". Noda [2011:12] points out that "pork barrel", which emerged as early as 1922 with the Public Works Act, poses two economic inefficiencies:[4] *universalism*, where funds are distributed uniformly across districts through mutual "back scratching" among legislators; and *particularism*, where regional funding disparities result from lobbying activities.

Patronage-based interactions in the budget process must be situated in the broader institutional arrangements of the state. After all, as Noda points out, "pork barrel" should be viewed not only as specific funds in the Budget but "a series of dynamic process by which the political interactions between the President and the local politicians kick in at each stage of the budget cycle" [2011:6]. Boncodin [2008, 2010] likewise illustrates how the combination of the existing legal framework and political practices has led to the imbalance of budgetary power

[3] De Dios and Hutchcroft [2002/2003] and Hutchcroft and Rocamora [2002] also explored the implications of a weak bureaucracy and an underdeveloped political party system to the responsiveness of the state to economic development challenges and the needs of the people, especially the poor.

[4] This was also earlier described as the "divide-by-N" syndrome by Fabella [2013].

in favor of the executive branch, the pervasiveness of patronage and parochial politics, and the overall failure of the Budget as a tool for good governance and sustained and inclusive development.

In addition, the budget process is an inherently arcane matter to which only specialists and political interests pay close attention. This, coupled with weak transparency and accountability practices and the absence of genuine spaces for participation, has allowed extractive relations between traditional elites—at both national and local levels—and their rent-seeking activities to thrive in the nooks and crannies of the budget process.

2.2. The pillage of the Budget

The extractive character of the Philippine budget process was fully exploited under the Arroyo administration, which desperately—and unfortunately, successfully—ensured its longevity despite its elusive political legitimacy throughout its almost ten-year term against the backdrop of electoral fraud, human rights violations, massive corruption scandals, and worsening poverty. Hutchcroft has observed how "Macapagal-Arroyo very effectively wields the substantial powers of the presidency to keep herself in office, in the process she exhibits no qualms about further undermining the country's already weak political institutions" [2008:142]. The Arroyo regime's fight for political survival—amid successive impeachment attempts, coup attempts, and mass actions calling for her resignation—made it extremely susceptible to collaboration with vested interests, whose political support it mustered through patronage.

The toxic combination of impaired legitimacy, corruption, and patronage contributed to a vicious cycle that exacerbated all three issues during an unprecedented extended term. The previous administration's willingness to transgress almost all bounds to be able to cling to power by securing the support or at least the approbation of power brokers—not only those in Congress and local government but also those in business, the military, and even the Church—resulted in the unprecedented pillage of the Budget. The Arroyo administration's use of the presidency's great budgetary powers, the exploitation of the budget system's inherent weaknesses, and the inability of citizens to engage, entrenched patronage in the budget process, which became more vivid and perverse in the process.

The urgent need to reform the politics of the budget process is illustrated by the following four schemes employed by the past administration to ransack the Budget.

2.2.1. The PDAF scam 2007–2009

The recent revelation of the PDAF scam of 2007–2009, unearthed by the Commission on Audit (COA) through a special audit as well as by media reportage, has intensely and irreversibly awakened public interest in the budget process. At the outset, however, it should be said that abuse of the PDAF[5] and its predecessors, like the Countrywide Development Fund (CDF), is nothing new. The 2007–2009 PDAF scam, however, plumbed new depths and showed an uglier dimension of "pork barrel" abuses: legislators in cahoots with sophisticated syndicates allegedly using bogus nongovernment organizations (NGOs) to pocket as much as 100 percent of PDAF allocations for "livelihood" projects released to certain agencies, most notably government-owned or -controlled corporations (GOCCs).

Where abuses in the past needed at least to be couched in projects actually implemented on the ground—with kickbacks taking the form of percentage commissions or markups on actual yet substandard goods and services delivered—the "innovation" in this regard was that the entire allocated amount becomes a pure transfer to the conspiring parties. In relation to the ₱6.156 billion downloaded by implementing agencies to NGOs, COA [2013a:15] reports that the implementation of 772 projects by 82 selected NGOs "was not proper and highly irregular". A draft Senate Blue Ribbon Committee Report [2014], based on whistleblowers' accounts, provides further details of the split of kickbacks: 50 percent for the legislator, 5 percent for the legislator's chief of staff, 10 percent for the contact in the implementing agency, and 35 percent for the group of alleged conspirator Janet Napoles. The added irony of the situation is that while legitimate and reform-oriented NGOs have generally found it difficult to access public resources, fake NGOs endorsed by politicians and coddled by accomplices in the bureaucracy were able to access funds not only from PDAF, in this case, but also from other funds like the Malampaya Fund (see succeeding section) and agriculture funds in the case of the fertilizer fund scam.

Astounding as the amounts are, the PDAF is still just a small pot in relative terms, accounting for about 1 percent of the Budget per year. After all, the PDAF is expressly legislated in the Budget for the projects endorsed by legislators. Moreover, consistent with Noda's [2011] framing that "pork barrel" is not just budgetary items but dynamic institutional processes, it is imperative to unearth other, arguably more perverse yet less commonly known, schemes for "pillaging" the Budget.

2.2.2. Contrived budget reenactment

The process of Budget reenactment—a unique feature of the Philippine budget system—ensures continued government operations in case Congress fails to

[5] Prior to 2011, the PDAF was only for "soft" projects (e.g., scholarships and medical assistance), while there were two other lump-sum funds: Various Infrastructures Including Local Projects (VILP), under the budget of the Department of Public Works and Highways, for "hard" projects (infrastructure); and Financial Subsidy for Local Government Units (FS LGU) for transfers to LGUs. Beginning with the 2011 Budget, the Aquino administration consolidated all these budget items for legislator-endorsed projects under PDAF (this is why, for one, it was inaccurately reported that the Aquino administration doubled the PDAF).

pass a new Budget. In contrast, other systems lacking such a “fail-safe” measure must contend with threatened “government shutdowns”, as the United States experienced most recently owing to an impasse over the Affordable Care Act. However, Budget reenactment cannot be an ideal arrangement, for it “strengthens the President’s control over allocations, owing to larger savings that can be disbursed at his or her discretion” [HDN 2009:39], thus tilting the balance of power against the legislature and lopsidedly in favor of the executive.

An egregious example is provided by the experience in the last decade, before the Aquino administration came to power, when what was intended as a fail-safe measure became the norm: all Budgets from 2001 to 2010 were reenacted, with 2001, 2004, and 2006 having fully reenacted Budgets because Congress failed to pass a new Budget. For the other fiscal years, the delayed passage of the new General Appropriations Act (GAA) necessitated the partial reenactment of the previous year’s GAA. The prevalence of such a norm for a prolonged period of time was likely due to the chronic political instabilities starting with the previous regime: the first due to the impeachment of former president Joseph Estrada and his replacement by Arroyo, the second coinciding with an election year, and the third in the aftermath of the “Hello Garci” scandal, which, among others, strained the relationship between the executive and Congress, particularly the opposition-leaning Senate.

Nonetheless, there are certain indications that such frequent Budget reenactments were contrived. For one, the Arroyo administration had been belatedly submitting its proposed Budgets to Congress—just before the end of the constitutionally mandated deadline.[6] It is worth noting that the fully reenacted Budgets happened before elections. Moreover, in 2006, the failure to break the protracted impasse on the proposed Budget was attributed to Malacañang’s hardline stance[7] against the Senate’s reduction of the Budget, coupled by legislators’ alleged efforts to secure additional “pork barrel” [Gulane, Capistrano, and How 2006].

The Arroyo administration released a total of ₱2.462 trillion from reenacted Budgets from 2001 to 2009 (Table 1). Initial estimates show that as much as ₱557.7 billion or about 23 percent of the total could have been released with full discretion—that is, releases from savings from completed projects and other nonrecurring appropriations (those that are not for personnel services, overhead expenses, and other recurring expenditures).

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[6] Thirty days after the opening of the regular session of Congress on the fourth Monday of July of every year.

[7] Then-House Appropriations Committee chair and Albay representative Joey Sarte Salceda was quoted as saying, “In times like this, you would know who truly loves the country and who really cares for the poor—an intransigent President, a belligerent Senate, a subservient House or a complacent people. The bicam is dead, long live politics” (as cited in Gulane, Capistrano, and How [2006]).

TABLE 1. Releases from reenacted budgets, 2001–2009

FY	Reenacted budget full or partial (& enactment of new GAA)	Releases ₱ billion[a]	"Discretionary portion"[b]
2001	2000 GAA, Full reenactment	482.320	109.97
2002	2001 GAA, Partial (January 21, 2002)	41.75[c]	7.85
2003	2002 GAA, Partial (May 12, 2003)	192.35	37.12
2004	2003 GAA, Full reenactment	537.00	103.10
2005	2003 GAA, Partial (March 16, 2005)	119.71	22.63
2006	2005 GAA, Full reenactment	557.85	119.38
2007	2005 GAA, Partial (March 23, 2007)	195.31	54.49
2008	2007 GAA, Partial (March 16, 2008)	140.67	41.64
2009	2008 GAA, Partial (March 16, 2009)	195.34	61.53
TOTAL		2,462.29	557.71

Source: Year-end reports on budget releases, 2001–2009.

Notes:
[a] Does not include automatic appropriations, which, by their nature, automatically take effect and do not need to be approved annually by the president or reenacted by the president.
[b] This is an estimate of the portion of reenacted Budget releases that could be discretionary—that is, those that exclude recurring expenditures such as personnel services and overhead expenses.
[c] This is only an estimate in the absence of data on actual releases from the reenacted Budget. This represents total budget for the year divided by one month.

This is an initial estimate, however, and a more rigorous analysis of the details of releases still needs to be conducted. At any rate, it does provide an idea of the magnitude of the unaccountable patronage and largesse that could have been tapped under this scheme.

2.2.3. Improper congressional insertions

Noda [2011:9] describes congressional insertions as an avenue for "pork barrel" politics and a "long-standing practice" in the Philippines. It is common for legislators to make such insertions to get additional allocations for their respective districts beyond the amounts earmarked under the PDAF—so long as the Congress-approved Budget does not exceed the ceiling submitted by the executive. This practice, however, took a different turn when Congress, with the seeming intention of getting around the constitutional ban against increasing the Budget ceiling proposed by the executive, adjusted foreign-exchange rate assumptions to decrease automatically appropriated interest payments.

From 2008 to 2010, the budget for interest payments was reduced by a total of ₱140.6 billion, and the equivalent was realigned for the insertions of legislators. Most of these went to the Department of Public Works and Highways (DPWH) (₱55.82 billion), the Financial Subsidy to Local Government Units or FSLGU

(₱13.38 billion), the Economic Stimulus Fund (₱10.07 billion), PDAF (₱9 billion), the Department of Education (DepEd) (₱8.92 billion), and the Agriculture and Fisheries Modernization Fund (AFMA) of the Department of Agriculture (DA) (₱8.44 billion). A deeper look into the specific programs and projects funded by such insertions, and how much of these insertions were actually released or withheld, still needs to be made.

TABLE 2. Reduction in interest payments in 2008–2010 Budgets (in ₱ billions)

FY	NEP level (1)	GAA level (2)	NEP vs GAA[a] (3=1-2)	Acutal IP (4)	Actual vs GAA[b] (5=4-2)
2008	295.75	269.85	25.90	272.22	2.37
2009	302.65	252.55	50.10	278.87	26.32
2010	340.81	276.21	64.60	294.24	18.03
TOTAL	939.21	798.61	140.60	845.33	46.72

Notes:
[a] Difference between the programmed IP level (NEP) versus what Congress had enacted.
[b] Difference between GAA-level and actual interest payments.

When the Aquino administration assumed office, it withheld the release of the remaining insertions. It also tried to recall some ₱10 billion from the 2010 GAA that had already been released, despite the failure to meet the "conditional implementation" rule imposed by President Arroyo herself—that is, that the releases would be "subject to the identification by Congress of new revenue measures in support thereof".

The release of such insertions distorted the annual budget program. To cover the deficiency without violating the budget program ceiling for the year, other GAA items needed to be suppressed. In the end, actual interest payments from 2008 to 2010 turned out to be larger than what was appropriated in the GAA. As a result, interest payments exceeded the reduced GAA amounts by a total of ₱46.72 billion.

2.2.4. "Such other purposes" of the Malampaya Fund

The Malampaya Fund is a special fund under Section 8 of Presidential Decree (PD) 910 that can be "used to finance energy resource development and exploitation programs and projects of the government and for such other purposes as may be directed by the President". This fund has a peculiar nature: annual inflows from the Malampaya Natural Gas Project, which began in 2002, are accounted for as part of the yearly revenue program supporting the Budget proposal to Congress. And yet as a special account in the general fund, it gives the executive flexibility to charge additional expenditures against the fund.

Unfortunately, the phrase "for such other purposes" was also the subject of abuse. From 2004 to 2009, total releases from the Malampaya Fund amounted to ₱23.6 billion. Of the total releases, ₱19.64 billion was released to national government agencies as follows: DPWH (36 percent), DA (30 percent), PNP (11 percent), NHA (7 percent), DAR (5 percent), AFP (5 percent), and others (5 percent). (No releases from Malampaya Fund in 2002 to 2003, 2005, and 2010.) A measly 1 percent of this was energy-related—₱250 million for Sitio Electrification. The remainder went to other purposes totally unrelated to energy development: Of the amounts released to national government agencies, the bulk went to the DPWH at 36 percent, and the DA at 30 percent, for "priority development" or "livelihood" projects.

What is involved is a circumvention of PD 910 through the exploitation of the vague phrase "such other purposes". Moreover, the case of the ₱900 million released to the Department of Agrarian Reform (DAR) in 2009 opened up an arena for Napoles-type fake NGOs. A COA special audit [2013b] described the release of such funds to DAR—purportedly for calamity relief and rehabilitation activities—as a "great loss of public money", where releases had been made at the purported and unvalidated request of 97 mayors. While an audit has been made, though belatedly, the Department of Energy, as administrator of the fund, should have provided the first layer of oversight on the use of the fund and demanded financial and physical accomplishment reports from the implementing agencies.

The past administration also released ₱3.96 billion for "priority development projects" of the provincial government of Palawan and its legislative districts. Not only was this an accommodation of the provincial government of Palawan's claim of shares from Malampaya revenues (a claim that has yet to be resolved by the Supreme Court), its use was likewise controversial given the alleged irregularities in projects that it funded.[8]

2.3. Institutional failures of the budget process

Many other schemes for the "pillage" of the Budget may exist but these will require further documentation. Suffice it to say that the susceptibility of budget systems to the machinations of patronage interests has compromised, if it did not outrightly subvert, the goal of *spending within our means, on the right priorities*, and *with measurable results* [Abad and Capistrano 2013]. The above four examples sufficiently illustrate the predatory politics that find a haven in the institutional weaknesses of the budget process.

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[8] The murder of Palawan broadcaster Gerardo Ortega is largely believed to be motivated by his adverse reports on the use of such funds. The alleged brains of the murder and proponents of such anomalous projects—former Palawan governor Joel Reyes and former Coron mayor Mario Reyes—are still at large.

Beyond a deeper analysis of these four schemes for the abuse of the Budget, reformers and the broader public are most interested in addressing the institutional weaknesses—even those considered highly technical—that allow extractive politics to thrive in the budget process. Taking off from the comprehensive analyses of Boncodin [2008] and HDN [2009] and the comprehensive public expenditure and financial accountability (PEFA) assessment done by the World Bank [2010] to determine the effectiveness of budget systems, it is worthwhile to highlight some of these key weaknesses.

First, the budget process has largely not been results-focused. Though the organizational performance indicator framework (OPIF) was introduced in 2005, results-based budgeting at the time of Boncodin's [2008] analysis still had to be fully implemented. This, for one, profoundly characterized the nature of Budget deliberations in Congress, where parochial concerns took precedence over ensuring that the design of the Budget was aligned with the intended strategic results of the government's socioeconomic development plan. Perhaps Congress was not motivated to take the latter seriously, since the executive, through the years, failed to nurture the intricate linkages between development planning, budgeting, implementation, and monitoring and evaluation, and, in the next cycle, resource allocation. The Budget has largely been seen as detached from the Medium-Term Philippine Development Plan, which in turn has been criticized for not being resource-constrained. Thus, the desired relationship of accountability between the executive and Congress—where the former abides by the performance targets and outcomes it commits to Congress, while the latter scrutinizes the proposed Budget based on measurable performance—has not developed through the years.

Second, many programs and projects were poorly designed, if not outrightly questionable. This was evidenced, among others, by the prevalence of lump-sum fund—that is, budget items that had not been fleshed out by the executive into specific programs and projects before submission to Congress. These lump-sum funds were largely nontransparent, gave wide discretion to the executive, were prone to abuse and leakages, and posed a major bottleneck to budget execution [Abad and Capistrano 2013]. These also distorted actual budgetary allocations during budget execution, as their recipients were not determined a priori [Boncodin 2008]. Such lump-sum funds also exposed the inability of implementing agencies to properly design programs and projects, and to adequately target their beneficiaries. Poor program and project design had begotten anomalies and leakages, not to mention the ultimate failure to ensure beneficiary impact and reach. Illustrative are the cases of the dredging of Laguna de Bay and other questionable official development assistance (ODA)-funded projects; the DepEd Food for School Program, in which rice was distributed during the summer vacation; and the rice distribution program of the National Food Authority (NFA), which COA found benefited traders more than the poor.

The third weakness is what the World Bank [2010] refers to as the lack of predictability and control in budget execution. This measure is concerned not only with the timely release of funds to implementing agencies but also the faithfulness of such releases to the enacted Budget. Related, of course, is the need for proper and accurate recording of the use of funds, and the availability of reports to oversight institutions and the general public. For one, the complex system for the release of budgets—particularly the issuance of obligational authorities such as the Agency Budget Matrices (ABMs) and Special Allotment Release Orders (SAROs)—had been the source of much unpredictability and delays in program and project implementation. The SARO gained notoriety as the document that signified the completion of a clientilistic exchange between the executive and legislators, and as a tool (especially fake SAROs) for unscrupulous persons to extract "commissions". The complicated budget accountability system—marked by fragmented monitoring systems, duplicative reporting requirements, confusing account code systems, and weak compliance by agencies—prevented oversight agencies like the DBM and COA from performing their roles well. Given the complexity of the fund release system, the weakness of reporting mechanisms, and absence of beneficiary reach and impact evaluations, the execution phase of the budget process could be characterized as a "black hole" [Abad and Capistrano 2013].

Fourth, and perhaps most important, little opportunities for citizens, especially reform-oriented constituencies like civil society, to register their voice and vote in the budget process were available. Transparency reporting and access to information mechanisms were weak perhaps due to the inherent flaws in the accountability-reporting process described earlier. Compounded by the highly technical and even esoteric knowledge involved in the budget process, the weak public access to information on fiscal affairs hindered the meaningful participation of citizens in the process in a profound way—that is, if formal mechanisms for citizen engagement had been opened at all. Boncodin [2008] points out nonetheless that citizen participation did exist but was largely inadequate: through limited representation in some policymaking bodies, lobbying efforts in Congress by certain civil society groups, and sparse yet notable partnerships between watchdog groups and implementing agencies and COA. In the absence of real and program-based political parties, reform-oriented civil groups and grassroots organizations could have presented an alternative political force in the budget process—had they only been given the opportunity and space for engagement.

These weaknesses were abetted and underpinned by a presidency, which, by design, exercised great discretion over the Budget. On the other hand, the underlying politics and the weakness of the political party system meant that Congress was collectively unable to exercise its "power of the purse", creating a de facto lack of accountability on the part of the executive. The parochial behavior of legislators, the weak bureaucracy, and a civil society and media deprived of information and space for participation and, ultimately, a citizenry deprived of effective services funded by their taxes and reduced to dependence on patronage—

these were all factors that materially contributed to the weaknesses of the budget process, causing it to be unresponsive and prone to being taken over for extractive or rent-seeking purposes. Special efforts and an extraordinary dedication to reform are thus required if these default conditions are to be overcome.

3. The Aquino budget reform agenda: the first half

The election of President Benigno S. Aquino III disrupted the status quo of Philippine politics. His reluctant yet popularly backed entry into the presidential race and his decisive victory was an act of People Power, "waged not in the streets but in the treacherous terrain of electoral politics" [Abad and Capistrano 2013]. Like his mother, President Corazon C. Aquino, President Benigno S. Aquino III came to power not through the traditional route that ultimately held past presidents hostage to vested interests but through a popular draft. Operating relatively autonomously from patronage interests, the Aquino administration has been able to push difficult reforms and demonstrate a clear bias for the poor in its resource-allocation policies.

Acknowledging the importance of the Budget in achieving its Social Contract with the Filipino people, the Aquino administration pursued a difficult path toward empowerment through the Budget [Abad and Capistrano 2013]. To achieve this and make the budget more inclusive and supportive of its development agenda, the administration sought to (a) restore public trust in the government, particularly the process of allocating and using scarce resources; (b) ensure that the dividends of good governance are delivered in a direct, meaningful, and substantial way; and (c) strengthen the constituency for reform by giving citizens a deeper stake in the budget process [Abad and Capistrano 2013].

The first half of the administration was largely focused on regaining people's trust in public institutions: on installing reforms to fulfill the government's commitment to paggugol na matuwid (honest and effective budgeting) [Abad and Capistrano 2013]. In his first State of the Nation Address (SONA) in 2010, President Aquino signaled the start of his administration's budget reform agenda: "*Ang anumang pagbabago ay magmumula sa pagsiguro na magwawakas na ang pagiging maluho at pagwawaldas*" (change can only come from our determination to stamp out this extravagance and profligacy) [para. 52].

Even before the Aquino administration assumed office, career officials of COA, DBM, and the Department of Finance, taking off from earlier iterations of the World Bank PEFA assessment [2010], had already begun discussions on a Public Financial Management (PFM) Reform Roadmap[9] in view of the upcoming change

[9] This road map, whose development was jumpstarted in 2009 and completed in 2011, has the following as its major outputs: (1) strengthen results-based budgeting, (2) develop a treasury single account to improve cash management, (3) develop a government integrated financial management information system, and (4) better management of contingent liabilities to minimize government's financial exposure.

in administration. However, parallel to the rollout of the long-gestating reforms under this road map, immediate interventions were urgently needed in order to close key avenues for abuse, reshape budget priorities, and unclog bottlenecks. The following section discusses such reform interventions, the results these achieved, and key issues that the administration encountered in the first half of its term.

3.1. Ending "pillage" and other early reform initiatives

The Budget reform process began with President Aquino's instruction to implement zero-based budgeting (ZBB) to review the relevance of programs and projects, terminate or redesign those that have been inefficient and ineffective (such as the DepEd Food for School program, the NFA rice subsidy program), and to reallocate funds—under the 2010 Budget already in place and the 2011 proposed Budget that was largely prepared by the previous regime—to where these were most needed. Parallel to the application of ZBB was the decision to cancel questionable ODA-funded projects and begin the process of fleshing out lump-sum funds.

As it submitted its first proposed Budget (for 2011) to Congress, the administration consciously sought to immediately dismantle grand avenues for abuse of the Budget.

First, it ensured that the annual GAA was enacted early, before the start of the fiscal year. With the support of Congress, the 2011 GAA was passed on time (the first time after nearly a decade). To sustain this, the executive implemented a budget preparation calendar that started much earlier—in January of the prior fiscal year, rather than in April as was the past practice—so it could submit the proposed Budget a day after the President's SONA. The early start of the budget preparation calendar likewise enabled the executive to further flesh out lump-sum funds.[10] The early enactment of the GAA for the Aquino administration's first four Budgets had closed a key means for unbridled presidential discretion.

The administration also leveraged the 2011 proposed Budget to close opportunities to manipulate interest payments for the sake of congressional insertions, through yet another seemingly simple solution—by excluding automatic appropriations from the National Expenditure Program[11] that is submitted to Congress. After all, having been already previously authorized, these are appropriations that Congress need not enact.

Meanwhile, the administration made it a point to use the Malampaya Fund only for energy development-related activities. Total releases from 2011 to 2012[12] amounted to ₱15.26 billion, which funded important projects such as

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[10] For those funds that remain lump sum in nature, such as the Calamity Fund and the PDAF, a policy to post releases online via the DBM Web site was established.

[11] The proposed Budget in the form of proposed legislation (the General Appropriations Bill).

[12] No further releases in 2013 and 2014 so far.

the NEA Sitio Electrification and Barangay Line Enhancement (₱1.92 billion), requirements for the National Power Corporation (NPC) Small Power Utilities Group (₱3.62 billion), NPC short-loan facility for missionary electrification (₱3 billion), security upgrade for the Malampaya project (₱6.26 billion), and the Pantawid Pasada program (₱450 million). A legal opinion sought from the Department of Justice clearly stated that the Fund should only be used for its primordial purpose of energy development. This came before the recent Supreme Court [2013] decision declaring the "such other purposes" clause of PD 910 as unconstitutional.

To reshape the Budget along the administration's Social Contract and instill a results-focused approach to budgeting, President Aquino issued Executive Order 43, defining five priority areas[13] of his Social Contract and directing that public funds be focused on these priorities.[14] To further deepen the prioritization of funds, the administration also introduced the program budgeting approach aimed at improving interagency synergy toward meeting broad outcomes; and the budget priorities framework, now issued together with the annual national budget call, which clearly sets program priorities and geographic focus areas.

Such early reform interventions to close avenues for abuse, plug leakages, and reshape Budget priorities admittedly had the effect of dampening public spending. But only partially so, and for a limited period of time: to begin with, bottlenecks and systemic weaknesses were already hampering the ability of bureaucracies to spend their budgets and deliver services fast [Abad 2013]. For instance, in late 2011 when the government was faced with the problem of underspending, the administration introduced another reform intervention—namely, the Disbursement Acceleration Program (DAP). Narrowly defined, DAP entailed the president's power to use savings to augment funds for fast-mobilizing projects and to use unprogrammed funds (i.e., standby appropriations for unanticipated but necessary or urgent projects). DAP, though seen as contentious (further discussion follows), succeeded in boosting public spending and overall economic performance. The World Bank [2012:5] observed that it "was partially successful and contributed 1.3 percentage points to GDP growth in Q4 [of 2011]".

The abovementioned definition of DAP was described as narrow, for it also pertains to a package of reform interventions to speed up public spending. For instance, the administration saw the need to bridge the functional "silos" between planning, budgeting, execution, and evaluation—a major constraint on the speed and effectiveness of government spending. Thus, it deployed account management teams (AMTs) in key departments to identify and cure bottlenecks to disbursement and service delivery. These AMTs were deployed in the DPWH, DA,

[13] The five key results areas (KRAs) are (1) good governance and anticorruption; (2) poverty reduction and empowerment of the poor and vulnerable; (3) rapid, inclusive, and sustained economic growth; (4) just and lasting peace and the rule of law; and (5) climate change adaptation and mitigation.

[14] This order also organized the cabinet into clusters according to these priority areas.

DepEd, Department of Health (DOH), and others that had the biggest budgets.

Meanwhile, to address delays in the release of budgetary allotments to agencies, the administration adopted the GAA-as-Release Document regime beginning 2014. Efforts to speed up the procurement process—a key step in budget execution, which has been a source of delay and frustration—were also taken. The DPWH and other agencies were allowed to bid out their projects even before the GAA is enacted, short of award, so these can be rolled out at the start of the fiscal year instead of during the rainy season. To further improve efficiency and transparency in procurement, the Philippine Government Electronic Procurement System (PhilGEPS) and the capabilities of the Procurement Service—the national government's bulk buyer of common-use supplies—was also enhanced.

3.2. Impact of early reform interventions

These early fiscal reforms and interventions have helped the economy reach historical milestones that are now generally recognized: a stable deficit and falling debt stock, investment-grade ratings, greater fiscal space for crucial social and economic services, economic expansion, and improved global competitiveness.

Spending within our means. The investment-grade ratings the Philippines obtained from the top credit ratings agencies are the fruit of three years' hard work to contain the fiscal deficit (from 3.5 percent of gross domestic product or GDP in 2010 to 1.4 percent in 2013) and the debt stock (from 54.8 percent of GDP in 2009 to 49.2 percent in 2013). These have been achieved because the government, through aggressive reforms in tax administration, has also been able to increase Bureau of Internal Revenue tax collections, which grew by 15 percent in 2013, without the need to enact new taxes except for the Sin Tax Reform (restructuring specific taxes on tobacco and alcohol products). The campaign against tax evaders and smugglers has been escalated, and very recently wide-ranging reforms at the Bureau of Customs have been pursued that no previous administration even dared to attempt.

Spending on the right priorities. The Budget has been profoundly reshaped under the current administration. In 2003, interest payments ate up the largest slice of the Budget (30 percent), while social and economic services got 28.9 percent and 19.4 percent, respectively. Owing to President Aquino's commitment to his Social Contract, the shares of social and economic services have increased to 37.2 percent and 26.2 percent, respectively, in 2014. Debt servicing, meanwhile, has dwindled to 15.6 percent for this year.

The Aquino administration has focused the annual GAA on key priority programs to achieve inclusive growth. From a ₱10.9 billion allocation covering one million households in 2010, the Pantawid Pamilyang Pilipino Program this year was allocated ₱62.6 billion to cover 4.3 million households as well as 4.3

million children in high school. The education sector budget has also constantly increased at an average of 14 percent annually from 2010 to 2014, bringing it to ₱383.1 billion. This investment in our children's future has allowed the DepEd to finally close the perennial classroom supply gap. In the same period, the health sector budget increased by an average of 32 percent annually, bringing it to ₱90.5 billion this year. Among others, this permits, the coverage of 14.7 million poor and near-poor households under the National Health Insurance Program.

Through the years, Philippine spending on infrastructure has languished below the global benchmark. The administration this year has deemed it appropriate to increase infrastructure spending to an equivalent of 3 percent of GDP on infrastructure, up to 4 percent in 2015, and toward the ideal level of 5 percent by 2016. In more concrete terms, this investment will enable government to rehabilitate and pave all national arterial and secondary roads and bridges by 2016, and roll out essential transport, agriculture, and tourism support infrastructure. To address the perennial "absorptive capacity problem" the government has pursued various institutional reforms—from the DPWH's efforts to reform quality and costing standards as well as procurement procedures to the implementation of the policy allowing early bidding, as described earlier.

Spending with measurable results. It is encouraging that the administration's commitment to making sure each peso counts has contributed tangible results overall. These include the economy's outstanding growth in GDP of 7.2 percent and 6.8 percent in 2013 and 2012, respectively, currently running second only to China in Asia. Improved public spending has also contributed to the country's higher ranking in the Global Competitiveness Index, from 75th in 2009 to 59th in 2013. Encouraging signs have also emerged that the government's deliberate spending priorities are finally making a dent on poverty, with poverty incidence declining from 28.6 percent to 24.9 percent between the first semesters of 2009 and of 2013. Further work needs to be done in translating more of this growth into larger deeper poverty reduction. Continuous efforts are also required to strengthen the capacity of agencies to spend their resources expeditiously and deliver goods and services effectively. This new trajectory of growth and economic stability nonetheless is a necessary foundation for the pursuit of inclusive development.

3.3. Empowerment through fiscal transparency and participation

Inclusive development views poverty reduction and economic expansion not only as purely economic ends. Social protection and meaningful livelihood opportunities are also needed to emancipate the poor and vulnerable from that state of desperation that feeds patronage. Echoing the framework of Acemoglu and Robinson [2012], inclusive development entails the political inclusion of citizens—their inclusion in the decision making of government, most especially in the budget process.

Recognizing this, the Aquino administration alongside its early interventions to plug leakages and unclog bottlenecks, began the work of creating greater fiscal transparency, accountability, and venues for participation [Abad and Capistrano 2013]. From the beginning the government established policies to provide greater transparency in public finances—from publishing PDAF releases online in real time, to requiring all agencies to carry a transparency seal on their respective Web sites, and even as far as translating the Budget into layman's language through the Citizen's Budget. It also created spaces for stakeholders to engage the budget process more meaningfully—from crafting with civil society organizations (CSOs) a set of Principles for Constructive Engagement to developing a formal mechanism for agency-CSO budget partnerships, to initiating Bottom-Up Budgeting in 2012.

Even such nascent initiatives have caught international attention. The 2012 Open Budget Index ranked the Philippines among the top 17 countries on citizen's participation in the budget process (although the recent dip in the rating of essential budget documents must admittedly be addressed).[15] Wampler [2013:40] writes that while the Philippines is "at least a decade behind" Brazil and South Korea in building the infrastructure for transparency and participation, it "has successfully established a series of new institutions that promote participation and transparency".

Still, gaps and challenges need to be addressed. For one, most of these reform initiatives are not set down in the law. Perhaps the most essential law that enables greater transparency, the Freedom of Information Act, remains pending in Congress, although the administration has already signaled its support to the proposed measure. The level of acceptance by government agencies for these new practices is still largely viewed by CSOs to be just at the level of "mere compliance". Meanwhile, on the demand side, CSOs also have much to do—in terms of resources, technical capacity, and even in their numbers—in filling in the new spaces for engagement opened up by government.

The ingredients for increased fiscal transparency and participation are nonetheless present. Khagram, Renzio, and Fung [2013] identify four main causal triggers for fiscal transparency and participation: political transitions, fiscal and economic crises, widely publicized cases of corruption, and external influences. The first has already been provided by the unprecedented victory of President Aquino in 2010. The third trigger has been provided by the most recent turn of events and has given increased momentum to reform. As for the fourth, the Philippines is participating actively in emerging global movements—most

[15] Efforts to address deficiencies in the essential budget documents have been taken: the publication of the people's budget, year-end and mid-year reports, and the budget priorities framework; and the adoption of performance-informed budgeting, which includes performance information in the Budget itself.

notably, the Open Government Partnership and the Global Initiative for Fiscal Transparency.

3.4. PDAF: abolition after attempts to reform

Even before the PDAF scam broke, the administration already sought to reform the controversial fund. The changes included ceilings on allocations per legislator, a limited menu of projects and the profile of beneficiaries that can be funded, and disclosure of releases through an online portal (pdaf.dbm.gov.ph).[16] However, President Aquino [2013] eventually ordered the abolition of PDAF, acknowledging that "despite the reforms we have implemented, we have seen, as the events of the past weeks have shown, that greater change is necessary to fight against those who are determined to abuse the system".

The exposure of the PDAF scam was an unprecedented turn of events in the budget process. As opposed to cases in the past where most allegations of corruption in the use of "pork barrel" were not resolved due to the reign of impunity, the current situation presents a clear opportunity to hold high officials and their accomplices accountable. Recognizing this, the president has ordered the relentless pursuit of those involved in the scam, whether friend or foe, though the expected protracted litigation is a key challenge.

The PDAF scam led to the revival of discussions on the constitutionality of the said fund. It likewise surfaced the more fundamental issue of the delineation of constitutional roles between the executive and legislature in the exercise of budgetary powers. In 2013, the Supreme Court, in *Belgica et al. v. The Honorable Executive Secretary et al.*, declared as unconstitutional not only the PDAF and its previous incarnations but also other forms of pork barrel and congressional insertions, which authorized legislators "to intervene, assume or participate in any of the various post-enactment stages of budget execution", except in the exercise of their oversight functions. It also invalidated the "other such purposes" clause of the Malampaya Fund, and the use of the President's Social Fund for "priority infrastructure development projects". The high court's decision was unprecedented in barring "all informal practices of similar import and effect".

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. For one, the amounts originally allocated for PDAF in 2014 have been reallocated to major departments

[16] As the PDAF scam unfolded, the DBM was enhancing the PDAF portal to permit social media reporting and uploading of photos and videos. Notwithstanding the PDAF abolition, the DBM continues to maintain the portal.

implementing social and economic services.[17] It is enough of a task to dispel popular views that these funds are merely a new form of "pork". The trickier challenge is ensuring that their implementation does not violate the prohibition of post-enactment interventions—especially informal practices.

Most important, the PDAF scam led to an unprecedented outpouring of outrage by citizens—both organized civil society groups and new social media-enabled forces—leading to mass actions, most notably the #MillionPeopleMarch at the Rizal Park on 26 August 2013. Such emerging movements bode well for reforms: their continued presence, increased constituency, and further empowerment would provide constant pressure for reform and a countervailing force against attempts to corrupt the budget process.

3.5. DAP and the president's power over savings

Elements opposed to the pursuit of justice may be expected to retaliate, and they have done so by sullying DAP. Malicious and unfounded as the allegations have been—this author vehemently denies it was used to entice legislators to vote for the impeachment of a chief justice—the controversy nonetheless surfaced valid concerns on the president's powers over savings. Without arguing the legal merits of the case pending before in the Supreme Court at the time of this writing, such fundamental issues need to be discussed.

The power to use savings to augment deficient items of appropriation has been exercised by all post-EDSA administrations, through various mechanisms. The first example was the Reserve Control Account (RCA), first introduced by the administration of President Corazon C. Aquino in 1989 and sustained by the Ramos and Estrada administrations. RCA entailed the imposition of mandatory reserves from the appropriations of agencies and special purpose funds—ranging from 5 percent to 25 percent—to contain deficits and generate funds for various urgent purposes.[18]

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[17] Of the ₱25.2 billion originally in the proposed 2014 Budget as PDAF, ₱3.17 billion was deleted from the GAA, while ₱1 billion was realigned to the Calamity Fund. A total of ₱21.07 billion, meanwhile, was realigned to regular programs and projects of implementing agencies, to wit: ₱4.12 billion to the Commission on Higher Education (CHED) for scholarship assistance to students; ₱3.2 billion to the DOH for hospitalization and medical assistance; ₱1.02 billion to the Department of Labor and Employment (DOLE) for the special program for the employment of students; ₱1.03 billion to the Technical Education and Skills Development Authority (TESDA) for hospitalization and medical assistance; ₱4.09 billion to the Department of Social Welfare and Development (DSWD) for burial, transportation, medical, and food assistance; ₱7.26 billion to the DPWH for local infrastructure; and ₱292.4 million for others (including local government units).

[18] The administration of President Corazon Aquino first imposed budgetary reserves to address the funding requirements of the Salary Standardization Plan, and sustained its use in the context of economic slowdown, political instability, and natural calamities. The Ramos administration continued the use of the RCA to manage the economy, particularly the onslaught of the Asian financial crisis. While the Estrada administration did not impose reserves during its truncated term, it utilized the reserves of the Ramos administration through a congressional resolution extending the availability of appropriations under the 1998 GAA up to 2000.

Eventually, RCA was replaced during the Arroyo administration with the concept of Overall Savings, which entailed the pooling of savings from unreleased appropriations and unobligated allotments to manage the ballooning deficit and augment budgets of certain programs and projects. DAP as a mechanism entailed the use of Overall Savings, but its application was sharpened through a mechanism aimed at selecting fast-moving and high-impact projects that would be augmented.

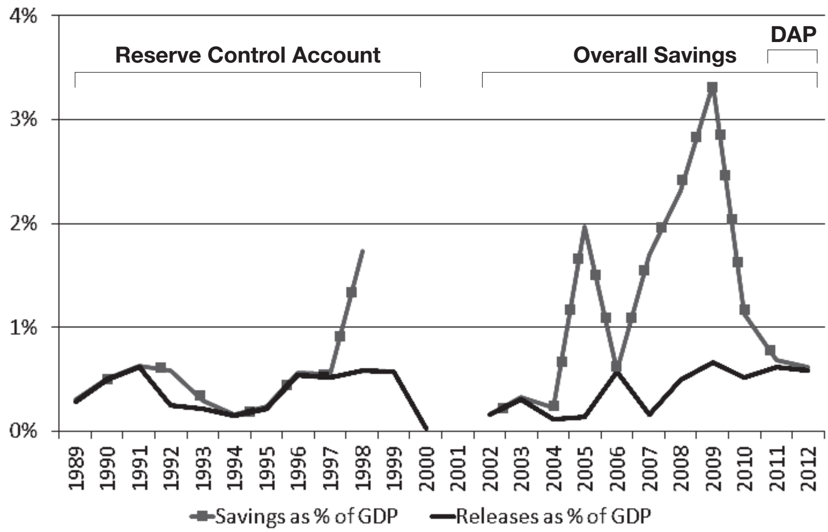

FIGURE 2. Savings and releases as % of GDP, 1989 to 2012

Boncodin [2010] described the president's power to withhold appropriations as an instrument for keeping expenditures in line with fiscal objectives and the use of savings as a practical approach to augment appropriations for similar items in the GAA. However, she also cautioned that such power can be subject to abuse: the president, after all, exercises discretion and, as an effect, "overrides" congressional authority over appropriations [HDN 2009]. The World Bank [2010] also noted that the use of this power over savings, coupled with limited reporting on budget execution, makes it difficult to ascertain the extent of budgetary adjustments made by government, thus limiting transparency.

Many commentators have argued for the "control" of the president's power to impound appropriations and use savings. The motivation behind such views is understandable—the need to put in place institutional safeguards against possible abuse and, more fundamentally, to reassert Congress's authority to appropriate. However, subjecting such powers to the prior approval of Congress unduly ties the hands of the executive and hampers its ability to respond in a timely manner to exigencies such as the "underspending" that led to economic slowdown in

2011 and, more recently, the unprecedented calamities, which had not been amply budgeted[19] in 2013.

We might suggest that rather than imposing superficial and counterproductive "control" the wide latitude that the president must have in managing the country should instead be counterbalanced by increased transparency and accountability: Through more rigorous and proactive public disclosures not only on the use of savings but also more broadly on the use of public funds, and regular reporting to Congress through an institutional mechanism like the Congressional Oversight Committee on Public Expenditures.

4. Transforming the Philippine Budget 2013–2016

At this point of the budget reform struggle, the administration acknowledges the need not only to stay the course but to escalate its efforts to transform the Philippine budget process into a truly inclusive institution. The design and implementation of the Budget from 2014 to 2016 is critical to achieving inclusive and sustained growth [Abad and Capistrano 2013].

Ultimately, a significant dent in the prevailing politics of patronage can only happen if poverty is drastically reduced. The effective delivery of basic services and the creation of more employment and livelihood opportunities will reduce dependency and plant the seeds of genuine empowerment. Unprecedented economic growth has been achieved in the first half of the Aquino Administration, largely through the restoration of public trust in government, including the budget process. The impact on poverty of recent economic growth admittedly still has to be further amplified and, as Socioeconomic Planning Secretary Arsenio Balisacan constantly emphasizes, dramatic poverty reduction requires not only *sectoral* but also *spatial* development interventions. This requires a sharp refocusing of the Budget—not only in the allocation (e.g., more bias for provinces with high poverty incidence, high poverty magnitude, and those vulnerable to climate change) but also in the implementation (the ability to make public services reach targeted areas and beneficiaries).

This can only be achieved through inclusive budgeting institutions. Since 2011, the administration has been rolling out a full PFM Reform Roadmap to cure institutional weaknesses in the budget system: from making budgetary data and reporting more comprehensive and accurate, to improving the capacity of the national government to plan, budget, implement, and evaluate the impact of public expenditure. In implementing this roadmap, the administration seeks not only to bolster the technical capacity of government institutions for financial management, but also to rebalance power around the budget process—away from

[19] Typhoon Yolanda, in fact, necessitated the release of a total of ₱22.7 billion from savings in December 2013.

elite interests that have dominated it, and toward the empowerment of citizens. This section presents key "game-changing" reforms that we believe have the potential to shift the power over the Budget back to the people.

4.1. Performance-informed budgeting

Each budgetary outlay should have a story in terms of the results. "*Dapat may kuwento ang bawat kuwenta*" [each number should tell a story] is a favorite saying among DBM officials and staff. Otherwise, "*walang kuwenta*" [there is no value].

While a laudable reform, OPIF was not significantly "mainstreamed" and its impact on the ability of government agencies to link budgets with intended results had been limited. Performance information was published in a separate volume, the *Book of Outputs*; unfortunately, that information was frequently published too late to be considered in congressional Budget debates.[20] Moreover, the usefulness of the information presented was questionable, for it contained irrelevant information like number of meetings or number of regulations issued.[21] In its first few years, the Aquino administration reviewed the implementation of OPIF, refining the major final outputs and performance indicators of agencies. It sought to align these with the priority outcomes under the Aquino Social Contract and ensure the relevance of its performance indicators on the quantity, quality, and timeliness of service delivery [Abad and Capistrano 2013].

Building on OPIF, the administration in 2013 made a bold move to shift to performance-informed budgeting (PIB). Through PIB, for the first time, the 2014 National Budget—as proposed by the executive and eventually enacted by Congress—presents the government's committed performance targets alongside financial allocations. This is more than a cosmetic change: PIB seeks to tighten the link between budgetary allocations, the outputs that agencies must deliver vis-à-vis their mandates, and ultimately the outcomes to be achieved in the Philippine Development Plan. More fundamentally, PIB seeks to strengthen the institutional checks and balances around the Budget. The executive is, in effect, ceding power back to Congress by enabling it to better scrutinize the proposed Budget and to meaningfully exercise its oversight function over the enacted Budget. Ultimately, however, it is the citizens that PIB seeks to empower by giving them access to new information on government's planned performance, thereby enabling them to hold government institutions accountable for their performance [Abad 2013].

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[20] In fact, its late publication resulted in a significant reduction in the Philippine score in the Open Budget Index.

[21] Even number of phone calls, as former secretary Cielito Habito pointed out during Secretary Abad's professorial chair lecture at the Ateneo School of Government on 7 March 2013.

The administration continues to scale up this potentially game-changing reform. For the 2015 Budget currently being crafted, an outcomes-based approach to PIB is being applied: the Budget will now contain outcome indicators besides output-based performance indicators.

4.2. Performance-based incentive system

PIB and other reforms to establish a greater focus on results and delivery in government institutions likewise seek to strengthen the culture of meritocracy in the bureaucracy. Early into its term, the Aquino administration discovered and sought to eliminate abuses by agencies, particularly government corporations, that scrimped on their budgets and used savings thus generated to give themselves exorbitant but undue bonuses. To further address issues of the government compensation system, it introduced the Performance-Based Incentive System, more commonly known as "performance-based bonus" (PBB). Performance targets of agencies have been cascaded to their units and personnel, whose bonuses depend on their ranking according to how these targets are met.

The administration is certainly committed to further improving and building on this system as it seeks to reform the government salary structure itself—to empower the right people in government and to incentivize excellence in public service. So far, an initial assessment of the World Bank [Hasnain and Banuri 2014], based on a survey with a sample of 4,500, finds that respondents overall are in favor of the PBB. Respondents also reported positive perceptions of PBB in terms of improved teamwork, target setting by management, and fostering trust, although concerns raised by respondents that PBB is unfair and that the individual rating process is not transparent need to be addressed.

4.3. Stronger budget execution and accountability

As part of the PFM Reform Roadmap, the government has rolled out key reforms to ensure fast and efficient implementation of the Budget, as well as timely and accurate mechanisms for accountability. An example already mentioned is a new budgeting regime—the GAA-as-Release Document—wherein the enacted Budget itself beginning 2014 serves as the allotment release document. This means that the budgets of agencies—except for those included on a Negative List[22]—are automatically released to agencies as allotments when the GAA takes effect. As a result, as much as 86 percent of agency budgets were released to agencies on Day One without the need for allotment release documents. This GAA-as-Release Document regime also contributes to greater transparency, as Budgets are now

[22] The Negative List includes remaining lump-sum funds within agency budgets, special purpose funds, other budget items subject to conditions, and automatic appropriations. These still require the release of SAROs after the submission of special budget requests and supporting documents.

fleshed out in greater detail: the GAA is now published in three volumes owing to the great detail of information.

This major paradigm shift, which seeks to eliminate the duplicative and time-consuming process of budgetary release, builds on early reforms, most notably the disaggregation of lump-sum funds and the early bidding, short of award, for infrastructure. It is complemented by other reforms to ensure faster budget execution, such as the issuance of comprehensive notice of cash allocations (NCAs) for the first semester of the year and the shift toward a checkless and cashless payment regime through the expanded modified direct payment system. The latter, once fully implemented, will benefit the private sector dealing with government by minimizing not only payment delays but also opportunities for corruption.

The Unified Account Code Structure that government recently rolled out, meanwhile, ensures that all public financial processes—from budgeting to cash management, to accounting and audit—follow a single classification system. Similarly, DBM and COA have unified their financial accountability report templates. These pave the way for the further integration and automation of the Philippine PFM system toward greater speed and efficiency in budget execution and accountability. The establishment of the Government Integrated Financial Management Information System (GIFMIS), to be completed in 2016, will provide real-time information on government financial transactions and streamline the budgetary release, revenue collection, and disbursement processes. All in all, these reforms bring more predictability, promptness, and integrity in the use of public funds.

4.4. Grassroots participatory budgeting

Shifting the power balance in the budget process necessitates giving a greater and more direct "voice and vote" to citizens over how the Budget is shaped and implemented. As a bold response to the system of pork barrel, the administration introduced the Grassroots Participatory Budgeting Process (formerly Bottom-Up Budgeting)[23] to engage grassroots and marginalized communities in the budget process. The objectives are twofold: (1) to induce greater demand for participation in resource allocation from the communities and the CSOs that served them, and (2) to push for a more meaningful process of devolution among LGUs.

The administration piloted this process in crafting the 2013 Budget, wherein 595 poorest cities and municipalities made local poverty reduction plans in consultation with civil society organizations and grassroots communities in their

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[23] As an aside, one of the motivations for the name change is that it has often been mispronounced as "bottoms-up budgeting", implying an intoxicated manner of expenditure management that is certainly not desired.

localities. This resulted in ₱8.4 billion in locally developed programs and projects being integrated into the 2013 Budget [Abad and Capistrano 2013]. In the 2014 Budget the number of participating cities and municipalities increased to 1,226, resulting in ₱20.1 billion in local programs and projects. The proposed Budget for 2015 targets the participation of 1,634 cities and municipalities, with an initially estimated budget of ₱26.7 billion.

Though it is not yet perfect—particularly on the implementation side where the rollout of local poverty reduction projects needs to be enhanced—the administration is keen to improve this particular reform, since it will install a regime that empowers grassroots communities and makes government truly responsive to their needs. As Wampler [2013:37] said, "the national level government has several incentives to expand their support. First, this changes the budget allocation process at the local level, which permits the national government to sidestep clientilistic exchanges. Second, the government creates "ownership" of proposed public policies among the local population, which should help to improve quality and decrease corruption. Third, the program enables the national government to work directly at the local level, thus helping to empower local CSOs.

The Aquino administration is committed to further improving and institutionalizing the Grassroots Participatory Budgeting process as well as its other reforms to deepen fiscal transparency and participation—a core function of public expenditure management. Grassroots Participatory Budgeting, in particular, supports the ongoing process of local devolution, as it hinges on several reforms that seek to improve the financial accountability of local government units—namely, LGU-PFM Reform, the Seal of Good Local Governance, Mandatory Fiscal Disclosure, and Performance Challenge Fund. The last three reforms mentioned were introduced during the term of the late interior and local government secretary Jesse Robredo [Abad and Capistrano 2013].

5. A legacy of empowerment

Inclusive development requires an empowered citizenry: not only citizens who are capacitated to participate in the economy through the effective delivery of social and economic services but also stakeholders—from civil society to the grassroots communities—who are given greater power to shape the workings of their government. As hard as this administration presses to pursue fundamental reforms, it recognizes that the prevailing political culture cannot be transformed overnight. More important, as the government proceeds from the patronage that exists to the empowerment that is desired, it is for both government and the people to plot and agree on the key milestones that can ambitiously yet realistically be met [Abad 2013].

5.1. The challenge of irreversibility

Channeling the citizen’s newfound energies into constructive means of engagement, while presenting a great opportunity for reform, is a daunting challenge. Many budget reforms have only recently been initiated and are not deeply embedded in the institutions and processes of the National Budget. The bureaucratic culture that can nurture and deepen these reforms is not yet firmly in place. Moreover, the patronage and vested interests that for many decades have exploited and profited from the leakages and structural weaknesses of the budget process are still much around and waiting for an opportunity to reassert themselves. The administration faces the grand challenge of securing the irreversibility of reform.

Nonetheless, several measures have been initiated to create the conditions that ensure the continuity and irreversibility of reforms.

First, *technological innovations*. The administration has actively pursued the digitization of processes to eliminate human intervention in the handling of money or critical documents and inducing greater efficiency and transparency in processes. The GIFMIS, once in place, will provide a singular information management system for all public financial management processes. While that is still in the works, other quick-mobilizing yet high-impact digitization initiatives have been taken. The use of ATMs (automated teller machines) and biometrics for pension payments is part of the process of eliminating “ghost” pensioners. Another example is the establishment of a system for the online submission of budget proposals, which has so far eliminated a month’s worth of encoding and other clerical work. The expansion of PhilGEPS—toward enabling fully electronic bidding—also continues.

Second, *legal and policy reforms*. Certain reforms are already embedded in statutes and executive issuances, and have led to the restructuring and reconfiguration of the operations and procedures of government agencies. For one, the annual GAA itself mandates the disclosure by agencies of fiscal information and reports through the Transparency Seals on their respective Web sites. Similarly, the Seal of Good Housekeeping, which the Department of the Interior and Local Government awards to LGUs for complying with mandatory financial disclosure requirements, has been expanded to the Seal of Good Local Governance to establish a higher bar for other governance areas such as business competitiveness and disaster preparedness. The GOCC Governance Act establishes a body dedicated to overseeing and rationalizing GOCCs. President Aquino has also issued fiats ordering all agencies to use PhilGEPS and the Procurement Service in their procurement activities.

Third, *political irreversibility*. Broad acceptance of budget process reforms, from budget preparation to budget accountability, has led to great improvements in resource allocation for basic services, a dramatic reduction of graft and corruption, marked improvement in efficiency, greater transparency in fund releases, procurement and disbursements, and a greater space for citizen engagement in the budget process. With such changes, stakeholders from the poor, civil society, the media, government personnel, and bilateral and multilateral partners have formed higher expectations of how government should serve and engage them. These higher expectations will encourage reform stakeholders not only to demand further improvements but also to oppose any reversal.

Fourth, *restoration of credibility from the investing community*. There is no better gauge of this than the first-ever investment-grade credit rating the country has achieved from all three major rating agencies. This is due to the strong macroeconomic position, the highly transparent and accountable governance regime, the political stability currently obtaining, and the unprecedented trust and approval ratings of the Aquino administration. Clearly, a reversal of these conditions can only lead to increased borrowing costs, less foreign direct investments, and the return of the boom-and-bust cycle of growth. Such a situation can only lead to familiar patterns of economic reversal, underdevelopment, and political upheaval.

5.2. A great opportunity

In all reform initiatives and gains discussed thus far, the central role of the state in pushing reforms and clearly taking the side of the reform elements—whether in Congress, the bureaucracy, or the general political arena—is critical. This is exemplified by the successful passage of the the Sin Tax reform law after a decade-and-a-half of struggle. Without the administration's full support and without its productive alliances with reform stakeholders, this landmark legislation would not have been possible. This reverses the past configuration in which the state served more as an instrument by which monopolistic interests and their government sponsors managed to block efforts to exact appropriate revenues from the industry.

Clearly, the state's interventionist and reformist role is a crucial factor in the continuity of the transformation of government, particularly the budget process. But will there be continuity in the reforms already begun by this administration, or will the country suffer a reversal? A good part of the answer will depend on how the 2016 elections are framed—as a process to ensure the continuity and irreversibility of the reforms, or as a "business-as-usual" exercise? It will be a process to ensure continuity only if enough stakeholders work to so define it.

The country is presented with a great opportunity, now that the people desire a larger role in the way their government is run, especially in how their hard-earned taxes are being used. They increasingly demand a government that will sustain and deepen the changes that have already begun to benefit them. This is ultimately the legacy the Aquino administration wishes to leave: a democratic system that not only works for the people but is truly owned by them. For such a system to prevail, the budget process must remain a key arena of citizens' vigilance and action—the essence of People Power.

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