Shift in budget process 'too radical and disruptive' - PIDS report says

by Bernie Cahiles-Magkilat – February 12, 2018
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Swinging from a multiyear obligation budget to a cash-based appropriation system might be too radical and disruptive for the country, according to government think tank Philippine Institute for Development Studies (PIDS).

Public finance expert Dr. Rosario Manasan, who is also PIDS senior research fellow, stressed this in her policy note, "Reforming the Leagal Framework for the Budget Process" as she examined Senate Bill (SB) 1450, otherwise known as the Budget Reform.

The bill, which is authored by Senator Loren Legarda, seeks to modernize the Philippine budgetary system.

Manasan cited results of the 2016 Philippine Public Expenditure and Financial Accountability (PEFA) assessment conducted by World Bank, which showed that the country's PFM (public financial management) system has exhibited strong and improved performance in 3 out of the 7 PFM pillars (transparency, policy-based budgeting, and asset management), uneven performance in one pillar (predictability and control in budget execution), and weak performance in the other three pillars (budget reliability, accounting and reporting, and external scrutiny).

SB 1450 limits the validity of the cash-based budget to one year, contrary to the current budgetary practice in the country that allows appropriations and obligations until the next fiscal year, extending the validity of funds to two years.

"While it is important to have an appropriation with a one-year validity, the concurrent shift to a cash-based budget system might be too radical and disruptive a step to take a leap," she argued.

Manasan explained that under the new proposal, the government can initiate the procurement process short of award (meaning, preprocurement activities such as advertisement of the procurement and/or request for quotation until the postqualification of bids) six months prior to any given budget year at the earliest.

Also, this implies that payments can only be made for projects completed within the 12-month period of the given budget year.

Although the bill would allow agencies to settle payments for goods and services delivered during the previous fiscal year within three months immediately following the current budget year, the PIDS expert said that "this is a very tight schedule" given the difficulties of government agencies to fully utilize their programmed budget on public goods and services within the fiscal period.

Manasan, however, urged the author of SB 1450 to "introduce a transitory period of one to two years, upon enactment of the bill into law".

The PIDS fiscal analysis expert opined that the proposed legislation will weaken the role of Congress in the budget process specifically in the treatment of multiyear projects.

According to Manasan, Sections 36 and 37 of the bill implies that the "legislative approval of appropriations for multiyear projects will be limited to the approval of cash allocations for single-year payment of said projects, and that the approval of multiyear projects will be the sole prerogative of the executive branch," in this case, through the Department of Budget and Management.

She also observed that SB 1450 does not have a section pertaining to budget approval and authorization.

As a recommendation, Manasan urged that new sections be inserted under the current Part IV of the bill pertaining to budget approval, which she said, "may include provisions on the content of the General Appropriations Act and the prohibition on Congress to increase the aggregate appropriation level beyond the amount proposed by the executive under the National Expenditure Program."