PFMP

Philippines-Australia
Public Financial Management Program

Supporting the Philippines towards improved efficiency, accountability and transparency

Australian Aid

PFMP Update

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Introduction

The Philippines PFM Reforms began in earnest in 2011 (broadly coinciding with the mobilisation of PFMP) as a part of the Administration's broader governance reform agenda. Four years since the commencement of the reforms, there has been mixed, but still significant, progress.

While the original design of the reforms was largely mechanical (focused on GIFMIS and financial reporting), as the reforms unfolded the emphasis shifted to the underlying policy and management issues. In particular the focus has shifted to strengthening the performance orientation of the budget. This has provided the framework through which to bring together the different technical initiatives into a coherent approach for impacting PFM practice.

This report outlines PFMP's substantial contributions in almost all the areas of PFM reform. Throughout the reforms Australia has provided a range of technical advice, training, policy dialogue, project management resources, and process facilitation across many issues. PFMP's approach has been responsive to GOP's needs, and has now helped the Government reach a point at which the benefits of reform are beginning to become visible.

DFAT Counsellor and PFMP Team Leader Daniel Featherston hands over a gift to DBM Secretary Florencio "Butch" Abad on the occasion of the DBM's 79th anniversary.

Program Management Office

One of the first areas of assistance **provided by PFMP was to staff the Program Management Office (PMO) in support to the PFM Reforms.**

Embedded in the Department of Budget and Management (DBM), the PMO acted as a Secretariat and advisory group to the PFM Committee. Having a dedicated team of PFMP specialists and support staff at the centre of the action with quick access to key government decision makers was crucial to quickly ramping up the reforms.

Significant early momentum was achieved, in particular with the design of UACS, the GIFMIS Conceptual Design, and TSA. The PMO's inter-agency role was also important, helping to facilitate cooperation on key issues that previously had been roadblocks (such as establishing a single account code structure).

In June 2014, with key reforms in implementation, Australia concluded its support to the PMO in favour of moving Australian-funded staff into more hands-off advisory roles, with Government taking on responsibility for reforms as part of their regular functions.

The PFMP Team with key officials and executives of DBM, DOF, BTr and COA at the *"Tagaytay 6"/PFM Learning Workshop and Conference"* held last September 2013 at Tagaytay City.

Performance Informed Budgeting (PIB)

In 2011, the budget had a line-item, input-focused structure, with no performance information. The Government's performance measurement system followed a parallel process, with no direct links to how the

budget was developed or presented. This meant it was not possible to identify how resources were linked to intended results, weakening the transparency of the budget and its usefulness as a management tool.

DBM budget specialists and technical staff analyse financial statements in one of the PIB-learning sessions facilitated by PFMP.

This changed in the 2014 Budget when the DBM Secretary decided to include agency outputs in the budget. **PFMP assisted DBM to implement this decision and helped to then define the longer term strategy for performance budgeting.** DBM decided to move toward a program budget structure, and undertook an incremental series of structural changes to the budget: in 2015 the budget included outcome information (with indicators and targets) and in 2016 program budgeting is being piloted in six agencies with a view to its full introduction in 2017.

These changes mean that, in contrast to 2011, Government now has in place the fundamental framework necessary for performance informed budgeting. This delivers an immediate benefit in terms of improved transparency: it is now possible to see clearly how Government prioritises its spending. It also provides the framework in which significant management benefits can be delivered: improving information about outcomes provides the basis for making strategic decisions about priorities and enhancing delivery effectiveness.

Feedback from DBM and spending agency staff is positive about the possibilities that these new structures provide. The challenge is now to stabilise the framework, strengthen the links between planning and budgeting, improve the quality of information and analysis (including through better tools), and in so doing, begin to deliver tangible benefits in terms of better budgets and better budget execution.

Unified Account Code Structure (UACS)

Establishing a Unified Account Code Structure was a critical starting point for the reforms. Without it, Government was unable to report on or analyse its expenditure against budget in a clear, systematic manner. Similarly, it would not have been possible to introduce performance-informed budgeting. The absence of the code structure was also one of the major factors underlying many of the weaknesses in the Philippines 2010 PEFA assessment. The establishment of the UACS for the 2014 budget was therefore a breakthrough reform.

PFMP provided extensive support to UACS: first in providing expertise to help oversight agencies design the UACS, then in providing resources for the rollout of UACS to agencies. PFMP developed and delivered training to around 4,000 spending agency participants during 2014, and helped DBM set up arrangements to maintain the UACS.

PFMP training for UACS rollout.

Uptake of UACS has progressed as well as might be expected in a difficult context: many agencies have had difficulty in upgrading their systems to be UACS-compliant; others continue to rely on manual systems. Nonetheless, UACS still provides the foundation on which Government can continue to achieve incremental improvements over time.

The challenges for Government now are to provide agencies with the support necessary for them to comply, and to maintain the code effectively. But the most important challenge is to *use* the information made possible by UACS to inform decision-making. PFMP continues to work with DBM and other stakeholders to facilitate this.

PFM Certificate Program

Early in the reform process, Government recognised the importance of skills development to strengthening the performance of the PFM system. However there was at the time no strategy for systematically addressing the skills challenge, with training typically delivered on an ad hoc basis. **PFMP advocated an approach in which a PFM competency framework would first be developed** in order to provide the basis for a strategic approach to addressing PFM staff development needs across the Government.

Participants from the PFM Certificate Program pilot test held in April 2015.

Government agreed with this proposed approach and during 2013, PFMP assisted Government to develop a PFM Competency Framework, which was adopted by the PFM Committee in January 2014. **PFMP then provided the resources and expertise to develop a curriculum**, which now includes five tracks. Complete course materials have been developed and piloted (in April 2015) for two of these: *PFM Foundation* and *Budget and Performance*. The early focus on the *Budget and Performance* track was intended to support the introduction of performance informed budgeting and demonstrate the practical contribution that good training can make to implementing Government policy.

PFMP is now working with Government to establish the institutional structures required to maintain the curriculum and ensure that training is delivered on a systematic basis. It is vitally important that training delivery by Government commence as soon as possible so that momentum is maintained, and the target audience in both oversight and spending agencies starts to be engaged.

Improving Cash Management

The reforms identified the need to significantly strengthen the efficiency of Government's cash management arrangements, in particular by centralising the Government's accounts through the Treasury Single Account (TSA). In 2012, it was estimated that the existing cash management arrangements cost the Government in the order of PHP24 billion per year (in terms of foregone revenue and the costs associated with operating special deposit accounts).

Signing of the TSA agreement led by DOF, BTr, BIR and BOC held last November 2013 at the Bureau of the Treasury.

PFMP provided detailed analysis of existing cash management practices, and in close collaboration with the Bureau of the Treasury (BTr), developed and designed a TSA Framework. This also involved working with other key stakeholders such as the Bureau of Internal Revenue, Bureau of Customs, and Bangko Sentral ng Pilipinas (as the custodian of the TSA).

Implementation began on schedule on January 1, 2014, with two key features. First, the 323 accounts held by the Treasury (approximately PHP530 billion) were consolidated, significantly improving the transparency of Government's cash position. Second, a fee based structure was introduced to replace the former float, in which banks operating as revenue

collecting agents held Government revenue for five to ten days. It is estimated that this will generate savings of nearly PHP950 million per year in reduced banking transaction costs alone.

Substantive PFMP support to the TSA concluded in mid-2014. However, additional ad hoc support has helped BTr and Landbank to expand the number of agencies using the Government's electronic disbursements system, and in so doing significantly improve the quality and timeliness of information about Government expenditure. The use of UACS in these systems also strengthens transparency and budget management capability.

Government Integrated Financial Management Information System (GIFMIS)

The technological centrepiece of the reforms was expected to be the implementation of the GIFMIS, a system that would be rolled out to all Government agencies. It would be the vehicle through which many policy and procedural changes would be given effect, and provide the basis for improved information quality. It was, at the time, the element of the reforms around which stakeholder support was most obviously mobilised.

When the intention to implement GIFMIS was announced in 2011, Government had no established methodology for implementing such a complex, large scale initiative. **PFMP advocated for the development of a conceptual design as the basis for defining detailed specifications and a procurement approach for the system.**

Government accepted this recommendation and PFMP supported the development of the conceptual design. The PFM Committee approved the GIFMIS design in April 2013, providing the basis for the Government to then procure a commercial-off-the-shelf solution. PFMP provided extensive technical support to the Government throughout the preparation for and conduct of the procurement.

Government decided in January 2015 to abandon the procurement process and proceed with a more incremental solution, focused initially only on oversight agencies. While this was a setback for the reforms, much of the analytical and other preparatory work undertaken by PFMP and other stakeholders remains directly relevant to the Government's modified solution (the Budget and Treasury Management System, which should go live early in 2017). Also, the conceptual design process helped build dialogue and cooperation amongst oversight agencies, and the *expectation* of GIFMIS provided the motivation that drove several other reforms, including UACS.

Responsive Support

PFM reform takes place in a complex environment, and it is important to respond quickly to unexpected opportunities and obstacles alike. **PFMP responded to several opportunities that may yet play a key role in the success of the reforms**.

First, the **establishment of the Office of the Comptroller General (OCG)** and **drafting of a PFM Bill** have the potential to build the legal and institutional framework to sustain the reforms. PFMP was involved from the beginning of Government discussions about the OCG and PFM Law, providing advice about the potential scope and benefits of both. PFMP is ready to continue its support as the Government progresses its efforts in these areas.

One of several drafting sessions in DBM for the PFM Law.

Second, following the progress achieved with performance budgeting and UACS, it became feasible to develop an analytics tool for DBM that, in the absence of an integrated technology solution in the near term, would provide DBM with better capability to analyse the information it already receives. To this end, **PFMP recommended and is now working with DBM to implement an analytics tool** to help Government capitalise on improved data to tackle practical budget and spending issues.

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PFMP also agreed to support analysis of the Government's Contingent Liabilities – an initiative that was part of the Reform Roadmap, but outside the original scope of PFMP.

Spending Agencies

One of the features of PFMP's design was to provide assistance to selected spending agencies. Key among these was the Department of Education (DepED), which was to be the pilot spending agency for GIFMIS implementation. **PFMP undertook significant work to help prepare DepED for implementation,** including providing a dedicated team of PFMP advisers to assist with the uptake of UACS, business process redesign, and strengthening data integrity.

PFMP's support involves helping DepED improve its financial management systems.

These efforts will produce benefits despite of the absence of GIFMIS, in particular from building the appreciation of the value of good financial information as a tool for management – and not simply to meet external reporting requirements.

PFMP also assisted the Department of Public Works and Highways (DPWH) and the Department of Social Welfare and Development (DSWD) to strengthen their financial management and risk management practices respectively, again with a focus on management and not just compliance.

Civil Society Organizations (CSOs)

Another feature of PFMP is the inclusion of a component to strengthen the engagement between Government and civil society. Effective CSO engagement on public expenditure matters can extend reform benefits by enabling a broader range of stakeholders to make use of the more useful information that the reforms are expected to provide, in particular information that links resources and results. By *using* Government's performance information, CSOs can help to reinforce the importance of that information as well as further enhance transparency in public expenditure.

Support has focused on supporting the practice of CSO engagement in selected agencies, firstly by strengthening their internal policy frameworks for CSO engagement. Improved frameworks are being finalised at DepED, Department of Health (DOH), and the National Housing Authority (NHA). Support now focuses on embedding those frameworks into the core of agency operations.

In the same vein, PFMP has supported the **Citizen Participatory Audit initiative at the Commission on Audit** since the inception of the Program.

PFMP advisers facilitate discussions between DepED and CSOs to identify CSO roles in monitoring expenditure and procurement.

This high profile program has sought to engage citizens in audit activities, and has helped to establish practices that are increasingly being mainstreamed into COA's processes.

Moving Forward

A lot has changed since PFMP's inception in 2011. Despite the many challenges that come with a program of this scale and scope, PFMP is proud of its contribution to the Government's reforms; helping the Government conceptualize and design reforms and then supporting Government as it moves into implementation.

As PFMP approaches the final stretch, the challenge now lies in Government's ability to build on the foundations that have been laid, to turn strengthened policies and tools into better *practices*, and in due course, tangible benefits. In particular, with PIB as the new face of the budget, Government is now in a position to better plan and execute its budgets. To achieve this, DBM will need to strengthen its *management* role to address critical issues such as agency underspending. This requires a shift in thinking away from the traditional approaches that sought to control inputs from the centre of Government, toward holding spending agencies accountable for their results.

PFMP acknowledges the invaluable contributions of the Government and all stakeholders involved in the reform process, as partners in the joint effort to promote performance, transparency and accountability.