

Chapter 3

PROPOSED IMPROVEMENTS THAT APPLY TO BOTH BUDGET PREPARATION AND EXECUTION STAGES

1. Government Should Concentrate on Performance Management

1.1 *Implementation of Organizational Performance Indicator Framework (OPIF)*

In November and December immediately prior to a given year, DBM (in coordination with the Presidential Management Staff and NEDA) and line entities should finalize the organizational performance indicators (PIs) in BP 206 as incorporated in the line entities' submissions corresponding to the Budget Call for that given year. The idea is to ensure that the PIs are consistent with OPIF. The performance levels/parameters (like quality of service indicators and associated target measurements) will have to be agreed upon by the aforesaid entities.

In simple terms, OPIF prescribes the following guidelines:

- limit output indicators to those serving external clients and that are linked to outcomes (these outputs are called MFOs);
- focus in measuring the quality and timeliness (if measurable) aspects of MFOs;
- consider the MFO quantity as a PI if the same is controllable (fixed target MFOs);
- exclude indicators on GASS and other internal services;
- identify a CSF indicator associated with non-measurable MFOs that are politically sensitive;
- remove all non-financial input indicators;
- use as financial PIs the indicators in Table 14 of A Manual on Public Expenditure Management in the Philippines (2000); and,
- limit the list of PIs for an agency or department to one or two pages;

In the first item, final outputs not linked to outcomes are not included since there is no sense in measuring the performance of an entity in producing something that it should not produce in the first place. In relation to the last item, entities with homogenous MFOs could have as a PI, the limiting of MOOE (net of retirement gratuity) per MFO to a certain level.

1.2 *Issuance of an Administrative Order Holding Department Secretaries Accountable for Organizational Performance in OPIF and Key Process Indicators (KPIs) to Promote Allocative/Operational Efficiencies*

This paper suggests the issuance of an administrative order holding department secretaries accountable for organizational performance in OPIF and KPIs to promote

allocative/operational efficiencies and aggregate fiscal discipline. The weights of the former and latter could be 60% and 40%, respectively.

The Executive Secretary (ES) with the assistance of DBM, NEDA, Civil Service Commission (CSC), and Presidential Management Staff (PMS) could be responsible for implementing the performance management efforts of the executive branch. The aforesaid KPIs could include:

- identified MFOs (final outputs linked to outcomes) are acceptable to the ES, as supported by NEDA;
- formulated ideal long-term organizational framework is acceptable to the ES, as assisted by DBM;
- identified performance indicators (PIs) for entities officials/personnel are consistent with OPIF PIs, as analyzed by ES with the help of CSC, DBM, and PMS;
- when there are evidences (like adverse COA audit findings on overpricing) of corruption or when reasonable rules by DBM, COA, and other oversight entities are violated, the department secretary involved should manifest resoluteness in filing administrative cases against concerned subordinates.

The implementation of these KPIs will exert upward pressures on allocative/operational efficiencies. (It may be noted that aggregate fiscal discipline is partly taken care of by one of OPIF financial indicators discouraging entity heads to have obligations in excess of allotments.)

1.3 Include Compliance with Selected DBM Guidelines as Part of the Individual Accountability of Agency Head and Budget Officer

In the past, DBM tries to directly control expenditures via the appropriation and budget program. To force agencies to fully pay for mandatory MOOE , its details are specified in the GAA and even in the past advice of allotments during the eighties. This unduly complicates the budget system.

As a rudder solution, this paper suggests that a significant number of the controls be considered part of the accountability of agency heads and budget officers. Compliance with the following guidelines may be considered as part of the performance criteria or indicator for the aforesaid officers.⁴⁰

- increasing proportion (if feasible) of resources poured on MFOs;
- mandatory MOOE and FAPs (to the extent consistent with improved implementation capacity) should be fully provided during budget preparation stage;
- no realignments from (a) GASS to minor outputs, (b) from MFOs to GASS/minor outputs, (c) high-priority MFOs to medium-priority MFOs;
- the full amounts required for direct-payment transactions of FAPs shall not be realigned;
- budget realignments from non-permanent to permanent personnel will only be allowed if the latter is underprovided;
- personnel budget savings can be transferred to MOOE/CO but not vice-versa;⁴¹

- obligations incurred should not exceed allotment;⁴²
- original appropriations for motor vehicles and intelligence funds are not exceeded, except as otherwise authorized;
- certain equipment (like motor vehicles and computers) are purchased in accordance with prescribed guidelines;
- inventory of supplies/materials should not exceed 3 months unless exceptions are approved by DBM on highly meritorious cases⁴³;
- seminar/workshops should be undertaken in venues that are not equivalent to five-star hotels;
- ceilings on the costs of furniture may be prescribed by DBM;
- all MDS checks should have specified payees and should relate to valid obligation; and,
- reports on accountability and other matters are accurate and are submitted on or before the prescribed deadlines.

It may be noted that accredited agencies (Subsection 2 of the current chapter) is proposed to have the flexibility to implement minor staffing pattern modifications and formulate associated NOSCA after a few years. In this case, compliance with the following guidelines may be considered personnel PIs of the aforesaid officers:

- standardized position titles and salaries will be used;
- ceilings on the number of permanent positions shall apply;
- proportion of personnel directly supporting MFOs should be at least be 90% of total;
- only transfer of positions supporting GASS/minor outputs to those supporting MFOs will be allowed;

If it is impossible to observe the third item, the agency should submit a multi-year plan to comply with the aforesaid guideline. (Exceptions may be granted on a highly selective basis but the burden for justifying the exception is with the agency involved.)

Aside from the effect on personnel, substantial non-compliance (as indicated by DBM/COA and if legally feasible) with the aforesaid guidelines should lead to the filing of administrative cases. This presupposes the issuance of a Presidential Administrative Order specifying the aforesaid guidelines and stating that substantial violation, as gauged by DBM/COA of the same will be subject to the filing of administrative cases. Department secretaries shall be held responsible for filing cases against subordinates and failure thereof may constitute an administrative offence (violation of reasonable rules). If necessary, the Legal Office of the Office of the President may monitor and initiate the filing of cases.

2. Flexibility Based on Accreditation⁴⁴ of Line Entities up to 2004

Line entities can only be held accountable for results (PIs in OPIF) if they are given flexibility in budgets and personnel management.⁴⁵ In the context of this subsection, accredited line entities refer to those that have complied with the following accreditation criteria:

- the degree of allocation of budget to MFOs is acceptable to DBM/NEDA;
- internal control system and associated unit/personnel are in place;
- entity has demonstrated capacity to quickly file and resolve administrative cases on allegedly corrupt officials/personnel and/or those violating reasonable rules of oversight entities; and,
- implementation of procurement reforms (those measures that do not require legislation).

The proposed package of flexibility for accredited entities are:

- minor staffing changes subject to compliance with DBM guidelines, and
- full use (to augment funds for MFOs) of effort-based procurement savings during budget execution stage.
- release of SAROs for controlled equipment (motor vehicles and computers) even prior to requisite approvals.⁴⁶

In relation to the first item, line entities will be allowed to introduce minor staffing modifications. It should be noted that major reorganization changes shall be subject to DBM approval to ensure that the same is consistent with a long term view of ideal organizational frameworks consistent with appropriately identified set of MFOs. Guidelines could be set by DBM on the pyramid structure and personnel number as much as possible derived from benchmarking with similar effective/efficient entities locally or abroad.

In relation to the last item, the timing should be consistent with that specified in a subsection in Chapter 5.

After 2 years of being accredited, an entity may be given all the flexibilities given to Constitutional Offices. It may be noted that an accredited entity may lose its accreditation if it does not perform at least satisfactorily in OPIF or if it not does not comply with any one of the earlier mentioned accreditation criteria.

After full development, the agency accreditation scheme may be placed as a general provision in the 2003 NEP subject to DBM's issuance of detailed implementing guidelines.

3. A Certain Unconditional Flexibility to Realign Expenditures Starting 2005

This paper proposes that starting 2005 when an accrual accounting system is fully in place, the proposed department/agency appropriations in the NEP be presented by MFO with full authority to reallocate expenditures within an MFO. (It is also proposed that support to operations be allocated to each output.)

⁴⁰ If approved later on, it is necessary to segregate those applicable to the each of the aforesaid officers.

⁴¹ The only exception in allowing realignment to PS is for funding DBM-authorized benefits.

⁴² The only exception here is the recording of FAPs direct-payment transactions on the basis of exchange rates at time of payment (to supplier, consultant, or contractor) by creditor based on a Joint Circular of DBM, COA, and DOF in 1997. The circular states that DBM should release an additional amount to take care of the exchange rate differential vis-à-vis that assumed during budget preparation stage. DBM's failure to release the amount should not be taken against the agency involved.

⁴³ For instance in the LRTA, the spare parts from the original LRV manufacturer in Belgium are not available off-the shelf. Given lead times for ordering, manufacturing, and transportation, a 6 month level of inventory may be appropriate.

⁴⁴ This is broadly similar to the Singapore's concept of "autonomous agencies", which are given more budget flexibilities than the rest of government departments/agencies. It is suggested that the accredited agencies should not be given an authority to borrow to control contingent liabilities.

It may be noted that the DBM/PEMIP staff suggested to the Presidential Committee on Good Governance (PCEG), a flexibility-accountability mechanism with four levels to be implemented over an eight-year period. To a certain extent, the aforesaid mechanism has been rendered academic since Secretary Emilia Boncodin (through a proposed provision in the 2002 NEP) has decided to provide unconditional flexibility to line entities for the full reallocation of MOOE. (Also, the expenditure objects will be transferred from the NEP to the BESF.) Further, four levels may be too complicated to implement.

⁴⁵ Another reason for budget liberalization is as follows. If a certain tedious control procedure does not lead to the discovery of corruption or wastage, then that procedure may not have any value added.

⁴⁶ In the longer run, these may be incorporated in guidelines to be followed by line entities so that the approval of another entity (like NCC in case of computers) is no longer necessary.

(End of Chapter 3)

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