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**Comments on Senate Bill. No. 2045 meant "TO REFORM THE BUDGET BY ENFORCING GREATER ACCOUNTABILITY IN PUBLIC FINANCIAL MANAGEMENT (PFM), PROMOTING FISCAL SUSTAINABILITY, STRENGTHENING CONGRESS' POWER OF THE PURSE, INSTITUTING AN INTEGRATED PFM SYSTEM, INCREASING BUDGET TRANSPARENCY AND PARTICIPATION, AND FOR OTHER PURPOSES"**

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This is a timely bill that fosters greater efficiency and transparency of the public financial management system. It improves budget mobilization while helping protect fiscal stability. We laud its goals, for reasons enumerated below.

**Review of the Budget Modernization Act**

*Improving budget reliability; clarifying savings*

By setting clear governance principles (Section 5), the proposed bill helps address some of the perennial weaknesses of the government in public expenditure management. As noted by Manasan (2017), poor budget reliability (i.e., the budget not implemented as intended) had been mainly due to frequent reenactments of the budget, delays in the enactment of the budget, divergences due to continuing appropriations, and disparities in government reporting (see also World Bank 2016). Past underspending, meanwhile, was mainly attributed to poor planning and longstanding issues such as those related to procurement and right-of-way problems (Manasan 2017, Cuenca 2019).

A key element of the budget modernization bill is the institutionalization of cash-based budgeting (Section 21), which entails a permanent shift to cash-based estimates for proposed (general and special) appropriations bills for "faster and more effective delivery of services" and a 1-year validity for appropriations in the General Appropriations Act (GAA), with a 3-month extension for payment in the succeeding fiscal year. The intention is to promote better project planning and quicker budget implementation and execution to avoid budget undershoots while sharpening fiscal policy tools.

Other sections that serve to strengthen budget reliability relate to the use of budget account codes (Section 17) following the Unified Accounts Code Structure, which applies to financial reports of government; and the conditions for and limits set on budget reenactments to discourage the practice (Section 18).

The bill also includes sections on the authority to declare and use savings (Section 26), the meaning of savings (Section 27), and rules on augmentation (Section 28). These clarify when appropriations may

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be declared as savings and how augmentation may be carried out, which had been contentious issues in the past.

In 2014, a Supreme Court ruling invalidated some portions of the Disbursement Acceleration Program (DAP), as it involved declaration and use of savings as well as augmentations that were interpreted to be contrary to concepts in the law. In response, a new definition of savings was incorporated in the GAA for fiscal year 2015 and in subsequent GAAs.[2]

With more precise meanings and rules baked into the law, spending agencies may have a better handle on how to manage their budgets, while economic authorities may face less uncertainty when trying to respond to exigencies, such as during an economic crisis.

Fiscal discipline nevertheless is maintained. For instance, while the bill allows portions or balances of any released appropriations that have not been obligated due to completion, final discontinuance, or abandonment of an authorized activity or project to be declared as savings and used for other budget items within an office, this activity or project may no longer be proposed for funding in the next two fiscal years.

*Forging links between plans, programs, and the budget*

The bill also cements the planning-programming-budgeting linkage (Section 6), where development strategies identified in the Philippine Development Plan (PDP) serve as "the primary consideration" in the formulation of the Budget Priorities Framework (Section 7), which the Development Budget Coordination Committee (DBCC) must submit to the President and the cabinet by the end of the first quarter of every year. As part of the budget preparation process, the head of each national government agency will have to submit a detailed annual plan of medium-term scope with strategic priorities that are consistent with the PDP.

The PDP will also be "the basis" for drawing up strategic and prioritized programs and projects in the multiyear Public Investment Program (PIP), which "will be considered" in the formulation of annual agency budgets. The PIP will also reflect the Regional Development Investment Programs, which in turn will "take into consideration" the intra-regional and inter-provincial development plans and investment programs of local government units within a region.

*Establishing a multiyear perspective*

Aside from presenting a more unified approach to development planning, the bill's sections on budget preparation may additionally be noted for establishing a multiyear perspective that better matches the longer-term planning horizon, especially for public capital investment. A multiyear framework is considered essential for effective public expenditure management, where the main objectives are expenditure control and allocative and operational efficiency (ADB 1999, 2002).

The Budget of Expenditures and Sources of Financing (BESF) will have to include "dimensions of 3-year expenditure program, revenue, financing, and outstanding debt" and a list of new multiyear projects, including their details (e.g., project duration, project cost, and contractual authorities issued) (Section 9). The BES, together with the National Expenditure Program (NEP) and the President's

[2] The proposed sections on savings and augmentation in SB 2045 are similar to those in the GAA for fiscal year 2023.

Budget Message, are the basic elements of the proposed national budget that the President submits to Congress.

For the procurement of multiyear projects, a Multi-Year Contracting Authority (MYCA) issued by the Department of Budget and Management (DBM) or any similar document, will be required before agencies enter multiyear contracts (Section 23).[3] Implementing agencies must ensure that annual funding requirements for multiyear projects are incorporated in their budget proposals for the covered years, consistent with the MYCA and equivalent authorities. In the case of such projects, a Certification of Availability of Funds (CAF) will be issued yearly based on the annual budget for the year.[4]

*Strengthening financial management*

The bill adheres to international best practice by continuing to subscribe to the principle of one fund, where all resources are channeled to a common fund (Liebert and Fainboim 2010; from Manasan 2017). This is represented by the General Fund (Section 30), with a Special Account in the General Fund (SAGF) to be established only "under exceptional circumstances" (e.g., to recognize revenues earned or received by national government agencies for specific purposes).

Special funds are likewise limited to special cases and to three main categories for specific purposes (i.e., trust funds, revolving funds, and retained funds) (Section 31). These funds are subject to periodic review (every three years) by the permanent committee, comprising the Secretary of the Department of Finance (DoF), the Secretary of the DBM, and the Chair of the Commission on Audit (CoA) (Section 32).

Accordingly, the Treasury Single Account (TSA) will be maintained by the Bureau of the Treasury (Section 36). The TSA consolidates the government's cash resources into one bank account or a set of linked bank accounts, allowing frequent (at least daily) monitoring of the government's cash position. Consolidation promotes better cash and debt management and optimal use of government cash resources (Pattanayak and Fainboim 2011; from Manasan 2017).

The head of the agency will be responsible for the agency's financial management, with adequate internal controls to be set up to manage financial risks and protect public funds (Section 49). Efficient support will be provided by An Integrated Financial Management Information System (IFMIS), to serve as "the single portal of all financial transactions and reports to be used by national government agencies, GOCCs, and LGUs" (Section 50). While IFMIS will be managed by the National Accounting and Finance Office under the DBM, development and implementation of the system will be in coordination with other key oversight agencies (the DoF and CoA).

[3] Foreign-assisted projects (FAPs) funded by foreign loans are exempt of this requirement, however. Government-owned and controlled corporations (GOCCs), meanwhile, will need to secure prior authority from their respective government boards before entering multiyear contracts, while local government units (LGUs) will need an equivalent document from their respective Sanggunian. For public-private partnership projects, the corresponding requirement is a letter of commitment issued in accordance with DBM guidelines.

[4] Ceilings on spending are also set in that disbursement for multiyear contracts may not exceed the appropriations for the purpose for each year.

Also, under the principle of accountability, the DBM must submit a post fiscal year budget status report to the Senate and the House or Representatives (Section 52).[5]

*Maintaining fiscal stability*

Principles of fiscal responsibility additionally guide the proposed bill (Section 2). The Budget Priorities Framework, for instance, must contain the targets underlying the budget, priority areas for spending based on the PDP and PIP, the estimated amount of spending, and planned allocation of fiscal space. Annual plans of national government agencies must provide summaries of their proposed budgets, incorporating financial forecast assumptions and highlighting significant capital projects (Section 51).

There is frequent reference to Fiscal Responsibility Principles and/or "the fiscal objectives" expressed in the Statement of Fiscal Policy in the context of: (i) unprogrammed appropriations, where no such appropriations will be activated or released when there is a risk of violating fiscal objectives (Section 16); (ii) a re-enacted budget, by setting clear limits on the amount and items considered (Section 18) and ensuring that no special appropriations bill will be passed under a reenacted budget (Section 19); (iii) national government borrowings (Section 40); and (iv) guarantees (Section 45).

Confidence in (and credibility of) public debt management in the country is strengthened by timely and detailed debt reporting (Section 43) and a thorough debt audit of all loans contracted or guaranteed by the national government (Section 44). To help map and contain fiscal risks, the DoF will need to keep a complete and updated registry of all contingent liabilities and provide a report on the information collected to both the DBM and Congress (Section 48). The DBM, meanwhile, must report all releases from special purpose funds (SPFs)[6] (Section 14) and from unprogrammed appropriations (Section 16) in quarterly and annual fiscal reports submitted to Congress.

*Increasing transparency and participation*

The public will be given wider access to public financial information, with the DBM mandated to promulgate (and monitor) a calendar of disclosures containing the schedule of release of all budget documents and information required by the proposed bill and its IRR (Section 54). The DBM must publish and make widely available "citizen-friendly" summaries of the following (Section 55):

- Statement of Fiscal Policy in the year of the President's election, including updates (within 30 days from submission to Congress),
- Proposed national budget (in electronic format within 30 days from submission to Congress),
- Annual GAA and special appropriations laws (in electronic format in the government website within 30 days from submission to Congress), and
- Annual fiscal report of the preceding fiscal year (in electronic format in the government website on the last working day of the current year).

[5] This is submitted by end-May of the current year to the House Speaker, the Senate President, the House Committee on Appropriations, and the Senate Committee on Finance.

[6] For greater transparency and detailed disclosure, SPFs are limited to: (i) the National Disaster Risk Reduction and Management Fund (NDRRMF), (ii) the Contingent Fund, (iii) statutory shares of LGUs (in the proceeds from national taxes and other transfers to LGUs authorized by law), and (iv) other SPFs not falling under any of the preceding purposes, the details of which could not be determined during the budget preparation stage and based on the parameters to be set in the implementing rules and regulations (IRR).

The government will also establish and implement mechanisms for participatory budgeting, which may include consultations with local development councils in the formulation of both national and local government budgets; as well as partnerships with civil society organizations, academic institutions, and experts on programs to improve budget preparation, execution, and monitoring by national government agencies and LGUs (Section 56).

**Specific comments**

While we recommend the proposed legislation for its goals and for piecing together the legal framework for PFM , we offer several, more detailed remarks.

*On fiscal responsibility and transparency*

We suggest that some important concepts relevant to fiscal discipline be clarified or restored.

While there is frequent mention of Fiscal Responsibility Principles in the bill, these are not adequately articulated. There is likewise constant mention of "the fiscal objectives" contained in the Statement of Fiscal Policy, but these are left unspecified, unlike in earlier proposals.[7]

Previous versions of the budget reform bill and the administration's current version propose the attachment of a Financial And Budgetary Information Sheet during filing of revenue-eroding and expenditure bills. This requirement is missing in the current proposed legislation. The submission of such a document, which would contain estimates of the financial and budgetary implications of the filed measures for the initial year of implementation, would help foster greater fiscal discipline.

The administration's version similarly includes a definition of contingent liabilities that is absent in the current bill. It may be useful to weave the definition back into the bill in some form. This would help clarify the construct, especially as contingent liabilities have the potential to add to public debt if not carefully mapped out and managed.

*On the cash budgeting system*

While the rationale for a permanent shift to a cash budgeting system (i.e., as outlined in Executive Order [EO] No. 91, s. 2019) should be uncontroversial from a fiscal standpoint, in terms of both control and policy efficacy, the government must not neglect addressing longstanding issues and weaknesses that may prevent the system from functioning and reaping its full benefits (see Manasan 2017, Cuenca 2019).

Minor and/or temporary adjustments may be considered, depending on and cognizant of budget realities in the country, but large deviations, especially those that counter known benefits of cash-based budgeting, need to be carefully considered.  There should perhaps be constant effort to reach out and disseminate the needed information about the mechanisms and remedies that can help agencies more easily transition to a modified cash-based system and to improve this set of remedies to make them more palatable, at least initially.[8]

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[7] In previous versions of the budget reform bill, said document was to be prepared in coordination with the DBCC, with the President's approval, and to include measurable medium-term macroeconomic and fiscal objectives and forecasts consistent with Fiscal Responsibility Principles and a Long-Term Vision Report (Manasan 2017).

[8] These include mechanisms for early procurement and multiyear contracts, some remedies for delayed projects and spillovers, apart from better and early planning and formulation of effective procurement strategies, such as for procurement (DBM 2018, 2020).

In a cash budgeting system, where appropriations have a definite time limit for payment and typically annual commitments, advantages include better expenditure control and more efficient budget administration. Most (if not all) countries in the region, including in the ASEAN, have maintained some type of cash budgeting system, as it offers the best form of cash control,[9] though some have already begun to incorporate elements of accrual accounting in their budgetary practices (e.g., Indonesia and Thailand in the ASEAN-5).

Cash budgeting was adopted in the Philippines in 2019 through EO No. 91. This entailed essentially modified cash budgeting, with obligation, disbursement, implementation, and successful delivery limited to 1 fiscal year, and the accounting book held open until 3 months after the end of the validity of appropriations under an Extended Payment Period (EPP).[10] In this setup, unreleased appropriations at the end of the fiscal year will lapse, while unobligated allotments and unexpended or undisbursed funds will be returned to the unappropriated surplus of the General Fund at the end of the EPP.

Prior to the shift,[11] the Philippines had been one of only a handful of countries that maintained an obligation-based budget, where there was no predetermined time limit for payments. Because contracts may be delivered and paid for after the fiscal year, government would have running balances of not-yet-due-and-demandable obligations and due-and-demandable accounts payables. This led to a snowballing of unfinished contracts and continuing obligations, with carryovers ultimately affecting agencies' implementation capacity (DBM 2020).

Against this backdrop, Philippine economic authorities argue that cash-based budgeting will help mobilize the budget. They argue that it will also foster better planning and faster implementation of projects and programs in the country, and ultimately improve local absorptive capacity.

The transition to cash-based budgeting has encountered difficulties, however, especially as a pandemic struck the country in 2020 (DBCC 2023). Until today, most items (maintenance and other operating expenses [MOOE] and capital outlays) remain basically on a 2-year timeline. Under the GAA 2023, all authorized appropriations are available for release and obligation until end-2024, except personnel services which are available for release, obligation, and disbursement until end-2023.

*On the multiyear approach*

The proposed bill may need to clarify what is meant by a "3-year expenditure program" (Section 9), which is included in both the BESF and the NEP. Having something closer to a medium-term spending program or framework would naturally be a welcome feature, as this promotes better strategic planning, resource allocation, and expenditure prioritization. As mentioned earlier, a medium-term perspective would allow for better linking of policy direction to the budget.

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[9] Interestingly, Singapore, a financially advanced economy, has opted to stick to cash-based budgeting with no plans to change the system (Blondal 2006), as cash is still seen as the most direct form of control. Such as system is also valued for its simplicity and transparency,

[10] In comparison, in ASEAN-5, Vietnam's allowed period for payment is until January 31 of the following year, with its accounting system recognizing transactions and events occurring on or before yearend (December 31). The typical "complementary period" across countries with modified cash accounting ranges from 30 to 60 days.

[11] See CPBRD (2018) for a more detailed chronicling of the period prior to the shift to cash-based budgeting, and the events that paved the way for the shift.

Although limiting authorization to 1 year, by lowering uncertainty and helping build credibility, is a desired characteristic of budget systems,[12] single-year frameworks may be disruptive if preparation is weak and may not be enough for strategic resource allocation. To address these limitations, annual frameworks must be supported by stronger planning and well-structured multiyear programs.

Thus, we recommend crafting a medium-term spending framework that carefully identifies the portions that may be executed through multiyear projects.[13] This would not only provide strategic focus to the annual budget but also help maintain fiscal discipline.

All the elements are in place for such a (detailed) framework. Government agencies are required to prepare a Medium-Term Expenditure Program (MTEP), which refers to their 3-year to 5-year requirements (i.e., annually, for priority programs, activities, and projects) within a given or assumed budget ceiling and consistent with the PDP.[14] The proposed bill also institutionalizes procurement of multiyear projects through the MYCA (previously known as the Multi-Year Obligational Authority, the proposed remedy for agencies wishing to undertake projects that take more than a year to implement).[15]

Although MYCAs authorize future commitments over a multiyear period, annual appropriations are still needed to make payments.[16] They therefore require annual breakdown of the full project cost to ensure agencies include the programmed amounts in their budget proposals for each year based on 3-year forward estimates or the MTEP. By pooling the available information, multiyear programs can be readily aligned with single-year budgeting.[17]

There are also fiscal control elements involved, with annual disbursements for multiyear contracts, for instance, barred from exceeding the appropriations for the purpose for the year, and with agencies allowed to negotiate lower prices (and costs) during annual reviews, if market conditions turn in their favor.

A similar strategy has reportedly worked well in Indonesia, where line ministries have, since the mid-2010s, been allowed to propose and sign multiyear contracts with service providers. This has improved the ability of agencies to execute investment programs, especially the larger commitments spanning longer payment periods, apart from addressing the mismatch between multiyear public investment programs and annual budgets (ADB 2018, 2020).

In contrast, Thailand has not been able to achieve "true multiyear budgeting" under a single-year framework, as (annual) budget requests have been debated, delayed, or even disapproved even for

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[12] This is called the "principle of annuality" which many consider as international best practice (Lienert and Jung 2004, Lienert and Fainboim 2010; from Manasan 2017).

[13] A Medium-Term Expenditure Framework (MTEF) was introduced the late 1990s but maintained only until the early 2010s (see Diokno 2014).

[14] DBM Circular Letter No. 2023-17, dated May 17, 2023.

[15] Note that there are parallel authorities and rules for GOCCs and LGUS, which are in the proposed bill, that we do not discuss here for brevity.

[16] MYCAs, by design, are issued to authorize an agency to enter into multiyear contracts for the full project cost of multiyear programs or projects, for locally funded projects or even regular and recurring services.

[17] There are also fiscal control elements involved, with annual disbursements for multiyear contracts, for instance, barred from exceeding the appropriations for the purpose for the year, and with agencies allowed to negotiate lower prices (and costs) during annual reviews, if market conditions turn in their favor.

multiyear projects that had already received funding in the past (World Bank 2023). As a result, this has discouraged agencies from undertaking such projects.

*Further remarks on multiyear budgeting*

In view of the above, we make a few more suggestions that we believe can help make multiyear budgeting a success.[18]

First, we note the importance of having good spending estimates—not just for the first year, but for all years—and the need to build each agency's capacity to produce these estimates, apart from the other basics of good planning. Close measurement of the amount needed to implement the multiyear project *at each period* would greatly lessen the uncertainty surrounding annual budget requests.

Second, we emphasize the need to develop and maintain a reliable system for recording, monitoring, and controlling multiyear contracts, and multiyear spending based on these contracts. Such a system would allow economic authorities to easily check if agencies are spending the budgeted amounts and if spending ceilings are being followed. This can possibly link up to the IFMIS.

Relatedly, we suggest eventually incorporating planning into the latter system, which integrates budgeting, cash management, and accounting processes. This could help ensure consistency between the national development plan and the annual budget, further improving the policy orientation of budgeting.

Finally, though we support the shift to a modified cash budgeting system (but) guided by a multiyear spending framework, we acknowledge some leeway may be warranted in certain cases.[19] But again, exceptions and flexibilities will have to be carefully deliberated.

[18] A similar strategy has reportedly worked in Indonesia, where line ministries have, since the mid-2010s, been allowed to propose and sign multiyear contracts with service providers. This has improved the ability of agencies to execute investment programs, especially the larger commitments spanning longer payment periods, apart from addressing the mismatch between multiyear public investment programs and annual budgets (ADB 2018, 2020). In contrast, Thailand has not been able to achieve "true multiyear budgeting" under an annual framework, as budget requests have been debated, delayed, or even disapproved even for multiyear projects that had already received funding in the past, thus discouraging agencies from undertaking such projects (World Bank 2023).

[19] In the current rules, for instance, there are special exemptions granted, with multiyear authority awarded to single-year projects, particularly those that are research or scientific in nature and by design require 2 years to implement.