

Government “underspending” in  
perspective  
(Inertia, insecurity or indigestion?)

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23 June 2016

# Despite the wide fiscal space...

## National Cash Disbursements (in billions)

	2011	2012	2013	2014	2015
Program (BESF)	1,711.3	1,839.7	1,983.9	2,284.3	2,621.0
actual (BTr)	1,557.7	1,777.8	1,880.2	1,981.6	2,230.7
difference	<b>153.6</b>	<b>62.0</b>	<b>103.7</b>	<b>302.7</b>	<b>328.3</b>

“epic incompetence”?

Chilling effect  
of... “COA” ?

“Structural  
weaknesses”?

# Outline

1. What is meant by 'underspending' and to what extent did it occur?
2. What explains it?
3. Will it be fixed and how? (budget execution and procurement innovations? overhaul some parts of the bureaucracy? bypass NG? better engagement with COA?)

# Refers to national government (NG) spending

- By departments, SUCs, Other Executive offices, GOCCs, Congress, Judiciary, Constitutional offices
- Disbursements to LGUs (which comprise about 64% of total LGU income for all LGUs combined)
- Payments to creditors

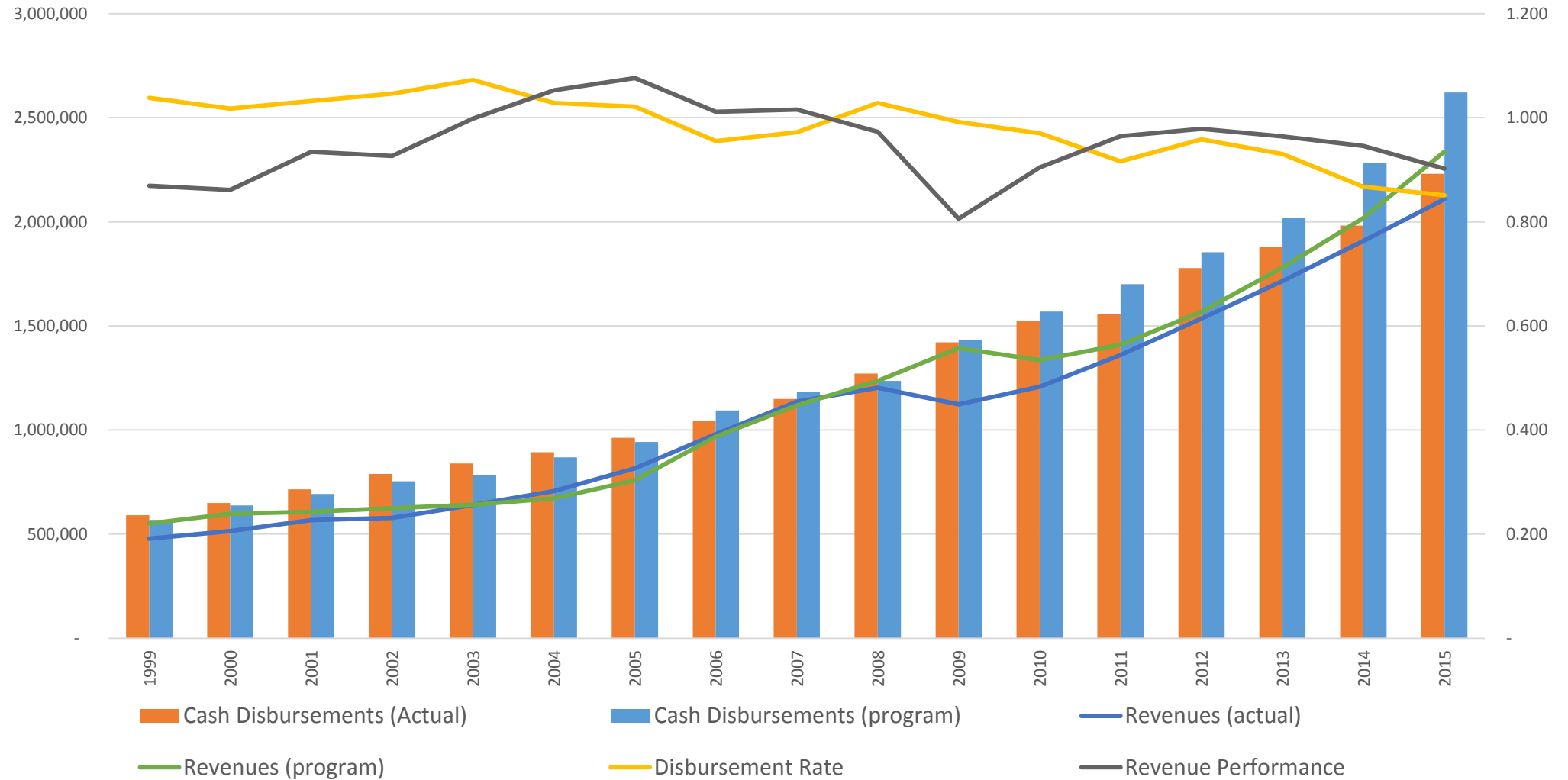
Measured by -

- Cash basis: Programmed disbursements vs. actual disbursements
- Obligation basis: total available appropriations vs. obligations

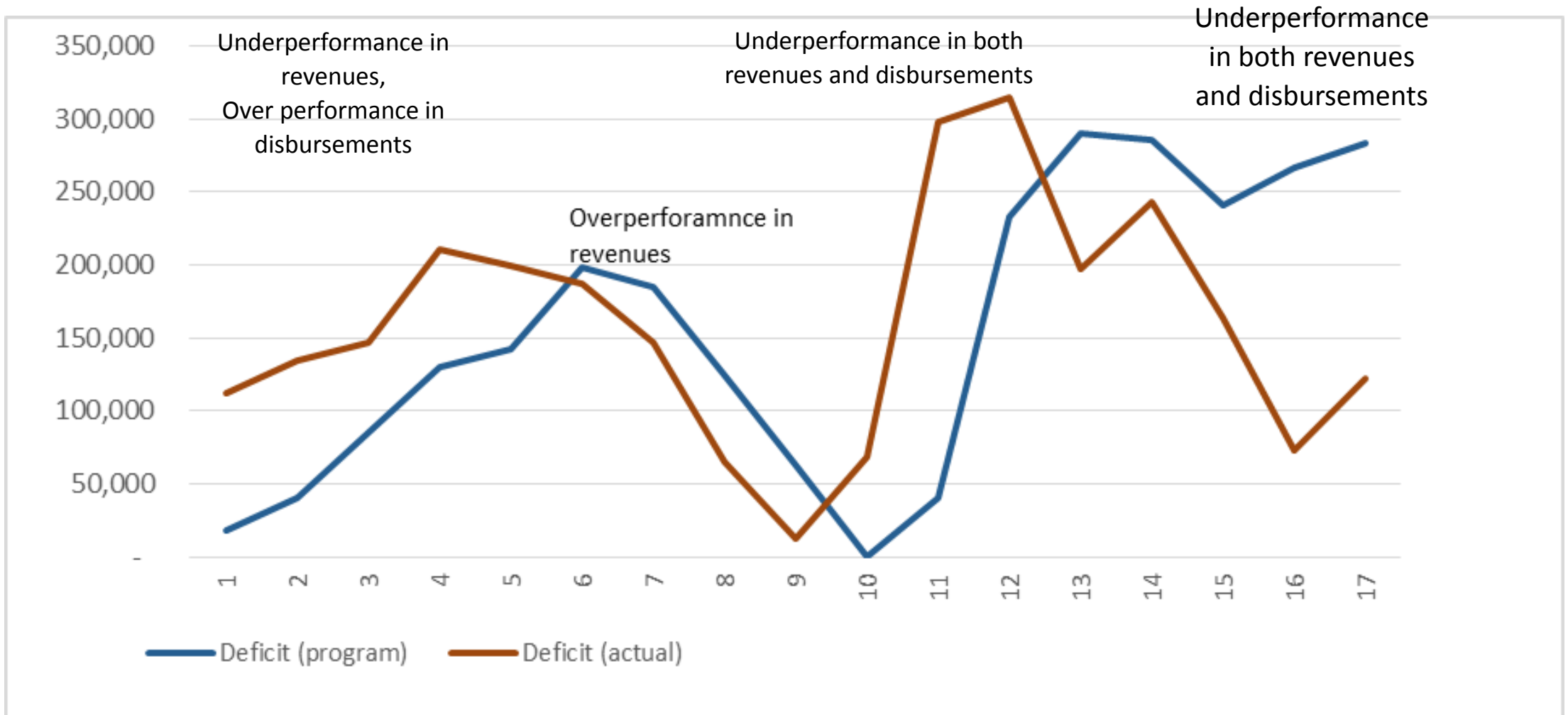
The President proposes a budget to congress:

- macroeconomic assumptions
- fiscal parameters (revenues, disbursements, deficit projections)
- expenditure priorities and agency-level programs/activities/projects

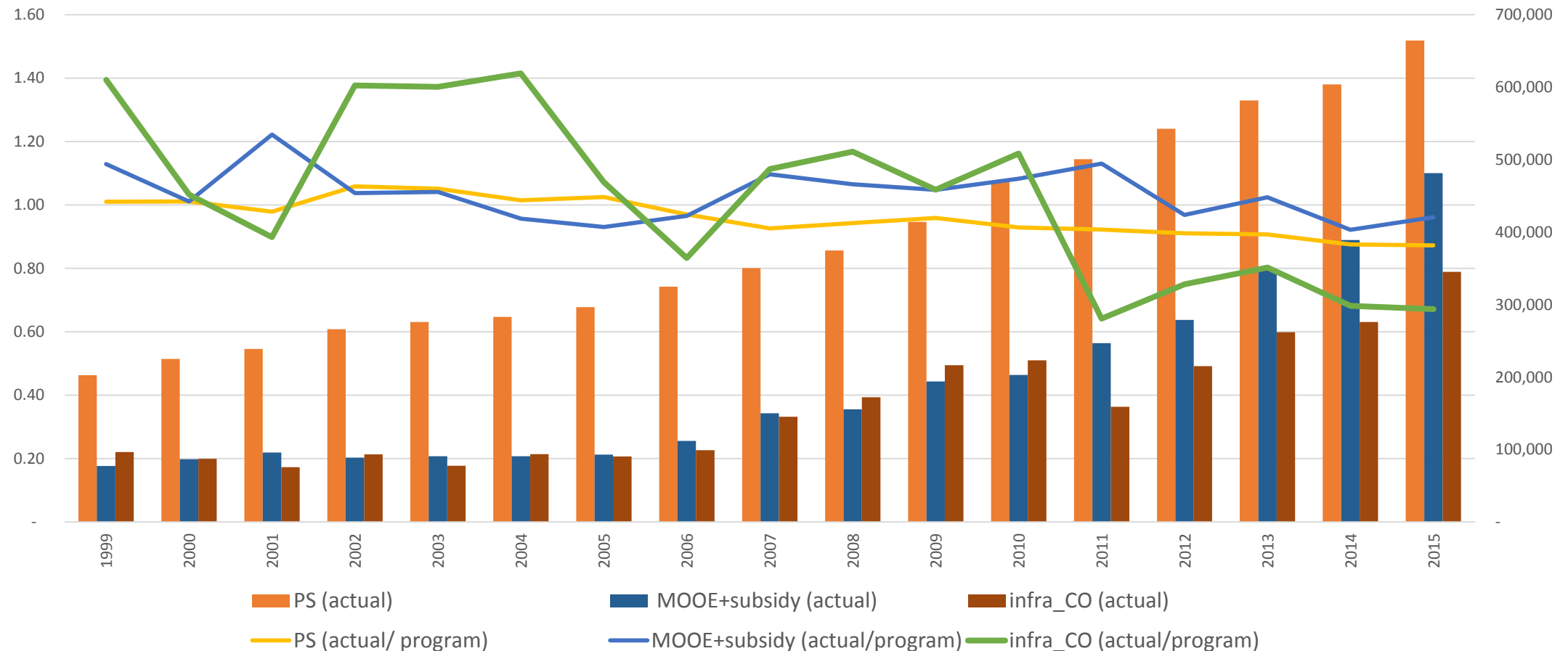
Disbursement performance has been on downward trend since 2009; underperformance in 2011-2015 greater than in 2009-2010



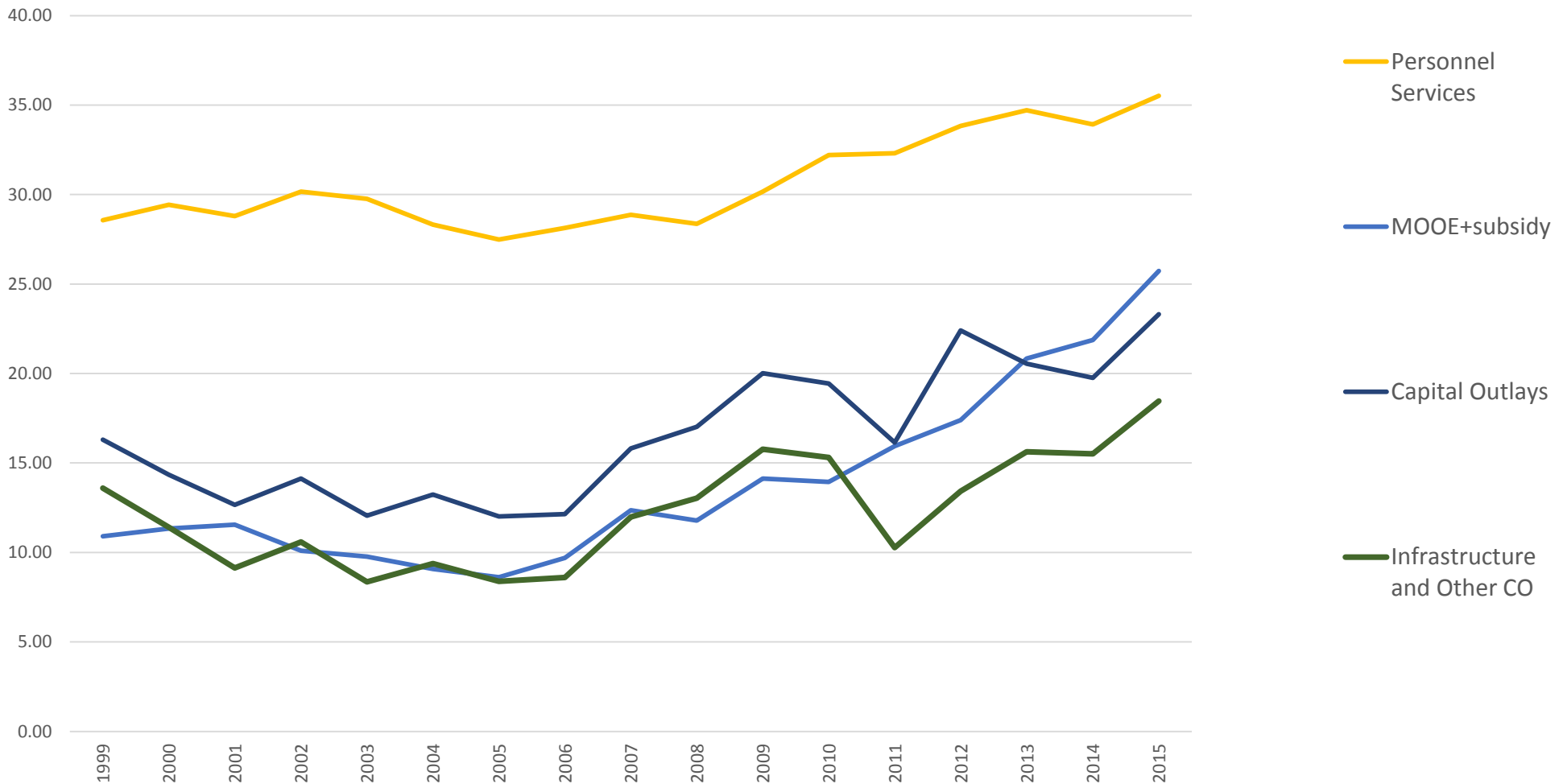
Note: neither the sign nor size of the deficit per se indicates whether disbursements or revenues are under- or over- performing



# Disbursement performance for infrastructure/other CO has 'over performed' except for 2001, 2006-2007, 2011-2015



Different story in real per capita terms: disbursements on infrastructure slid after 1999, recovered only in 2008, dipped sharply in 2011 and has grown since.





On average, real per capita disbursements per year on infrastructure and other CO was higher by 41.6 percent in 2011-2015 vs 1999-2010

	Real levels			Real per capita		
	PS	MOOE, subsidy	Infra, other CO	PS	MOOE, subsidy	Infra, other CO
<b>I: 1999-2010</b>	250,411.0	95,820.2	94,540.2	2,972.1	1,132.9	1,118.9
<b>II: 2011-2015</b>	328,721	197,048	156,143	3,354	2,003	1,584
<b>% change, period I to II</b>	31.3	105.6	65.2	12.8	76.8	41.6
<b>Memo: expenditures on an obligation basis</b>						
<b>I: 1999-2010</b>	250,943.5	117,685.5	84,118.2	2,983.9	1,380.1	992.2
<b>II: 2011-2014*</b>	332,430.4	198,095.2	168,600.5	3,423.7	2,039.8	1,729.1
<b>% change, period I to II</b>	32.5	68.3	100.4	14.7	47.8	74.3

Base data: DBM, using implicit price indices for GFCE and Capital Formation

\* Figures for *actual* 2015 obligations not yet available

In short,



It is ambition  
rather than  
incompetence.

- Underspending against target levels? ***Yes. To the tune of about 10 percent below programmed levels per year from 2011 to 2015.***
- Underspending against previous real per capita levels of spending? ***No. Spending is higher by 12.8, 76.8 and 41.6 percent.***
- How does one reconcile the latter with the former? ***Planned or targeted disbursements have been increasing at a much faster rate than actual disbursements.***

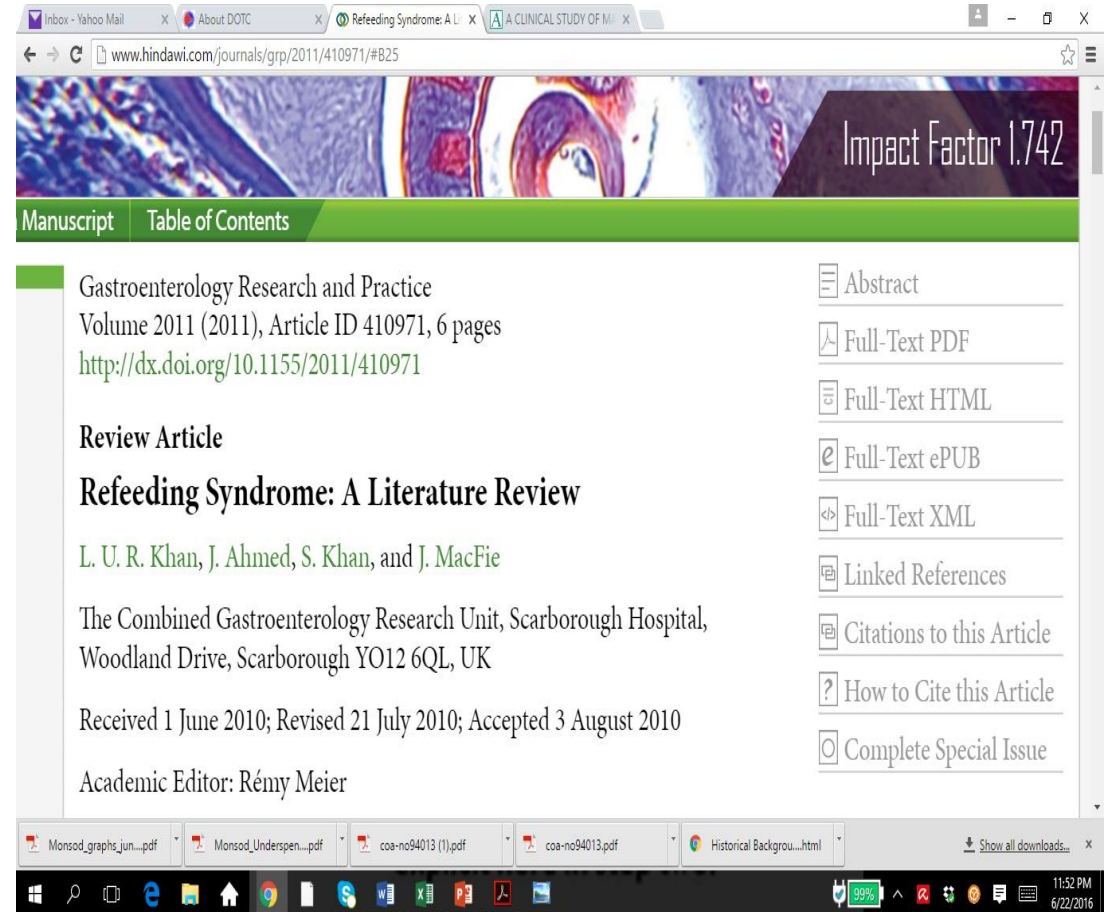
# Why hasn't the bureaucracy kept up with its own ambitions?

## A CLINICAL STUDY OF MALNUTRITION IN JAPANESE PRISONERS OF WAR\*

By MAURICE A. SCHNITKER, M.D., F.A.C.P., *Toledo, Ohio*, PAUL E. MATMAN, M.D., *Detroit, Michigan*, and THEODORE L. BLISS, M.D., F.A.C.P., *Akron, Ohio*

DURING World War I the famine and starvation that occurred in certain parts of central Europe prompted some studies,<sup>1, 2, 3</sup> particularly concerning the associated edema. The events of World War II, especially the lengthy periods of starvation that occurred in various prison camps, further stimulated numerous researches on the effects of starvation in the human subject.<sup>4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23</sup> The majority of these studies centered their attention on the edema, but a few included such phases as the burning feet syndrome, the neuropathy, the amblyopia and the hematologic changes. Despite some puzzling facts concerning the edema of war famine,<sup>24, 25, 26</sup> at the beginning of World War II it was still generally held that an inadequate diet led to protein deficiency, which in turn decreased the colloid osmotic pressure of the blood, with resulting edema. Also considered to be of great importance in the picture, particularly with reference to pains in the legs, was vitamin B<sub>1</sub> (thiamin chloride) deficiency. Several careful metabolic studies<sup>27, 28, 29, 30</sup> have thrown much light on the mechanisms involved in famine edema, but there still are important questions left unanswered, as emphasized by Beattie and his associates.<sup>29, 30</sup> It is the purpose of this report to place on record rather extensive clinical data that were accumulated in a special study in a Japanese prison camp in the Philippine Islands in the fall of 1945.

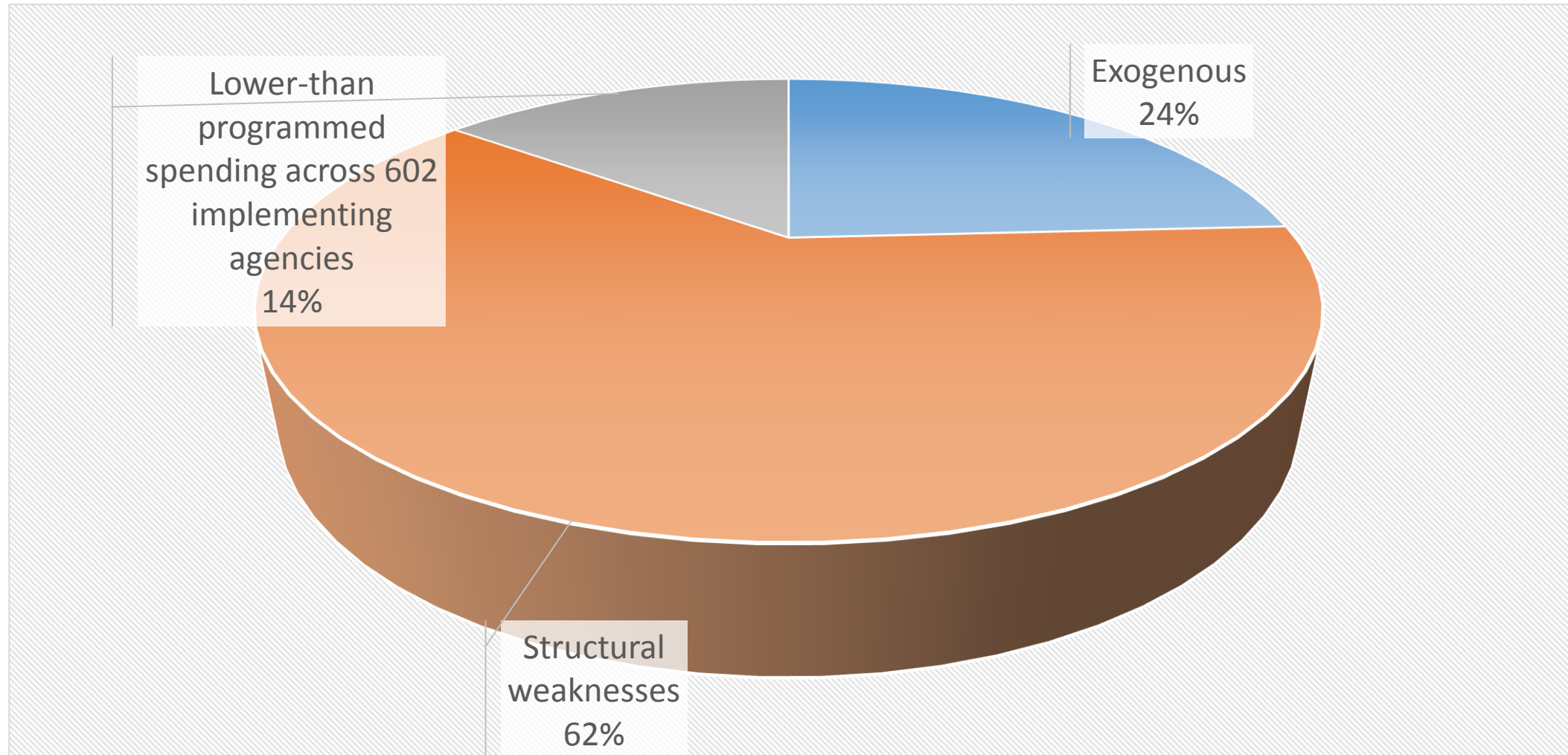
With the defeat of the Japanese in the Philippine Islands during the spring of 1945, their armies began to retreat into the hills of Luzon. There they had to separate into small groups for food, pilfering as they went. Hence, April, May and June of 1945 brought increasing starvation to the Japanese, who had to live chiefly on such substances as grasses, leaves, and potato tops. The usual rice, sugar cane, carabao meat and vegetables were kept from them by the Filipinos. Thousands of Japanese developed malaria, dysentery and edema during this period, and many died.



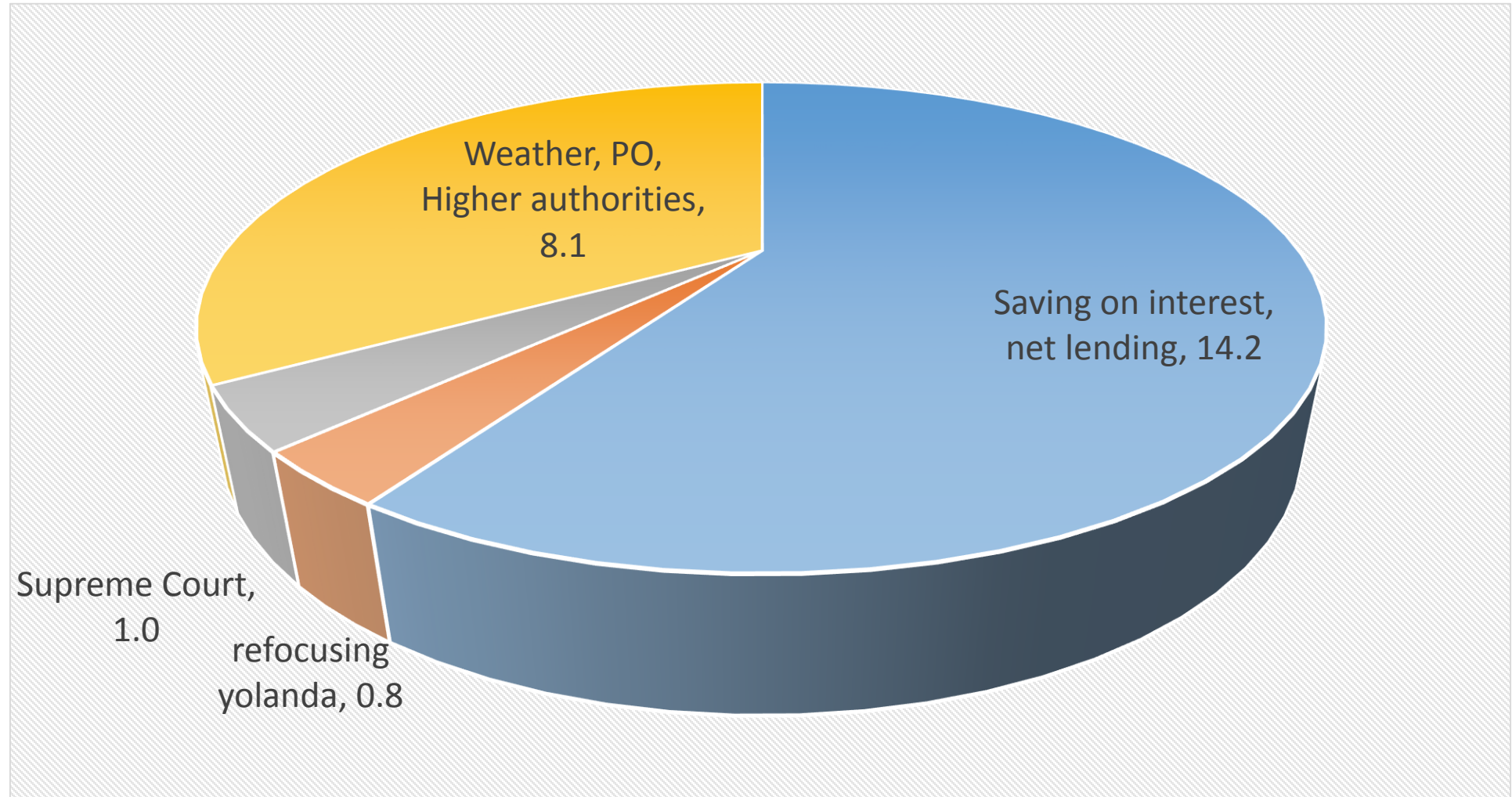
The screenshot shows a web browser window with the URL [www.hindawi.com/journals/grp/2011/410971/#B25](http://www.hindawi.com/journals/grp/2011/410971/#B25). The page features a header with a microscopic image and the text "Impact Factor 1.742". Below the header, there are navigation links for "Manuscript" and "Table of Contents". The main content area displays the article title "Refeeding Syndrome: A Literature Review" by L. U. R. Khan, J. Ahmed, S. Khan, and J. MacFie. The article is published in "Gastroenterology Research and Practice", Volume 2011 (2011), Article ID 410971, 6 pages. The DOI link is <http://dx.doi.org/10.1155/2011/410971>. The authors' affiliation is "The Combined Gastroenterology Research Unit, Scarborough Hospital, Woodland Drive, Scarborough YO12 6QL, UK". The article was received on 1 June 2010, revised on 21 July 2010, and accepted on 3 August 2010. The academic editor is Rémy Meier. On the right side, there are links for "Abstract", "Full-Text PDF", "Full-Text HTML", "Full-Text ePUB", "Full-Text XML", "Linked References", "Citations to this Article", "How to Cite this Article", and "Complete Special Issue". The browser's taskbar at the bottom shows several open files and the system clock indicating 11:52 PM on 6/22/2016.

# “Absorptive capacity”

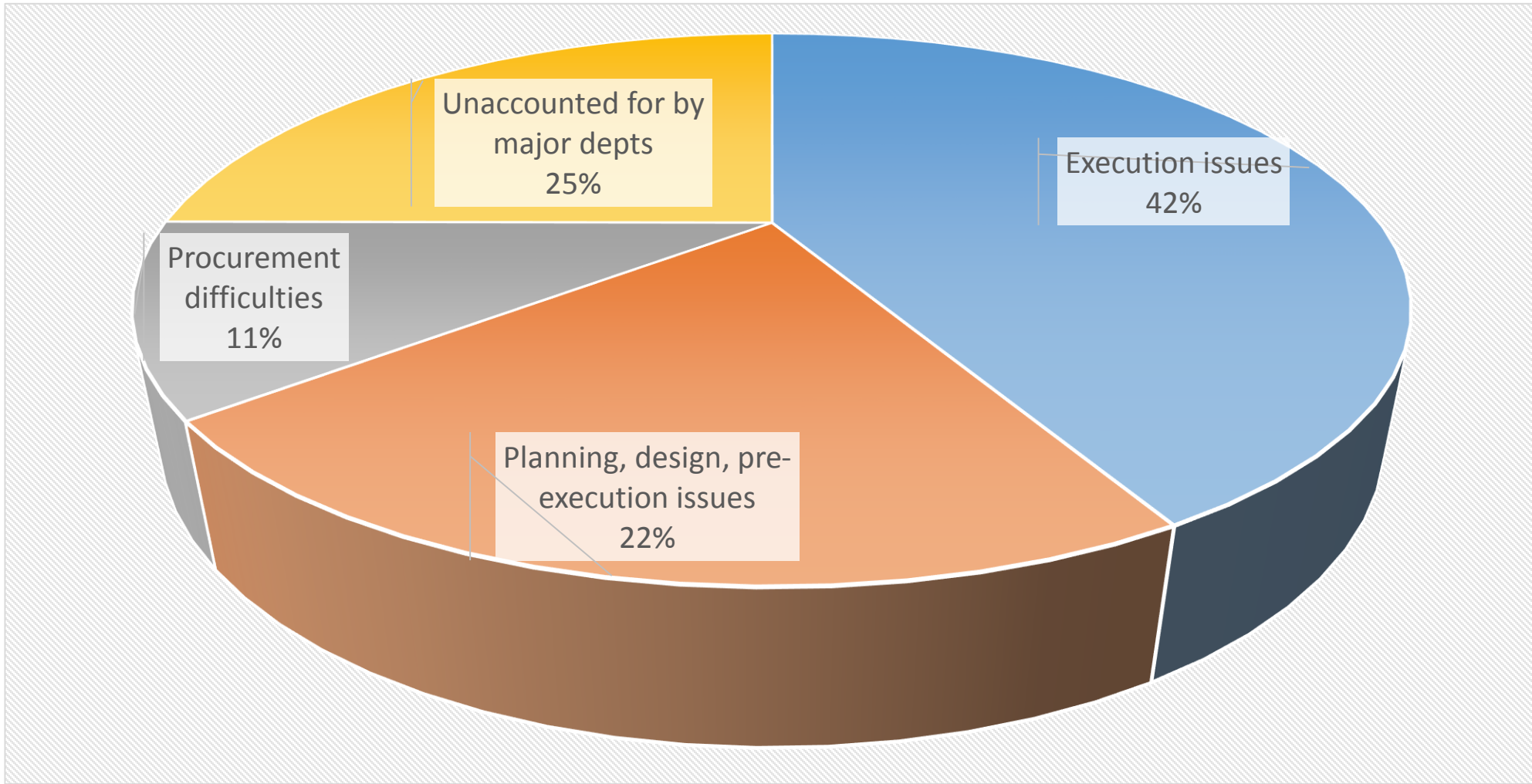
(source: DBM)



# 'Exogenous' factors

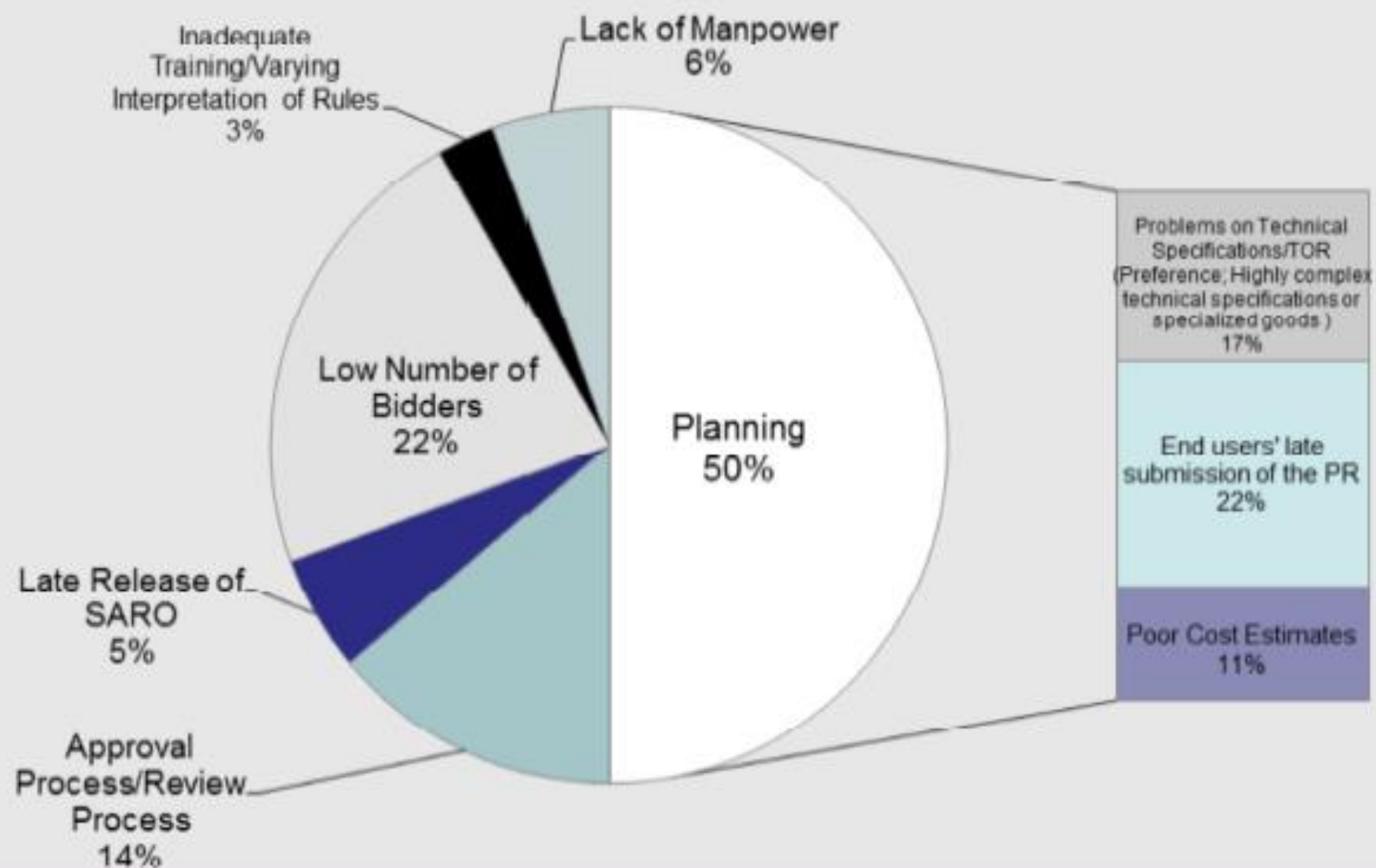


# Structural weaknesses

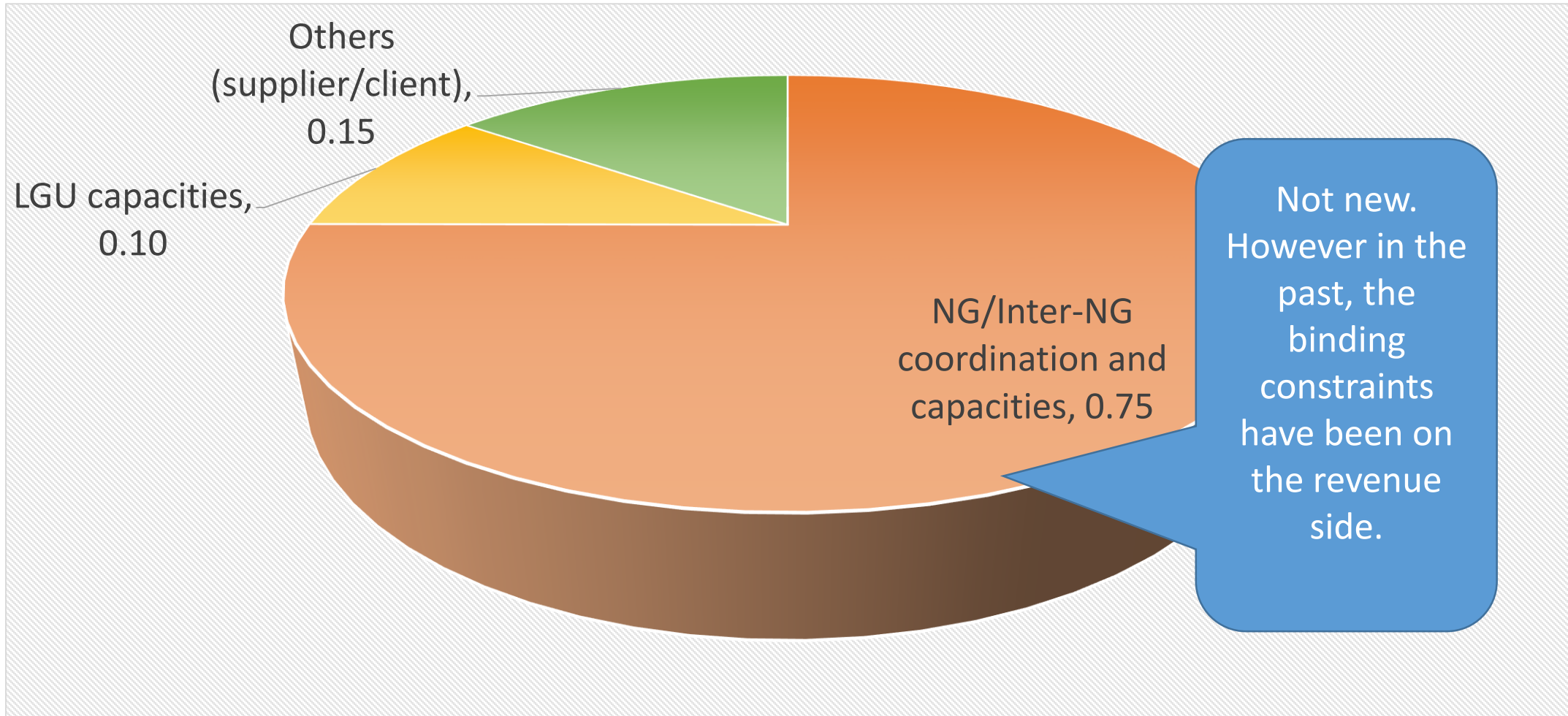


# Primary Causes of Delays and Failure of Bidding

(Based on APCPI Confirmation Result of Participating Agencies)

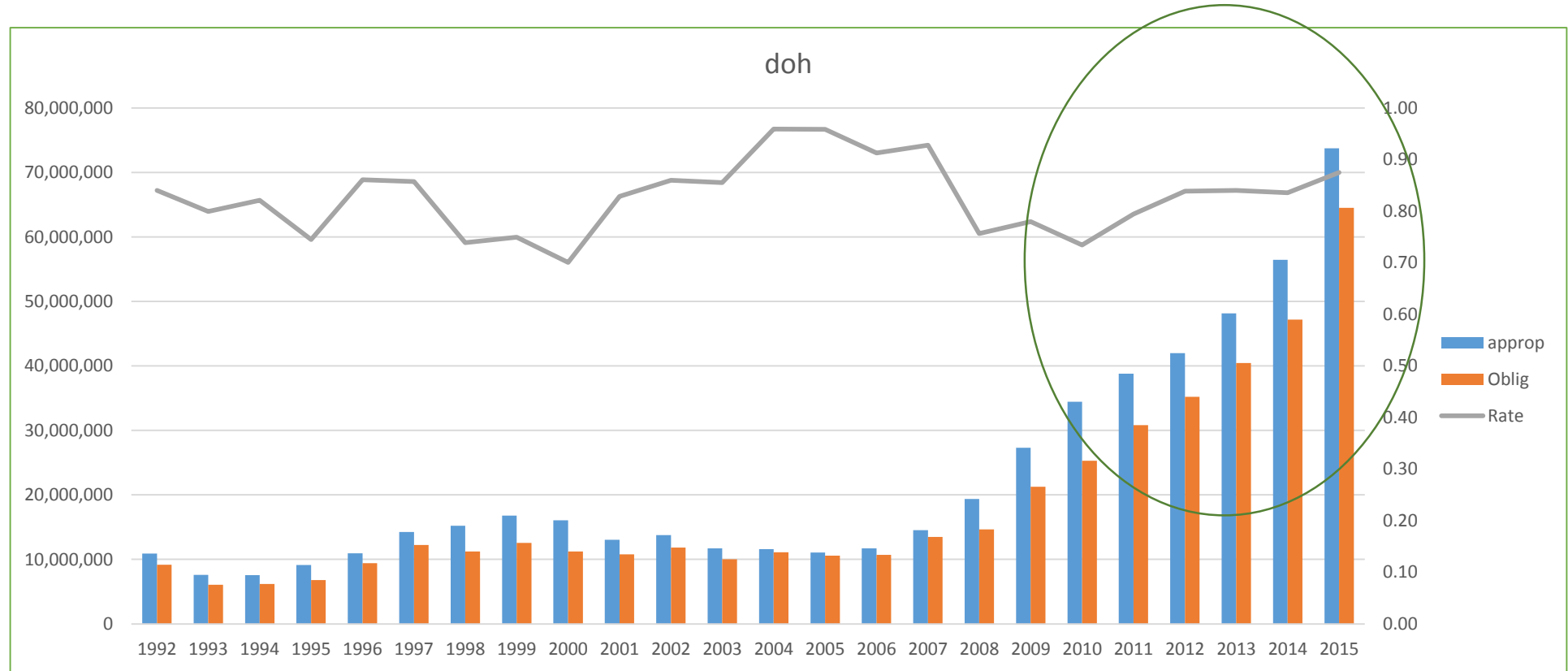


# 'locus of control'



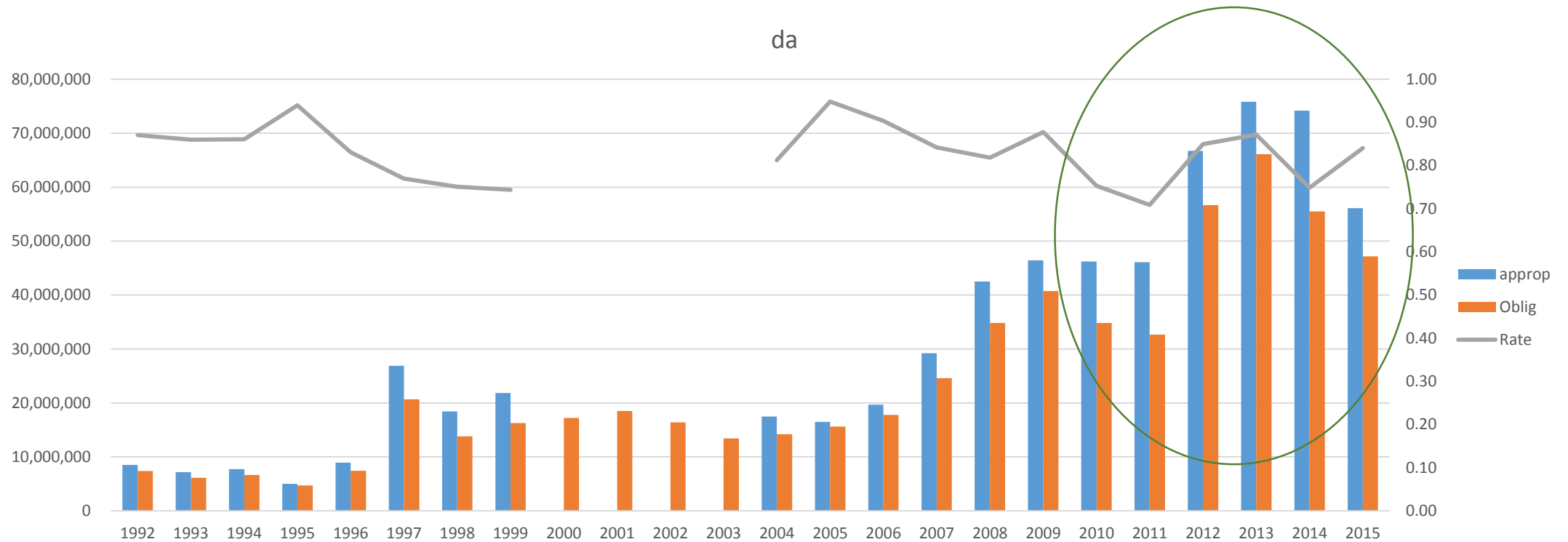


DOH: 90 percent increase in total available appropriations; 10 percent increase in absorptive capacity since 2011



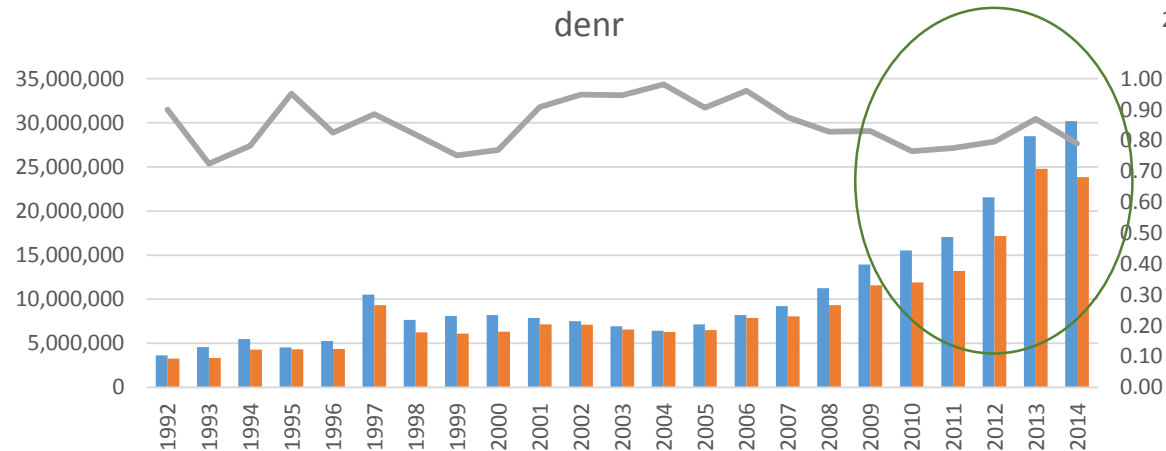
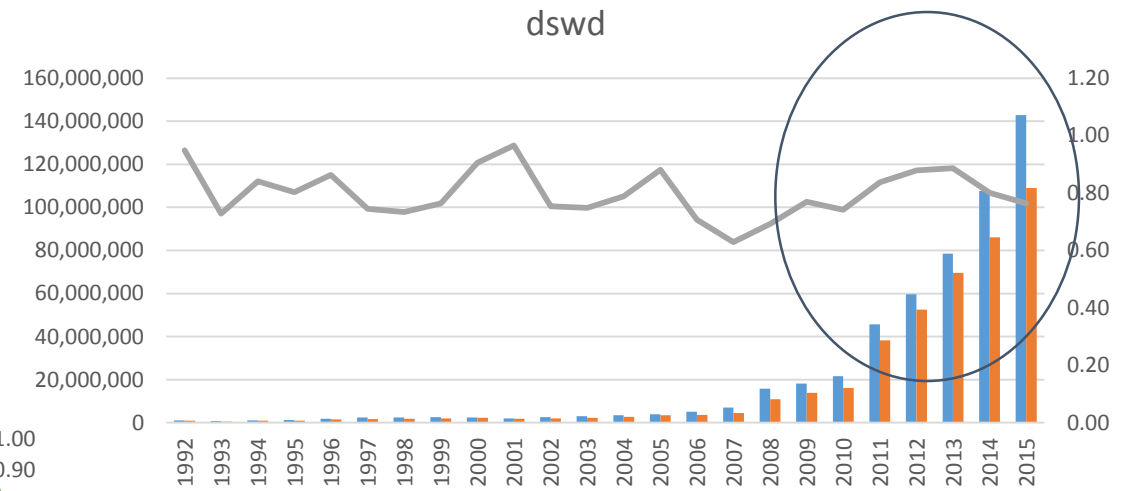
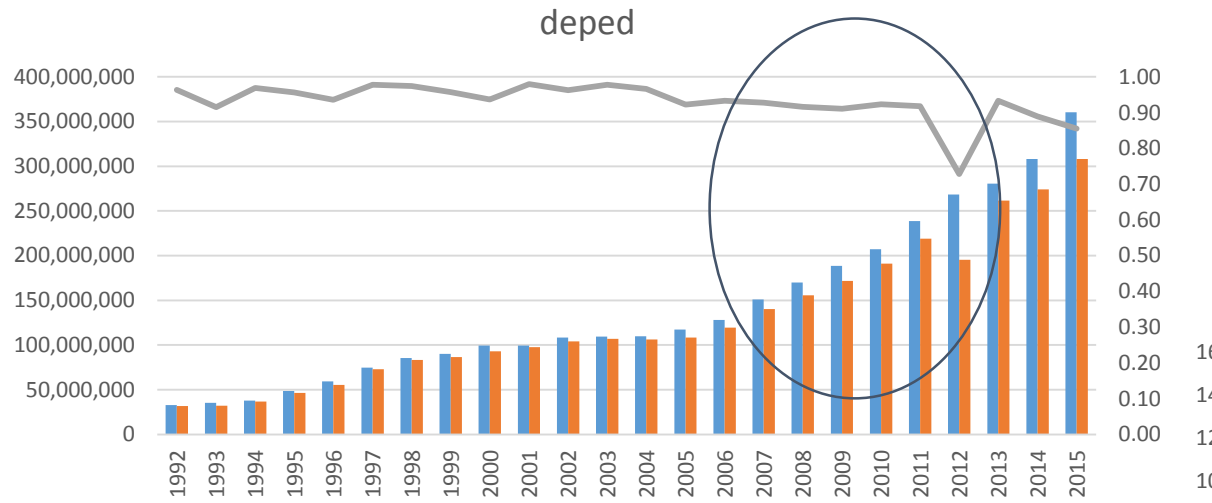
Source: NEP 1994-2016

DA: initially surged but then dipped. Capacity has recovered with lower appropriations levels



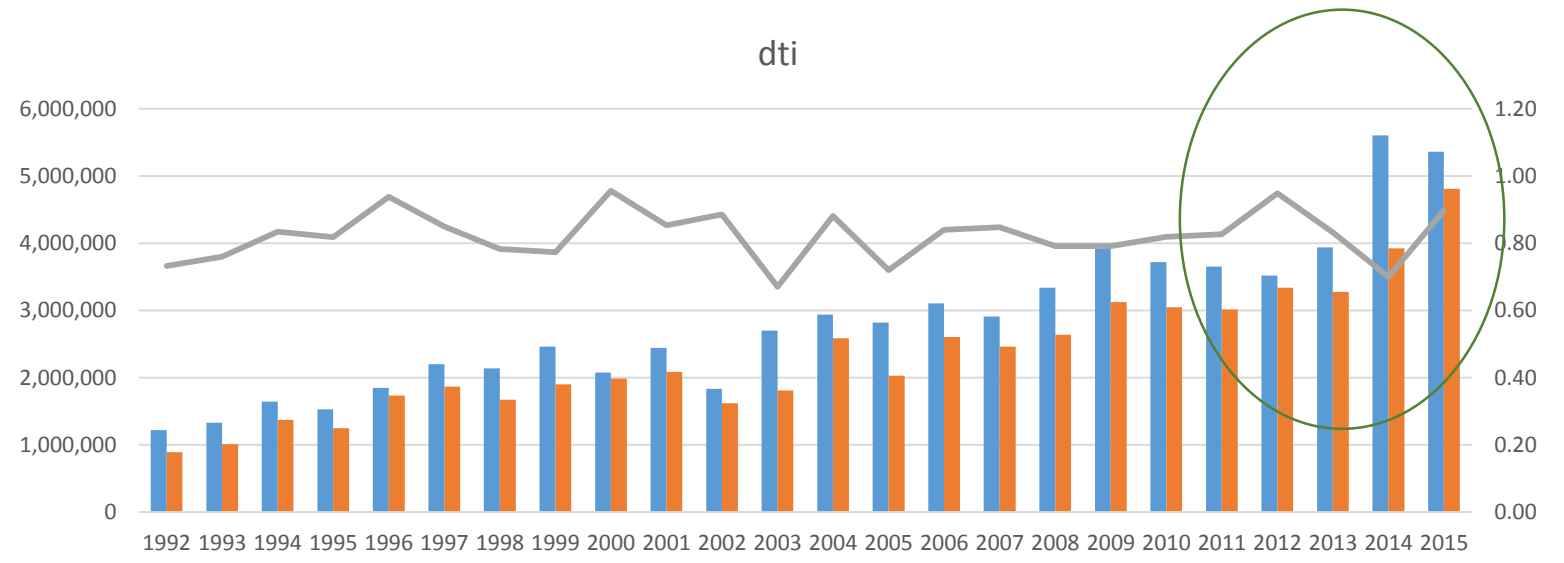
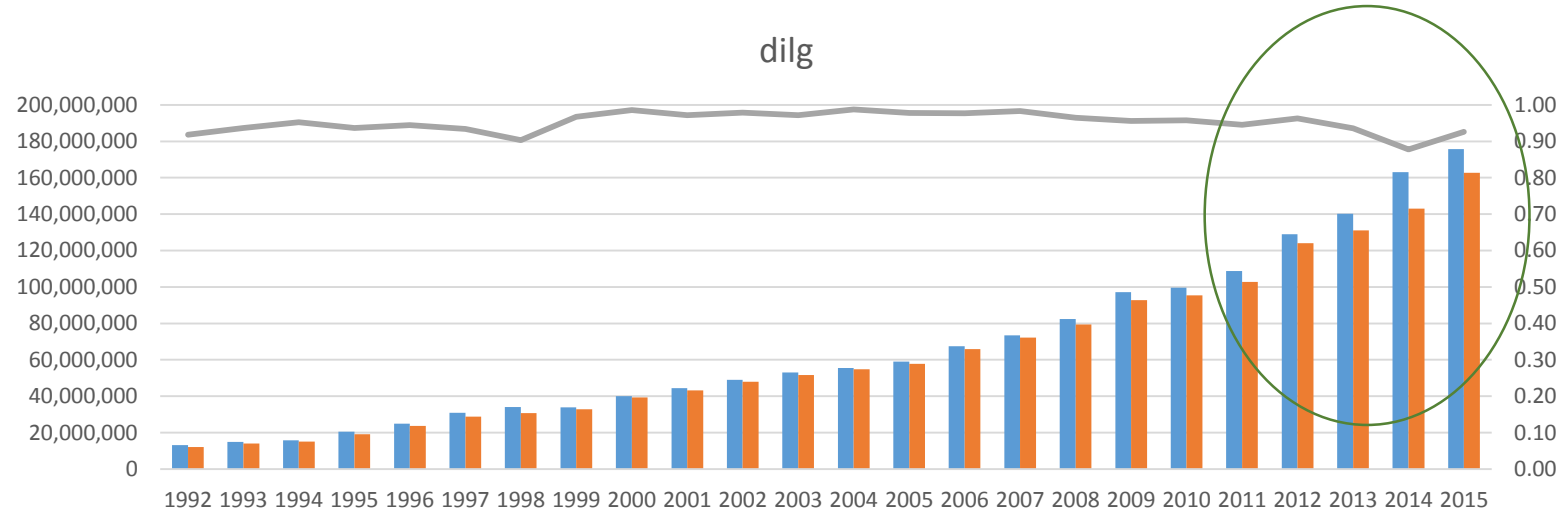
Source: NEP 1994-2016

# Agencies which may have reached their limit



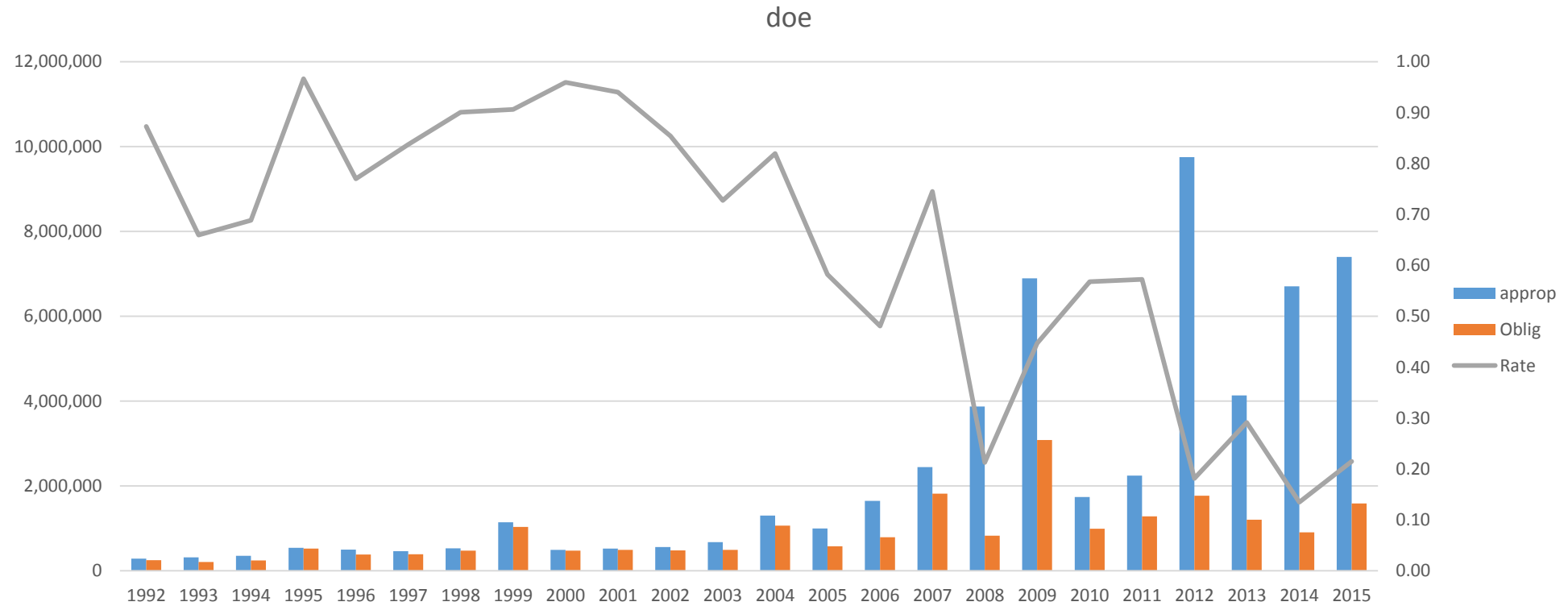
Source: NEP 1994-2016

# Agencies which may have found new footing



Source: NEP 1994-2016

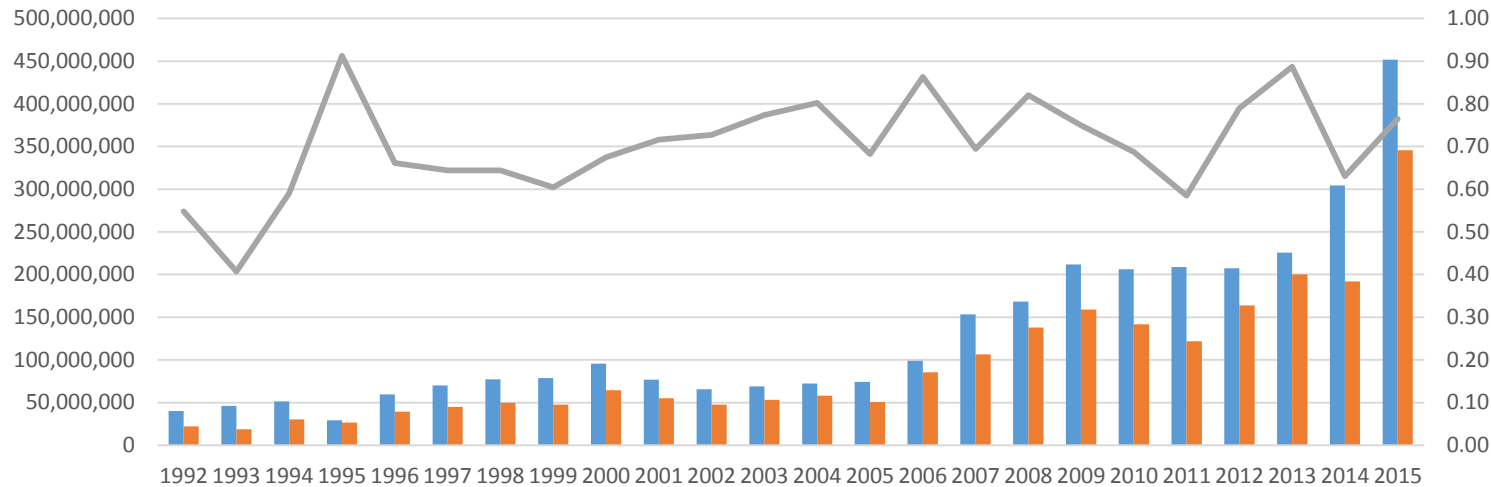
not quite sure what to make of this



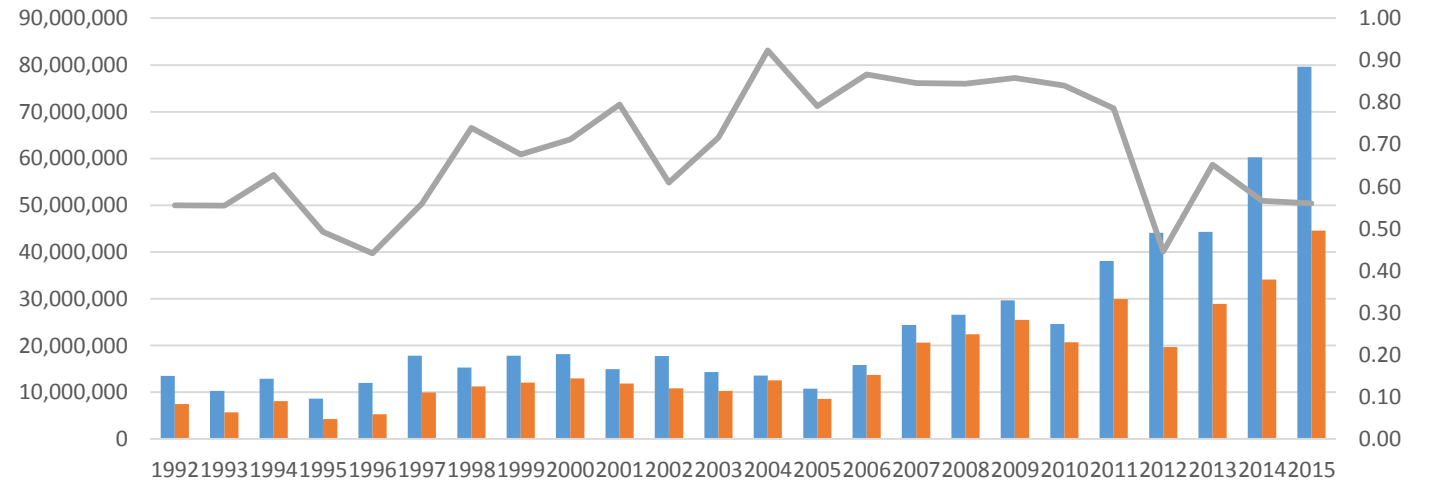
Source: NEP 1994-2016

DPWH's appropriations grew by 117 percent, DOTCs by 109 percent. DOTCs absorptive capacity fell by 23 percentage points while DPWHs rose by 18

dpwh



dotc



# Improving expenditure performance: Budget execution innovations

- GAA-as-release document since 2014 (e.g. 86 percent comprehensively released at the start of 2015)

## A.O. 46

- Submit documentary requirements for balance of allotment releases (e.g. disaggregated project listings for lump sum funds) by April
- Full time delivery unit led by an Undersecretary in implementing agencies; account management teams in DBM

## procurement

- Starting procurement in December of preceding year; bidding can commence after release of allotment
- 2015 GAA – authorizes creation of more BACs and hiring of personnel
- IRR review of Procurement by GPPB

In 2015, GFCE *grew* 9.4 percent from 1.7 percent in 2014

Public construction *grew* 20.6 from 6.3 percent in 2014

Yet, GVA growth in construction *fell*; GDP growth *fell*

Is more not needed to optimize the contribution of fiscal spending to inclusive growth?

- Link from government disbursements to output growth, much less inclusive growth, not straightforward. May not be about *more* and *more* spending!
- Agencies seem to have different 'carrying capacities'. Perhaps some parts need an overhaul?
- Where the NG funnel can be bypassed, perhaps it should be?
- Where responsiveness and innovation may be impeded (inadvertently) by accountability (aka COA) rules, re-examine?



(i) Rethink the organization and arrangements in the transportation sector?

### **Bottlenecks related to DPWH**

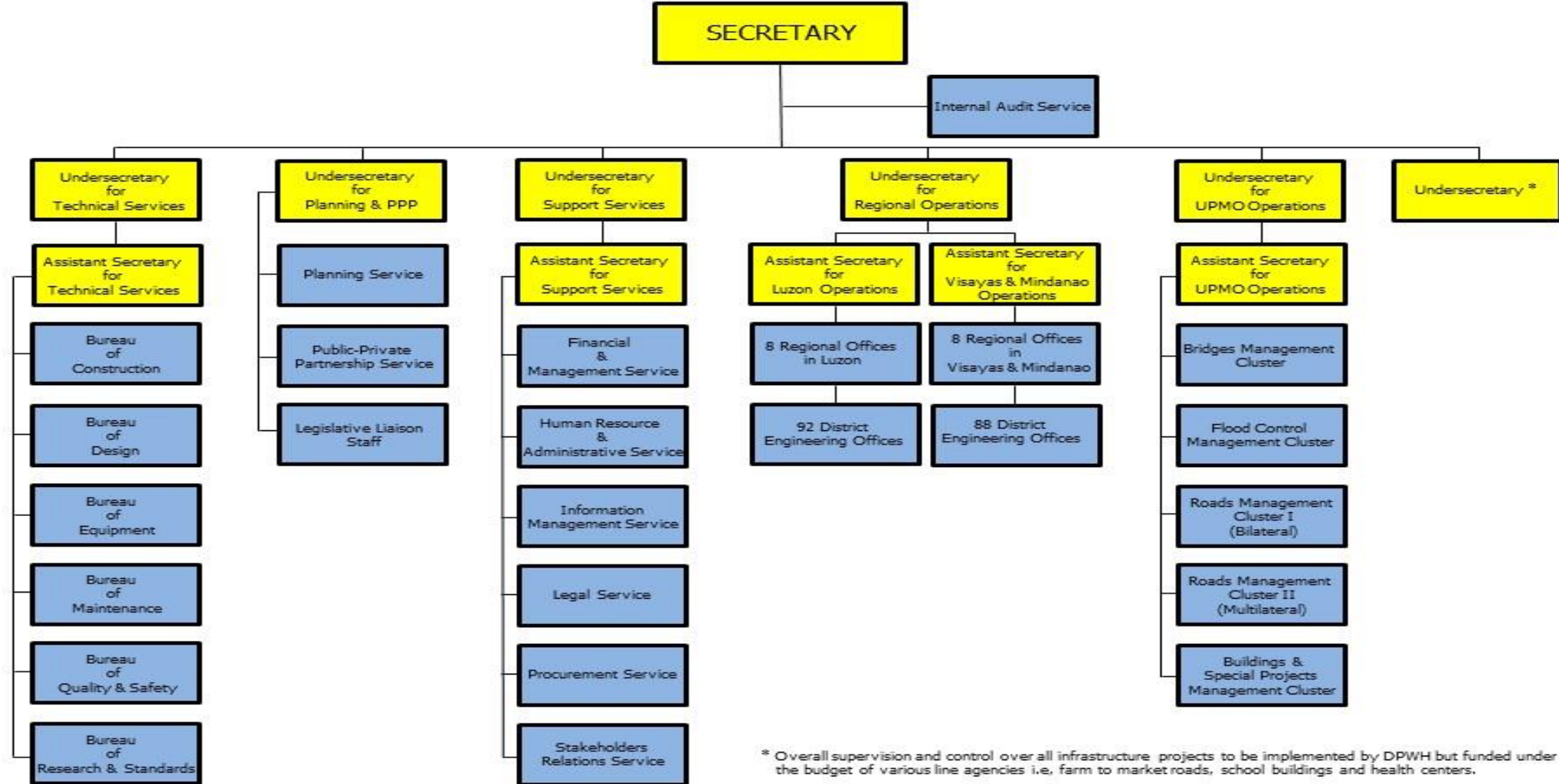
- delays in the approval/issuance of documents to contractors for claim payments,
- late billings and incomplete documentation by contractor;
- coordination problems with/ limited capacity of implementing partner agencies/institutions (deped, da)
- ROW etc.
- Difficulties in securing permits/clearances prior to project implementation.

### **DOTC bottlenecks**

- Procurement (i.e. of 21 PPPs).
- But also limited capacity in selection and implementation of PPPs , e.g.
  - No separate PPP unit (many consultants though)
- Bigger organic problem?
  - 26 engineers (vs. DPWHs 10,000, with 303 in key positions)

# Department of Public Works and Highways Organizational Chart

Per Department Order No. 146, dated December 10, 2014



\* Overall supervision and control over all infrastructure projects to be implemented by DPWH but funded under the budget of various line agencies i.e. farm to market roads, school buildings and health centers.

# DOTC – 16 attached agencies; 3 sectoral agencies; 1 PMO (MRT)

## AIR

- OTS
- CAAP
- MIAA
- Clark International Airport
- CAB
- Mactan
- PADC

- Road
- TRB
- OTC
- PNR
- LRTA
- NLRC

## Maritime

- PPA
- MARINA
- Cebu Ports
- PMMA

## Sectoral

- LTO
- LTFRB
- Coast Guard

Is it  
“designed to  
fail”?

But beyond agency-specific bottlenecks, we are concerned for coherence and interoperability of the sector as a whole

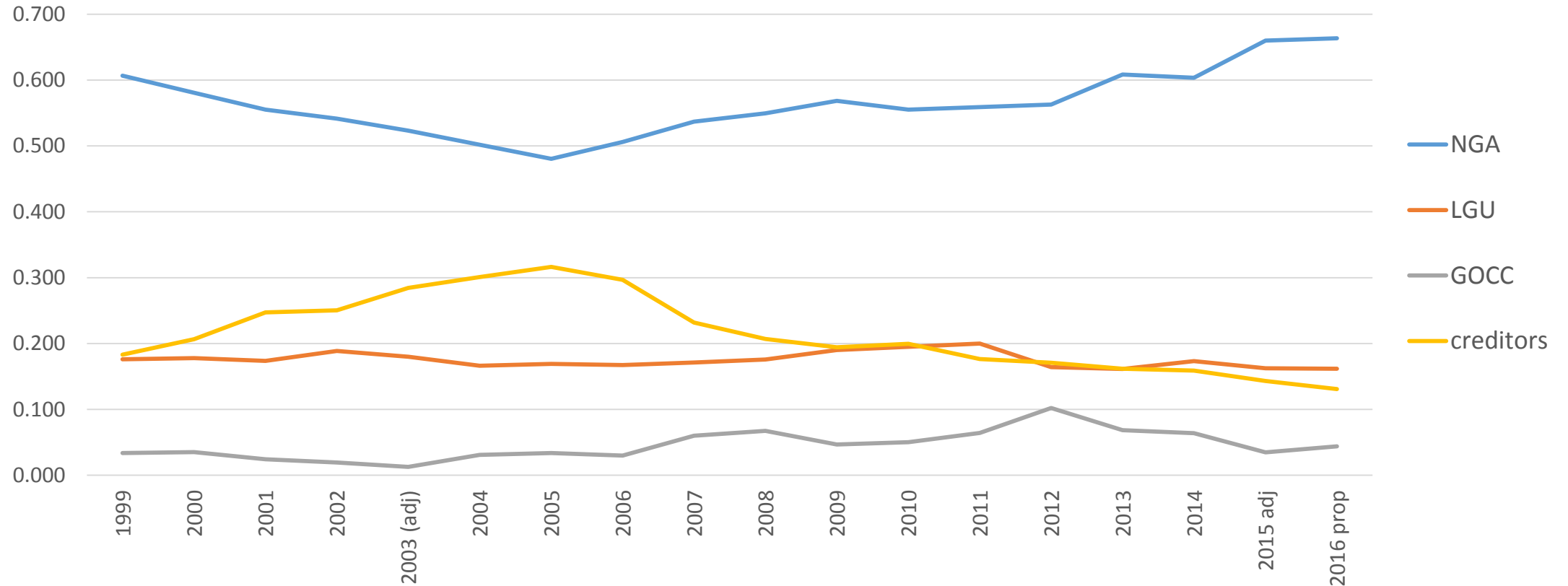
- It is the network that is a pre-requisite for inclusive urban growth.
  - Transportation infrastructure connects different parts of land use and urban expansion
  - At the national scale, it allows lagging regions to participate in the process of leading urban centers
  - Efficient transport systems widen residential location options and housing choices of the urban poor.
- Spatial and sectoral integration requires planning integration

Should there be reorganization of the sector, giving the engineering, infrastructure network planning and other line functions to DPWH as the engineering arm of government, Leaving regulation with DOTC? They were 1 agency until 1979

(ii) Rebalancing the **allocation control** of resources as between NG and LGU? Or, bypass NG where possible?

- 2012/13 PHDR argument:
  - Current policy (vertical silos, one-size-fits all programs from NG) has failed to take into account the effects of geography on development. A steep price has been paid in the form of foregone human achievements, market expansion and local growth.
  - Local geography demands locally anchored and integrated approaches anchored at the province level.
- If that is not convincing, then solving the absorptive capacity problem of the NG is another argument. BUB, now KALSADA, demonstrates that there is an opportunity to directly download more funds to provinces, cities.

There is room to rebalance (the fiscal space that opened up with decreases in interest payments was allocated to NGA rather than to LGU)



# Objections to rebalancing?

## **‘transaction costs’**

- Pass thru and other fees imposed by LGUs

But: can leverage provincial oversight function. This is now being strengthened through KALSADA and can be further strengthened.

So rather than recentralize (really?), 81 rules vs. 1500 rules.

## **Undermines fiscal autonomy; LGUs must live within their means.**

- “They have sufficient resources to pursue their dreams and aspirations”
- “They have adequate grants and taxing powers”

# Objections?

## ‘transaction costs’

- Pass thru fees
- Tower fees

Province oversight functions is now being strengthened through KALSADA and can be further strengthened. Rather than recentralize (really?), 81 rules vs. 1500 rules.

## Undermines fiscal must live within t

- “They have sufficient resources to pursue their dreams”
- “They have adequate taxing powers”

But if indeed resources - well managed - are sufficient for local aspirations, then what is the NG doing there?

e.g. AIP in one province= 300 M. vs. 5.4 billion from one department for that province



(III) Where responsiveness and innovation may be impeded (inadvertently) by accountability (COA) rules, re-examine

### **Bottlenecks**

- Unliquidated funds, sometimes 5-10 years, BUB funds held up. Severe as a bottleneck particularly during disaster response
- Accounting treatment by COA (vs. DBM) of downloaded funds: “financial assistance” or “subsidy”
- Guidance on what projects are allowed or not is not uniform across regions. And between province/region and national
- Physical inspection of all projects. COA overwhelmed by sheer number.

There is a general undercurrent of apprehension. Leading to timidity in the bureaucracy rather than innovation.

- Loading, shipments and logistics management issues leading to delays in the delivery of relief goods. These partly stem from government officials being too afraid to violate the law or at the least incur the possibility of a certain transaction being disallowed. A lot of the conditions created by the aftermath of the typhoon are unexpected and therefore awaiting a new set of guidance.

Excerpt from “Post Yolanda Reconstruction Case Study”, GFDRR, May 2015

To obtain a smart bureaucracy and encourage innovation in local development -

- What is the balance between innovation/responsiveness and adherence to accountability rules? (Are there diminishing returns to anti-corruption rules?)
- Can the public sector audit organization physically absorb developments moving forward (12,000 barangay BUBs coming on-stream)? Are there innovations worth trying (sampling + crowd sourcing)?