

Chapter 2

CONTROL POINTS IN THE EXISTING BUDGET EXECUTION SYSTEM AND ISSUES THAT HAVE TO BE ADDRESSED

1. Control Points

The existing matrix of control points associated with the stages of budgeting and an inter-related process (evaluation of major projects¹⁷ by the Investment Coordination Committee or ICC) is shown in [Table 1](#). If there is no resource shortfall, the BESF as adjusted for the National Expenditure Program (NEP) changes introduced by the Congress would be sufficient to control the obligation budget program. In the longer run, almost all department/agency appropriations may be classified as not needing clearance (NNC) if budget preparation (including Sector Effectiveness and Efficiency Review or SEER) is started much earlier. The Notice of Organization, Staffing, and Compensation Action (NOSCA) is tediously prepared by DBM for agencies without fiscal autonomy. (Constitutional offices have fiscal autonomy and can prepare their own NOSCA following DBM guidelines.) SAROs for computers and motor vehicles are released subject to clearance by proper authorities.

1.1 Control of Obligation Budget Program Within Reassessed Resource Level and Approved Appropriations

1.1.1 *DBM Initially Sets the Obligation Budget Program in the National Expenditure Program (NEP) Consistent with Expected Budget Resources*

During the budget preparation stage, the DBM ensures that the obligation budget program can be funded by expected budget resources (revenues and net financing defined as net borrowings plus cash balance drawdown) and is covered by automatic appropriations and proposed general appropriations.

BESF 2001 defined appropriation as "an authorization made by law or other legislative enactment, directing payment out of government funds under specific conditions or for specific purposes". Notwithstanding the term "directing", it should be noted that an appropriation enables (not mandates) the executive branch to pay. AO 292 empowers the President not to use part of the spending authority if revenues fall short of target. The phrase "specific purposes" also appears to connote that the appropriation (or its implementing mechanisms) will have to be detailed and consistent with line item expenditure control in the prior system. In the context of PEM, the appropriation is better expressed in general or aggregative terms (by MFO). This author therefore suggests the following definition of appropriation as "an authorization made by law or other legislative enactment, enabling payment out of government funds under

specific conditions or for specified outputs□.

The aforesaid document defined automatic appropriation as □a one-time authorization to provide funds to support obligations for a specified purpose of project for which the amount is not fixed by law and is automatically available and set aside as needed□. Also, continuing appropriation as □a one time authorization to provide funds to support obligations for a specified purpose of project for which the amount is not fixed by law and made available until the purpose for which it has been appropriated is fulfilled. Finally, general appropriation is □an authorization for incurring obligations during a specified budget year□. This pertains to the annual appropriations under the General Appropriations Act.

It may be noted that the obligation budget is derived from the aggregate cash budget program. The sum of expected revenue and targeted net financing (equal in value to the deficit) determines the overall cash ceiling. On the disbursement side, allocations are made for check floats/accounts payable and cash for current budget is residually computed. The last variable is then divided by a historically determined level of current-budget-cash-disbursement-to-obligation budget ratio to determine the obligation budget ceiling. (It should be noted that this is net of payment of the principal components of debts.)

1.1.2 During Second Quarter, the Development Budget Coordination Committee (DBCC) Usually Starts the Reassessment of the Attainability of Forecasted Budget Resources and if Necessary DBM Recommends to the President an Administrative Order (AO) Mandating Agencies to Identify Potential Savings

During the second quarter when first quarter data are available, the DBCC starts the reassessment¹⁸ of the attainability of budget resources as expected during budget preparation stage in the light of current and emerging prospective events. If not attainable, then a revised expected budget resource level is set. Then, the DBM determines if the budget program translation of the GAA and automatic/continuing appropriations is still within the level of the expected resources (which could be original or revised, whichever is the case). If within, the said program¹⁹ will be used for the year. If not, then DBM may recommend to the President the issuance of an administrative order (AO)²⁰ mandating line entities to generate savings based on certain general principles. If approved, the DBM issues the implementing circular.

1.2 Control of Allotments Within the Obligation Budget Program

In 1995, a simplified fund release system (SFRS) was introduced through National Budget Circular (NBC) No. 440 which stated that:

□ *The SFRS is a standardized system of releasing allotments based on a predetermined categorization or disaggregation of agency budgets. Under this system, the category of the expenditure items determines the timing and the release of agency allotments. Releases, in turn, are made in*

accordance with a prioritization scheme consistent with government's overall development policy.

Comprehensive releases were covered by the general allotment release order (GARO) and releases needing clearance (NC) were made through the special allotment release order (SARO)²¹. In lieu of a detailed analysis of programs, activities, and projects (PAPs) by expense class as incorporated in the previously-used work and financial plan (WFP), the determination of obligational authorities that are classified as GARO or SARO is policy-based. For instance, a policy may be set such that certain percentages of specified expense classes are covered by a one page GARO (with quarterly breakdown) applicable to all government agencies, thus simplifying the release of a major proportion of allotments corresponding to agency appropriations²².

The agency budget matrix (ABM) was introduced as an integral part of SFRS. The 2001 ABM²³ presents the breakdown of programmed appropriations into: (a) agencies; (b) programs/projects; (c) appropriation source; and, (d) fund. Further, the ABM distinguishes the amounts that need clearance (NC) and those that are not needing clearance (NNC). The 2001 ABM²⁴ is presented by program/project with allotment class breakdown (personnel services or PS, MOOE, and CO) is much simpler than its 1999 counterpart which has detailed object of expenditure breakdown (traveling, utility expenses etc.).

In 2000, the what-you-see-is-what-you-get (WYSIWYG) policy is implemented and the NNC components of department appropriations in the GAA become the bases for entering into obligations by the agencies. In concept, the NC and NNC components of agency appropriations are precisely determined in the ABM. However, departments (like the Department of Transportation and Communications or DOTC) are generally able to get a fairly accurate information on the NC/NNC breakdown of line entities appropriations based on DBM issued circular and on consultations with BMBs. SAROs are also being released even without the ABM. (For instance, the 2000 ABM²⁵ was released in December and SAROs specifying the breakdown of DOTCs lump sum infrastructure program were released after the 2000 GAA was approved in April. Prior to that time, agencies are only allowed, on a monthly basis, to incur obligations equal to 1/12 of yearly total appropriations.)

1.3 Control of Line Entities Cash Disbursements

National Budget Circular (NBC) No. 473 was issued providing guidelines for the release of fiscal year 2001 funds. It also requested line entities to submit a proposed annual cash program (ACP presented in Annex B of the said circular) broken down into regular budget (general administration and support services or GASS, support to operations or STO, and operations)/locally funded projects and months and covering only the NNC portion of the ABM, retirement and life insurance premium (RLIP), and unobligated continuing appropriations released last year. Separate ACPs may be prepared for NC portions of ABM, unreleased 2000 continuing appropriations, special accounts in the general fund (SAGF), and claims against SPFs.

Adriatico (2001) stated that Notice of Cash Allocations (NCAs)²⁶ are released to agencies generally on the basis of average monthly requirement (full year amount for NNC²⁷ in the ABM divided by 12) with a deduction, in principle, of the unused NCAs in

the immediately preceding month. However, Navarro (2001) said that in practice, the unused NCAs of a given month was deducted by a number of DBM analysts from the programmed NCA in month +2. For small agencies with negligible capital outlays (CO), this methodology results into a cash release that closely match the agencies' proposed ACP. In case the CO is significant, then 15% mobilization fund is released and the balance is in accordance with ACP. For the Department of Public Works and Highways (DPWH), she said that the proposed ACP was approved and is the basis for release of NCAs. Additional NCAs are released when the SAROs are released.

Manglo (2001) stated that ACPs cannot fully be integrated due to non-submission by a significant number of agencies and consequently the same are not used in forecasting government's total cash disbursement this year. This forecasting is done by major allotment class. For instance, the 2001 obligation program for CO is multiplied by its corresponding historical ratio of cash in support of current and unobligated continuing appropriations²⁸ to the current obligation program. (It may be noted that this methodology will result into implicit provisions for the cash required by unobligated continuing appropriations. However, if the ratio of unobligated continuing appropriations to subsequent years appropriation drastically changes then, the aforesaid implicit provision would be inaccurate. It is better to monitor and transparently consider the cash provisions for unobligated continuing appropriations.)

1.4 Control of Staffing Patterns and Position Classifications/Compensation

Based on certain standards and guidelines, the DBM analyzes and approves/disapproves agency proposals on staffing pattern changes and position classifications/compensation. In this regard, the control document used by DBM is the Notice of Organization, Staffing, and Compensation Action (NOSCA). In case of funds for contractual personnel, it appears that the NOSCA specifies the number/compensation of personnel belonging to a salary grade and number of months duration for each. Funds for new permanent positions are usually provided on a full-year basis.

1.5 Other Control Points

1.5.1 Forward Obligational Authorities (FOAs)

A prerequisite for the contracting of a foreign-assisted project (FAP) loan is a FOA, which in concept is DBM's "promise" to annually propose the appropriation (if necessary), program, and release on a best-effort basis the multi-year funds required to implement the involved project.

1.5.2 Corporate Operating Budgets (COBs)

Pursuant to Executive Order No. 518, government and/or controlled corporations (GOCCs) are supposed to submit their COBs duly approved by their respective boards of directors as basis for release of budget support. In practice, releases are made even without approved COBs particularly for GOCCs (like National Irrigation Administration and

National Food Authority) that normally rely on subsidy from national government.

1.5.3 Releases for □ Controlled Equipment □

The funds for certain equipment (motor vehicles and computers) are released only if the requisite approvals are made. In case of motor vehicles, the Office of the President will have to approve the authority of an agency to purchase car/s. In case of computers, the National Computer Center (NCC) will have to approve the information technology plan of the agency involved.

1.5.4 Tax Remittance Advices (TRAs)

Prior to 2001, DBM releases the NCAs for agency personnel □s salaries gross of withholding taxes. Starting 2001, NCAs were released on a net basis. The amount quoted in TRAs is equal to the withholding taxes in the agency involved. DBM releases the original of the TRA to the agencies with a copy furnished to the Bureau of Internal Revenue (BIR). While the idea of withholding taxes at the NCA stage is good, it appears that with the underdeveloped information technology systems in agencies, the tediousness of incorporating the withholding tax impact of certain changes (like increase in the number of dependents) for individual government employee-taxpayer throughout the country has given rise to a lot of operational problems.

2. Peripheral Issues Related to and Direct Issues to be Addressed to Improve Budget Execution in the Philippines

2.1 A Peripheral Issue: How Important is Deficit Control?

2.1.1 *The Fiscal Deficit as a Figure in Search of a Theory*

The deficit (shortfall of revenues vis-à-vis disbursements) does not measure the fiscal sector □s impact on the gross national product (GNP). It does not also measure money creation attributed to the fiscal sector. Foreign interest payment and imports by government increase the fiscal deficit and reduce²⁹ money supply.³⁰

Since the deficit does not measure money creation attributed to the fiscal sector, then what does it measure? The simple answer is nothing. American economists, Auerbach et al., (1994) referred to the deficit as □ a figure in search of a theory □. (Two decades ago, when the levels of the Philippine government □s foreign borrowings and imports were not substantial, the deficit may be considered as a good approximation of money creation attributed to the fiscal sector.)

2.1.2 *Lack of Conceptual Integrity of Setting Deficit Targets³¹ without Knowing the Networths of the Country/Government Involved*

Setting a deficit target without knowing the net worth of the

government/country involved is a shallow and flawed approach. This is like arbitrarily deciding that the deficit of a private corporation should be limited to 3% of its value added without knowing its debt-equity ratio. What if the borrowing is 5% of value added but that will finance a breakthrough research that have high success probability and that the borrowing will result only in a debt equity ratio of 0.7? Under those circumstances, the prudent way to do is to borrow.

This is one of the reasons why the System of National Accounts (SNA) 1993 prescribed to all governments worldwide, the preparation of balance sheets and statement on accrued revenues/expenses following procedures that are similar to commercial accounting principles in the private sector.

2.1.3 The Relevance of Deficit Control to Investors/Creditors Psychology

Notwithstanding its search for a theory, the deficit is still viewed by the International Monetary Fund (IMF) and a significant number of investors/creditors as an indicator of aggregate fiscal discipline. It may be noted that the number of investors that uses the deficit control as an important indicator of aggregate fiscal discipline is perhaps declining. Lopez (2001) stated that an executive of foreign-based securities company said that he does not regard deficit as that important. He said that what is more important is the soundness of policy framework and consistency of application. It appears that deficit control is relevant only to investors/creditors psychology to the extent that the credibility of IMF³² does not go below a threshold. From a purely psychological perspective, this paper assumes that deficit control is still relevant during the next five years.

2.2 Another Peripheral Issue: Positive and Negative Incentives to Encourage Agencies to Enhance Allocative and Operational Efficiencies

In the past, the DBM encourages efficiency and responsible fiscal behavior by prescribing rules. If a number of agencies do not follow a rule, then additional complicated rules are introduced leading to a complex regulatory system. This backfires in terms of program/project implementation.

If an agency follows the rules, then there is no reward and if it does not follow rules, then there is usually no negative incentive. A COA auditor stated that a GOCC prescribed allowances³³ that are in excess of what is provided for by law. However, there was no consequence whatsoever.

Prescribing positive and negative consequences for non-compliance with appropriate rules (and non-attainment of MFOs) is a rudder solution to encouraging efficiencies in agencies. PEM recognizes that a system implementing these consequences is important.

In other words, it is all right to give flexibility to agencies but the OPIF will have to

cascade down to individual units/personnel, whose performance indicators will include compliance with rules set by oversight entities. (According to present civil service regulations, two consecutive unsatisfactory rating is punishable by removal from office.) If the violation of rules is major (like issuing modified disbursement system or MDS checks payable to cash)³⁴ and is later on defined as an administrative offense, then administrative cases will have to be filed.

2.3 Persistent Budget Resource Shortfalls

2.3.1 A Need to Improve Collection Efficiency

The Philippine income tax reform of 1998 (where foreign income³⁵ of Filipinos temporarily visiting overseas are no longer taxable) and the shift from ad-valorem to specific taxation of oil products as well as an apparent decline in administrative collection efficiency appeared to have substantially eroded the tax base in 1999 and 2000. A challenging but realistic target (that consider the first two factors) should be set for BIR. Longer-term measures that will effectively improve the revenue effort should be identified and implemented.

2.3.2 Full Expenditure Programming (During Budget Preparation Period) of Targeted New Revenue Measures and Privatization Proceeds Exerts an Upward Pressure on Deficit

Further, past experiences indicate that the revenue shortfalls arose because new measures were not passed and/or privatization efforts were delayed. In the future, these measures may be matched by lower priority expenditures so that if the same are not realized, then the said expenditures are automatically cut. Another way is to exclude these measures fully or partly from the revenue target and match the excluded amount with unprogrammed appropriations.

2.3.3 The Need to Reduce the Obligation Budget Program to the Full Extent Required in Case of Resource Shortfalls

During years characterized by resource shortfall, the obligation program is not cut to the full extent required to maintain the deficit target. Instead, the releases of NCAs are postponed.

2.3.4 Cash Rationing is Resorted to Partly as a Consequence of Resource Shortfalls and Insufficient Cuts in Obligation Programs

A consequence of resource shortfalls and insufficient obligation program cuts (vis-à-vis that required to maintain the deficit ceiling) is cash rationing to line entities. DBM does not match the current budget obligation program (net to direct-payment transactions in foreign-assisted projects or FAPs) fully with current-budget NCAs. It may be noted that even if DBM does and a project is not implementation-ready, then part of the NCA will not be used. This should not pose a problem if the agency internal control system is working. (For instance, administrative cases

should be filed against agency budget/ finance officers who issue MDS checks without a payee.³⁶⁾

For accounts payable, the agencies submit the prioritized list of creditors (like suppliers and contractors) and DBM chooses the cut-off creditor and all creditors that have higher priority than the cut-off are paid.

2.3.5 Cash Rationing and Unpredictability as the Number One Factor that Hampers Production of Major Final Outputs (MFOs) by Line Entities

Interviewed budget officers of four departments said that the number one factor that hampers MFO production by line entities is rationing of cash and unpredictability. In 2001, baseline expenditures were not apparently protected from the savings that are required to be generated by AO 5 (which mandated a 5 or 10% cut on non-PS program depending on whether or not the agency involved implements high-priority PAPs) and this resulted into lack of expenditure predictability.

Cash rationing also backfires at times. According to Garriel (2001), the Finance Director of the Department of Social Welfare and Development (DSWD), Ms. Guillerma Flores stated that a delay in the release of funds to pay premium for the insurance of a building was delayed for at least three months. A fire broke and the building did not have an insurance cover.

2.4 The Need to Improve the Outcome-Oriented and Ensure the Medium-Term Financial Sustainability of Expenditures

A significant number of lump sums (like infrastructure lump sum for the Department of Transportation and Communications or DOTC) are integrated into agency appropriations. In the longer run, it may be necessary to have a longer period for budget preparation/associated processes so that for instance, the outcome orientation of the projects chargeable to the aforesaid infrastructure lump-sum could be analyzed in the SEER³⁷ (undertaken by line departments with NEDA guidelines). Consequently, the project listing in agency budgets could be fully analyzed and finalized during budget preparation period. In this way, lump sums (and items needing clearance) in agency appropriations are minimized, if not eliminated.

Cacatian (2001) stated that DOTC's detailed specification of infrastructure projects in the ABM have always been approved by DBM. (DBM personnel are not in a best position to analyze projects' economic benefits net costs from the country's perspective.)

When this author became undersecretary of DOTC in 1988, he noticed the 'political programming' practice as applied to airports. Many of the more than 70 airports in the Philippines need to have longer runways to fully comply with international standards. (If a specific runway is shorter than standard, the appropriately sized planes can only land with say 70% load factor.) Instead of focusing in the lengthening of runways with high traffic, DOTC's programming was to accommodate politicians countrywide and a few meters of runway extension was programmed for as many airports as possible, many of

which have low traffic. The author then directed the planning unit of DOTC to limit the programming with high traffic so that a certain number would be able to comply with international standards as soon as possible. This is the type of analysis and decision on project details that should be done in SEERs.

2.4.1 Financial Unsustainability in the Medium Term and Lack of Outcome-Oriented of Certain Releases from Special Purpose Funds (SPFs)

In case of new FAPS, the same will have to pass the tests of (a) economic viability from country's perspective and (b) whether or not government (or some other entities) should implement the project. The first test has been conducted by ICC while the second is proposed by this paper to be undertaken by DBM given the guidelines from the Presidential Committee on Effective Governance (PCEG).

Passing these tests are necessary but not sufficient to merit implementation. The final test (which is proposed to be undertaken by DBM) is that pertaining to medium-term financial sustainability. During a certain budget execution year, a SARO amounting to P274 million and charged to the Foreign Assisted Project Support Fund (FAPSF) was released to implement a new FAP that involved the purchase of patrol vessels (of the Bureau of Fisheries and Aquatic Resources or BFAR) to help control foreigners' illegal fishing in the Philippines seas. Llanto (2001) said NEDA classified that project as low priority in view of lack of linkage to desired outcomes.

When the aforesaid amount was released, the aforesaid project was not subjected to the test³⁸ of financial sustainability under the medium-term expenditure framework (MTEF). (For details of the aforesaid test, please refer to Table 33 of A Manual on Public Expenditure Management in the Philippines.)

2.4.2 Performance Indicators (PIs) in the Physical Performance Report Collected from Agencies During BES Lack Outcome Orientation

Notwithstanding the issuance of Budget Preparation Form 206 (which is consistent with organizational performance indicator framework or OPIF) in the 2001 Budget Call, NBC 473 still required agencies to submit PIs based on the quarterly physical report of operations. These PIs lack outcome orientation. (It may be noted that agencies' performance is affected by its capacity to attract good personnel. This capacity is lacking given the generally uncompetitive compensation.)

2.5 Agencies' Lack of Flexibility in Financial/Personnel Management Dilutes Accountability

Accountability is diluted because of lack of agency flexibility in financial/personnel management. (For instance, agencies without fiscal autonomy have to seek DBM approval on staffing changes.)

2.6 2000 ABM was Released in December

In 2000, a number of line entities (like the Department of Transportation and Communications or DOTC) received their Agency Budget Matrix (ABMs) in December. In 2001, the ABMs were released during the second quarter and included potential savings under AO 5.

2.7 The Need to Improve Cash Programming

2.7.1 *Delayed Cash Release Programs (CRPs)*

The annual budget execution circular requests agencies to submit their CRPs with monthly breakdowns. The CRP submission by agencies and consequent DBM approval are unduly delayed. For instance, less than 20% of agencies have approved CRPs. Prior to the approval of an agency's CRP, the monthly NCA release is equal to one-twelfth of the full year program. (The full year program is usually set at less than the full year obligation program net of direct payment transactions in FAPs.

2.7.2 *Tedious Accounts Payable³⁹ System Results to Delays in Payments Which Backfires on Government*

It appears that the reason for segregating prior years' accounts payable (AP) and current-budget NCAs was that in the past, a number of agency creditors complain that they submitted their billings earlier than other creditors but got paid at a much later time.

In May 2001, the DPWH requested for the release of NCAs of about P10 billion of due and demandable AP (with prepared vouchers). DBM released only one half of the amount in view of its program. The balance together with an additional request of P 3.7 billion was fully released subsequently.

As a consequence, Samson (2001) stated that private firms bidding for infrastructure and other contracts would normally factor in their bids, the time value of money corresponding to assumed delays of 7 to 8 months.

¹⁷ Major projects are defined as those costing P300 million or more. Initially, the projects were limited to foreign-assisted projects (FAPs). Fairly recently, major locally-funded projects are included.

¹⁸ Pascua(2001) stated that the preparation of agency operating budgets is started prior to the budget year up to February. The President signs the GAA into a law prior to this second quarter. Lopez (2001) stated that this reassessment was started during the first quarter for budget preparation 1999 and 2000. From 1994-1997 when the fiscal sector was in surplus, it appeared that the budget resource assessment was made towards the

middle of the year involved.

¹⁹ In unusual cases, there may be some minor additional programming.

²⁰ The most recent issuance of this nature is Administrative Order (AO) No. 5.

²¹ BESF (2001) defined SARO as □a specific authority issued to one or more identified agencies to incur obligations not exceeding a given amount during a specified period for the purpose indicated. It shall cover expenditures the release of which is subject to compliance with specific laws or regulations, or is subject to separate approval or clearance by competent authority. □

²² In terms of work simplification, SFRS was rated favorably by DBM regional offices and less favorably by central office officials/personnel. Lopez (2001) attributes the resistance in the central office to the creation of another bureau which has been perceived as having reviewed the work of BMBs (formerly known as BFBs). Apparently, the review in the regional offices is done by the assistant director.

²³ The original ABM in 1995 has more details like the object of expenditures.

²⁴ For entities with fiscal autonomy, items of expenditures (like new positions) where clearance is required for regular agencies are classified as NNC in the ABM. Given DBM guidelines, these entities can modify their staffing patterns and approve their own NOSCA and merely copy furnishes DBM.

²⁵ The apparent original intent was to release SAROs based on the ABM. However, SAROs were released even without the corresponding ABM. Cacatian (2001) stated that (a) the delayed release of SARO, not ABM, which contributes to the delay in infrastructure project implementation and (b) the ABM□s use in 2000 was as a basis for expenditure booking and COA□s audit. (The project break down of the infrastructure lump sum appropriation in DOTC is specified in the ABM.)

²⁶ BESF (2001) defines NCA as a □cash authority issued on regular basis by the DBM to central, regional, and provincial offices and operating units to cover the cash requirements of the agencies□. In essence, the NCA is an agency□s authority to issue checks chargeable to a Bureau of the Treasury□s deposit with Land Bank of the Philippines and other authorized banks. It may be noted that DBM issues separate NCAs for current budget and prior years□ accounts payable.

²⁷ Direct-payment transactions in foreign-assisted projects (FAPs) are netted out since these transactions do not require NCAs.

²⁸ It should be noted that disbursements on the obligated component of continuing appropriations would be classified as accounts payable in the cash operations report (COR) of the Bureau of the Treasury.

²⁹ Recall that the following formula links the stocks of monetary base (which is derived from the balance sheet of the monetary authorities and which has domestic and foreign components) and money supply:

$M = m (NDA + NFA)$
where M is total money supply (of a country)
m is the money multiplier
NDA is the domestic component of the monetary base
NFA is the foreign component of the monetary base

In essence, NDA (the net domestic assets backing the country's money supply) is the gross domestic credit net of domestic liabilities created by the monetary authorities. NFA refers to the net foreign assets which change with the balance of payments transactions. (The monetary base is also called high-powered money). From the formula, it is obvious that foreign interest payment and imports reduce NFA and hence money supply or M.

³⁰ It may be noted that in a relatively open economy (where by definition import tariffs are low), prices of goods are perhaps more sensitive to international competition than money supply.

³¹ Bernardo and Tang (2001) stated: □ Presently, the principal control instrument for government fiscal management is the cash budget, a level of sophistication in financial management not much more than a sari-sari store □s. The Philippines, however, is not uniquely situated. Even the most advanced countries moved to accrual accounting only in the past decade or two. □

³² A Daily Inquirer (July 10, 2001) article entitled □ IMF has lost credibility, says Nobel prize-winning economist □ quoted the aforesaid economist (Robert Mundell) as having stated: □ The IMF and the World Bank have lost credibility, especially the former that protects investors rather than helps debtor countries. □

³³ This is a double-edged sword. Based on good practices overseas, the appropriate compensation policy would be to reduce the gap between private and government sectors. (*This is a complex issue that leads to more complex issue of government □s financial capacity, reengineering, etc.*)

³⁴ It may be noted that in the 1997 survey assessing the SFRS, 12 agencies said that it is possible to draw cash from MDS depository banks without NCAs.

³⁵ The impact of this factor will have to be further reassessed. If taxes on these incomes were not collected prior to 1998, then that factor is not a major explanation for the tax-base erosion.

³⁶ Cacatian (2001) stated that COA prescribed a rule that each MDS check should specify a creditor.
If a case is not filed, then controlling the NCAs will not discourage agencies to violate DBM guidelines and will backfire in terms of accountability. (The agencies will use the lack of NCAs as the reason for underperformance.)
When the PIs in OPIF are cascaded down to individual units, officers, and personnel in the agencies, then violation of DBM guidelines will affect the performance of these entities.

³⁷ Projects should operationally be categorized into national (those with country-wide scope and economic impact) and regional. An example of the former is a national transportation backbone.

NEDA central office will spearhead the SEER for national projects while the Regional Development Councils will undertake similar activities at the regional level. In this case, the RDC may substitute a regional project of a department with another project in another department for as long as the total amount for the region is maintained. Once the Regional Development Councils (RDCs), with the help of NEDA regional offices have determined the outcome-oriented projects, then project lists are farmed out to the various departments involved for incorporation in their respective budget proposals. A prerequisite for the inclusion of a subnational project in a department's budget would be the joint concurrence of the department and the RDC involved.

³⁸ It appears that the project was "driven" by a creditor (government of Spain which has suppliers of patrol vessels). Trinidad (2001) stated that a number of FAPs are creditor-driven. (This matter will have to be addressed by ICC.) It may also be noted that other large projects have been started in the past only to find out that the required funds are not available after a few years.

³⁹ It may also be noted that the CRP format in the NBC 473 does not explicitly provide for AP payments. Manglo (2001) stated that a number of agencies includes AP payment provisions in their proposed CRPs while the rest do not. The CRP format may be limited to current budget NCAs.

(End of Chapter 2)

[Back to top of page](#)