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BEYOND THE STATUS QUO: THE NEED FOR **BOLD REFORMS** IN PUBLIC BUDGETING AND SPENDING

Alluding to the finalization and implementation of the Progressive Budgeting for Better and Modernized (PBBM) Governance Bill, this paper aims to discuss budgeting concepts in a less technical manner and assess the cash-based budgeting system (CBS) independently. It also embarks on the perspective that the CBS will address many bottlenecks associated with the delays in implementing government projects and programs. For one, the CBS aims to simplify the budget process by reducing the number of steps involved in the budget process.

On 25 July 2022, during his first State of the Nation Address, Marcos pushed for the Budget Modernization Bill as one of the priorities of his administration. This Bill seeks to institutionalize the Cash-based Budgeting System (CBS) under Executive Order No. 91, series of 2019. The CBS aims to strengthen fiscal discipline in allocating and using budget resources by ensuring that every peso budgeted by the government would lead to the actual delivery of programs and projects. The full implementation of the CBS is “timely and vital as the government executes response and recovery plans post-pandemic” (Marcos Jr., 2022).

Budget and Management Secretary Amenah Pangandaman echoed the importance of this proposed legislative measure, saying that “on top of our list, we will pursue the Budget Modernization Bill to institutionalize the Cash Budgeting System” (Parrocha, 2023).

One area that the CBS promises to address is the bottlenecks associated with delays in implementing government projects. These delays are commonly related to bureaucratic processes. The proposed measure aims to simplify the budget process by reducing the number of steps in the budget process.

The CBS is also touted to improve how the government allocates resources through the budget. For example, the proposed system will allow the inclusion in the budget only projects that can be implemented within the fiscal year. This will upend the current practice of allowing agencies to tie up resources to projects as obligations in anticipation of its implementation beyond the current fiscal year.

The new system also promises to usher in other good governance practices, such as enhanced transparency, accountability, and citizen participation. Significant strides in transparency, for one, are critical if the Philippines were to improve its standing in the Open Budget Index.

This is not the first time Filipinos have heard about CBS. This move became public knowledge in 2018, under the Duterte administration, but was interrupted by the political squabble it created and, eventually, by the pandemic.

In the beginning, Duterte’s so-called supermajority in the House of Representatives was able to carry House Bill No. 7302—the proposed law that would have delivered the shift to the CBS—through the

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legislative mill up to the third and final reading. It even reached the point of being transmitted to the Senate for concurrence. However, once the representatives began understanding the implications of what they supported, they made a quick about-face in their support given the prospect of lower budget levels for 2019, an election year. Duterte tried to salvage the CBS by issuing an Executive Order instead to achieve what the bill failed to do. However, what was to be an end to the row turned complicated when delays prevented the passing of the 2019 budget on time, causing the automatic reenactment of the 2018 budget. As a result, implementing CBS was impractical and considered detrimental when the 2019 budget was signed into law in mid-April 2019. A multi-year transition to a full CBS subdued that controversy.

The measure is as alive as ever in institutionalizing the CBS in a law. Under the Marcos Jr. administration, this presented itself, initially, in the form of the Budget Modernization Bill, but eventually into the Progressive Budgeting for Better and Modernized (PBBM) Governance Bill. This paper attempts to present the concepts less technically and assess CBS from a non-partisan perspective.

CASH-BASED VS. OBLIGATION-BASED BUDGETING

Under the obligation-based budgeting system, the national budget is based on how much government agencies can legally commit as financial obligations given a particular fiscal year, regardless of whether the payments will be made within the same fiscal year.

For example, under obligation-based budgeting, a government agency may award the contract for Project X to a company towards the end of the fiscal year, say, December 26. However, there is no intention to have the project implemented or paid for by the end of the year, with only a few days left. By doing this, it is apparent that the intention is to subvert the spirit of the Administrative Code

of 1987, as contained in Executive Order No. 292, series of 1987, which reads:

Unexpended balances of appropriations authorized in the General Appropriations Act shall revert to the unappropriated surplus of the General Fund at the end of the fiscal year and shall not thereafter be available for expenditure except by subsequent legislative enactment (Administrative Code of 1987, Chapter 4, Book VI, Section 28).

This practice also contributes to underspending in relation to the projected amount for a particular year. Without the compulsion to complete projects within the budget year, actual government spending—a component of the Gross Domestic Product—suffers. Moribund appropriations that may otherwise be forfeited at the end of the year in favor of the National Treasury are rescued by a timely commitment of the funds through what can be described as “constructive spending.”

On the other hand, the proposed cash-based budget will only include projects to be completed and paid within the same fiscal year, up to three (3) months into the next fiscal year.

In effect, the difference between the current obligation-based budgeting and the proposed cash-based budgeting lies eliminating items in the budget that are not certain to be implemented within the year. As a result, Congress will need to stop allocating resources for programs and projects with indefinite implementation timetables.

THE CBS UNDER THE DUTERTE ADMINISTRATION

On 03 January 2018, the DBM issued National Budget Memorandum No. 129, or the National Budget Call for FY 2019.

In the memorandum signed by then DBM Secretary Benjamin Diokno, the DBM declared a shift to an annual cash-based budget highlighting the move to reform the public financial management (PFM) to support government priorities. Section 1.1 of the memorandum stated that:

The government is committed to delivering the President's 0+10 Socio-Economic Agenda as envisioned in the 2017-2022 Philippine Development Plan (PDP). The massive investments in infrastructure and social services by the government shall ensure that the 7 - 8% economic growth target in the PDP is both sustainable and inclusive.

To support these investments, the government is modernizing and streamlining its public financial management (PFM) system through the crafting of the proposed budget reform bill. A key component of this reform is the shift from a multi-year obligation-based budget to an annual cash-based budget.

The aim is to change the basis of measuring the budgetary performance of agencies from one based on obligations or commitments, to one based on the payments made for goods and services actually delivered (Department of Budget and Management, 2018a, p.1).

The memorandum prescribed the shift to a one-year horizon for FY 2019. The memo reads in Section 1.2:

The FY 2019 will be an annual cash-based budget which will put more emphasis on accelerating program delivery. Agencies are thus required to reassess their existing programs, activities, and projects to ensure that these are adequately planned and coordinated, limiting budget proposals to the goods and services that will actually be delivered for the year and computing the cash requirements therefor (Department of Budget and Management, 2018a, p.1).

The memorandum explained that “limiting the national budget to the annual cash requirements of agencies safeguards the original intent of the appropriation law—that is, the budget as planned and legislated is fully executed within the year” (Department of Budget and Management, 2018a, Section 1.2.1, p. 1).

Furthermore, the memorandum (Department of Budget and Management, 2018a, p. 2), in Sections 1.2.1. to 1.2.3, provided other advantages for the adoption of a cash-based budgeting system, such as assisting agencies concentrate on the implementation of the current year’s budget; strengthening the focus and accountability of government; providing a clear link between the target outputs of government programs to the appropriated budget; providing a faster and clearer comparison of appropriations and disbursements; and ensuring that the operations of agencies are on schedule, thereby making their appropriated budget fully disbursed within the year.

In the 17th Congress, various bills were introduced on subjects relating to reforming the budget process and referred to the Committee on Appropriations, chaired by Representative Karlo Alexei Nograles. Appendix 1 provides a summary of these proposals.

Under Committee Report No. 639, dated 28 February 2018, the Committee on Appropriations recommended the approval of House Bill No. 7302, or the Budget Reform Act, in substitution of the bills listed in Appendix 1. Accordingly, it was referred to the Committee on Rules on the same day.

Subsequently, several representatives withdrew their authorship of the bill on 15 March 2018: Tomas Villarin, France Castro, Antonio Tinio, Ariel Casilao, Carlos Isagani Zarate, Sarah Jane Elago, Arlene Brosas, and Emmi De Jesus.

In a letter of President Duterte, dated 19 March 2018, to House

Speaker Pantaleon Alvarez, House Bill No. 7302 was certified urgent by the President, pursuant to the 1987 Constitution in Article VI, Section 26. The urgency of the bill is necessary “to address the immediate need for budget reforms and to remedy the gaps in public spending, which hamper the ability of the government to deliver direct, immediate and substantial service to the people” (House of Representatives, 2018), the letter stated.

This certification of urgency allowed the House to vote on the third reading immediately after the second reading, without the mandatory three days after copies of the bill have been received by the members of the House (Cervantes, 2018). As a result, House Bill No. 7302 was approved on the second reading on 20 March 2018 and approved on the same day on the third and final reading with 158 votes in the affirmative, eight negative, and one abstention (Cervantes, 2018).

House Bill No. 7302 was transmitted to the Senate on 22 March 2018 for concurrence. It has undergone its first reading in the Senate and was referred to the Committee on Finance on 21 April 2018.

An earlier version of the proposed budget reform measure, Senate Bill No. 1450, was introduced by Senator Loren Legarda (and eventually, by Senator Joel Villanueva) on 15 May 2017 with the title: An Act to Reform the Budget Process by Enforcing Greater Accountability in Public Financial Management (PFM), Promoting Fiscal Sustainability, Instituting an Integrated PFM System, Increasing Budget Transparency and Participation, and for Other Purposes.

In a press release, Legarda said that Senate Bill No. 1450 “will institutionalize budgetary reforms that the administration has already established in the last two years to improve the budgetary process, increase spending, and most importantly, accelerate the delivery of government services to the people” (Senate of the Philippines, 2018). In the same press release, Legarda referred to the improvement of

the country’s position in the 2017 Open Budget Survey, which made the Philippines the highest in Asia for budget transparency. She also cited DBM’s forecast of the country’s further improvement in its Open Budget Index (OBI) score to 75 from 67 because of the Budget Reform Act.

On 20 March 2018, the Committee on Finance submitted its Committee Report no. 304 with the recommendation to approve Senate Bill No. 1761 in substitution of Senate Bill No. 1450. The title of Senate Bill No. 1761 is: An Act to Reform the Budget Process by Enforcing Greater Accountability in Public Financial Management (PFM), Promoting Fiscal Sustainability, Strengthening Congress’ Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation.

The words “Strengthening Congress’ Power of the Purse” were added to the title of Senate Bill No. 1761 from the original Senate Bill No. 1450. On the other hand, the words “and for Other Purposes” were deleted from the title.

From all indications, the budget reform measure is on the right course for eventual submission to the President for signing into law.

However, in August 2018, members of the House of Representatives were reported soliciting signatures to withdraw support for the bill and the implementation of the cash-based budgeting system in 2019 and request the Senate to return House Bill No. 7302 to the House of Representatives (Cepeda, 2018b).

The change of mind by the members of the House of Representatives was triggered during the budget hearings when it became clear that one of the effects of the new cash-based budgeting system would be the across-the-board budget cuts for government agencies (Cepeda, 2018b; Rey, 2018a). As a result, representative Karlo Alexei Nograles, Chairman of the House

Committee on Appropriations, said, “lawmakers are unhappy that government agencies across the board are getting budget cuts” (Cepeda, 2018b).

Agencies are seen as having budget cuts as the new cash-based budgeting system dictates that the budget proposal should contain only items where funds can be disbursed in one year (Cepeda, 2018a). In particular, Nograles cited programs that stood to see severe budget cuts, compared to 2018, such as the Human Resource for Health Deployment Program under the Department of Health (DOH) by P8.4 billion; DOH’s Health Facilities Enhancement Program by P30.3 billion; the funds to conduct the national and local elections under the Commission on Elections, by P6.3 billion; the Student Financial Assistance Program allocations under the Commission on Higher Education, by P3 billion; and the budget for basic educational facilities such as classroom buildings under the Department of Education, by P69.4 billion (House of Representatives, 2018b).

While the DBM is bent on implementing the cash-based budgeting system, the House of Representatives, on the other hand, is determined to oppose the shift from obligation-based budgeting (House of Representatives, 2018b). Nograles even pointed out that “lawmakers believe imposing a cash-budgeting system without an enabling law would be illegal” (Cepeda, 2018b).

House Resolution No. 2104 was filed on 28 August 2018 by Representative Rolando Andaya to direct the appropriate committee in the House to look into the legal basis and the possible effect of the shift.

For DBM’s part, Diokno cited the Administrative Code of 1987 as the enabling legislation for the shift, where Section 36, Chapter 5, Book VI states that “an operational cash budget shall be implemented to ensure the availability of cash resources for priority development projects and to establish a sound basis for determining the level, type and time of public borrowings” (Department of Budget and Management, 2019).

To resolve the impasse, President Rodrigo Duterte issued, on 09 September 2019, Executive Order No. 91 entitled “Adopting the Cash Budgeting System Beginning Fiscal Year 2019, and for other purposes.”

It is interesting to note that the Executive Order essentially mirrors the principal features of the cash-based budgeting system as contained in House Bill No. 7302, for which support from members of the House of Representatives was initially overwhelming until it turned sour when they eventually realized its effects of cutting down budget levels.



Despite the settlement of the issue on the adoption of the cash-based budgeting system through the issuance of Executive Order No. 91, series of 2019—or some say, because of it—the strained relations between the lower chamber of Congress and the Executive Department persisted over related issues including the clamor to increase the budget ceiling citing that the budget tightened with the shift to the cash-based budgeting system (Rey, 2018b). The House of Representatives, on its own, is constrained from increasing the budget submitted by the President under Article VI, Section 25, par. 1 of the 1987 Constitution. The plea for a higher budget ceiling from the lawmakers was perceived to be connected to 2019 being an election year where they are pressured to show their constituents about resource allocation for their districts (Rey, 2018b).

The stand-off came to a head when Congress failed to pass the budget at the end of 2018. The delay was attributed to the suspension of budget deliberations due to the opposition of the members of the House to the cash-based budgeting system and allegations of last-minute amendments made by the House after both chambers of Congress had already agreed on a common version in the bicameral conference committee (Roque, 2019). The failure to pass the budget by the end of 2018 led to the reenactment of the General Appropriations Act of 2018, following the provision of the 1987 Constitution, in its Article VI, Section 25, par 7.

Eventually, Duterte signed Republic Act No. 11260—the General Appropriations Act for Fiscal Year 2019 on 15 April 2019. Duterte also seemed to soften the executive’s position on implementing the CBS for 2019. A section of the President’s veto message on the 2019 budget reads:

In view of the delayed passage of the FY 2019 GAA and the election ban in connection with the conduct of the May 13, 2019 national and local elections, we will allow the implementation of, and payment for infrastructure projects to

extend until December 31, 2020, provided that the funds for the purpose are obligated not later than December 31, 2019 in accordance with Section 65, General Provisions of this Act (Veto message on the 2019 budget, 2019, p.11).

Then Acting DBM Secretary Janet Abuel acknowledged the difficulty of fully implementing the CBS in 2019 for the reasons provided by the President. She told reporters that DBM is “pushing the cash budgeting but will study the transition and see if there’s still a need for a slower pace in trying to adopt it” (Ignacio, 2019).

For the remainder of the Duterte administration, the implementation of the CBS has been on a transitional basis for the fourth year. The National Budget Call for FY 2022—the last budget under the Duterte administration—sums up the status of the budget reforms:

The government is continuing the modernization of the national budgeting system to improve the efficiency of the underlying processes like planning, procurement, cash management, and payment. These improvements in our public financial management systems are aimed at increasing the volume and enhancing the quality of public services. The continuing transition, towards the annual Cash Budgeting System (CBS), as well as the consolidation of National Government funds to the Treasury Single Account (TSA) are key pillars of this reform (Department of Budget and Management, 2021, Sec. 1.1, p.1).

THE CBS UNDER THE MARCOS JR. ADMINISTRATION

In his first State of the Nation Address on 25 July 2022, President Ferdinand Marcos Jr. laid out 19 priority bills that would help improve government services under his leadership, including the controversial Budget Modernization Bill.

Under the new DBM leadership, budget reform remains the top priority (Department of Budget and Management, 2022a). In a statement, current Budget and Management Secretary Amenah Pangandaman said she would “prioritize modernizing the budget system” (Rey, 2022). She reiterated her commitment to push for the passage of the Budget Modernization Bill in a DBM speech, saying, “we will pursue the Budget Modernization Bill to institutionalize the Cash Budgeting System (CBS)” (Parrocha, 2023).

With Pangandaman as DBM Secretary, it is no surprise that she will also be pushing for the institutionalization of the CBS. Aside from the merits of the CBS that its proponents are basing their campaign on, Pangandaman also belonged to the DBM team of Diokno, seen as the prime mover behind the shift to a cash-based budgeting system. Pangandaman was DBM Assistant Secretary from 2016 to 2018 and Undersecretary and concurrent Director of the Budget Technical Bureau from 2018 to 2019. In 2019, she joined Diokno at the Bangko Sentral ng Pilipinas (BSP) as a technical adviser. She later rose from the ranks to become managing director of the Office of the Governor and Executive Offices. In 2021, she became an assistant governor of the BSP (RISE, 2022).

In the 19th Congress, nine House Bills were filed in 2022 related to the budget modernization bill. They have all been referred to and are pending before the Committee on Appropriations. Appendix 2 provides a summary of these proposals.

Although there is a dearth of sources for the new administration’s version of the bill, it is widely anticipated to be essentially a resurrection of the provisions of the defunct House Bill No. 7302 in the 17th Congress, which was aggressively pushed during the administration of former President Duterte. Now known by a different name, the planned legislative measure that will institutionalize the CBS and other budget reforms are called the Progressive Budgeting for Better and Modernized (PBBM) Governance Bill.



According to the Department of Budget and Management (2023a), the PBBM Governance Bill “seeks to institutionalize the Cash Budgeting System and other public financial management (PFM) reforms to ensure the timely implementation of programs and projects.” The PBBM Governance Bill is a landmark legislative measure that seeks to ensure accountability and integrity in the use of public resources by ensuring transparency, fiscal responsibility, results orientation, efficiency, and effectiveness (Department of Budget and Management, 2023a).

Pangandaman (Department of Budget and Management, 2022b) shared updates from the meeting of the Public Financial Management Committee (PFMC) on 19 December 2022. The Public Financial Management Committee, created by the late former President Benigno Aquino III under Executive Order No. 55, series of 2011, comprises representatives from the Commission on Audit, the Department of Finance, and the Department of Budget and Management.

According to the DBM chief, the committee adopted the administration’s draft of the proposed Progressive Budgeting for Better and Modernized (PBBM) Governance Act (Department of Budget and Management, 2022b). As of this writing, however, no bill with reference to the PBBM Governance has been filed in Congress, but it should be forthcoming. In a Facebook post (Department of Budget and Management, 2023b), DBM shared the news about the Senate Committee on Finance briefing regarding the PBBM Governance Bill on 23 February 2023. According to the post, the team will convene again to discuss and resolve concerns regarding the bill and the way forward in Congress.

ASSESSING THE CBS

The Philippines has a long history of political corruption, which has resulted in a lack of trust between the government and its citizens. The country’s budgeting process has been one of the primary sources of corruption, with reports of embezzlement, misappropriation of funds,

and irregularities in the allocation of resources. This has significantly impacted the country's economic development, with resources not being allocated to their most efficient uses.

After carefully assessing the CBS, several advantages over the obligation-based budgeting system are identified.

Enhances transparency, accountability, and participation. Because the language of CBS is cash, in its most common understanding, it is clear, simple, and easy to understand without the need for any specialized training or understanding. Carlin (2003) believes that “politicians, as well as a range of other relevant stakeholders, can understand it and communicate about its attribution to certain government policies.”

At the same time, because it will use cash as the basis, tracking agency spending becomes easier. Moreover, the budget will also be consistent with fiscal policy commonly formulated in cash terms, such as the national debt or any tax policy (Robinson, 2016). At the same time, according to Robinson (2009) and Warren (2015), comparing cash-based appropriations with the actual cash outflow is easy and clear.

Because of its simplicity, CBS strongly contributes to enhancing transparency, accountability, and participation.

Transparency in governance refers to the openness and accessibility of information and decision-making processes. However, transparency should not be limited to making information available and accessible; it also has to be understandable for it to be helpful.

Transparency means that decisions taken and their enforcement are made in a manner that follows rules and regulations. It also means that information is freely available

and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media (emphasis supplied) (UNESCAP, 2009, p.2)

The complexity of the information is considered anathema to having transparency. Citizens who have access to publicly-available material that is presented in a manner not easily understandable may as well not have that information, for they cannot make any sense out of it to form an intelligent conclusion. Transparency also helps to build trust between citizens and government institutions, which is essential for effective governance.

Transparency and participation are closely related concepts in governance. Transparency is anchored on the principle that citizens should be able to monitor the government's actions. On the other hand, participation refers to the active involvement of citizens and stakeholders in the governance process. It should be clear that transparency begets participation and citizen engagement. More transparency from government institutions enables more active and meaningful participation from citizens and stakeholders. Participation is also essential for promoting transparency in governance. When citizens and stakeholders are actively involved in the governance process, they can provide valuable feedback and insights that can help to improve transparency and decision-making.

Transparency and participation are critical components of accountability. Accountability refers to the obligation of those in power to be answerable for their actions and decisions. When government institutions are transparent, citizens can participate by monitoring government officials and holding them responsible for their actions and decisions. And when government officials are accountable, they are more likely to act in citizens' best interests and

make transparent and fair decisions. Accountability also helps to prevent corruption and abuse of power in government institutions.

Filipinos have long been critical of how the government uses taxpayers' money. In particular, people are wont to say that they are clueless about where their money goes, implying that they have zero to only a little knowledge about the details of how the government spends.

This way of thinking is sad and ironic considering that of the seven governance indicators selected by the Governance staff of the National Economic Development Authority (NEDA), the Open Budget Index (OBI) is where the Philippines is doing relatively well. The Philippines maintained its lead in Southeast Asia despite a decline in score from 76 to 68 and rank from 10 to 19 from 2019 to 2021. In 2017, the first year the Duterte administration intersected with the release of the OBI, the country ranked 19th and scored 67 points.

The Open Budget Index (OBI) ranks countries based on their level of accountability in the national budget process. It measures the overall commitment to transparency and whether governments are releasing eight key budget documents: (1) pre-budget statement, (2) executive's budget proposal, (3) enacted budget, (4) citizens' budget, (5) in-year report, (6) mid-year report, (7) year-end report, and (8) audit report. The OBI is released every other year.

Stimulates the achievement of economic targets. Unused budget allocations represent government underspending vis-à-vis the projected amount for the year.

While some maintain that underspending is a sign of prudent and judicious use of resources, the argument is neither here nor there. It should be assumed from the beginning that only those items that fit the bill are included in the budget.

Government spending is a critical component of the country's GDP and in achieving the economic targets for the year. As such, reaching spending targets supporting the planned economic activity level is critical to the country's growth. Therefore, it is unwise that this should be left to chance or to the agency's discretion in using the allocated funds.

For this reason, under the CBS, only programs and projects guaranteed to be implementable within the year are allocated resources in the budget. It is precisely the part that will not be spent within the year that is excluded from the budget.

Promotes better resource allocation. One of the controversial features of CBS is the one-year life of the budget.

Under obligation-based budgeting, agencies can commit resources as obligations by awarding contracts even when their implementation is expected beyond the current budget year. This system focused on the resources available through higher budget allocations rather than on better use of resources. To a large extent, this can be characterized as hoarding of resources—when agencies covet more than they can use for the budget year.

Every year, civil society organizations (CSOs) and citizens monitor the budget process. In the eyes of the public, the more critical steps in the process include the submission by the President to Congress of the proposed budget, known as the National Expenditure Program; the budget hearings conducted in the Committee on Appropriations of the House of Representatives and the Committee on Finance in the Senate; the resolution of the differences between the House and Senate versions in the Bicameral Conference Committee; and, the final version as approved and signed by the President as the General Appropriations Act for that particular fiscal year.

However, obligation-based budgeting tends to confuse and mislead the public. What is probably not clear to everyone is that the

numbers being discussed are allocations that do not necessarily translate to actual spending for the budget year and, as such, do not necessarily translate to the actual delivery of government services within the year.

Given these, the usual top ten lists of agencies with the highest budget allocations for the year and the frequent comparisons made between the budget this year and last year for a particular agency or government program may be misleading. For example, an agency with a lower budget allocation may spend more and deliver more services, in absolute peso terms, than an agency with a higher budget allocation. Similarly, having a higher allocation for a particular agency this year than last year does not automatically translate to spending more and delivering more actual services.

And, because the total budget has a definite ceiling amount determined by macroeconomic parameters, unspent budgetary allocations by an agency have the effect of depriving other agencies or programs of these allocations that could have translated them into actual spending.

Generally, there is no attribution of malicious intent on agencies for their underspending. The problem, most likely, is a manifestation of the agency's absorptive capacity or the ability of an organization to make the most of the resources they have at its disposal to achieve its objectives. This means how effectively and efficiently the resources were used. This includes the ability of the organization to understand how to use these resources optimally, to learn from new information and ideas about how to use them, and to apply that knowledge to improve their performance.

Laforga (2021) quotes Makoto Tsuchiya, an assistant economist at Oxford Economics Japan, as saying that “the key bottleneck appears to be the limited capacity of the implementing agencies for getting projects off the ground.”

Buan (2018) reported that, according to the Commission on Audit (COA), the Department of Public Works and Highways was able to disburse only roughly a third of its budget, or P230 billion in 2017, in relation to its appropriation of P662.69 billion. Buan (2018) also cited COA in its report that the Department of Transportation spent only 25.6% of its P71.2-billion budget, leading to delays in the implementation of most of its projects.

A government with low absorptive capacity may have difficulty implementing projects, resulting in delayed or ineffective delivery of services. This can have significant negative impacts on the lives of citizens and can impede economic growth and development. Therefore, improving absorptive capacity is crucial for any government to achieve its goals and provide quality services to its citizens.

Under the CBS, the agency's absorptive capacity is given more prominence in decisions regarding the budget. Doing so promotes better resource allocation.

Another significant reform that is an off-shoot of the CBS is the introduction of performance budgeting. Under this system, budgets will be allocated based on the performance of specific programs rather than just historical funding levels. This will help to ensure that resources are allocated to the most effective programs.

Fosters better planning. Under the CBS, the budget will only include projects to be completed within the same fiscal year and paid up to three (3) months into the next fiscal year. In other words, only those so-called implementation-ready or shovel-ready items may be included in the budget.

This system is aimed at compelling the agencies to speed up the completion of projects and utilize their funds within the year, regardless of possible delays. The delays in implementing programs

and projects usually involve the weather, calamities, and legal obstacles such as right-of-way problems for construction projects. However, with proper planning, most of these may be anticipated and factored into the timetable.

With full implementation of the CBS, agencies will have to tighten their ships regarding planning. The DBM (2018b) also made several recommendations to agencies in its Primer on Reforming the Philippine Budget to transition to a cash-based budget successfully. This includes planning well and early, conducting early procurement, and re-engineering internal processes.

Under the obligation-based budgeting system, they could rely on a budget rescue scenario, where they can commit the funds while biding time finalizing the plans of a project. However, under the CBS' "use-it-or-lose-it" rule, there is no extended grace period for implementation, it is only for the payment, and even that is limited to three months into the next fiscal year. Of course, better planning also translates to better fiscal discipline.

Encourages better delivery of government services. The CBS also leads to an improvement in the delivery of services. For one, the snowballing of continuing and overlapping obligations is limited because of its one-year lifespan for projects, programs, and activities. At the same time, the system will prevent reducing implementation capacity in the following year from carry-over projects.

Also, in previous versions of the proposed cash-based budgeting system contained in several House and Senate bills, some provisions pertain to evaluating agency budget proposals. Invariably, this evaluation process involves the performance of agencies, such as those contained in House Bill No 7302:

Evaluation of agency proposals may include the analysis of a development plan, master plan or road map, agency capability as

demonstrated by "previous years' performance, its contribution to projects and activities of other agencies, utilization of funds appropriated or released, and such other criteria as may be determined by the DBM. Agency performance shall be evaluated based on the actual disbursements and contractual commitments as compared to the appropriations (House Bill No. 7302, Part IV, Sec. 21, par. d).

The bill also added that "in evaluating the performance of an agency, programs, activities, and projects shall be presented in such a way that the entity responsible for the expenditure and the intended results from the use of the appropriations are both identified" (House Bill No. 7302, Part IV, Sec. 21, par. e).

These point to using key performance indicators (KPIs) in allocating budget. The KPIs are critical as they provide an objective basis for milestones to gauge the progress of a particular program, project, or activity. As a result, agencies will have to link their budgets to specific outcomes and targets.

If implemented objectively, this provision or any equivalent can lead to better delivery of government services, including better choices that lead to the government's increased responsiveness to the needs of the people they serve. This also promises to potentially reduce political patronage in the budget process by reducing discretion in the allocation of resources.

Of course, CBS is not without opposition. Lawmakers, in particular, have reservations about the CBM, saying it "might reduce the budget for their districts and affect multi-year projects" (Romero, 2019). Some agencies also expressed some difficulty in adapting to the shift. For example, the then-Secretary of the Department of Public Works and Highways Mark Villar said the new budgeting system is "more challenging" (Cepeda, 2018a).

“ HOWEVER, OBLIGATION-BASED BUDGETING TENDS TO CONFUSE AND MISLEAD THE PUBLIC. WHAT IS PROBABLY NOT CLEAR TO EVERYONE IS THAT THE NUMBERS BEING DISCUSSED ARE ALLOCATIONS THAT DO NOT NECESSARILY TRANSLATE TO ACTUAL SPENDING FOR THE BUDGET YEAR AND, AS SUCH, DO NOT NECESSARILY TRANSLATE TO THE ACTUAL DELIVERY OF GOVERNMENT SERVICES WITHIN THE YEAR...”

Cuenca (2019) said that the government should first address “long-standing issues in the budget,” such as those delays in the procurement process and structural weaknesses in the agencies. In response to Senate Bill No. 1450 calling for a budget reform by implementing a cash-based system, Manasan (2017) said it “might be too radical and disruptive.”

The observations and reservations about the CBS (Romero, 2019; Cepeda, 2018a; Cuenca, 2019; Manasan, 2017) do not point to the CBS being technically unsound. The opposition to the CBS may have been a question of the timing of the implementation in 2019. There is certainly some merit in transitioning from the obligation-based budgeting system to the cash-based system, as has happened since 2019.

There are other issues. Given the dictate for better and faster planning, agencies may need to request augmentation of their current staffing. Also, there are fears that government entities may succumb to a myopic perspective, given the narrower time frame for regular projects. This may create an organizational culture devoid of strategic thinking.

CONCLUSION AND RECOMMENDATIONS

The concerns raised are valid, though not insurmountable. However, in addressing these concerns and further improving the system, it is essential to remember that the CBS and the other PFM reforms are not static processes.

The following recommendations may be worth considering:

1. Creating a special feedback channel or mechanism for government entities and the public in general to allow the continuous improvement of the CBS and the other budget reforms.

2. Facilitating the set-up of a citizen-based and -led organization that functions as an independent fiscal watchdog. This will significantly reduce any perception of manipulation of the system and will strengthen people's trust in the government and how it carries out its financial transactions. This will also support claims of enhanced transparency, accountability, and participation.

3. Implementing a more aggressive modernization and digitalization plan of all aspects of the PFM that dovetails on emerging artificial intelligence technology. The publication of budget materials and information is necessary but not sufficient condition to promote transparency, accountability, and participation. There must be ease in the use of public data and information.

4. Implementing a more comprehensive citizen participation program that will allow the participation of CSOs in all phases of the budget process, starting with the preparation of agency budgets. The involvement of CSOs can help ensure that the budget reflects the needs and priorities of the people. Not only will their inputs find institutional attention as stakeholders, but this move is also necessary to demonstrate seriousness about open government. Furthermore, the participation of CSOs in the budgeting process can also promote citizen engagement.

5. Providing the public with a summary of legislative inputs and adjustments to the National Expenditure Program, including voting history. This move will allow public scrutiny of the interests of the legislators in budgetary matters.

In the final analysis, the promises that CBS brings, upon full implementation, far outweigh any concern raised so far. Moreover, it is a big step in the right direction regarding public financial management and good governance. If only for the possibility of reducing opportunities for corruption brought about by enhanced

transparency, accountability, and participation, the CBS—or any measure for that matter—would be well worth it.

It is critical to institutionalize the cash-based budgeting system and the other budget reforms that go with it through a Republic Act. However, its implementation is hinged on an Executive Order that will remain in force and effect only until another President revokes or modifies it. Though Republic Acts can be amended or repealed, the action needed to accomplish either of these is collegial and therefore assumed to have to go through a process of public consultations, concurrence by the Senate, and approval of the President. On the other hand, a new Executive Order negating the existing one, may happen at the stroke of the hand of the President.

Critics are always skeptical of changes and what personal benefits would redound to the proponents. So, while attaining the budget reform objectives is within reach, the real challenge may be convincing people about the administration's genuineness of purpose.

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APPENDIX 1

HOUSE BILLS INTRODUCED IN THE 17TH CONGRESS ABOUT THE BUDGET PROCESS

HOUSE BILL NUMBER	TITLE	PROPONENTS	HOUSE BILL NUMBER	TITLE	PROPONENTS
5590	An Act to Reform the Budget Process by Enforcing Greater Accountability in Public Financial Management (PFM), Promoting Fiscal Sustainability, Strengthening Congress' Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation, and for other Purposes	Nograles, Karlo Alexei Nograles, Jericho Jonas	2828	An Act Instilling Fiscal Discipline in the Public Sector by Specifying Principles of Responsible Financial Management and Promoting Full Transparency and Accountability in Government Revenue, Expenditure and Borrowing Programs	Andaya, Rolando
5993	An Act to Reform the Budget Process by Enforcing Greater Accountability in Public Financial Management (PFM), Promoting Fiscal Sustainability, Strengthening Congress' Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation, and for other Purposes	Yap, Arthur	2832	An Act Regulating the Power of the President to Defer, Rescind, or Reserve Expenditure of Appropriations Authorized by Congress	Villarin, Tomasito
343	The Budget Impoundment Control Act	Romualdez, Yedda Marie	2868	An Act Defining the Concept of Savings and Regulating the Process of Augmentation by the President in Implementation of Article VI, Section 25 (5) of the Philippine Constitution	Villarin, Tomasito
930	An Act Instilling Fiscal Discipline in the Public Sector by Establishing Deficit-Neutral Rules in Line with the Principle of Responsible Financial Management and Towards Promoting Sustainable Economic Growth	Abaya, Francis Gerard	3897	The Congressional Budget and Impoundment Control Act	Zarate, Carlos Isagani De Jesus, Emmi Tinio, Antonio Casilao, Ariel Brosas, Arlene Castro, France Elago, Sarah Jane
1056	An Act Revoking Certain Powers Granted to the Executive Department, Further Amending for the Purpose Certain Section of Presidential Decree No. 1177 Entitled, "Revising the Budget Process in Order to Institutionalize the Budgetary Innovations of the New Society	Antonino, Magnolia Rosa	4652	An Act Defining "Unprogrammed Funds" and Prohibiting Legislators from Appropriating Funds Therefore, and for Other Purposes	De Jesus, Emmi Brosas, Arlene Zarate, Carlos Isagani Casilao, Ariel Tinio, Antonio Castro, France Elago, Sarah Jane
2385	An Act to Institutionalize a System of Performance Planning, Budgeting, and Accountability in all Government Agencies	Razon-Abad, Henedina	6847	An Act Professionalizing the Government Accounting Service to Serve as a Tool for Effective Management and Control of Government Resources, Creating for the Purpose the Government Accountancy Office under the Department of Budget and Management and for Other Purposes	Rodriguez, Maximo
2387	An Act to Enforce Greater Accountability in Public Financial Management (PFM), by Strengthening Congress' Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation, and for other Purposes	Razon-Abad, Henedina			

APPENDIX 2

HOUSE BILLS INTRODUCED IN THE 19TH CONGRESS ABOUT THE BUDGET PROCESS

HOUSE BILL NUMBER	TITLE	PROPONENTS	HOUSE BILL NUMBER	TITLE	PROPONENTS
19	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' power of the purse, instituting an integrated pm system, and increasing budget transparency and participation	Romualdez, Ferdinand Martin Romualdez, Yedda Marie Acidre, Jude	4650	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress power of the purse, instituting an integrated pm system, increasing budget transparency, participation and for other purposes	Romero, Michael L
418	An Act to Reform the Budget Process by Enforcing Greater Accountability in Public Financial Management (PFM), Promoting Fiscal Sustainability, Upholding Congress' Power of the Purse, Instituting an Integrated PFM System, and Increasing Budget Transparency and Participation	Salceda, Joey S	5266	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' power of the purse, instituting an integrated pm system, and increasing budget transparency and participation	Matibag, Ma. Rene Ann Lourdes G
3419	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' prerogative and duty to ascertain the nation's budget, instituting an integrated public financial management system, and increasing budget transparency and participation	Singson-Meehan, Kristine	5809	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' power of the purse, instituting an integrated PFM system, and increasing budget transparency and participation	Luistro, Gerville "Jinky Bitrics" R.
4114	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' power of the purse, instituting an integrated PFM system, and increasing budget transparency and participation	Duterte, Paolo Z Yap, Eric G Yap, Edvic G Soriano, Jeffrey	6384	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, strengthening congress' power of the purse, instituting an integrated pm system, and increasing budget transparency and participation	Principal Rodriguez, Rufus B
4260	An act to reform the budget process by enforcing greater accountability in Public Financial Management (PFM), promoting fiscal sustainability, upholding congress' power of the purse, instituting an integrated pm system, and increasing budget transparency and participation	Tambunting, Gus S			



ABOUT

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