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## THE POLITICS OF THE 2022 NATIONAL BUDGET

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# THE POLITICS OF THE 2022 NATIONAL BUDGET

The Philippines has entered a “new normal.” With the issuance of IATF Resolution No. 164-D, provinces and cities around the country were placed under Alert Levels 1 and 2 two years after the first lockdown was imposed. Alert Level 1—the lowest level of restriction—is now in effect in 47 areas including Metro Manila until 31 March 2022. Under the Inter-Agency Task Force (IATF) Alert Level System, people of all ages are allowed to move around. Restaurants, barbershops, spas, gyms, places of worship, and government offices are also allowed to fully-operate.<sup>1</sup> Authorities have likewise ordered the return to work of business process outsourcing workers.<sup>2</sup>

As the economy reopens, President Duterte’s economic managers expressed their confidence that growth rates will return to pre-pandemic levels. But as business establishments resume full operations, ordinary Filipinos continue to suffer from the economic impact of the COVID-19 crisis. This misery is compounded by food inflation<sup>3</sup> as well as recent spikes in global oil prices due to the ongoing war between Ukraine and Russia.<sup>4</sup>

Government plays an important role in times of crisis through its fiscal policy, and the national budget is one of the most potent tools to directly stimulate recovery and support segments of the population reeling from the crisis. The 2022 General Appropriations Act (2022 GAA) was prepared less than a year after the Philippines suffered one of the worst outbreaks and economic downturns in Southeast Asia. Although growth rates began to improve last year with the gradual easing of quarantine restrictions, the apparent rebound masks the suffering experienced by millions of Filipinos who lost lives and livelihoods.

## SIGNING OF THE 2022 GENERAL APPROPRIATIONS ACT

MALACANAN PALACE

DECEMBER 30, 2021



In crafting the 2022 national budget, the fiscal conservatism of President Duterte's economic managers remained evident. Fiscal policy focused on managing the debt-to-GDP ratio since the deficit climbed during the pandemic. According to Finance Secretary Carlos Dominguez, the higher deficit and borrowings incurred by the national government was a result of spending for the pandemic response coupled with the drop in revenue collection. To manage the deficit, Secretary Dominguez insisted that fiscal responsibility should be constantly observed.<sup>5</sup>

"Fiscal discipline will save us" became the economic managers' new slogan for the recovery strategy — one that is essentially characterized by the belief in austerity and trickle-down economics. Austerity is painfully clear in the refusal to provide aid and economic relief to sectors after the expiration of the two Bayanihan laws.<sup>6</sup> Nowhere has this been more harshly expressed than in the words of Secretary Dominguez during a hearing by the Senate Committee on Finance on the 2022 National Expenditure Plan. Responding to Senate Minority Leader Franklin Drilon's interpellation question on the need for fiscal stimulus, Dominguez sarcastically remarked, "Just because others are saying so, we cannot open the hose and spray everyone with cash."<sup>7</sup>

Fiscal prudence combined with a set of structural reforms such as FIST,<sup>8</sup> CREATE,<sup>9</sup> and the Build, Build, Build program constitutes the broad economic recovery strategy outlined by the Development Budget Coordinating Committee (DBCC). These will be pursued in the remaining months of the Duterte administration.<sup>10</sup> This logic was likewise expressed in the President's Budget Message. Duterte reiterated that "the [proposed] 2022 national budget intends to ramp up economic growth through continuing investments in public infrastructure."<sup>11</sup>



## FEATURES

## ON THE COVER

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Funding preference was observed under the Duterte administration, which grew by about Php 106.19 billion for the AFP and by around Php 102.18 billion from 2016 to 2022



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# fiscal discipline

In the same document, FIST and CREATE were also tagged as part of the government's financing strategy for recovery. On one hand, FIST was expected to ensure stability of the financial system during a crisis by enabling banks to free up much-needed liquidity for lending to productive sectors of the economy. On the other hand, CREATE would provide over Php1 trillion worth of tax relief for enterprises over a period of 10 years, and was even branded as the "largest fiscal stimulus program" in history.<sup>12</sup>

On the spending side, Duterte emphasized that the preparation of the 2022 national budget was guided by the following budget philosophy: (1) building resilience amidst the pandemic, (2) sustaining the momentum towards economic recovery and (3) the continuing legacy of infrastructure development.<sup>13</sup> However, fiscal prudence in terms of budget prioritization was hardly evident in the 2022 national budget.

This paper attempts to shed light on the national government fiscal program and the 2022 national budget of the Duterte administration. The authors argue that even in the face of deep economic scarring, the broad spending priorities encapsulated in the 2022 GAA have not been significantly recalibrated to prioritize programs that will aid sectors of society which tremendously suffered from the twin public health and economic crisis.

The results of iLEAD's examination of the 2022 GAA<sup>14</sup> revealed skewed budget priorities and questionable political trade-offs which resulted in the lack of funding allocation for programs that could underpin an inclusive and people-centered recovery. Based on these key observations, the authors conclude that the next administration may face serious fiscal challenges beyond debt management. Lastly, the paper will provide alternative policy recommendations to address these possible issues.

## The Duterte Administration's 2022 Fiscal Program

The overall strategy for economic recovery is expressed in numbers through the national government fiscal program and the national budget. The fiscal program details how much resources the government aims to raise from revenues and borrowings and shows the target level of expenditures on a given fiscal year. It also includes the deficit, which represents the difference between the total projected revenues and planned expenditure or disbursement levels for that fiscal year.

The projected revenue collection for 2022 is PhP 3.3 trillion, equivalent to 15% of gross domestic product (GDP). Revenues come from tax and non-tax collection, with tax revenues comprising PhP 3.1 trillion of the projected PhP 3.3 trillion revenues. Meanwhile, the national



government intends to spend a total of PhP 4.95 trillion. This level of spending is equivalent to about 22.4% of the country's projected GDP for 2022.<sup>15</sup>

With this level of expenditure, the economic managers pegged the deficit to be at PhP 1.67 trillion or 7.5% of GDP. The projected deficit is lower than the 9.3% of GDP, but debt is projected to reach PhP 13.4 trillion by the end of 2022. Nevertheless, in order to plug the deficit, the national government will rely on borrowings from domestic and foreign markets. The borrowing program this year is set to PhP 2.5 trillion pesos, about half a trillion pesos lower than the total programmed borrowings for the previous fiscal year.<sup>16</sup> Table 1 below shows a summary of the fiscal program for 2021-2022.

## Overview of the 2022 General Appropriations Act<sup>17</sup>

The General Appropriations Act lays down in great detail the expenditure program of the government. For fiscal year 2022, the total appropriations in the national budget amounted to PhP 5.1 trillion. To contextualize the authors' critique of the 2022 national budget in succeeding sections of the paper, this section will discuss the disaggregation of the national budget in two ways: first, by appropriation type, and second, by the top recipient departments.

By appropriation type, the 2022 national budget comprises automatic appropriations worth PhP 1.67 trillion and new general appropriations amounting to PhP 3.6 trillion. Of the PhP 3.6 trillion new general appropriations, standby unprogrammed automatic appropriations amount to a total of PhP 251.6 billion. Table 2 below shows the breakdown of the 2022 General Appropriations Act by the type of appropriations.

### National Government Fiscal Program (FY2021-2022)

Table 1

National Government Fiscal Program		FY2021	FY2022
<b>Revenues</b>		<b>2,881,500,000,000</b>	<b>3,289,500,000,000</b>
as % of GDP		14.5	14.9
	Tax Revenues	2,714,800,000,000	3,125,000,000,000
	Non-Tax Revenues	166,200,000,000	164,000,000,000
<b>Disbursements</b>		<b>4,737,100,000,000</b>	<b>4,954,600,000,000</b>
as % of GDP		23.9	22.4
<b>Deficit</b>		<b>-1,855,600,000,000</b>	<b>-1,665,100,000,000</b>
as % of GDP		9.3	7.5
<b>Financing</b>			
	Gross Borrowings	3,072,400,000,000	2,472,800,000,000
	Less: Amortization	799,300,000,000	141,200,000,000
	Net Financing	2,273,100,000,000	2,331,600,000,000
	Less: Total Net Financing Requirement (Deficit)	1,855,600,000,000	1,665,100,000,000
	<b>Budgetary Change in Cash</b>	<b>417,500,000,000</b>	<b>666,500,000,000</b>

Source: Department of Budget and Management

## Summary of the 2022 General Appropriations Act (By Type of Appropriations) Table 2

2022 GAA	
New General Appropriations	3,602,359,966,000
Programmed Appropriations	3,350,720,769,000
Unprogrammed Appropriations	251,639,197,000
Automatic Appropriations	1,672,879,231,000
Subtotal	5,275,239,197,000
Less: Unreleased Appropriations	151,639,197,000
<b>TOTAL BUDGET</b>	<b>5,123,600,000,000</b>

Source: Department of Budget and Management

Appropriations refer to the authorization by Congress to spend public funds for a specific purpose. It also sets the ceiling for how much can be spent for specific programs, projects and activities. The appropriations under the annual budget fall into three types depending on the conditions for its authorization and use. These are: (1) Automatic appropriations, (2) New general appropriations and (3) Unprogrammed Appropriations.<sup>18</sup>

Automatic appropriations refer to funds that require only a one-time authorization for specific purposes based on a separate. Unlike other types of appropriations, automatic appropriations do not require periodic legislative actions. They are also automatically made available to provide funding for the purposes for which they were set aside. Automatic appropriations include debt service, net lending, and special accounts authorized under specific laws.<sup>19</sup>

New general appropriations or annual appropriations broadly refer to the items listed in the general appropriations act legislated by Congress every year. These include specific amounts for salaries, wages, personnel benefits, maintenance and other operating expenditures, and capital outlays authorized to be spent for various programs, projects and activities of all departments, bureaus and offices in a given fiscal year. New general appropriations can be further classified into programmed appropriations and unprogrammed appropriations.<sup>20</sup>

Programmed appropriations, along with the automatic appropriations, have guaranteed cash cover as these are factored into the disbursement level in the national government fiscal program. However, the portion of the new

general appropriations referred to as the Unprogrammed Appropriations do not have the same coverage.<sup>21</sup>

Unprogrammed appropriations serve as standby appropriations in a given fiscal year. These standby appropriations essentially authorize additional spending for different programs, projects, and activities when new or excess revenues are collected. Additionally, the unprogrammed appropriations for foreign-assisted projects can also be tapped when additional foreign funds are generated.<sup>22</sup>

New general appropriations are further broken down into very specific line items in the budgets of various national government agencies. They also include subsidies provided to government-owned and -controlled corporations (GOCCs) as well as special purpose funds in the form of lump sums.

Consistent with the administration's push for infrastructure development, the Department of Public Works and Highways (DPWH) received the highest allocations in this year's budget amounting to PhP 785.7 billion. This was followed by the education agencies at PhP 742.4 billion, which consists of the budgets of the Department of Education (DepEd), Commission on Higher Education (CHED), State Universities and Colleges (SUCs), and Technical Education and Skills Development Authority (TESDA). Broken down, the budget of the aforementioned education institutions are as follows: PhP 592.7 billion for DepEd, PhP 31.7 billion CHED, PhP 104.2 billion for the SUCs, and PhP 13.8 billion for CHED.

At PhP 263.9 billion, public health is the third highest budget recipient. However, the amount is not entirely allocated to the Department of Health (DOH) as it also

includes the subsidies to PhilHealth and the government specialty hospitals. The DOH budget alone amounts to PhP 183.9 billion, while the total subsidies for the Philippine Health Insurance Corporation (PhilHealth) and the specialty hospital amount to PhP 80 billion and PhP 5.9 billion respectively. For the first time since the outbreak of COVID-19, the health budget exceeded the total budget allocations provided to the Department of the Interior and Local Government (DILG) and the Department of National Defense (DND). This year, DILG has a budget of PhP 249.5 billion while DND has a budget of PhP 204.8 billion.

## Critical Observations on the 2022 General Appropriations Act

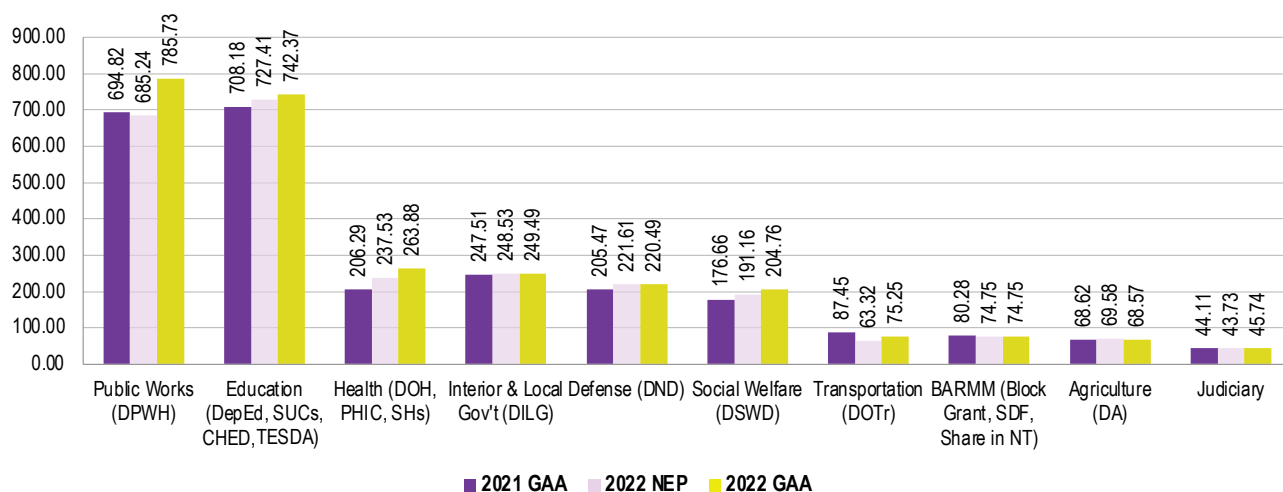
In one of the congressional hearings that tackled the country's debt, Finance Secretary Carlos Dominguez said in his speech that to achieve a solid recovery it is necessary to "fight the pandemic sustainably by keeping our deficit and debt ratios within reasonable levels."<sup>23</sup> He closed with the oft-repeated rhetoric that doing so will allow the Duterte government to bequeath the next administration and the future generation of Filipinos with public finances that are in great shape.<sup>24</sup>

This approach reflects conventional thinking about government's fiscal operations. Stephanie Kelton, a proponent of modern monetary theory, pointed out that oftentimes, primary consideration is given to taxation and borrowing, while spending decisions always come last. Such wisdom dictates that the government must come up with the money before it can spend. Kelton argued that fiscal operations need to be understood backwards. This implies that spending decisions, particularly the kind of public investments to be made, must be factored into policies geared towards achieving fiscal prudence and economic recovery.

Relatedly, writing in the aftermath of the 2008 global financial crisis, the Italian economist Mariana Mazzucato argued that "it is the quality not the quantity of debt that matters as the quality can affect long-run growth opportunities". She also emphasized that rather than focusing too much on the size of the deficit, there should be more debate about its actual composition.<sup>26</sup> As the Philippines enters the "new normal" and the 2022 election

### Top 10 Budget Recipients in the 2022 General Appropriations Act

Figure 1  
(In PhP Billion)



Source: Department of Budget and Management



draws nearer, it is imperative to take a hard look at the Duterte administration's fiscal policy and budget prioritization, especially when it could leave behind serious challenges to the next presidential administration.

Fiscal policy is indeed the key to recovery, but policy decisions and public discussion about it, especially this election season, must be reshaped. The narrative must go beyond what the economic managers keep harping on. Thus, it is critical to ask whether public funds are strategically invested to achieve a growth rebound that balances market-friendly initiatives with inclusive and people-centered programs. After all, the COVID-19 pandemic left deep scars in the Philippine economy.<sup>27</sup> A study released by the Asian Development Bank revealed that the pandemic could leave long-term labor market scarring since the COVID-19 pandemic practically reversed some of the country's gains in economic and job expansion in pre-COVID times.<sup>28</sup>

Based on an in-depth analysis of the national budget and the budget decision-making processes that took place during budget legislation, the authors argue that despite the administration's thrust to manage the debt and the deficit, fiscal prudence is but a mere rhetoric. Fiscal discipline with respect to the spending program has been neglected and fails on two counts. First, the spending priorities encapsulated in Duterte's last national budget hardly supports an inclusive and people-centered economic recovery. Second, the new general appropriations in the 2022 General Appropriations Act reflect a highly political decision-making process over the national budget, resulting in questionable trade-offs which ran counter to the call for fiscal discipline.

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The Duterte government's budget prioritization has largely remained unchanged in the midst of the pandemic. Four key observations were drawn from the authors' examination of the 2022 General Appropriations Act:<sup>29</sup>

1. There is a continued insistence on the brute force approach to infrastructure;
2. The 2022 Budget is an election budget that contains an unprecedented amount of patronage-driven projects;
3. The Unprogrammed Appropriations is inappropriately bloated with programs for health, education and social protection which do not have guaranteed sources of financing; and
4. Military and law enforcement funding continues to have a commanding share as a result of fiscal decisions made in the first half of the administration.

### **"Brute Force" Approach to Infrastructure Development**

In the Executive-proposed version of the 2022 national budget or the National Expenditure Program (NEP), large amounts were poured into the budgets of the DPWH and the Department of Transportation (DOTr). This remains consistent with the budget trends for the past five years. The two infrastructure agencies had a proposed budget of PhP 685.2 billion and PhP 150.7 billion, respectively. The proposed DPWH budget slightly

decreased by 1.4% compared to its budget in the 2021 GAA. According to the Department of Budget and Management (DBM), the decline in the Executive-proposed version of the DPWH budget was due to the devolution of certain infrastructure programs to local government units as part of the implementation of the Mandanas ruling.<sup>30</sup>

The DOTr had a heftier budget growth rate equivalent to 72.3% compared to the previous year, owing to large allocations meant for the implementation of railway programs. The railways projects have been in the pipeline as part of the Build, Build, Build program.

During budget legislation, significant changes were made in the budgets of DPWH and DOTr. The final budget level for DPWH (shown in Figure 1) was up by 15% percent or PhP 100.5 billion. Meanwhile, the DOTr suffered a massive 50% cut with its final budget level going down to only PhP 72.5 billion.

The PhP 100.5 billion net increase in the budget of the DPWH was largely due to the increase in the Convergence and Special Support Program and the Asset Preservation Program. Prior to the Bicameral Conference Committee hearing, the Senate slashed the DPWH budget by PhP 32 billion.<sup>31</sup> However, after the Bicameral Conference Committee (Bicam), the enacted version of the national budget showed that the Convergence and Special Support

Program increased by a whopping 71%, from PhP 206.5 billion in the 2022 NEP to PhP 352.8 billion in the 2022 GAA. Similarly, the Asset Preservation Program also increased by 85.5% from PhP 63.3 billion to PhP 117.5 billion. Nevertheless, other major programs of the DPWH such as network development, bridge, flood management and local programs were slashed by about PhP 50 billion.

In the DPWH budget alone, the magnitude of funds that were moved around during the BicaM amounts to about PhP 150 billion. Major deviations like this which occur in a very short period calls into question the quality of public investments that ended up being funded in the 2022 GAA for a number of reasons. First, the insertions made during the BicaM represented numerous line items for local infrastructure projects nationwide. These could not have gone through serious technical evaluation prior to funding given the extremely short period of preparation time.

Second, there was a lack of transparency in the process and the list of projects itself that were moved around. Hidden among the mass of numbers in the DPWH budget, what the specific insertions were remains unknown. Likewise, it is unclear whether every single one of these projects has strategic value.

Third, the insertion of a large magnitude of infrastructure projects also betrayed the mantra of fiscal prudence espoused by the economic managers. Fiscal prudence in terms of budget prioritization dictates that scarce financial resources must be allocated towards the right priorities. This imperative is more serious in a time of crisis. The highly political process under which the insertions were made took precedence over technical budgeting parameters that should have underpinned good fiscal discipline. In the end, the budget philosophy behind this decision-making process appeared to be just merely: “put as many infrastructure projects as we can.”

Fourth, doubts surround the absorptive capacity of the implementing agencies. There are certain criteria imposed by the DBM to determine whether programs, projects, and activities merit inclusion in the spending plan. These criteria are reiterated every single year in the annual National Budget Call. That budget call is issued in the form of a national budget memorandum which sets the parameters and budget ceilings which ought to be followed.

One of the major criteria for funding is implementation readiness. The goal is to ensure that programs and projects will be efficiently executed, and payments disbursed within the fiscal year.<sup>32</sup> Efficiency in budget utilization is paramount as it translates to higher disbursements. The higher the disbursement rates are, the greater the contribution of government spending will be to the country's GDP.

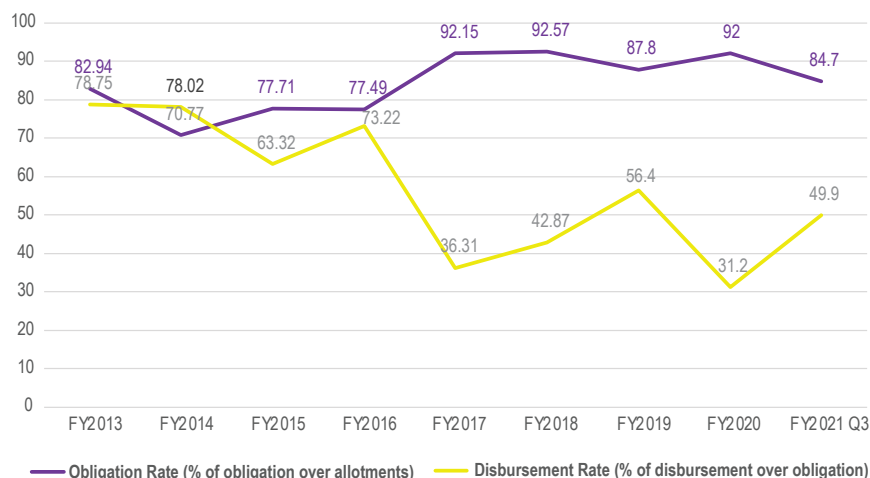
It bears noting that even without the PhP 150 billion insertion, the two infrastructure agencies have already been struggling to absorb the magnitude of funding allocations they received under their annual budgets. Although numerous infrastructure projects have indeed been accomplished, the reality is

“The next administration is set to face a fiscal conundrum that poses more difficulty to an already challenging road to economic recovery. It will have to grapple with a national budget that was built to fortify electoral campaigns, but not economic rehabilitation and development.”

## DPWH Spending Performance (FY2013-2021)

Figure 2

Obligation and Disbursement Rates  
(In Percent)



Source: Department of Budget and Management

the spending performance of the two agencies as shown in the graphs.

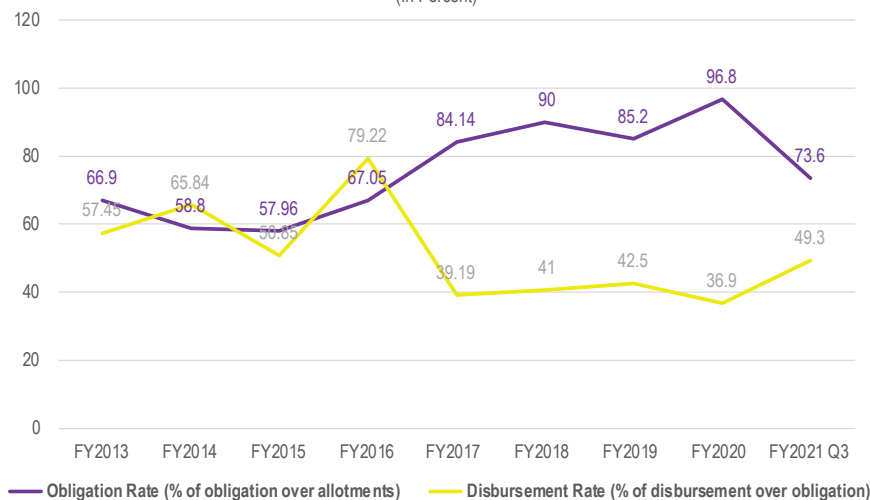
## Election Budget

The Convergence and Special Support Program of the DPWH originally housed the budget for strategic infrastructure investments such as access roads that lead to declared tourism destinations, economic zones, airports and seaports. In the 2021 GAA, the program had an allocation of PhP 62.1 billion and was the second to the last major program with the least amount of allocations in the DPWH budget program.

## DOTr Spending Performance (FY2013-2021)

Figure 3

Obligation and Disbursement Rates  
(In Percent)



Source: Source: Department of Budget and Management

As discussed in the preceding section, the Convergence and Special Support Program received an avalanche of funds in the 2022 NEP and an even greater allocation in the 2022 GAA. Comparing its 2021 and 2022 budget levels, the Convergence and Special Support program more than quadrupled this year. From PhP 62.1 billion, it grew by 468% to PhP 352.8 billion. The increase was due to the shift in allocations for local infrastructure projects from the Local Program to the Convergence and Special Support Program following the Mandanas Ruling.

Before the implementation of the Mandanas Ruling, line items for local infrastructure projects were lodged under the Local Program of the DPWH. Previous analyses done by the authors revealed that the Local Program had been riddled with what appeared to be patronage-driven projects. The magnitude of possible “pork” items kept increasing annually under the current administration. It has reached

that the infrastructure spending figures reported by the Duterte government lack the proper context for better understanding.

Infrastructure spending figures need to be analyzed in the context of the government’s own spending targets. If

due consideration is given to the self-imposed targets of the DPWH and the DOTr, spending data shows that both agencies have consistently and significantly been missing their spending targets for the past 5 years. Low disbursement rates have consistently characterized



an unprecedented level during the enactment of the 2022 GAA - a budget that will be executed during an election year. This was evident not only in the insertions made during the Bicam, but even as early as the NEP version.

Local infrastructure projects were simply rebranded as “Sustainable Infrastructure Projects Alleviating Gaps” and “Basic Infrastructure Program” and transferred to the Convergence and Special Support Program of the DPWH. As such, the Local Program significantly decreased by 84.5% from PhP 280 billion in the 2021 GAA to only PhP 15.4 billion in the 2022 GAA—a stark contrast to the astronomical increase in the allocation for the Convergence and Special Support Program.

Faced with other socio-economic problems due to the pandemic, it is once again crucial to raise questions about the prioritization of these items. However, lack of transparency makes it difficult to determine whether these projects are indeed more important than other competing needs in Philippine society. What is clear though is that the budget cut in the Local Program does not at all signal the end of “pork.” Furthermore, it is inconsistent with the Duterte government’s policy of fiscal devolution on local infrastructure projects.

### Summary of Line Items Under 2022 DPWH Sustainable Infrastructure Project Alleviating Gaps (SIPAG) Program

Table 3

	2022 GAA
<b>Sustainable Infrastructure Projects Alleviating Gaps (SIPAG)</b>	<b>209,554,958,000</b>
Access Roads and/or Bridges from the National Roads leading to Major/Strategic Public Buildings/Facilities	102,957,711,000
Access Roads and/or Bridges from the National Roads connecting to IP Communities	299,000,000
Interjurisdictional Roads and/or Bridges (or roads that traverse multiple LGU jurisdictions)	16,109,000,000
Coastal Roads/Causeway for environmental protection.conservaion	1,842,051,000
Flood Mitigation Structures Protecting Public Infrastructures/Facilities	38,623,939,000
Multipurpose Buildings/Facilities to Support Social Services	9,621,909,700

Source: Department of Budget and Management

### Summary of Line Items Under 2022 DPWH Basic Infrastructure Program (BIP)

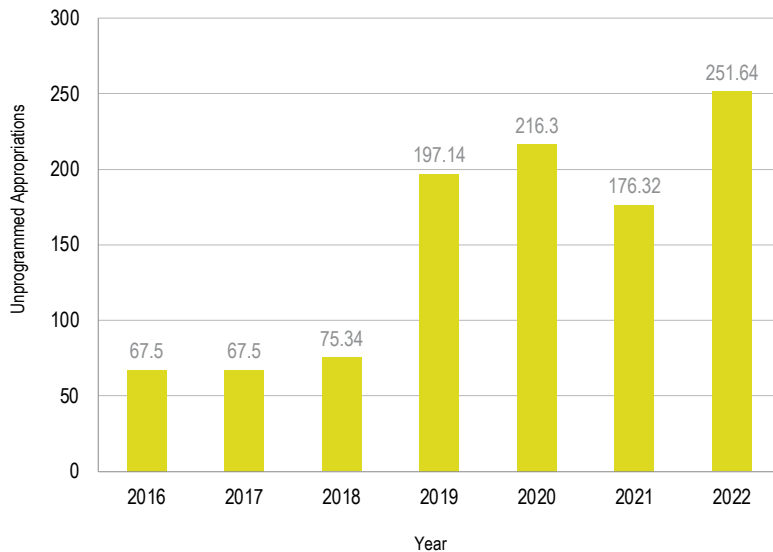
Table 4

	2022 GAA
<b>Basic Infrastructure Program (BIP)</b>	<b>82,542,920,000</b>
Access Roads and/or Bridges from the National Roads leading to Major Strategic Buildings and Facilities	25,573,770,000
Access Roads and/or Bridges from the National Roads connecting to IP Communities	1,779,500,000
Coastal Roads/Causeway for environmental protection/conservation	315,000,000
Basic Infrastructure Program (BIP)) - Flood Mitigation Structures protecting Public Infrastructures/Facilities	16,655,200,000
Basic Infrastructure Program (BIP)) - Multi-purpose Buildings/Facilities to Support Social Services	33,156,750,000
Basic Infrastructure Program (BIP) - Major/Strategic Public Buildings /Facilities Structural and Resilience Program	415,500,000
Basic Infrastructure Program - Evacuation Centers/Quarantine Facilities/Public Health Facilities	2,736,600,000
Basic Infrastructure Program - Public Water Supply System (Level II or III)	1,910,600,000

Source: Department of Budget and Management

## Unprogrammed Appropriations (FY2016-2022)

Figure 4  
(In PhP Billion)



Source: Source: Department of Budget and Management

Ultimately, the timing of funding these projects in an election year and the trade-offs that took place along with it are highly questionable. Budget reallocation is a zero-sum game. As a result of pork barrel politics, more urgent socio-economic programs ended up being deprioritized.

## Bloated Unprogrammed Appropriations

At this point, it is useful to recall that new items in the national budget may be classified into two categories according to the availability of funding: Programmed and Unprogrammed Appropriations. Programmed Appropriations are those which already have a definite or identified source of funding at the time the budget is prepared. In other words, they may be implemented as soon as the GAA is passed.<sup>33</sup>

Unprogrammed Appropriations, on the other hand, operate as standby authority to spend.<sup>34</sup> The government may only implement items falling under Unprogrammed Appropriations if new or excess revenue is collected, or if additional foreign funding is granted for foreign-assisted projects. Absent any new or excess revenues or additional foreign funds, there is no authority to spend for such items. This is reflected in a special provision of the 2022 GAA, which states that Unprogrammed Appropriations may be used when any of the following exist:

1. Excess collection revenues in any one of the identified non-tax revenue sources from its corresponding revenue target, as reflected in the BESF;

2. New revenue collections or those arising from new tax or non-tax sources which are not part of nor included in, the original revenue sources reflected in the BESF; or
3. Approved loans for foreign-assisted projects.<sup>35</sup>

Because of these additional conditions, it stands to reason that Unprogrammed Appropriations are less prioritized than their Programmed counterparts. Congress finds them “good to have,” but not indispensable. In the past, Unprogrammed Appropriations have been used to top up existing items in the budget. They were useful in providing additional spending authority, without the need to pass a supplemental budget in case the government comes into a revenue windfall.

Unprogrammed Appropriations in the 2016 and 2017 GAA amounted to only PhP 67.5 billion each.<sup>36</sup> By 2018, this figure grew slightly to PhP 75.34 billion.<sup>37</sup> The totals ballooned to PhP 197.14 billion in 2019, notably due to the payment of pension arrears, the increase in foreign-assisted projects, the payment of arrears for LTO-IT services, the Rice Competitiveness Enhancement Fund, the Coconut Industry Development Fund, the implementation of the BARM Organic Law, and the implementation of the Universal Health Care Act.<sup>38</sup>

In 2020, Unprogrammed Appropriations further increased to PhP 216.3 billion. The payment of pension arrears and increase in foreign-assisted projects remained, but this time, unprogrammed items included an equity infusion for the BSP, the payment of right of way for infrastructure projects, additional amounts for the Health Facilities Enhancement Program (HFEP), and increases in the budgetary support for GOCCs.<sup>39</sup>

For 2021, Unprogrammed Appropriations totaled PhP 176.32 billion, with PhP 70 billion of which dedicated to the procurement, transportation, and administration of COVID-19 vaccines. Top-ups for the HFEP remained, but new items on COVID-19 social protection programs, the national ID program, and the MILF normalization program of the Office of the Presidential Adviser on the Peace Process were included. Notably, it was in the 2021 GAA that new line items for Basic Education Facilities, the Voucher Program for Private Senior High Schools, the Last Mile Schools program, Flexible Learning Options, and the DepEd Computerization program were also included in Unprogrammed Appropriations.<sup>40</sup>

The 2022 GAA featured the largest Unprogrammed Appropriations in recent years. It amounted to PhP 251.64 billion, or about 374% of the 2016 total.<sup>41</sup> On its face, this massive increase might appear justified by the exigencies of the pandemic, but a deeper look reveals a sinister design.

The 2022 Unprogrammed Appropriations contain the highest number of items which concern basic services compared to the other recent budgets. It is estimated that PhP 119.14 billion for health, PhP 25.2 billion for aid, and PhP 17.82 billion for education were left unprogrammed. The authors submit that this decision is unsound for three reasons.

First, the differences between the 2022 NEP and the 2022 GAA invite several questions as to the decision to bloat Unprogrammed Appropriations. It is worth noting that the amounts of the proposed and enacted budgets differ by PhP 100 billion, which could be traced to the Unprogrammed Appropriations.

Comparing the NEP and GAA versions of the Unprogrammed Appropriations sheds light on how the 2022 budget changed. For instance, the NEP version contained only 12 items worth PhP 151.64 billion, corresponding to general governance and cross-cutting items and the funds for COVID-19 booster shots. The GAA version, meanwhile, contained 50 items worth PhP 251.64 billion, peppered with multiple items concerning basic services.

A summary of these changes may be found in Annex A.

Readers of the national budget would also quickly realize that most of these basic services have counterparts under Programmed Appropriations. When

### Comparison of Programmed and Unprogrammed Appropriation Level in the 2022 NEP and 2022 GAA

Table 5

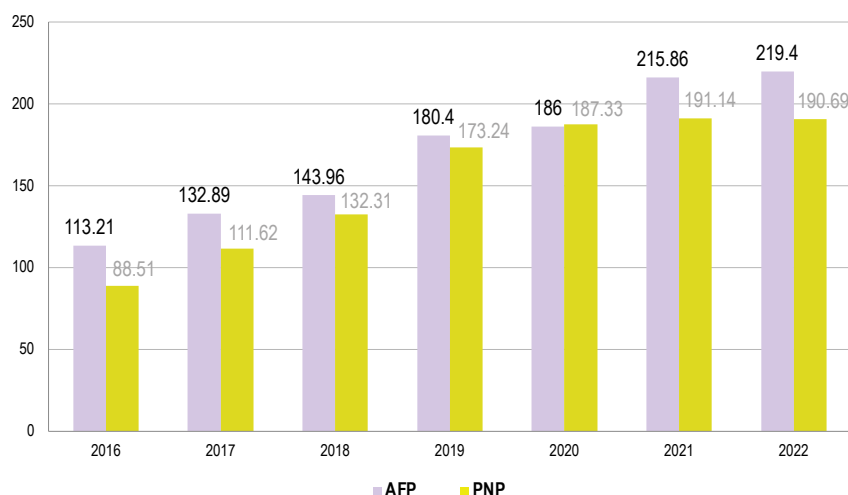
Budget Items	2022 NEP	2022 GAA	Difference
New General Appropriations	3,502,359,966,000	3,602,359,966,000	100,000,000,000
o.w. Programmed Appropriations	3,350,720,769,000	3,350,720,769,000	0
o.w. Unprogrammed Appropriations	151,639,197,000	251,639,197,000	100,000,000,000
Automatic Appropriations	1,672,879,231,000	1,672,879,231,000	0
<b>Sub-total</b>	<b>5,175,239,137,000</b>	<b>5,275,239,137,000</b>	<b>100,000,000,000</b>
Less: Unreleased Appropriations	151,639,197,000	151,639,197,000	0
<b>TOTAL BUDGET</b>	<b>5,023,600,000,000</b>	<b>5,123,600,000,000</b>	<b>100,000,000,000</b>

Source: Department of Budget and Management



## Budget Levels of the AFP and PNP, FY2016-2022

Figure 5  
(In Billion PhP)



Source: Source: Department of Budget and Management

comparing the NEP and the GAA, it can be observed that several of the programmed amounts were reduced and instead transferred as unprogrammed funds. For other items, the programmed amounts were retained, and budget increases were instead reflected as unprogrammed.

Second, most of the items for basic services should not have been placed in Unprogrammed Appropriations by virtue of their sheer importance to the public. These items represent key services which must be immediately implemented regardless of the existence of new or excess revenues. Standout examples for health are the PhP 45.37 billion fund for procuring COVID-19 booster shots, the PhP 42 billion fund for compensation and benefits for COVID-19 workers in health facilities, the PhP 9.8 billion fund for COVID-19 laboratory network commodities, the PhP 9.25 billion fund for operating DOH regional hospitals and facilities, the PhP 3.25 fund for operating DOH Metro Manila hospitals and facilities, the PhP 1.95 billion fund for human resources for health, and

the PhP 1 billion fund for hiring contact tracers. The country's experience with the protracted effects of the pandemic, as well as the ever-looming threat of another surge, clearly demonstrate the primacy of robust health services and of properly compensating health workers.

The same is true for items which relate to welfare and livelihood aid. PhP 5 billion for fuel subsidy, PhP 5 billion for social amelioration or "ayuda," and an additional PhP 3.7 billion for the KALAHI-CIDSS program were left unprogrammed despite the continued calls of the basic sectors for additional economic assistance.

Unprogrammed education funds include PhP5 billion for the senior high school voucher program, PhP 5 billion for Universal Access to Quality Tertiary Education for SUCs, PhP 1 billion for Educational Service Contracting in junior high schools, PhP 1 billion in the school-based feeding program, PhP 1 billion the Last Mile Schools program, and PhP 750 million each for the operation of

elementary and junior high schools. The decision to move these items to Unprogrammed Appropriations must be met with furrowed brow, especially in view of decreased enrollment, lower educational outcomes during the pandemic, and the expedient of facilitating the safe return to schools.

Third, excess revenues historically amount to only about PhP 30 billion, which are realized at the last quarter of the fiscal year. It bears repeating that out of the PhP 251.64 billion unprogrammed funds, PhP 162.16 billion pertain to basic services such as health, welfare and livelihood aid, and education. This gives rise to the key challenges of collecting enough excess revenues to implement these key programs, and of having these funds ready in time to deliver the services as needed. If only these items were enacted as Programmed Appropriations, then they would not have been subject to additional roadblocks before they could be utilized.

## Commanding Share of Military and Law Enforcement Funding

The preference for funding the military and law enforcement elements of the government has been consistently observed in the national budget under the Duterte administration. Programmed appropriations for military and uniformed personnel have steadily grown over the past six years. The budget of the Armed Forces of the Philippines (AFP) grew by about PhP 106.19 billion from 2016 to 2022, while that of the Philippine National Police (PNP) increased by around PhP 102.18 billion in the same period.

The 2022 GAA is no exception to this trend. While the increases to the military and police budgets have been tempered, these departments still possess a commanding share in the national budget totaling PhP 624.59 billion. Specifically, the programmed budget of the AFP amounted to PhP 213.78 billion, plus PhP 10 billion in unprogrammed funds for AFP modernization. Support to the Barangay Development Program of the controversial NTF-ELCAC was at PhP 16.17 billion, with PhP 5.62 billion in programmed and PhP 10.55 billion in unprogrammed appropriations. The PNP's programmed budget stood at PhP 190.69 billion, with a PhP 1.5 billion unprogrammed item for its camp development project.

The Pension and Gratuity Fund (PGF), which provides for the pension of AFP and uniformed PNP retirees, amounted to PhP 192.44 billion.<sup>42</sup> Programmed appropriations for the fund decreased in 2018 and 2019, but grew ever since. The PGF also includes the pensions and benefits of other government retirees, but the authors note that a large chunk thereof is ordinarily spent for military and law enforcement personnel.

Future appropriations for the PGF are expected to grow unless a major overhaul of the pension system is enacted. Currently, military pensions are indexed to prevailing rates, such that the amount received by retirees follows the current rate fixed for persons in active duty. An actuarial study released by the Government Service Insurance System (GSIS) revealed the heavy burden which this system imposes. A total of PhP 9.6 trillion was said to be required to keep up with pension obligations to military and uniformed personnel. This means that an estimated amount of PhP 800 billion must be annually appropriated for the next 20 years for pensions alone.<sup>43</sup>

### Budget Items of the AFP and the PNP Under the Programmed and Unprogrammed Appropriations of the 2022 GAA

Table 6

Budget Items	2022 Programmed	2022 Unprogrammed	Total
Armed Forces of the Philippines	219,404,977,000	20,545,000,000	239,494,977,000
o.w. AFP Proper	213,780,977,000	10,000,000,000	223,780,977,000
o.w. NTF-ELCAC	5,624,000,000	10,545,000,000	16,169,000,000
Philippine National Police	190,694,897,000	1,500,000,000	192,194,897,000
Pension and Gratuity Fund*	183,944,069,000	8,500,000,000	192,444,069,000
<b>TOTAL</b>	<b>594,043,943,000</b>	<b>30,545,000,000</b>	<b>624,588,943,000</b>

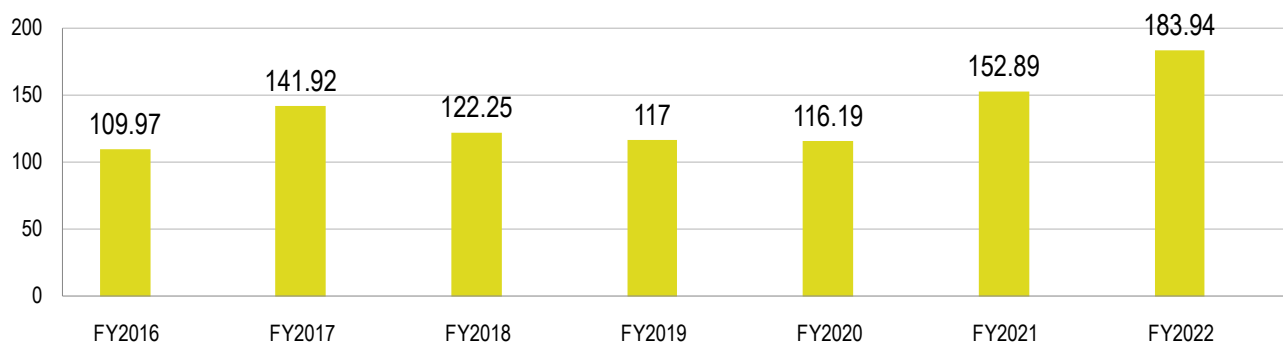
\* Also includes other government personnel, but a large chunk of these funds is usually spent for military and law enforcement personnel.

Source: Department of Budget and Management

### Pension and Gratuity Fund, FY2016-2022

Figure 6

(In PhP Billion)



Source: Department of Budget and Management

## Conclusion and Recommendations

The structure of the 2022 GAA reflects the national government's priorities, given the country's prevailing political and socioeconomic conditions. It was observed that questionable trade-offs took place during the final stretch of the budget legislation process. Patronage politics trumped people-centered recovery.

Despite yielding anemic returns due to the lack of absorptive capacity, the government still insisted on its "brute force" approach to infrastructure programs. Appropriating funds for projects which have unclear strategic value, dubious implementation readiness, and which were highly vulnerable to corruption betrayed the government's own call for fiscal prudence during the pandemic.

Funds for possible "pork" items dramatically increased in the 2022 GAA, with avalanches in favor of pet projects concentrated in the Convergence and Special Support Program of the DPWH. The emergence of high-value items in Sustainable Infrastructure Projects Alleviating Gaps (SIPAG) and Basic Infrastructure Program (BIP) was exceedingly questionable, especially in view of the upcoming national elections.

Since budget reallocation is a zero-sum game, some urgent and critical basic services ended up being deprioritized. Items related to health, welfare and livelihood aid, and education wound up under Unprogrammed Appropriations. As a result, implementation has been conditioned on the existence of new or excess revenue collections. It is doubtful that these programs would be delivered at all, given that historically, excess revenues only amounted to PhP 30 billion, and realized only at the last quarter of the fiscal year.

The military and law enforcement arms of the government continued to enjoy preference in funding. Combined, the AFP and PNP cornered about PhP 624.59 billion of the national budget, and crowded out fiscal space for socioeconomic programs. A looming crisis also awaits the country, in that PhP 800 billion must be annually appropriated for the next 20 years to satisfy their pensions.

The next administration is set to face a fiscal conundrum that poses more difficulty to an already challenging road to economic recovery. It will have to grapple with a national budget that was built to fortify electoral campaigns, but not economic rehabilitation and development.

It is recommended that a more technical, deliberate, and transparent approach must be adopted in planning and implementing infrastructure, funding only the most strategic and feasible projects. Relatedly, "pork" and other insertions must be controlled, if not eradicated, to stem the losses from systemic corruption and patronage politics. The strong funding preference for the military and law enforcement must also be revisited, with special focus on rationalizing the pension system.

These adjustments would be necessary to create more fiscal space for socioeconomic programs and basic services primarily geared towards human development. Instead of favoring unfeasible projects, the next administration should prioritize spending for health facilities and health workers, wage subsidies, service contracting, livelihood and welfare aid, housing, rural development, active transport, and improved educational outcomes.

Recasting the 2022 GAA will be difficult, but not impossible under a strong-willed and principled administration. More importantly, the succeeding national budgets will also be critical in determining the country's path to recovery. It is imperative that they be geared towards transparency, accountability, and inclusive development, not patronage politics nor "pork."



# endnotes

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<sup>2</sup> Canivel, R.S.C. (2022, March 7). April 1 Return-to-Office Deadline Bucked by BPOs. Philippine Daily Inquirer. Retrieved March 7, 2022 from <https://business.inquirer.net/342640/april-1-return-to-office-deadline-bucked-by-bpos>.

<sup>3</sup> Leyco, C.S. (2022, March 21). PH faces food, non-food inflationary pressures. Manila Bulletin. Retrieved March 21, 2022 from <https://mb.com.ph/2022/03/21/ph-faces-food-non-food-inflationary-pressures/>.

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<sup>7</sup> Senate of the Philippines. (2021, September 9). Senate Committee on Finance: Briefing of the Development Budget Coordinating Committee on the Proposed NEP (49.25 mark). Retrieved March 24, 2022 from <https://www.youtube.com/watch?v=cDSJ5AQaMUC>

<sup>8</sup> Financial Institutions Strategic Transfer (FIST) Act 2019.

<sup>9</sup> Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act 2019.

<sup>10</sup> Ibid, Dominguez, C.G.

<sup>11</sup> Duterte, R.R. (2021, August 22). The President's Budget Message: Sustaining the Legacy of Real Change for Future Generations. Department of Budget and Management. Retrieved March 7, 2022 from <https://www.dbm.gov.ph/index.php/budget-documents/2022/2022-president-s-budget-message>

<sup>12</sup> Ibid, Duterte. R.R

<sup>13</sup> Ibid, Duterte. R.R.

<sup>14</sup> Sanders, R and Suzara, Z.N. (2022, Febru-

ary). Presentation on Key Observations on the 2022 General Appropriations Act. (unpublished)

<sup>15</sup> Department of Budget and Management. (2021). Table A.2 National Government Fiscal Program. FY2022 Budget of Expenditures and Sources of Financing. Retrieved March 5, 2022 from <https://www.dbm.gov.ph/index.php/budget-documents/2022/budget-of-expenditures-and-sources-of-financing-fy-2022>

<sup>16</sup> Ibid, Department of Budget and Management. (2021). Table A.2 National Government Fiscal Program. FY2022 Budget of Expenditures and Sources of Financing.

<sup>17</sup> Department of Budget and Management. (2022). 2022 General Appropriations Act. Retrieved March 5, 2022 from <https://www.dbm.gov.ph/index.php/budget-documents/2022/general-appropriations-act-fy-2022>

<sup>18</sup> Department of Budget and Management. (2022). Glossary of terms. Retrieved March 5, 2022 from <https://www.dbm.gov.ph/index.php/budget-documents/2022/general-appropriations-act-fy-2022>

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<sup>24</sup> Ibid, Dominguez, C.G. (2021, September 6)

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<sup>28</sup> Asian Development Bank. (2022, March). Southeast Asia Rising from the Pandemic. Retrieved March 13, 2022 from <https://www.adb.org/sites/de->

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<sup>32</sup> Department of Budget and Management. (2020-2022). National Budget Memoranda Nos. 136, 138, 142. Retrieved March 22, 2022 from <https://www.dbm.gov.ph/index.php/issuances/dbm-issuances/national-budget-memorandum#2022>

<sup>33</sup> Ibid, Department of Budget and Management. (2022). Glossary of terms.

<sup>34</sup> Ibid, Department of Budget and Management. (2022). Glossary of terms.

<sup>35</sup> 2022 General Appropriations Act, XLI. Unprogrammed Appropriations, spl. prov. 1.

<sup>36</sup> 2016 General Appropriations Act, XLI. Unprogrammed Fund; 2017 General Appropriations Act, XLII. Unprogrammed Fund.

<sup>37</sup> 2018 General Appropriations Act, XLII. Unprogrammed Fund.

<sup>38</sup> 2019 General Appropriations Act, XLII. Unprogrammed Appropriations.

<sup>39</sup> 2020 General Appropriations Act, XLII. Unprogrammed Appropriations.

<sup>40</sup> 2021 General Appropriations Act, XLII. Unprogrammed Appropriations.

<sup>41</sup> 2022 General Appropriations Act, XLII. Unprogrammed Appropriations.

<sup>42</sup> 2022 General Appropriations Act, XLII. Pension and Gratuity Fund.

<sup>43</sup> Ramos, C.M. (2021, February 02). GSIS study shows need to allot P800B yearly pension for military, uniformed personnel for 20 years. Inquirer.net. Retrieved from <https://newsinfo.inquirer.net/1391046/gsis-study-shows-need-to-allot-p800b-yearly-pension-for-military-uniformed-personnel>.

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# annex

Budget Items	2022 NEP	2022 GAA	Difference
<b>TOTAL</b>	<b>151,539,197,000</b>	<b>251,639,197,000</b>	<b>100,100,000,000</b>
<b>Governance and Cross-Cutting Items</b>	<b>106,271,344,000</b>	<b>89,476,399,000</b>	<b>-16,794,945,000</b>
Support for Infrastructure Projects and Social Programs	27,690,671,000	13,190,671,000	-14,500,000,000
AFP Modernization Program	5,000,000,000	10,000,000,000	5,000,000,000
Budgetary Support for GOCCs	24,953,019,000	2,500,000,000	-22,453,019,000
Support to Foreign-Assisted Projects	20,150,444,000	17,723,647,000	-2,426,797,000
Risk Management Program	15,000,000,000	1,000,000,000	-14,000,000,000
Payment of Arrears of LTO-IT Service	2,000,000,000	2,000,000,000	0
Refund of the Service Development Fee for the Right to Develop the Nampendai Property in Tokyo, Japan	210,579,000	210,579,000	0
Prior Years' LGU Shares	14,623,000	14,623,000	0
BSP Equity Infusion	5,000,000,000		-5,000,000,000
Payment of Personnel Benefits	3,707,937,000	3,707,937,000	0
Shares of LGUs in Excise Taxes from Locally Manufactured Virginia-Type Cigarettes	2,544,071,000	2,544,071,000	0
Purchase of Passport Booklets and Personalization	0	200,000,000	200,000,000
Payment of Right of Way	0	10,000,000,000	10,000,000,000
Retirement Gratuity and Terminal Leave	0	8,500,000,000	8,500,000,000
For the Implementation of National Budget Circular No. 461	0	4,000,000,000	4,000,000,000
Support to the Barangay Development Program of the NTF-ELCAC	0	10,545,000,000	10,545,000,000
OPAPP - Government of the Philippines - MILF Peace Process Program	0	435,980,000	435,980,000
Philippine Customs Modernization Program	0	1,403,891,000	1,403,891,000
Camp Development Fund for the Philippine National Police	0	1,500,000,000	1,500,000,000
<b>Education Items</b>	<b>0</b>	<b>17,823,055,000</b>	<b>17,823,055,000</b>
Last Mile Schools Program	0	1,000,000,000	1,000,000,000
Educational Service Contracting Program for Private JHS	0	1,000,000,000	1,000,000,000
Voucher Program for SHS	0	5,000,000,000	5,000,000,000
Basic Education Facilities	0	1,000,000,000	1,000,000,000
Universal Access to Quality Tertiary Education	0	5,000,000,000	5,000,000,000
School-Based Feeding Program	0	1,000,000,000	1,000,000,000
Conservation and Restoration of Gabaldon and other Heritage School Buildings	0	750,000,000	750,000,000
DepEd Computerization Program	0	400,000,000	400,000,000



Budget Items	2022 NEP	2022 GAA	Difference
Operation of Schools - Elementary	0	750,000,000	750,000,000
Operation of Schools - JHS	0	750,000,000	750,000,000
Operation of Schools - SHS	0	50,000,000	50,000,000
Increase in the Capacity of Nursing and Allied Health Programs of SUCs	0	1,123,055,000	1,123,055,000
<b>Health Items</b>	<b>45,367,853,000</b>	<b>119,135,743,000</b>	<b>73,767,890,000</b>
Compensation and Other Benefits for COVID-19 Workers in Health Facilities	0	42,000,000,000	42,000,000,000
COVID-19 Laboratory Network Commodities	0	9,801,972,000	9,801,972,000
COVID-19 Human Resources for Health Emergency Hiring	0	1,950,000,000	1,950,000,000
Cancer Assistance Fund	0	400,000,000	400,000,000
For the Procurement and Supply Chain Management Service	0	625,000,000	625,000,000
Operations of DOH Hospitals in Metro Manila	0	3,250,000,000	3,250,000,000
Operations of DOH Regional Hospitals and Other Health Facilities	0	9,250,000,000	9,250,000,000
Epidemiology and Surveillance Program	0	1,250,000,000	1,250,000,000
Operations of National Reference Laboratories	0	200,000,000	200,000,000
Hiring of Contract Tracers	0	1,000,000,000	1,000,000,000
Health Facilities Enhancement Program	0	4,040,918,000	4,040,918,000
Procurement of COVID-19 Vaccine Booster Shots	45,367,853,000	45,367,853,000	0
<b>Welfare and Livelihood Aid, MSME Assistance, Agrarian Reform, and Housing</b>	<b>0</b>	<b>25,204,000,000</b>	<b>25,204,000,000</b>
Fuel Subsidy Program	0	5,000,000,000	5,000,000,000
Social Amelioration Program	0	5,000,000,000	5,000,000,000
KALAHI-CIDSS	0	3,704,000,000	3,704,000,000
Pondo para sa Pagbabago at Pag-Asenso Program - Micro-Finance for Lending	0	1,000,000,000	1,000,000,000
Support to Parcelization of Lands for Individual Titling (SPLIT) Project	0	4,000,000,000	4,000,000,000
Second Additional Financing for Philippine Rural Development Project	0	4,000,000,000	4,000,000,000
Training for Work Scholarship Program (TWSP)/Special Training for Employment Program (STEP)	0	2,000,000,000	2,000,000,000
Various NHA Projects	0	500,000,000	500,000,000

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# ADR

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FOR STRATEGIC AND INTERNATIONAL STUDIES

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