



Government of the Philippines
United Nations Development Programme



Portfolio on Enabling Environment:
Poverty Reduction through Good Governance

PHI / 02 / 009 CIVIL SERVICE AND ECONOMIC MANAGEMENT:
*ENHANCING INSTITUTIONAL CAPACITIES TO PROMOTE
PUBLIC ADMINISTRATION AND FISCAL REFORMS*

Documentation of Reforms in the Department of Budget and Management (DBM)

FINAL REPORT

Executing/Implementing Agency:



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Documentation of Reforms in the Department of Budget and Management (DBM) – Budget Preparation Using a Centralized Approach

FINAL REPORT

April 2003

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Department of Budget and Management

FY 2003 BUDGET PREPARATION USING A CENTRALIZED APPROACH

A Documentation and Review

Prepared for the
Department of Budget and Management

By the
Development Academy of the Philippines

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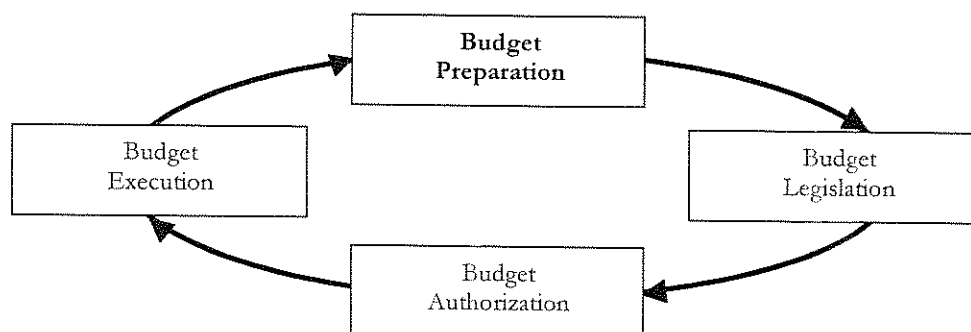
Contents

I. Background	2
II. Task Force on Budget Preparation	3
A. Creation	
B. Participation of Other Units	
C. Distribution of Workload	
III. 2003 Budget Preparation Process	5
A. Budget Review Guidelines	
B. Procedural Changes	
C. Improvements in Budget Presentation	
IV. Process Evaluation	11
A. Clarity of the Reform Objective	
B. Internal Coordination	
C. External Coordination	
D. Information Sharing	
E. Efficiency Improvement	
V. Recommendations	16
Annexes	
1 DBM Internal Budget Preparation Activities, FY 2003	
2 Checklist	
3 Comments on the TF Approach to Budget Preparation	
A From the Task Force Members	
B From the Budget and Management Bureaus	
C From Regional Offices III, IV, XI and NCR	
D From the Key Informants	
E From Selected Agencies	

I. Background

Government budgeting is one of the important functions of the Department of Budget and Management as the process enables the government to plan and manage limited financial resources to support the implementation of programs and projects that promote development. Budgeting involves four major phases (1) budget preparation, (2) budget authorization, (3) budget execution and (4) accountability. While these phases are distinct, the processes overlap in implementation during a budget year. Budget preparation for the next fiscal year proceeds while government agencies are executing the budget for the current year and at the same time are engaged in budget accountability and review of the past year's budget.

Figure 1. The Budgeting Process



Several offices within the DBM are involved in budget preparation but the main responsibility rests with the Budget Operations Group, particularly the Budget and Management Bureaus (BMBs) and the Budget Technical Service (BTS). BMBs review and evaluate budget proposals of agencies and establish budgetary requirements for personal services and other expense items for inclusion in the annual national budget.

Budget review normally involves a series of activities including consultations and technical budget hearings to discuss agency proposals and clarify organizational and other issues pertaining to the budget. See Figure 2. Most of these activities take place during the second quarter until July when the budget is submitted to Congress. Due to the concentrated attention given to budget preparation during this period, BMBs were perceived to have compromised their budget execution responsibilities.

Preparing the budget is not the only task assigned to BMBs. Aside from evaluating the funding requirements of agencies, BMBs are supposed to execute budget policies, monitor utilization of funds, and review agency performance. Reviewing agency performance is an important accountability mechanism under the DBM's Public Expenditure Management Improvement Program (PEMIP) that seeks to reinforce the shift to a performance-based budgeting. The reviews, however, have somewhat been overlooked in the past due to the pressures of budget preparation and execution.

To address the above concerns, the DBM introduced a major change in the budget process in 2002---the centralized preparation of the national budget to be submitted to Congress. The process modification aimed to free the operations, especially the BMBs, from budget preparation and enable them to focus on budget execution and agency performance reviews. The centralized process also intended to assure consistency in the analysis and evaluation of the budget proposals of agencies.

II. Task Force on Budget Preparation

A. Creation of the Task Force

Department Order No. 2002-4 issued on March 25, 2002 created the Task Force that would handle the FY 2003 Budget Preparation. The main objective in centralizing budget preparation, as indicated in the said order, was to ensure uniformity in the application of the policies and guidelines in the evaluation of the FY 2003 budget proposals.

The Task Force was mandated to analyze and evaluate all budget proposals and come up with the levels for each national government agency except for the budget of state universities and colleges and government-owned and controlled corporations and the preparation of special and general provisions and the budget of expenditures and sources of financing (BESF) tables.

The Task Force was composed of Assistant Secretary Evelyn V. Guerrero, Director Milagros J. Lopez (BMB-A), Director Solita S. Recolizado (OPCCB), Director Gisela C. Lopez (FPB) and Director Ruby R. Esteban (DBM-NCR). The Task Force was chaired by Undersecretary Cynthia Castel.

As Chair, Usec. Castel was expected to oversee and provide overall supervision on the operations of the Task Force. The Project Manager, Asec. Guerrero, provided direct supervision over the technical staff and administrative support group.

The Task Force was given a free hand in defining their specific tasks and in selecting the technical personnel who will work with them. The budget preparation technical working group (BPTWG) was organized (per Office Order No. 2002-145 dated April 12, 2002) to support the Task Force. The BPTWG consisted of nine technical personnel from the BMBs and FPB, namely:

- (1) Teresita Gapac, Chief Budget and Management Specialist, BMB-A
- (2) Carmela Reynoso, Supervising Budget and Management Specialist, BMB-A
- (3) Soledad Doloiras, Chief Budget and Management Specialist, BMB-B
- (4) Aurelio Gloria, Supervising Budget and Management Specialist, BMB-B
- (5) Heidi Belda, Chief Budget and Management Specialist, BMB-D
- (6) Fe Canillas, Chief Budget and Management Specialist, FPB
- (7) Evelyn Managuelod, Supervising Budget and Management Specialist, FPB
- (8) Christy Clasara, Chief Budget and Management Specialist, BMB-C
- (9) Dolly Gallura, Supervising Budget and Management Specialist, BMB-C

Having been informed of the shift to a task force approach to budget preparation, all BMB Directors were asked to nominate one or two technical staff who could be detailed to the Task Force on full time basis during the preparation of FY 2003 budget. The Project Manager, however, was given a freehand in the final selection of BPTWG members. Accordingly, the selection was based on the following criteria (1) experiential exposure to national agencies (i.e. the more exposure, the better), (2) reputation for hard work and dependability, and (3) can devote full time on budget preparation.

While assurance was given that units would be represented, not all BMBs were represented in the BPTWG. Moreover, all members of the BPTWG, except for the two representatives of BMB C, worked full time with the Task Force.

B. Participation of Other Units

Selected offices were also tasked to lend support to the Task Force, namely the Budget Preparation Division of BTS, the Budget Information Support Services (BISS), the Legal and Legislative Service (LLS), the Regional Operations Coordination Services (ROCS) and the BMBs. One major change of course was that the BMBs would mainly serve as a resource units for information and related tasks e.g. personnel requirements, status of foreign-assisted and locally funded projects, fund releases and transfers and other information deemed critical in the evaluation of the budget proposals.

But as mentioned earlier, the assignment for the following tasks did not change:

- (1) Evaluation of budget proposal of state universities and colleges, which continued to be the responsibility of the regional offices;
- (2) Evaluation of budget proposal of government-owned and controlled corporations by BMB-D;
- (3) Preparation of Special and General provisions which continued to be spearheaded by LLS; and
- (4) Preparation of the Budget of Expenditures and Sources of Financing tables by ROCS, BMB D and BMB E.

C. Distribution of Workload

Under the new set up, a different assignment of agencies was adopted. Workload distribution depended on the complexity of the agency/sector that the BPTWG member would review. The Task Force adopted a rule that while agency assignments on the budget preparation depend on the exposure of the technical staff on the sector/agency that he/she would be handling, in no case, except for the Department of Education (DepEd), would a staff be assigned to his/her client-agency. This rule was set in order to ensure objectivity and thoroughness in the evaluation of budget proposals. DepEd was considered an exception due to the limited time available to other BPTWG members to familiarize with its operations.

For expediency and ease of coordination, the Task Force formed three budget review teams, each assigned with a set of agencies to look into. The first group was composed of Director Gisela Lopez (FPB), Tina Rose Canda (BTS), Teresita Gapac (BMB-A), Aurelio Gloria (BMB-B), and Guzman Vilan, Jr. (BTS) This group was took charge of the Department of Trade and Industry, Department of Science and Technology, Department of Labor and Employment, Department of Social Welfare and Development, DepEd, DBM, Office of the Press Secretary, Office of the President, Office of the Vice President, Other Executive Offices, and Congress.

The second group was composed of Director Solita Recolizado (OPCCB), Heidi Belda (BMB-D), Evelyn Managuelod (FPB), Marie Sunga (BTS), Maria Soledad Doloiras (BMB-B), and Gloria Pagua. This group handled the Department of Health, Department of Interior and Local Government, Department of National Defense, Department of Justice, Department of Finance, Department of Foreign Affairs, Department of Transportation and Communication, National Economic and Development Authority, Autonomous Region of Muslim Mindanao, Office of Muslim Affairs, the Judiciary, Commission on Audit, Civil Service Commission, Commission on Elections, Commission on Human Rights, and the Ombudsman.

The third group consisted of Director Ruby Esteban (DBM-NCR), Director Mila Lopez (BMB-A), Carmela Reynoso (BMB-A), Christy Clasara (BMB-C), Dolly Gallera (BMB-C) and Ida Arciaga (BTS). The group covered the Department of Agriculture, Department of Agrarian Reform, Department of Environment and Natural Resources, Department of Tourism, Department of Energy, and the Department of Public Works and Highways.

Each group was tasked to:

- (1) Evaluate the agency budget proposals;
- (2) Coordinate with assigned agencies;
- (3) Serve as the lead discussants/facilitators during the agency pre-technical budget hearing (pre-TBH) and technical budget hearings (TBH); and
- (4) Prepare and present the proposed budget to the Preliminary Executive Review Board (PERB) and the Final Executive Review Board (FERB).

No special training was given to the Task Force and members of the BPTWG to discharge their duties. It was assumed that all the members are knowledgeable on the entire gamut of budget preparation processes, since most of them occupy senior positions and that they have been chosen primarily because of their wide exposure to the operations of national government agencies. Part of the preliminary steps undertaken by the Task Force was to specify parameters and adopt guidelines in the proposal evaluation and budget preparation. These guidelines will be discussed in the ensuing section.

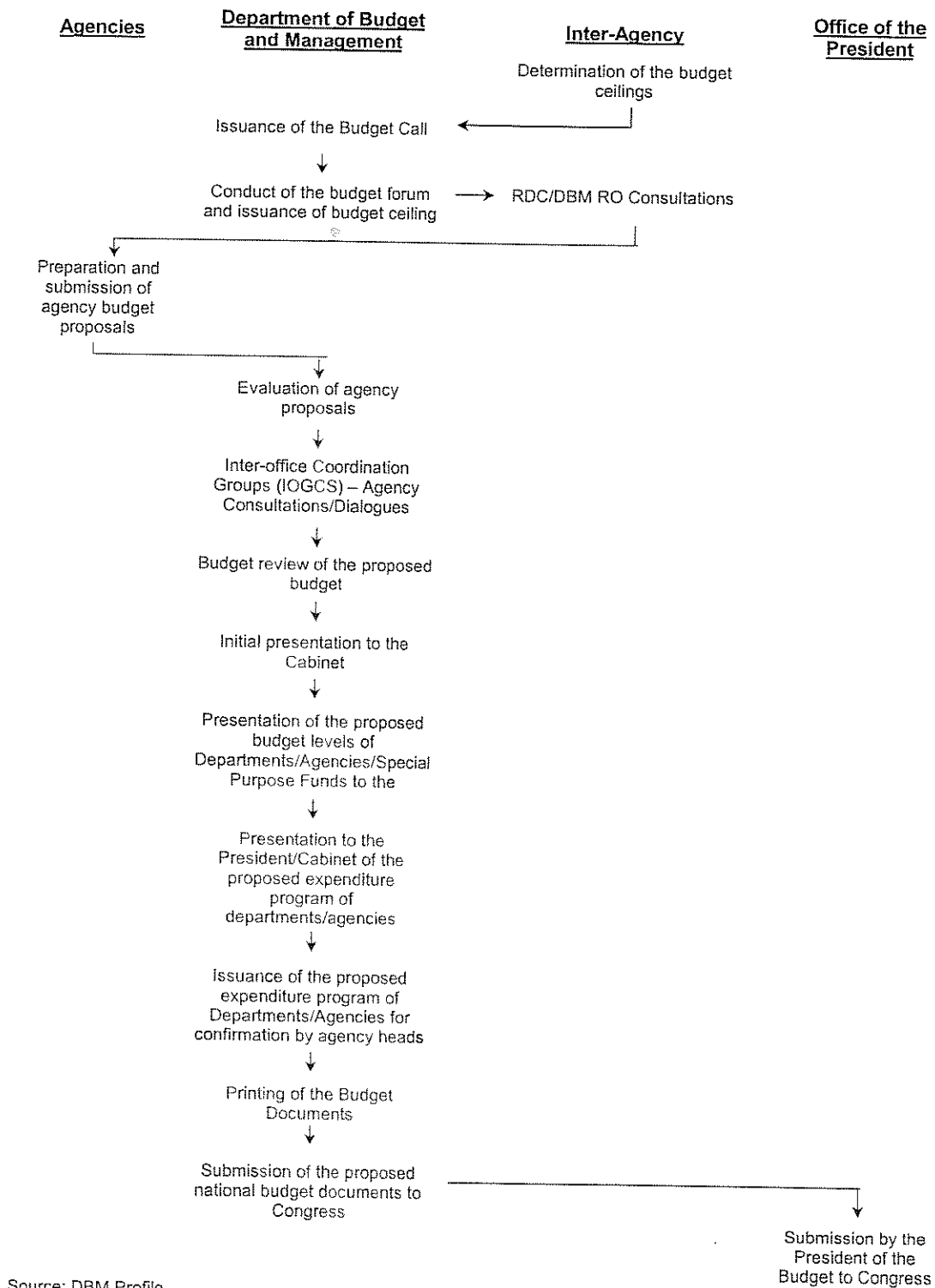
III. 2003 Budget Preparation Process

As mentioned earlier, the preparation of the annual national budget involves a series of steps that begins with the determination of the overall budget framework and parameters by the Development Budget Coordinating Committee (DBCC). The DBCC is an inter-agency body composed of the DBM Secretary, the Secretary of Finance, the NEDA Director General and the Governor of the Bangko Sentral ng Pilipinas, with oversight from the Office of the President. Following are the major activities involved in budget preparation:

- (1) Determination of the overall economic targets, expenditure levels and budget framework by the DBCC;
- (2) Issuance of the Budget Call which defines the budget framework; sets economic and fiscal targets; prescribes the priority thrusts and budget levels; and spells out the guidelines and procedures, technical instructions and the timetable for budget preparation;
- (3) Preparation by various government agencies of their detailed budget estimates, ranking programs, projects and activities using the capital budgeting approach and submission of the same to DBM;
- (4) Conduct of budget hearings where agencies are called to justify their proposed budgets before the DBM technical panels;
- (5) Submission of proposed expenditure program of departments/agencies for confirmation by department/agency heads;
- (6) Presentation of the proposed budget levels of departments/agencies/special purpose funds to the DBCC for approval;
- (7) Review and approval of the proposed budget by the President and the Cabinet; and
- (8) Submission of the proposed budget to Congress.

As can be seen in Figure 2 and in the budget calendar, the steps involved in the preparation of the 2003 budget were generally the same. While there was a significant change within the DBM (i.e. centralization of budget analysis and evaluation), externally, there were no noticeable changes in the budget preparation process per se except for the change of DBM personnel that directly interfaced with the agencies and the conduct of the pre-technical budget hearing.

Figure 2. Budget Preparation Activities



A. Budget Review Guidelines

To ensure consistency, the Task Force also drew specific guidelines and strategies to be adopted in the review of agency proposals.

1. *Adjustment in the 2003 indicative ceiling.* Budget allocation for projects terminating in 2002 and non-recurring activities were deducted from the ceiling.
2. *Absorptive capacity of the agency.* The presence of an unobligated allotment as of December 31, 2002 is an indication of the absorptive capacity of the agency and casts doubt on the agency's ability to handle additional/increased appropriations.
3. Actual physical performance in 2001 as has shown in BP 206 must be compared with the performance targets for 2002/2003 and taken into consideration.
4. Only on-going activities will be given funding support. The following were adopted as bases:
 - For locally-funded or foreign-assisted projects, the implementation period and cost of the project as reflected under BP Form 202A and 203A;
 - Cumulative cost of FAPs (GOP/Loan Proceeds) as of December 31, 2000 as well as 2001 and 2002 program, as reflected under 2002 BESF Table B.14 and Table B.15; and
 - GOP counterpart for grant-assisted projects will be attributed to the agencies' regular program.
5. For income-generating agencies, data in BP Form 100 were given emphasis and made part of the evaluation of the budget proposal.
6. No construction of new buildings.
7. No creation of new positions or organizational units. Staffing modifications will be limited to transfer of positions from one organizational unit to another.

Accordingly, these parameters were applied uniformly among the agencies.

B. Procedural Changes

The Task Force also introduced some procedural changes as discussed below.

1. Conduct of the Preliminary Technical Budget Hearings

The TBH used to be the venue where the agency and the DBM panel can discuss and make clarifications on the former's budget proposal. A lot of time is spent by officials of both panels for said hearings, most of which can be attended to by lower level staff. Hence, the Task Force introduced a preliminary step called the pre-TBH.

The pre-TBH served as a venue for (1) clarifying items in the budget proposal, (2) informing the agency of other requirements it needs to submit such as legal basis, breakdown of lumped items, and such other items, which need further justifications, and (3) raising issues that should be addressed during the TBH proper.

The Task Force, through the BTS, required the agencies to complete the submission of budget documents before they can be scheduled for budget hearing. A checklist of all the requirements was provided to agencies for easy reference. See Annex 2.

The checklist is basically a reiteration of the budget preparation forms as indicated in the Budget Call but it served as a handy reminder of the various requirements. The Task Force also indicated in the checklist additional information needed in the review such as traveling expenses, supplies and materials, rent, grants, subsidies and contribution, breakdown of other services, and equipment.

Measures were employed to expedite the process. First, the Task Force was divided into three (3) panels. Each panel had its own agency coverage, enabling the Task Force to conduct pre-TBHs simultaneously. Second, only agencies, which have submitted their budget proposals, were scheduled for technical hearing. This resulted in the timely submission of requirements by the agencies. Third, attendance to the pre-TBH was limited to the Accountant, the Budget Officer, the Human Resource Management Officer and the Planning Officer of concerned agencies. This freed the senior officials of agencies from unnecessarily spending executive time on details.

The Task Force also introduced additional evaluation forms on (1) the budget levels and agency performance, and (2) the highlights of the proposals which contained findings and observations of the Task Force. This facilitated the documentation of the proceedings of the budget hearings. The documentation later served as reference in the initial review and evaluation of the budget proposals. The findings and observations noted on these forms also served as talking points during the TBH.

As a whole, the pre-TBH proved to be useful because it was able to streamline the technical budget hearing proper. The routine and non-contentious portions of the budget proposal were attended to by the concerned agency expeditiously. The pre-TBH likewise provided the venue to identify and isolate the contentious issues that will be taken up during the TBH with agency and DBM officials. By doing so, agencies were given a chance to make adequate preparation to respond to the contentious issues.

2. Streamlined Technical Budget Hearing

Technical budget hearings are held by DBM to allow for a more thorough discussion of budget policy concerns and issues, including the unresolved issues during the pre-TBH. Senior officials of agencies normally attend to these meetings.

The internal procedure in the conduct of TBH is contained in Budget Preparation Guidelines No. 2003-1, issued May 24, 2002. Based on the guidelines, three panels were created with Director-level member of the Task Force as Chair and the BMB Director concerned as Co-Chair. The members of the panel include the Organization and Productivity Improvement Bureau (OPIB) Director or representative, Organization, Position Classification and Compensation Bureau (OPCCB) Assistant Director or representative, Fiscal Planning Bureau (FPB) Division Chief or representative, Legal and Legislative Service (LLS) Division Chief or representative, BPTWG Member concerned, Budget and Management Bureau (BMB) Division Chief or Specialist concerned. Also in the panel are representatives of NEDA, the National Commission on the Role of Filipino Women (NCRFW) and a non-government organization. The work was divided as follows:

- (1) The Chair was tasked to lead the discussion of issues, which remained unresolved at the level of consultation meeting earlier conducted with the agency concerned, and other issues that maybe raised during the TBH.
- (2) The Co-Chair was tasked to render comments and observations and provide inputs on (1) the status of all locally-funded and foreign-assisted projects of the agency concerned; (2) the status of the physical and financial

performance of the agency based on the first quarter accountability reports; and (3) the Programs/Activities/Projects (P/A/Ps) of the agency and the contribution of these P/A/Ps to the production of the agency's Major Final Outputs (MFOs).

- (3) The representatives from other DBM offices were expected to address the issues pertinent to their respective areas of concern.
- (4) The Technical Secretariat was tasked to record the proceedings of the hearings and prepare a report on the issues to be elevated to the Executive Review Board.

As designed by the Task Force, the discussions during the TBH were as much as possible limited to (1) major, contentious and policy related issues identified during the pre-TBH; (2) agency performance during prior, current and budget years; (3) actual absorptive capacity of the agency; and (4) revenue targets and use of earmarked revenues.

The same pre-TBH evaluation form was used for the TBH, thus allowing for easy tracking of highlights of the agency proposal. Through this innovation, the Task Force was able to do away with the voluminous evaluation and working papers (as what happened during the previous years).

3. Preliminary Review of Budget Estimates

Following the TBH, the Task Force conducted preliminary review of budget estimates. The preliminary review aimed to (1) determine broad, strategic measures in order to keep the overall budget at the desired level; (2) determine the agency budget levels; and (3) prioritize policy issues to be raised to the Executive Review Board. The consolidated review sessions were presided by Usec Castel, as Chair of the Task Force and participated by the members of the Task Force, the Budget Preparation Technical Working Group, and the BMB Directors and ROCS Director. It was during this step in the budget preparation process where the attendance of the BMB handling the specific agency was emphasized. Accordingly at this stage, the inputs of BMBs were important in ascertaining the programs, projects and activities and outputs of concerned agencies which need to be given larger or no consideration at all vis-à-vis the recommended budget levels.

4. Modification of the Executive Review Board

The focal part of the budget preparation is the final executive review of the national budget by the Final Executive Review Board (FERB) led by the Secretary and senior officials of the DBM. Like the one-time PERB, only one level of executive review of the budget was made. The FERB resolved high-level policy issues and finalized the overall budget at the national and agency levels.

The BMBs and ROCS were invited to the FERB but the presentation of the budget recommendation was on the most part made by the Task Force, specifically the concerned BPTWG member.

Aside from recommending the appropriate budget levels, the Task Force also proposed a categorization of recommendations to improve budget programming. Budget proposals were categorized as follows:

- (1) For immediate consideration – P/A/Ps deemed necessary for the effective delivery of the services that an agency is mandated to do, and are recommended to be funded in CY 2003.

- (2) For later consideration – P/A/Ps that the agency would like to do but which can be considered only after all those for immediate consideration have been provided for.
- (3) For long-term consideration – P/A/Ps that may be discontinued or scaled-down or agencies that may be deactivated or merged with other agencies. In the meantime, these were included in the 2003 budget.

For the PERB Level, the evaluation form was slightly modified to include the categorization of recommendations.

5. Revenues as an Important Input to Decision-making

In the review of agency proposals, the Task Force gave more emphasis on the income projections and actual income performance of agencies. For this purpose, the following information were used by the Task Force in analyzing and or revising the 2002 and 2003 income projections submitted by the agencies:

- Historical data from the BESF and other data sources;
- Physical targets of agency;
- Base of non-tax collections;
- List of fees charged and latest revision of rates; and
- Interviews with financial officers.

The Task Force considered this scheme effective, as income projections were more consistent since the agencies have disclosed the same assumptions in their Statement of Revenues (BP 100). This information was likewise assessed together with the targets indicated in the Agency Performance Measures (BP 206).

The Task Force also made it a point to review earmarked revenues and special accounts. All funds earmarked for specific P/A/Ps were fully reflected in the 2003 budget. In their assessment, approximately 3.3% of the revenues have been earmarked. Accordingly, for parallel information, the expenditures corresponding to these were also disclosed. These details are shown in the special provisions in the National Expenditure Program and in Table B.16 of BESF.

For easy reference, the Task Force also recommended the following criteria in the use of agency income:

- (1) If the income generated is less than P50 million, the agency may use all its earmarked revenues.
- (2) If the income generated is P50 million or more, use thereof shall be as follows:
 - 75 percent for education
 - 60 percent for arts
 - 60 percent for energy
 - 50 percent for others
- (3) Earmarked revenues may only be used for maintenance and other operating expenses (MOOE) and capital outlay (CO) items.

This scheme was adopted so as not to unduly add to the government's targeted deficit. However, the Task Force proposed that revenue yields from new revenue measures should be used to fund the unprogrammed or standby expenditures

instead of the regular appropriations. As such, the estimated yield from the proposed legislative and administrative measures was not included in the projection of revenues for 2003. This proposal was a marked departure from the practice in previous years. Furthermore, the Task Force ensured that foreign grants expected to come in 2003 were fully programmed.

C. Improvements in Budget Presentation

To further improve the presentation of the budget documents, the Task Force adopted some modifications, as follows:

1. *Adoption of "One-liner budget" for agencies with Fiscal Autonomy.* Another innovation introduced by the Task Force is a "one-liner budget" for agencies with fiscal autonomy such as Congress, the judiciary and all constitutional offices. One line budget was also adopted for state universities and colleges (SUCs) and government-owned and/or controlled corporations (GOCCs). This measure is expected to allow greater spending flexibility to these agencies given the reduced budget.
2. *Simplified budget for the DepEd.* A simplified budget for DepEd was likewise introduced by the Task Force to permit better targeting of allocations by school. The list of schools, together with the more detailed budget for SUCs is appended in a separate document.
3. *Shift to program-based from input-based expenditures.* The Task Force shifted budgeting from input-based to program-based by removing the details of objects of expenditure at the end of agency budgets. This measure also aimed to provide greater flexibility to the agencies in re-allocating the budget to more critical components of their programs.
4. *Consolidation of entitlements into one lump-sum account.* Entitlements such as pensions, retirement gratuities and terminal leave benefits of personnel no longer in government service were consolidated by the Task Force in one lump sum account under Pension and Gratuity Fund. Henceforth, the Miscellaneous Personnel Benefit Fund (MPBF) shall be used only for the benefits of personnel in the active service.
5. *Provision for retirement and separation benefits of personnel affected in the reorganization.* The retirement and separation benefits of personnel affected by the government's reorganization efforts were placed under the Unprogrammed Fund.
6. *Provision of Confidential and Intelligence Funds.* The Task Force proposed that only to agencies performing security related activities should be provided with confidential and intelligence expenses.
7. *Itemization of the uniformed/military pay and allowances.* Instead of presenting as one lump sum account, the pay and allowances of uniformed and military personnel were itemized.

IV. Process Evaluation

For a long time, the DBM has been preparing the national budget using a "decentralized" approach. Various offices are involved in the review and evaluation of agency proposals, consolidation of the national budget, and preparation of the National Expenditure Program (NEP), making many units within DBM, especially BMBs, extremely busy during the months of April to July.

The centralized approach to budget preparation was initiated in 2002 as part of DBM's efforts to reform the budget process and ensure consistency in the analysis and evaluation of agency proposals. The centralized approach was a bold initiative on the part of DBM as it shifted a long-time responsibility of preparing the budget from Budget Operations Group to a task force---a tremendous task for a small group given a short period of time. Nonetheless, the reform initiative paid off. The Task Force accomplished its mission to come up with the proposed budget levels for each national government agency for FY 2003 within the prescribed period.

The centralized approach relieved the BMBs and the regional offices from the nitty-gritty of budget preparation thus allowing more time for budget execution and accountability tasks. It also enabled DBM to generate savings by minimizing overtime. The shift, though, was somewhat drastic and the approach created tension within the Department. Difficulties in coordination were experienced at the start but these were threshed out later and overcome with time. As the saying goes, all is well that ends well but it is always good to look back and draw insights from the experience.

A. Clarity of the Reform Objective

Based on the directive issued by DBM, a task force to handle the preparation of the FY 2003 budget was created to assure consistency in the analysis and evaluation of the agency proposals. But what many DBM personnel see as the main objective of the reform was basically to relieve operations of the responsibility so that they can concentrate on budget execution. There were "pockets" of resistance to this arrangement at the start but at the end, the BMBs appreciated the fact that it freed them from the pressures of budget preparation.

The key intention of the reform was clearer to the Task Force. To meet this objective, it employed measures to ensure consistency and objectivity in the review of budget proposal, e.g. adoption of strategies that were uniformly applied across agencies and a code of ethics for its members. The "cross assignment" of agencies also promoted unbiased evaluation of agency proposals. It had its downside though since some of the members of the BPTWG were perceived to be unfamiliar/not updated with the operations of the agencies assigned to them.

Some DBM personnel, however had this notion that the purpose of centralizing budget preparation was merely for cost saving. With limited involvement of the BMBs, there was no need for overtime and thus no opportunity to get overtime pay as in the previous years. Indeed, as noted by one respondent, the approach enabled DBM to generate savings. With the previous system, almost all personnel were involved and too much money was spent on overtime and supplies. This time, only the members of the Task Force had to work overtime. But this also caused "demoralization" of some personnel who regard the overtime pay as an incentive and a source of extra income.

Nevertheless, the intent of this reform initiative was laudable as it not only ensured consistency and objectivity in budget preparation but also enhanced the Department's internal efficiency. Senior officials noted that the shift of responsibilities effected through the task force approach enhanced check and balance because two separate groups undertake the preparation and execution of the budget. Under the set up, objectivity in evaluation was maintained and the quality of the budget releases improved.

It is easy for senior management to appreciate the accountability and efficiency results of this change effort. Generally, employees appreciate mainly what's in it for them. Hence for future reforms, it would be helpful to constantly reiterate why reforms in the budget process are needed and emphasize the advantages of the changes being introduced from the point of view of the employees.

B. Internal Coordination

One key observation in a centralized approach is that it resulted to a more unified budget preparation process, greatly minimizing coordination requirements among functional units/bureaus. But since the approach means shifting the main responsibility of the operations group to a smaller group, it requires good coordination within the Department especially with the BMBs that used to handle the review and evaluation of agency proposals. The BPTWG noted that while there were difficulties in the beginning, the BMBs and the units they worked with were all cooperative and timely in the provision of pertinent information when required. Of course it helped that the BTS is involved since they have budget data on the agencies. Besides, nothing prevented the Task Force to ask agencies to re-submit budget documents whenever necessary.

Within the Task Force, internal coordination seemed to have been smooth. The creation of smaller groups or panels enabled the Task Force to conduct simultaneous reviews and consultation with the agencies. The BPTWG also felt that they had adequate logistical and financial support to perform their tasks. The presence of ten UP trainees also facilitated the encoding of the budget data.

The BMBs commended the Task Force for completing the budget documents within the timetable but they were quite open with their thoughts on how the coordination was handled. While BMBs were invited to serve as resource during the technical budget hearings, many expressed that they were not really involved in the process. Units that were not represented in the Task Force felt left out and thus wondered how the budget proposal of their client agencies were being reviewed and evaluated without their participation. Another weakness perceived is the lack of knowledge of the specialists in the Task Force of peculiarities of agencies.

Without the knowledge of the Operations group, what the Task Force did was to assign experienced senior technical personnel, not the BMB representative, to lead the review of an agency belonging to a sector other than his or her current assignment. As such, representation was viewed by the Task Force as less important than seniority and expertise. The past experience of the BPTWG members supposedly helped them deal with their agency assignments. Nevertheless, there is still a claim that a member of the Task Force who was assigned an agency, which was not under his or her coverage, experienced difficulty in reviewing the budget proposal.

Many operations personnel asserted that they did not have an idea on how the Task Force prepared the FY 2003 budget since most of them was not involved in the process. The task force approach tended to leave out other groups from the policies adopted during the budget preparation. Specifically, the specialists/analysts were not totally informed about the recommended budget (and the attendant issues) of their client agencies. Hence, they hesitated to attend the budget hearings at Congress.

The regional offices felt more relaxed during this period because of less than usual information and coordinative requirements from the Task Force. Nonetheless, they regarded the centralization of budget preparation, except for the portion on SUCs, as a complete detachment of the ROs from the budget preparation process.

The ad hoc nature of the Task Force conveyed a perception of lack of accountability. Some informants pointed out that the duty of the Task Force was limited to budget preparation, while the effects of such processes carry over to the next budget processes, leaving the implementing bureaus to carry the consequences of short falls of the Task Force. The apprehension of the operations is that whatever problem encountered by the specialists in the budget execution of their own coverage cannot be referred to the Task Force hence they'll be made responsible to respond.

C. External Coordination

From the national agencies, there were no noticeable changes or improvements in the FY 2003 budget preparation except for the change in DBM personnel who conducted the review and the conduct of the preliminary technical budget hearing.

Respondents from agencies, e.g. chiefs of the planning, budgeting and accounting units, relayed that they were informed of the changes in the budget preparation through their usual channels at DBM—the BMBs. They learned from the specialist handling their agency that a separate group would be evaluating their budgets when they were about to submit their proposals. Since the person assigned to the agency is new, the agency had to do another round of orientation and explanation for the benefit of the BPTWG.

One national agency complained that perhaps due to unfamiliarity with the agency operations, the BPTWG used the old P/A/Ps of their agency. As a consequence, some of their current programs were excluded in the budget. The agency found this when the first draft of the NEP came out. The agencies added that there were no DBM representatives to support them during the deliberation of their proposed budget in Congress. It was just coincidental that a DBM specialist was around during that time.

The sampled agencies were unanimous in saying that their budget proposals, despite strong justifications, were slashed. The agencies mentioned that they normally experience difficulty in explaining and making the new specialists assigned to their agencies understand and appreciate their operations. They attributed this to the re-shuffling of staff within the bureaus. The sad fact though is that once the specialist is able to understand their operations, they are replaced with new ones.

Furthermore, the agencies expressed their difficulty with the dual government accounting systems that they have to contend with. While the Commission on Audit (COA) requires the agencies to adopt the New Government Accounting System (NGAS), the DBM still uses the old system, thus forcing agencies to maintain two books of accounts. Under a centralized or a decentralized budget preparation, these are process improvement issues, which the Department has to address.

On a positive note, the agencies said that the conduct of the preliminary technical budget hearing was effective, as issues on budgetary details were already settled prior to the TBH proper.

For the Task Force, coordinating with the agencies was not problem as they were able to make agencies submit requirements on time by setting a rule that agencies will not be calendared for budget hearing unless they are able to submit the necessary supporting documents. The checklist that the Task Force has prepared also facilitated the review of requirements and the manner of communicating these to the agencies. The preliminary budget hearing that the Task Force conceived of likewise smoothened coordination. What was not clearly laid out; however, in the centralized approach was the task of explaining the recommended budget to the agencies and to Congress. While the Task Force intended to brief the Operations and prepare a FAQ on the recommended budget, these were found insufficient.

D. Information Sharing

Most of the issues surfaced by those not involved in the preparation of FY 2003 budget centered on information asymmetry and the lack of transparency on the parameters and guidelines that were adopted by the Task Force. The policy and methodology in the preparation process were not clear or properly disseminated. Thus, when asked by the agencies, the concerned bureaus felt inadequate to respond. The issue was aggravated when the BMBs, with inadequate or no information on the procedures employed during the

budget preparation phase, were made to attend and defend the budgets of agencies under their jurisdiction.

Though the operations people were freed from the usual pressure of budget preparation, many considered their non-involvement in the process as disadvantageous since they feel that pertinent information that are unique to their client agencies might not have been considered by the Task Force in the evaluation of proposals. According to them, these glitches might eventually affect budget implementation. Yet, these will only be confirmed or debunked this year with the execution of the FY 2003 budget.

The sampled regional offices share the same view. They expressed the need to be informed of the parameters and guidelines adopted during the budget preparation as well as the decisions that came out during the reviews to guide them in budget execution and in responding to queries of agencies.

On the other hand, some groups in the operations were perceived as unwilling to share information. Though it was later threshed out, at some point, the Task Force found it difficult to get agency information from some bureaus.

E. Efficiency Improvement

The informants considered the centralized approach as efficient in the interest of expediency as the task was finished on time. Having a smaller group preparing the budget was considered advantageous as it facilitated the sharing of information, closer coordination and formulation of recommendations. The approach also allowed for a uniform, standardized application of policies, which shortened the entire budgeting process.

Despite initial resistance, the BMBs appreciate the fact that they were relieved of the pressures and nitty-gritty of budget preparation; as such execution functions were not sacrificed. The clients of DBM benefited from this arrangement. The regional staff also felt more relaxed because of the less than the usual information and coordinative requirements from the central office.

When asked on the responsiveness of budget execution, the agencies noted that changes within the DBM on budget preparation had no significant impact on budget releases. However, delayed releases cannot be isolated as a direct consequence of budget preparation activities. Agencies, through validation noted that cash availability and other logistical requirements contribute to the DBM's capacity to release agency allotments.

Nevertheless, the centralized approach enabled the DBM to generate savings. With the previous system, almost all BMB personnel were involved in the budget preparation. Accordingly, too much money was also spent on overtime and supplies. In the task force approach, the minds of those involved were focused mainly on budget preparation.

With fewer people involved in budget preparation, the members of the Task Force felt the pressure of the job, thus worked doubly hard to deliver the expectations. The staff involved valued the experience and considered their special assignment worthwhile and rewarding in many aspects. The assignment likewise appealed to the members' intellectual psyche, not only for prestige of being part of an "experts' group" but more so for the sense of fulfillment.

While some regard the principle of an ad hoc body acceptable, a suggestion was made to give some degree of permanency and continuity of the Task Force, as familiarity to the operations of agencies requires more than several reviews of their proposals. Knowledge and exposure to agency operations is critical, especially if proposals of agencies are to be reviewed simultaneously, to ensure depth and quality of analysis.

F. Change Management

Both the members and non-members of the Task Force found the approach efficient but divisive. The reform had good intentions, i.e. ensure consistency in the evaluation and free the operations from the routine pressures of budget preparation so that they can focus on budget execution.

The shift, though, was somewhat drastic and the task force approach created tension within the Department. The BMBs understand the concern not to sacrifice budget execution but at the same time were not ready to give up their budget preparation responsibilities.

Tension erupted from various sources, e.g. in the selection of technical staff who will compose the technical working group, sharing of information, entitlement to overtime and turn-over of responsibility to defend the recommended budget.

A major source of contention was the seemingly unclear involvement of the BMBs, especially those who have been unintentionally (or for some strategically) eased out in the budget preparation process. It was noted that not all BMBs were represented in the BPTWG. Attendant to this issue is the perceived bias in the selection of BPTWG members, such that those who were not taken in felt inadequate in terms of undertaking their usual functions. Despite reasonableness of the selection process that was done, (reasonable in the sense that there is an urgency to organize themselves and the requirement for instant rapport and adherence to the leadership of the Project Manager for the tasks to be done on time), there is still a manifested controversy in the selection of members. While there is valid reasoning for such a "personalistic" approach to member selection, the fact that this was not readily impressed upon the middle managers, i.e. the Directors involved, the division between those that were taken in (the experts) and those that were not, became more apparent. Worse, they themselves felt perturbed on the situation. This sense of division between the Task Force and some BMBs has rendered the budget preparation process more difficult than necessary.

For those who used to take charge of budget preparation, the minimum involvement that can be extended would be in terms of consultation and sharing of information. This is another touchy issue, which surfaced as the operations felt that they were kept in the dark as to the policies and parameters adopted by the Task Force. Deliberate or not, there was a general feeling that the Task Force did not want to disclose information and prevented the access of non-members to agency records, most of which are available on the Budget Preparation Management System during the deliberations. The BISS, however, conveyed that the limitation of access was brought about by the need to address the problem on the volume of users that slows down systems loading (down and up).

The third was on overtime, an issue close to the hearts of the technical staff. The BPTWG members felt adequately rewarded for their efforts with the overtime pay. But the other personnel who consider overtime pay as an incentive and extra source of income during the budget preparation period found the lost opportunity demoralizing.

Finally, the most contentious issue was the turnover. Once the budget was completed, the Task Force had to turnover the task of communicating the recommended budget to their client agencies and attending to the budget hearing in Congress. The earlier resistance to the shift in responsibility plus the information asymmetry that ensued made the turnover difficult. Those who were not involved in the process did not feel ownership of the Task Force output and thus had this notion that those who prepared the budget must be the ones who should stand for them and respond to the queries of agencies. It is of course impractical for the Task Force to do this considering the number of agencies to cover. But this was a problem that seemed not adequately handled. Clearer guidelines and more deliberate efforts to share

information are necessary to promote "buy-in" of operations since they are in-charge of budget execution.

Please refer to Annex 3 for detailed feedback of BMBs, regional offices, selected government, and members of the Task Force.

V. Recommendations

In general, there is an acknowledgment that the idea of delegating the task of budget preparation to a smaller group is both effective and efficient. The centralized approach helped streamline budget operations, assured consistency in the evaluation of agency proposals and enabled the Department to minimize overtime. It has its own downside, as discussed in preceding section, but the institutional gains outweigh the costs. A similar approach may be adopted in the preparation of the succeeding years' budget but refinements are in order.

1. The adoption of an ad hoc body to undertake budget preparation should be further assessed as to its impact on budget execution. The Task Force was efficient in the preparation of the budget but as the operations people say, the real test of effectiveness of the task force approach will be revealed during the budget execution phase. This does not prevent the Department to try for the second time the task force approach to budget preparation but it is strongly suggested that the implementation of the FY 2003 budget be carefully examined later vis-à-vis the assumptions used and decisions made by the Task Force. The BMBs must be encouraged to give feedback on this matter in case they arise so that corrective measures can be instituted at once.
2. There was a suggestion earlier to give some degree of permanency and continuity of the Task Force, as understanding of the operations of agencies cannot be acquired overnight. A good handle on the peculiarities of agencies is critical to ensure depth and quality of analysis. It is premature however to create a permanent body to handle budget preparation as this can further strain relations. What can be done in the meantime is to maintain the Task Force approach but change the membership to give chance to other directors/specialists to participate in the process. For continuity and consistency in the approach, it is suggested that at any one time, only half of the members will be new. The Task Force should maintain high standards in the selection of new members but the criteria must be disclosed and disseminated. It must be stressed also that all BMBs must be properly represented in the Task Force.
3. The strategies adopted by the Task Force in the conduct of budget reviews can be standardized and or manualized. The manual should include the various guidelines and forms used as well as references. This will help new members understand the process and ensure consistency of future budget reviews. Putting the policies and parameters in writing and disseminating these to the operations group for their information and reference. There might be some advantage in not disclosing the policies and assignment of agencies during the reviews. But the "secrecy" of the process raised the level of uncertainties and distrust. Transparency should characterize the work of the Task Force to enhance the interface of the various units and levels in the Department in its efforts to streamline and improve the budget preparation processes. This will not only ensure a seamless integration of efforts and thus ensure a more informed decision-making but will allow the officers and technical staff of the Department to transcend interpersonal differences and build a more harmonious, symbiotic working relationship.
4. The absorptive capacities of the technical staff assigned to the Task Force should be assessed in relation to their current workload and their readiness for the budget

preparation workload. While the quality of the Task Force output, i.e. the budget documents for the FY 2003 can only be confirmed with its execution, there is an expediency to decide on the manner by which the FY 2004 budget preparation should be handled. One should bear in mind that it was the first time for the Department to implement the task force approach last year and that there was an extreme pressure for the group to perform within certain constraints. Thus, the high level of performance is considered unusual. It cannot be expected in the future that the same level will be achieved under a different situation. The BPTWG confirmed the heaviness of their workload. To some extent, this may have affected the depth and quality of their analysis of the budget proposals. "Cross" assignment of agencies during the review promotes objectivity in the evaluation. To prepare the specialists on their assignments, the Task Force can provide some lead-time in familiarizing the members with the operations of the agencies.

5. Under a centralized set up for budget preparation, it would be necessary to clarify the roles of BMBs in the budget preparation process. As it was, the BMBs were mainly involved as providers of information, a rather passive role for those who used to do it. A more active participation of the BMBs during the TBH, PERB and FERB can be considered to keep them informed of agency specific issues and decisions. Such arrangement can promote joint ownership of the final output and prepare the BMBs to explain details and decisions to their client agencies. This is interface is important especially if the Department intends to push performance-based budgeting and link budget evaluation with the results of APR.
6. Finally, "bold" reforms such as the centralization of budget preparation, which shifted major responsibilities and affected many employees, must be managed. DBM was able to launch this change effort and achieve its objectives but not without costs--- physical, mental and emotional. There are two ways to introduce change. One is the incremental approach, less painful but takes a long time and requires a lot of patience. Another is swift with immediate results but extremely painful. Either way, there is resistance because the change disturbs people's equilibrium.

Resistance to change is natural. The faster the change occurs, the higher the resistance. Resistance happens when people have never heard or accepted the reasons for the change or lack the needed information. When people are kept in the dark about the change, their natural fear of the unknown is agitated. Understanding the source of resistance and managing it is a key ingredient of success.

The centralization of budget preparation proceeded without much effort to manage resistance. But it is not too late to repair the damage. The challenge now is how to ease the "trauma" of transition. DBM can still manage this through continuous communication of the need for internal reforms. Management can encourage open exchange sessions for constructive expression of concerns about this reform initiative. Most people only need a venue to ventilate their thoughts and feelings. Conduct of training for new assignments like the APR can also help veer away attention from issues. But management must consider the individual needs of those affected, e.g. employees' need for extra source of income, need of specialists for information, need of Directors to have a semblance of control. Management can also involved interested groups in planning the succeeding reforms.

Sustainable and successful change efforts depend on the organization's readiness to embrace change, the knack to carry out the change but most of all, on the political will of top management to institute the change. The resolve of DBM top management to reform the FY 2003 budget preparation is a clear demonstration of its political will.

Annex 1

DBM Internal Budget Preparation Activities, FY 2003

Activities	Units Involved										Inclusive Dates (2002)
	DBM Mgt	BMBs	TF	BTS	FPB	OPCCB	ROCS	ROs	LLS	BISS	
1. Update of BPMS Reference Files (in accordance with new agency/fund assignments)				✓						✓	April 3-5
2. Update of agency coverage/user access to BPMS based on new institutional arrangements			✓	✓			✓	✓		✓	April 5-6
3. Review of general and special provisions			✓						✓		April - May 29
4. Input to BPMS (FY 2001 Actual, FY 2002 Current, FY 2003 Proposed)			✓					✓ SUCs			April - May 10
5. Analysis of Levels (FY 2001 - 2005)											Up to May 17
6. Conduct of Technical Budget Hearings			✓								April
7. Inputs to BPMS											
• TBH Recommendations			✓					✓ SUCs			Up to May 24
• Special Provisions									✓		Up to May 24
8. Conduct of PERB Presentation by the TF of their TBH Findings/ Recommendations	✓	✓	✓						✓		May 27
9. Editing of the GMIS			✓								Up to May 24
10. File transfer from GMIS database to BPMS										✓	May 25-27
11. Conduct of FERB by the TF for specific agencies with unresolved issues	✓	✓	✓						✓		Up to June 7
12. Input of PERB and FERB levels			✓				✓	✓			Up to June 10
13. Generate and print NEP formats			✓				✓	✓			June 10-15
14. Generate and print management reports			✓		✓						June 13-15
15. Presentation to the DBCC			✓		✓						June 17-22
16. Presentation to the Cabinet			✓		✓						June 25

Activities	Units Involved										Inclusive Dates (2002)
	DBM Mgt	BMBs	TF	BTS	FPB	OPCCB	ROCS	ROs	LLS	BISS	
17. Receipt of Agency Confirmed/Revised FY 2003 DBM – Recommended Budget Levels			✓				✓				June 28
18. Input, Revisions, Adjustments in DBM-recommended budget levels based on Agency Confirmation/Approved Revisions			✓				✓				June 29-30
19. Generate and print 1 st Draft of NEP			✓								July 1-2
20. Review of 1 st Draft of NEP			✓				✓				July 3-5
21. Input corrections to 1 st Draft of NEP			✓				✓				July 5-6
22. Input corrections to 2 nd Draft of NEP			✓								July 7-8
23. Review of 2 nd Draft of NEP			✓				✓				July 8-9
24. Input corrections to 2 nd Draft of NEP			✓				✓				July 9-10
25. Generate and print Final Draft of NEP			✓								July 11
26. Generate and print camera-ready NEP			✓							✓	July 11-13
27. Submission of camera-ready BESF Tables		✓ BMB-D	✓		✓		✓				July 11
28. Generate and print camera-ready BESF Tables			✓							✓	July 12-13
29. Generate and print camera-ready Staffing Summary			✓			✓					July 12-13
30. Printing of budget documents (NEP, BESF Tables, Staffing Summary)			✓								July 14-19
31. Submission of Budget Documents to the President	✓ Sec										July 20
32. Submission of Budget Documents to Congress											July 23

Source: DBM Office Order 2002-145, April 12, 2002

Budget Preparation Forms

- ☐ BP 100 - Statement of Revenues
- ☐ BP 200 - Comparison of Appropriations and Obligations
- ☐ BP 201 - Summary of Obligations and Proposed Programs/Projects
- ☐ BP 201 – A - Obligations for Personal Services
- ☐ BP 201 – B - Obligations for Maintenance and Other Operating Expenses
- ☐ BP 201 – C - Obligations for Capital Outlays
- ☐ BP 202 - Requirements of Locally-Funded Projects
- ☐ BP 202 – A - Locally-Funded Project Profile
- ☐ BP 203 - Requirements of Foreign Assisted Projects
- ☐ BP 203 – A - Foreign Assisted Project Profile
- ☐ BP 204 - Proposed Staffing Modification
- ☐ BP 205 - Staffing Summary of Non-Permanent Positions (no submission means no budget provision for casual and contractual personnel)
- ☐ BP 206 - Agency Performance Measures (Non-Quantifiable MFOs)
- ☐ BP 207 - Details of Scholarship Program
- ☐ BP 208 - List of Retirees
- ☐ BP 300 - Proposed Special Provisions
- ☐ BP 400 - Projects with Private Sector Funding Participation
- ☐ BP 500 - Statement of Other Receipts/Expenditures

Additional Information:

- ☐ Traveling Expenses
 - Breakdown of local and foreign travels
 - Names of employees who shall go on official travel
 - Destination
 - Purpose of travel
 - Corresponding amount required
- ☐ Supplies and Materials
 - Breakdown and nature or type of supplies, e.g. office supplies, planting materials, textbooks, drugs and medicines, desks, etc.
- ☐ Rent
 - Copy of contract/agreement and computation of the yearly rents for building rental, the floor area and number of employees to be housed
- ☐ Grants, Subsidies and Contributions (except 207)
 - Detailed listing of recipients, purpose and legal basis of such grants
- ☐ Other Services (Breakdown)
- ☐ Equipment
 - Inventory of Equipment
 - Inventory of Motor Vehicles
 - Inventory and Inspection Report of Unserviceable Properties in case of Request for Replacement

Comments of Task Force Members (on their personal experience)

- I am proud to have been a part of the Budget Pre Task Force. It was quite an experience. Although my participation in the TF is on a part time basis, I appreciated the fact that the instructions are followed as written with limited (as cleared) deviations. I suggest, however, that others will have a similar experience.
- As a member of the Task Force, I've experienced working with other co-employees. We've learned to work as a team with one target in mind—to come up with a NEP. During the first phase of our work, I've encountered some minor problems with other DBM units but was later on threshed out. There were a lot of sleepless nights waiting for the PS interface but we were compensated very well.
- I have a very good and nice experience working with the task force because I've learned so many things like knowing what the different agencies are doing with their budget, bonding with others, team working and I had additional friends.
- It's so hard to coordinate with the Regions and the LLS.
- Personally, I felt that it was an exhausting and demanding experience having been a member of the task force. It requires a lot of patience on one's part being pressured especially because of limited time basically to go over the many documents that need to be referred at.
- Exhausting but rewarding (financial and otherwise). Budget prep is the most challenging phase of the budget cycle and being a member of the Task Force on Budget Prep had somehow boost my self-esteem/self-worth. Also effective in bonding of DBM employees from different bureaus.
- It was a team effort and the work was very demanding. The demand is not only during regular working days but up to weekends. Since it was a group effort, you can not claim that you are already finished not unless the whole group is finished.
- Further widened knowledge of overall operations of DBM; strengthened linkages with different representatives from different bureaus; felt strongly committed to do good and deliver since all eyes were on the Task Force; a rewarding, fulfilling experience to have been a part of it was fun even though we had to come on Saturdays, Sundays and Holidays and stay till midnight; well-taken care of in terms of food and other resources. Also Asec. Guerrero would bring/cook food for us for free.
- I enjoyed working with the Task Force members; I'm glad that we were compensated for the efforts that we've exerted. However, due to time constraints we really have to work hard and sacrifice.
- As a technical group member, there were so many gains derived from the group, in terms of experience and financial. Analytical expertise is further developed in the evaluation process, integration with other units was likewise enhanced, being a non-BMB person. It was really as fruitful exercise.
- Working with the Task Force was certainly an experience worth remembering. Though tiring, because of the pressure, especially during the latter part of the process, so many new insights were learned one of which is the PS interface which surprisingly we were able to do even without prior instructions/training. But mind you, there's one thing I like best working with the TF besides the learning... it's the overtime pay. Looking forward to this year's TF.

- It's like riding a roller coaster—with it's ups and downs. It was challenging and frightening at the start because of the element of suspense. Depressing at the mid-part because of the load and the drudgework. Exhilarating towards the end because you know you were about to complete the job. By and large, it was great fun for the sheer excitement (or panic) it brought.

**Comments on the Task Force Approach to Budget Preparation
From the Budget and Management Bureaus**

Question: What can you say about the Task Force approach adopted in preparing the FY 2003 Budget?

- We are not involved.
- Operation bureau was really not involved in the budget preparation, so we don't have any idea on how the task force prepared the FY 2003 budget.
- Technical workforce has not directly participated nor given the chance to observe/participate in the preparation of the national budget.
- The technical personnel were not given the chance to experience in the review/evaluation of the budget proposal of agencies.
- New technical staff did not experience it.
- As not a member of the task force, the regular work was not hampered. I was relieved in the pressure of accomplishing the needed data for budget hearing. However, being not involved in the process will have an impact in the analyst concerned on the budget implementation since questions/clarifications on the recommended budget cannot be fully explained.
- We are not aware of the procedure.
- We are not aware of the approach adopted by the task force since we were not involved in the preparation of the FY 2003 budget preparation.
- I have no idea relative to the task force approach adopted in the FY 2003 budget proposal.
- The operations bureau has no knowledge on the details on how the budget was prepared.
- Agencies call us up regarding details but we don't have the answer.
- Principle of transparency was not present in the system. But, operation personnel will work to attend congress hearings.
- Lack transparency.
- Lack of transparency in terms of information (guidelines, policies)
- Lack of transparency in the guidelines, policies adopted.
- Ok, however budget operations group/bureau may have to be consulted/involved in the decision process. More transparency in policies/decisions. BMB suggestions issues raised have to be considered to avoid budget execution/implementation problems (later passed on to BMBs).
- The task force freed us from additional pressures.
- It resulted in more unified budget preparation process, greatly minimizing coordination requirements among functional bureaus/units.

- The creation of the task force relieves the workload of some operations bureau.
- With the preparation of FY 2003 assigned to the task force, the BMBs were able to work on the regular tasks.
- The task force approach is not advisable in as much as they are not familiar in the agencies operation.
- Does not reflect input from operations group.
- Lacks consultation with proponent agencies so that the priorities and commitments not considered in the final budget.
- Task Force approach tends to leave out other groups from the policies adopted during budget preparation. This practice fails to consider performance basis in budget allocation; not consistent with reform program of performance based budgeting.
- The main weaknesses however are: lack of knowledge/expertise of specialists in the task force in terms of peculiarities of agencies; lack of accountability of the task force as its duty is limited to budget preparation, while the "effects" of such process carries over to the burden or consequences of short falls of the task force.
- Specialist/Analyst in charge of a certain agency were not totally or informed about the output of recommended budget.
- The user of this output has limited knowledge on how they were able to come up with the budget problem. When asked, they are withholding information from the analyst.
- In what I believe to be undertaken by DBM management, it was merely for cost cutting.
- The approach enabled the DBM to generate savings. With the previous system, all personnel are involved. Too much money was spent for overtime and supplies. In the TF approach, the minds of those involved were focused mainly on the job of budget preparation. They were excused from the other tasks like the budget execution and budget accountability phases of the budget process. It's quite hard when we do the phases at the same time.
- If intention is to cut budget for "overtime service" I think its more costly if over provisions will be made on some items of expenditures. The management needs to look on this seriously during this time of financial difficulties.
- The result of the output of the Task Force will yet to be seen during the implementation stage of the budget.
- Cannot command yet since the proposed FY 2003 budget prepared by the task force has little deviation from that of the FY 2002 budget.
- I am not a member of the task force and we are relieved of the budget preparation activities. And we have yet to prove that TF approach is successful. Its not a matter of producing the output (FY 2003 NEP and other budget documents) at the right time, its more of the quality of the outputs.
- Policies and processes were not disseminated to the operations bureau but the operations group was made to attend Congress Hearing.
- Maybe considered effective, provided the TF work and responsibility will not stop after submission of the prepared national budget to congress. Its members should be able to defend their work during Senate and/or Lower House hearings.
- Task force is dissolved when the output is completed. Bureau handling the department will be attending the hearing at the congress has limited knowledge of the budget submitted and would not be able to defend the DBM budget to congress.
- No specific scope. The task force should not be limited to the preparation of the need. But should also be extended to the attendance to the budget hearing in both the House

of Representatives and the Senate. It is hard to defend something that you did not prepare yourself.

- The agency feedback should also be given a lot of consideration in the undertaking.
- DBM staff are quite interested with this undertaking but this would be more effective if training/seminars will be conducted simultaneously maybe with the APR. If not given then before the second seminar APR, then staff should be given more exercises on training, this would mean or will result to more qualifiable "INFO" for DBM with regard to Agency Performance evaluation,
- This is advantageous in terms of information or guideline dissemination since only a few people need to be informed of the guidelines. However, the task force members' knowledge about the agency assigned to them is very limited or none at all. Hence, problems specific to the agency that need to be resolved were not done, especially the Foreign Assisted Project like Third Elementary Education Project.
- I think the task force approach on the preparation of the FY 2003 budget had done their work well and at the same time a big help to the operations group who should spend more time on the performance review of agencies, which need much of our time.
- Better appropriate activities if aligned with overall development plan of NG
- No "trickle down" process in terms of communicating the policies and directions adopted to the concerned parties within.
- The approach was able to focus on the preparation itself.
- Well the task force established for the FY 2003 is commendable because we were able to submit to the President.
- Agency representatives sent for the meetings sometimes fail to give the reasons.
- Based on the report by the agency, the prepared budget for FY 2003 was not perfect which requires realignment during the implementation stages. We are not given opportunity to know the budget policies being adopted and correctness of the detailed personal services requirement.
- For me, the task force adopted in the preparation of the FY 2003 budget was best done by the office since the staff involved were all transferred, competent and well trained and especially you cannot corrupt.
- Non-members of the task force assigned agency, which was not under his/her coverage experience difficulty in reviewing the budget proposal.
- Whatever problems may be encountered by technical personnel in the budget execution of their own coverage can now forget refer to the task force.
- DAP should help DepEd to properly submit data to DBM which can be used in the evaluation of the agency performance.
- COA should also be tapped with regard physical and financial accomplishment of DepEd or the use of COA report.
- The preparation of the budget of the agencies should be delegated to concerned bureaus where the agencies are assigned (selective basis).

Comments on the Task Force Approach to Budget Preparation From Regional Offices III, IV, XI and NCR

- Helps in improving budget execution but analysts and specialist should be made aware if what is happening in the agency budget as proposed. Technical staff needs also some periodic information of what already are the policies and procedures adopted.
- Regional Offices were practically detached in the budget prep (except for SUCs)
- Information on the basics or parameters used in decisions made was not available. We feel that the regions should be informed on the final decisions made in the series of review made by the TF for us to answer queries of clients in the region in a fairly straightforward and objective way.
- The TF approach facilitates the coordination of information; allows for a uniform, standardized application of policies; shortens the whole budgeting preparation period, and therefore cuts costs. It has however, been the subject of controversies – that it took away the responsibility from the respective bureaus; was a divisive approach, cut entitlement to overtime of those not involved, etc.
- TF approach is good. It did not require the all specialist to render overtime. However, there may be some issues as the TF is not familiar with the agencies.
- At the regional level, we were not really affected by the assignment of the TF. It was an easier task for us during the budget prep phase. We only got to submit reports requested by the TF. The budget prep for 2003 were more relaxing for most employees.
- Centralized but effective since it saves time and effort; Lessens cost as RO staff are no longer required to go to CO during the budget prep. Data are submitted thru the Internet, thus making the process faster.
- The role/participation of ROs were not clearly defined by the TF, thus, there was lack of coordination among them

**Comments on the Task Force Approach to Budget Preparation
From Key Informants**

Interview Notes:

- In the selection of the TF members – those who have chosen to be involved.
- There are some interpersonal relations issues against some members.
- Not all were involved, to attend to other budgetary functions.
- There was division, those who were involved and those who were not.
- Less overtime – good for fiscal management, bad for those who looks at OT as extra income.
- In terms of work, TF was able to finish it on time but there are mistakes (quality) because it was a first time.
- Agencies did defend the budget at Congress, DBM as support on information about releases.
- There were ROCS representatives because of the ROs. Served as coordinators with agencies that have decentralized functions.
- The composition should change yearly for experience and learning. So that there will be no division among staff as those who were involved or not. To instill commitment.
- The roles should be clearly defined.
- When the TF started, ideas (directives) are not clear; general directives, there is, e.g., what policies/principles to be applied should be clearly identified.
- Budgeting is not hard, but time-consuming.
- APR and budget preparation should be reconciled. The one who will evaluate should know the agency.
- TF did away with a lot of forms; so top officials took less time in studying the process.
- Was able to look at items more closely because of the familiarity with everything and discussion with others, unlike before where analysts tends to compartmentalize.
- Because of the presence of all, decisions are more informed; close in the formulation of recommendations.
- TF did not have a free-hand in the selection of members. There were discussions. Though TF members want to have all, they want someone who can help, that the Director is willing to let go (or detail) and that the designation may not jeopardize regular functions.
- There were difficulties in evaluation of proposals especially for those who have not handled the agencies.
- Speed is normal. BISS helped in the process.

- There were increases in the budget but went mostly to statutory provisions. Agencies reacts violently, that is why DBM came up woyj APR and SEER to rationalize budget changes (increases or decreases).
- There is much to be done. Changes in policies, especially those that affects program sustainability.
- TF approach employed procedural changes. Transfer of BMB functions to the TF.
- Directors were asked to nominate but there were no specific criteria. Assumption is that the person will be able to undertake the responsibilities, intensity of the work and pressure and is physically prepared.
- TF approach was basically a top management decision. Discussed during a directorate meeting though mentioned during previous meetings. Guidelines not yet defined but will be done by the TF. It was assumed that BMBs will be part of the process.
- Approach in the interest of expediency of budget preparation. Facilitated expediency, closely knit group (TF), coordination is close compared to many BMBs.
- However, approach missed comprehensiveness and depth of evaluation, because members are not exposed to the sectors that they are reviewing. Limited exposure to both management and operations side. Levels of evaluation may ensure comprehensive review but cannot substitute the wisdom of the collective (BMB) group.
- Budget execution functions were not sacrificed, before budget requests were set aside, thus the approach benefited the clientele.
- TF was perceived to be personalistic in the selection of the members. Some were rejected. Qualifications were questioned.
- TF has limitations. Need for a sense of permanency. Knowledge on the agencies, preparation and exposure in the sectors.
- If you are not brilliant, exposure cannot happen overnight. Wisdom, analytical skills is needed especially at the higher levels.
- Most of the feedback and issues on the TF are offshoots of the management style.
- Personally, not satisfied with the degree of consultation, teammanship.
- There were no written guidelines, even if there is, it can still be done in the manager's way.
- Ceilings were already set but the BMBs were not informed.
- Representation of BMBs – source of sour points. Resentment from BMBs because nominees are not taken in.
- Since the approach is experimental, downsides are expected.
- Everything is not only about getting a job done, as it may not work the next time around (long-term).
- Suggestions: principle is okay, should be institutionalized, should have a sense of permanency, the team should do nothing but budget preparation.
- The TF was implemented late already.
- There was inadequate preparation for the shift.
- There was no framework on how to shift to the TF approach. The budget call was not even designed for this.
- Even agencies were not warned because management did not think that they should be warned.

- Timing and information dissemination were not sufficient.
- Participation of the BMBs was a ticklish issue because there was no clear definition of the participation.
- There was a perception that operations group will be completely out of the picture, even at Congress (before) but in the preparation of the budget, the TF realized that they need pieces of information and the participation of the operations group. There should be a semblance of continuity.
- There were only several instances that the participation of the BMBs was called upon.
- Agencies were surprised of the composition during the budget hearings because they used to see BMBs as chairs or co-chairs.
- TF was not very much familiar with operations. BMBs are called on to ask more relevant questions on substance during hearings, in terms of extracting more information from the agencies.
- TF members do not necessarily have a background of the sector/agency, which doesn't always ensure objectivity.
- Inputs from the BMBs were limited on those issues that are brought up. It was one-sided.
- Representation from each bureau is to equalize representation, but will not necessarily represent BMBs to TF or will handle BMB agency.
- Agencies walang makausap
- The approach made BMBs concentrate on budget execution functions.
- Budget details are not clear to the implementing BMBs. Not disclosed.
- There should be continuity. How to maintain integrity.
- Level of communications, not very inadequate.
- There was a one-month delay in the submission of the budget to Congress.
- There was check and balance in the approach as TF prepares and the BMBs execute the budget. Objectivity level is maintained. Quality of budget releases is improved.
- Continuity should be ensured. Line of communications should be open. It should not be seen as competition.
- Lay-down the framework and define the guidelines. What should be done; sharing of information; inquiries from agencies and budget hearings.

**Comments on the Task Force Approach to Budget Preparation
From Selected Agencies**

Department of Finance

1. What can you say about the budget preparation process for the FY 2003 Budget? Did you notice any changes/improvements?
 - (BoC) DBM always cut our budget proposal; hence proposal from the agency is unnecessary. No matter what justification we submit, they always have the final say.
 - (BLGF) Our budget were based on the FY 2002 levels
 - (BIR) The same as in previous years
2. Did you notice any changes in the budget execution functions of DBM? e.g. were transactions with DBM Bureaus better?
 - (BoC) The release of retirement and terminal leave benefits takes a month or more to process that retirees get impatient; Delayer release of funding, e.g. the release of allotment for the 4th quarter was withheld pending the result of the 1st semester APR but the release of said allotment took so long and was only released in December instead of an earlier time. This resulted to the delay of payments of claims.

Department of Health

Interview Notes on Budget Preparation

- They were not formally informed by DBM that their budget proposals would be reviewed by another group of people. They said that incidental to their transactions with BMB-B, they were informed by the Chief BMS handling the DOH that someone else will review their proposal. They say that this added another layer of work as they still have to orient the specialist on the department and explain anew their programs. They also said that the specialist used their 2000 P/A/Ps, thus, most of the items under DOH as printed in the 1st draft of the NEP were entirely different from what they proposed. These were revised several times.
- They suggested that in order to tie up the physical and financial operations planning of agencies, (which they consider as critical), budget ceilings should be provided before agencies will conduct their annual planning exercises. The problem, according to them, is that agencies are forced to redo their plans because budget ceilings are usually given late, and worse, usually below what they used for planning purposes. They said, citing this year, that they haven't received any news on their ceilings for FY 2004.)
- They said that there should be some predictability in the setting of budget ceilings. While the President's priority programs include health services, their sector is not provided with the same level of support from DBM. Example, last year, their budget was cut by P900M, so most of their programs were scrapped. (It seems also that R & D functions are compromised).

- They consider the Pre-TBH as okay as this streamlined the TBH proper.
- They did not notice any significant improvement in their transactions with DBM (releases) from Jan-July of last year, when the BMBs were relieved of their budget preparation assignments. DOH said that they still experienced delays in their budget releases, e.g. April budget requests despite on time submission were given on September already. (Remark: may be attributed to cash problems not organizational or human resource issues).
- They suggested that the DBM should employ activity based budgeting so that cost may already be computed and standardized. They relayed that Dir. Bumatay (BMB-B) suggested that the DOH should have a small number of P/A/Ps, say six (6) for the entire department so that they may have greater flexibility. However, there are still no concrete efforts on this idea.
- They asked what the DBM is doing with their requirement of 3 year budgeting process when they, in reality is deviating from it, e.g. non-predictability in budget ceilings. Also, they suggested that budgeting for some programs should be long-term to ensure steady flow of resources. They say that while some projects are good, their impact can only be felt for some time (e.g. 5 years), so if funds flow can not be ensured or predictable, these will likely suffer from budget cuts, thus rendering the entire project a waste of resources.
- Attendant to this is the need to educate the Congress on budgeting and its review process.
- Generally, they think that the budget process did not improve.

Department of Finance

1. What can you say about the budget preparation process for the FY 2003 Budget? Did you notice any changes/improvements?
 - (PAO) No changes/improvements; the agencies are given short period in the preparation of FY 2003 budget
 - (PAO) Alright, but the expense/object codes do not conform with the NGAS, thus causing a lot of adjustments
 - (PPA) No Changes
 - (BuCor) n/a
 - (BuCor) The budget ceiling given to the agency is disregarded; priorities especially in the MOOE and CO were not taken in consideration; Actual no. of prisoner (inmate population) was used in the computation of prisoner subsistence, e.g. the figure as of Aug 2002, 24,500 was used when the actual number as of Dec 2002 was 25,000 – and the number that should be considered given a 15% trend should be 26,500.; terminal and gratuities (retirement) were not included in the NEP, given by DBM
 - (BuCor) Budget cut
 - (BI) Time frame for budget preparation is shorter
2. Did you notice any changes in the budget execution functions of DBM? e.g. were transactions with DBM Bureaus better?
 - (PAO) Release of allotments/NCA – not favorable to agencies
 - (PAO) Yes, now but budget analysts are sometimes rude to the agency
 - (PPA) None
 - (BuCor) n/a
 - (BuCor) our relationship with DBM is okay

- (BuCor) I don't think so
- (BI) Its harder to request funds, maybe because of the financial constraint the government is presently undergoing.

Armed Forces of the Philippines

1. What can you say about the budget preparation process for the FY 2003 Budget? Did you notice any changes/improvements?
 - (PAF) Sorry, I am not aware of the TF
 - (PA) the grouping/clustering achieved better focus; better rapport
 - (GHQ) The TF approach helped in the classification of military operations/priority activities for the DBM. We appreciate the good working relationship with the DBM staff during the budget process.
 - * But they were unanimous in saying that they had difficulties in making the analysts/specialists understand the operations of the AFP, and when they finally do, they are transferred to other agency assignments.
2. Did you notice any changes in the budget execution functions of DBM? e.g. were transactions with DBM Bureaus better?
 - * *They did not notice anything new. Same budget specialist reviewed their proposals*

Interview Notes:

- On the TF approach, they think that the specialist that should review the proposals should have specialization on the sector/agency being reviewed.
- No feedback on the decisions and reasons for budgetary levels. They suggested that there should be some mechanism to inform the agency.



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PHI / 02 / 009 CIVIL SERVICE AND ECONOMIC MANAGEMENT:
*ENHANCING INSTITUTIONAL CAPACITIES TO PROMOTE
PUBLIC ADMINISTRATION AND FISCAL REFORMS*

Documentation of Reforms in the Department of Budget and Management (DBM) – Evaluation of the DBM Agency Performance Review

FINAL REPORT

April 2003

Executing/Implementing Agency:



Department of Budget and Management

Evaluation of the DBM Agency Performance Review

Prepared by the
Development Academy of the Philippines

Introduction

The Department of Budget and Management (DBM) is currently implementing the Public Expenditure Management¹ Improvement Program (PEMIP), a reform program that aims to achieve aggregate fiscal discipline, allocative efficiency and operational efficiency in government spending. The PEMIP has the following elements: the MTEF, the SEER and the OPIF.

The **Medium Term Expenditure Framework (MTEF)** addresses underestimates in the budget that often lead to unplanned but unavoidable expenses that disrupt public expenditure programming. Using a three-year planning framework, the activities and expenditures for the subsequent years are better anticipated and planned for, thereby increasing the likelihood of the government spending within budget.

The **Sector Effectiveness and Efficiency Review (SEER)**, a component of the MTEF, facilitates the identification of outcome-oriented public investments. It allows the establishment (and updating) of strategic priorities for the medium-term by identifying the desired outcomes and the outputs that will produce the outcomes. Under the SEER, the programs and projects (P/A/Ps) are assessed and prioritized as to their relevance in efficiently and effectively producing the major final outputs (MFOs).

The **Organizational Performance Indicator Framework (OPIF)** addresses the lack of performance focus by clarifying what the government agencies are accountable for delivery to the public (or their clients). Performance targets using outputs that contribute to desired outcomes of the agency are identified as well as appropriate indicators of performance in terms of cost, quality and timeliness. Comparing costs with performance targets also promotes the determination of cost-effective ways of delivering the services to the agency's clients. Refocusing the outputs for which the agencies are accountable and the indicators that will be examined will hopefully change the way the agencies deliver their services. Using the OPIF framework, it is also expected that agency performance management systems and performance assessment mechanisms will be reoriented to focus on appropriate outcomes and outputs.

In the process of implementing these reforms, the DBM has developed an **Incentive Structure** where the agencies that are able to fulfill performance targets can have the

¹ PEM is a public sector-resource allocation system that gives reasonable assurance that new expenditures approved for a budget year can be funded over the medium-term and that expenditures oriented towards achieving the desired outcomes will be accorded priority in the allocation of budget.

flexibility to realign programs within budget items and to use savings from P/A/Ps to develop new programs.

To emphasize budget accountability and push forward the reforms towards performance-based budgeting, the DBM introduced the **Agency Performance Review (APR)** in 2002. The APR addresses the need to monitor whether agencies are performing vis-à-vis their plans and to evaluate the level and reasonability of agency expenditures.

Using the APR, the DBM examined the physical, financial and income accomplishments of agencies during the first semester of FY 2002 and based on the results, determined the amount of remaining appropriations to be released to the agencies. The APR enabled the DBM to better allocate funds to national agencies and to some extent, raise their consciousness on the need to harmonize MFOs and identify more appropriate performance indicators. The APR process was not easy though and the results were mixed.

As part of the evaluation of the APR, the DBM engaged the services of the Development Academy of the Philippines (DAP) under the UNDP Governance Portfolio to document this of reform initiative and identify lessons that can be adopted for the succeeding reviews.

Objectives

The project aims to assist the DBM in pursuing reforms in public expenditure management by documenting the processes, lessons and experiences from the conduct of agency performance reviews. The findings of the project will be used to refine the design and implementation strategy of the APR process by systematically analyzing and learning from the initial experiences.

Approach and Methodology

The APR in the context of the PEMIP can be viewed as a tool to push for reforms in public expenditure management. As such the approach employed in the documentation and assessment of this reform initiative was based on two perspectives:

- as a **strategy for reform**, i.e. the potential of the APR as a mechanism to support reforms under the PEMIP; and

- as a **performance review mechanism**, i.e. its accuracy and reliability to determine the performance of agencies.

The data for the project was gathered from the implementors of the APR: the DBM operations personnel and the selected agency personnel concerned with submitting the required data. A questionnaire was given to the DBM operations personnel and regional offices to solicit feedback regarding their experience in implementing the APR, and their suggestions for improving the process. Focused group discussions were held with DBM bureaus in charge of four selected agencies (DOH, DOJ, DOF and AFP) on their issues, concerns and suggestions regarding the APR. The FGDs also yielded detailed

documents on the agency submissions and the APR results for the selected agencies.

Interviews with personnel from the four selected agencies were also made, particularly with those in charge of preparing the agency submissions and those that had to interface with the DBM in the conduct of the APR. Table 1 lists the number of respondents for the questionnaires, interviews and the FGDs.

Table 1:
Respondents to the Data Gathering Process

Agencies	Interview	Survey
DBM		
BMB A	11	34
BMB B	9	
BMB C	5	
BMB D	10	
BMB E	11	
Undersecretaries	3	
NCR	2	4
RO III		1
RO IV		
RO VI	2	3
RO VIII		4
RO XI		4
RO XII		5
Agencies		
AFP	19	
DOF	22	
DOH	4	
DOJ	15	
TOTAL	113	56

Objectives and Components of the APR Process. The agency performance review covered the measurement of the physical, financial and income performance of the agencies. Income performance was especially important in the review of agencies that had such mandates. The APR intended to:

1. Determine whether agencies are on track in their implementation of their work and financial plans and determine reasons for any deviations;
2. Determine whether agency expenditures were reasonable and allowable under existing laws, rules and regulations; and
3. Determine whether to release to the agency the 25% balance under "for later release."

The APR is also expected to produce the measures and assessment of agency performance using indicators of cost, quality, quantity and timeliness of services or

goods produced as well as identify areas where agency performance should be improved. From the information generated through the APR, the costs of services and goods produced can be determined as well as recommendations for services and costs standards.

At this initial stage of the reform process, the APR can provide insights on the extent that agency performance management mechanisms and operations support performance orientation in the agency, e.g. if agency targets are performance-based or if incentives are provided for good performance or sanctions are made for underperformance.

The APR process is broken down into the following phases: preparatory, performance assessment, agency consultation, and preparation agency performance report.

The **preparatory phase** of the APR involved understanding the agency mandate and operations, performance measurement system and consistency of the submissions with the OPIF elements. The agencies with the NEDA and the DBM through the SEER and using the OPIF, are supposed to identify and harmonize the MFOs that the agencies are accountable for. The next step is to identify appropriate performance indicators on service quality, quantity, cost and timeliness for the harmonized MFOs. Since very few of the agencies have harmonized MFOs when the 1st APR was conducted, the DBM had to consider whatever was submitted by the agencies.

Guidelines were issued in the conduct of preparatory activities. These include:

- a. Understanding agency mandate, operations and performance management systems;
- b. Reviewing the appropriateness of MFOs against agency mandates and target sector outcomes;
- c. Reviewing P/A/Ps and their relevance or non-relevance to the MFOs and assign weights to the relevant P/A/Ps. Done in consultations with the agencies, the weights are intended to provide the relative importance of the PAPs to the overall accomplishment of the agency. The selection of major outputs/activities and the assignments of corresponding weights are to be approved by the BMB Directors.
- d. Reviewing the appropriateness of agency performance indicators against MFOs and target sector outcomes, including the methodology used for collecting data and computing the measures. It should be noted that quantity targets were already identified and planned for during the budget preparation stage for the concerned period and had to be used as basis for assessing performance. Also pertaining to the appropriateness of performance targets, review of prior years reports and other relevant materials are also suggested to establish trends.

Agencies with similar operations were to be grouped together to facilitate the understanding of performance measures and the assignment of weights. The parameters for a good performance measurement system were given as:

- Results-oriented: focuses on outputs and outcomes
- Selective: concentrates on the most important indicators of performance
- Useful: provides information of value to the agency and decision makers
- Accessible: provides periodic information about results
- Reliable: provides accurate, consistent information over time

In the APR guidelines, the GASS and Support to Operations are given a maximum weight of 40% while operations and Projects are given 60%.

The **assessment of physical performance** made use of these MFOs, indicators, weights and targets in measuring performance against the targets identified in the budget preparation process. High ratings were given to agencies with high achievement rates.

The **assessment of financial performance** compared agency expenditures(and obligations) against allotment for the period covered, subject to explanations or exceptions (e.g. exceeding allocation as in DPWH infrastructure projects or under-obligations as in the case of DOH procurement). The physical accomplishment was also compared with the expenditures and explanations were asked for variances. Weights were also assigned to the activities and used for the computation of the overall income performance. Low ratings were given to agencies that exceeded their allocations.

The **assessment of income performance** was made by comparing the actual collections and the income targets of the agencies. Weights were also assigned to the activities attribute to income generation.

Computation of **overall performance** was made using the following weights for physical, financial and income performance:

For agencies without income-generation mandates:

Physical Accomplishment	60%
Financial Accomplishment	40%

For agencies with income-generation mandates:

Physical Accomplishment	30%
Financial Accomplishment	20%
Income Accomplishment	50%

Explanations were asked for **performance variances** of 5% and above including plans or explanations on how the agency intended to address the negative and positive variances. The rating system used for physical, financial and income performance is found in the table below (Table 2).

Table 2: Performance Rating System

Rate of Accomplishment	Physical		Financial		Income	
	Qualitative ²	Points	Qualitative	Points	Qualitative	Points
110-120%	O	5	P	1	O	5
100-109.9%	VS	4	F	2	VS	4
90-99.9%	S	3	S	3	S	3
80-89.99%	F	2	VS	4	F	2
Below 80%	P	1	O	5	P	1

Agency consultations were made to agree on the outputs and activities to be measures and the weights that will be assigned to each. For the consultations, the specialist was asked to prepare the following:

- A worksheet showing the major P/A/Ps, performance indicators, target and actual accomplishments, among other things, that will be used in the evaluation;
- List of questions to clarify performance indicators, measurements used, reasons for reported variances, calculations used, etc
- List of questions that will test the accuracy of the reports; and ,
- Prior years reports to help establish trends and other relevant materials.

The results of the APR were captured in an **Agency Performance Report**, highlighting the following points:

1. Background
 - Major Final Output or P/A/Ps covered
 - Agency targets for the period
 - Budget and actual costs for the period
 - Other information
2. Objective of the review
3. Summary of findings
 - Agency performance based on tabulated scores and ratings
 - Explanation of major deviations
 - Measures to be taken by the agency
4. Recommendations
5. Agency's comments

Lessons Learned, Issues and Concerns

Further analyzing the APR reveals certain reform components that can be attributed to the PEMIP namely:

Promoting performance orientation in agencies using the OPPIF and SEER. The preparatory phase where the DBM critiques the MFOs, PIs, P/A/Ps and the weights assigned to the

² Legend: O = Outstanding, VS = Very Satisfactory, S = Satisfactory, F = Fair, and P = Poor.

P/A/Ps provides an opportunity for identifying and documenting dysfunctions in the agency operations and for providing normative recommendations.

Instilling fiscal discipline and operational efficiency. The APR process can instill fiscal discipline by rewarding or sanctioning agencies' financial performance. Data from the APR can also be used to determine the operational efficiency of the agency.

Facilitating learning and reforms of agencies through incentives. The results of the APR can also serve as basis for teaching or encouraging the agencies to take advantage of the incentives being offered by the DBM.

Benchmarking of agency performance. Results of the APR can also be used to rank agency performance and even develop indices that can be used to compare agency performance and encourage competition among them.

Feedback to DBM and documentation of lessons and good practices in the implementation of agency reforms. Lastly, the APR can capture the efforts of the agency to reform their operations as well as the feedback from the agencies regarding the reforms being implemented by the DBM.

A. Lessons from the 1st APR

Based on their experience in implementing the APR, the DBM personnel identified lessons and insights on the usefulness of the APR mechanism.

The APR provided a framework for an agency performance review mechanism that is output and outcome based. While it is not in its perfect form, the APR was able to convey the message to the agencies that the DBM is serious will link performance with the release of budgets.

The APR was able to create a greater sense of accountability among the agencies. The fact that through the APR, the release of agency budget was made contingent on the accomplishment of targets, increased the accountability of agencies for performance. The agencies realized that they have to answer to DBM for certain outputs and outcomes.

The APR provided a mechanism provided for instilling fiscal discipline among the agencies. The APR gives a message that sanctions or rewards will be made as a result of financial performance. Sanctioning poor financial performance---

DBM gained a deeper understanding of agency operations. Through the APR the DBM was able to clarify the nature of agency P/A/Ps and the extent that these were consistent with the MFOs and Performance Indicators. Agencies were also provided a venue for clarifying budget policies.

B. Issues and Concerns

The items below include the concerns of the DBM personnel and the agencies in the conduct of the APR. These can be viewed as areas for improvement in the conduct of the next APR.

Consistency of APR parameters with the OPIF. The extent that the APR is able to identify gaps in performance is contingent on appropriately defined MFOs, performance indicators, targets and weights. Appropriate OPIF parameters also provide the reform framework by which the agencies can be more performance oriented. A unanimous concern of the DBM personnel is that the parameters used by the agencies are not consistent with the OPIF framework. The MFOs used by the agencies were not harmonized and for the agencies that were interviewed, the MFOs recommended by the DBM were not appropriate to their agencies and operations.

Performance indicators were either too many in the effort of the agencies to include one for all the P/A/Ps or too few and insufficient to measure performance for those who attempted to simplify the indicators. Most were also activity or input based instead of outputs or outcomes. With the exception of the DOH, the agencies did not have timeliness and quality indicators. Inconsistency of indicators across similar units in an agency were also observed (e.g. DOH hospitals). In the case of the State Universities and Colleges, there was an effort at the regional level to meet with the SUC Presidents to identify indicators, which can be used by all the SUCs.

The agencies initiated the identification of the P/A/Ps that contribute to the MFOs and the assignment of weights to it. It is expected that the agencies would want all their current P/A/Ps to be considered as critical to the MFOs. The DBM personnel mentioned the need for capabilities to do program review in order to assess the relative importance of the P/A/Ps to the MFOs.

Performance targets were identified and planned for in the budget preparation phase of the period covered in the APR and therefore had to be used. Historical data were used by the agencies in computing the targets. Since most of the targets were based on the performance indicators suggested by the agencies, these were also activity or input measures. The limited information on the factors that can account for targets (e.g., production capacity, costs/output) made the target setting vulnerable to manipulation by agencies that understated their targets to obtain a high performance rating.

Since this was a new undertaking for the DBM personnel, they felt that they lacked the confidence in critiquing the agency submissions and needed more capabilities and time to critique the OPIF parameters. There was also no opportunity to provide feedback to the agencies on the results of the assessment. This is area where more guidance and mentoring are needed by the DBM personnel. Sharing of experiences or a debriefing exercise among the DBM personnel is also useful to enable them to learn from each other.

There was also a mismatch in the issues raised in the DBM and those in the agencies that received the feedback. Most of the discussions on the APR were made between the DBM operations personnel and agency personnel responsible for budgeting and planning. Beyond the concern on the release of remaining agency allocation, issues on the revisions to the MFOs and performance indicators implied changes or refocusing of agency operations, decisions that can only be made or sponsored by the heads of agencies. Another point that has to be considered is that revisions to the MFOs and performance need more time, if it is to be done properly since it will require agency wide and client consultations, and review of agency operations. Finally, changes in the MFOs and performance indicators have to be reflected first in the budget preparation phase,

before it can be considered in the APR. Parallel efforts may be taken by the agency to act on the recommendations on how to refine OPII parameters in preparation for the next budget preparation.

Assessment of Performance. The other set of issues have to do with the methodology for assessing physical, financial and income performance. The DBM personnel cited the difficulty of validating the performance data submitted by the agencies. Questions are on cost-effective ways to validate data submitted by agencies. Suggestions were made on the need for ocular checks to verify accomplishments of targets. Sources of data for verification have to be considered in defining performance indicators.

The methodology did not specify links between financial performance and physical performance (and with income targets). Aspects of this are the cost effectiveness of the agency operations in attaining the targets and the quality of outputs produced. Other issues include understatement of physical targets leading to over performance – this also due to the lack of idea on the production capacity of the agencies given their resources. Some agencies also included income targets even if their mandate is not on revenue generation. An example given was whether the Bureau of Immigration and Deportation had to have income targets.

Feedback from agencies. Selected agencies were also asked regarding their feedback on the APR process. Generally they consider the APR as a positive development and agree the idea of making agencies more accountable for performance.

Department of Health. There were four interviewees from the DOH Central Office coming from the Policy and Planning Bureau, the Budget Division and Operations Units. The DOH CO and selected hospitals have started using harmonized MFOs in their annual Planning Framework and within their reform agenda. The DOH also mentioned the difficulty of Regional Offices appreciate and understand the process of formulating their MFOs because of technical capabilities.

Regarding performance indicators, the DOH mentioned the difficulty of formulating indicators for some of their activities (e.g. research and technical assistance) especially those that they share with the LGUs.

The priorities of the Secretary and the agenda, the Health Sector Plan, international commitments and past performances were considered in assigning weights to P/A/Ps and target setting.

The DBM did not give comments or had questions regarding their MFOs and performance indicators during the agency consultation. There was also an inconsistency in the MFOs and PIs presented by the DOH and those used by the DBM in the APR. Apparently, the MFOs and the PIs of the DOH have been updated.

In spite of these difficulties, the hospitals under the agency have similar MFOs and performance indicators. The performance reports of the DOH agencies are consolidated at the Central Office. In terms of financial performance, the DBM tend to look at utilization but did not consider the low utilization rate was because the bulk of agency procurement happened during the second semester.

In spite of the Very Satisfactory rating of the agency, 90% was released of their remaining budget instead of 75%. Still, this will result in a reduction of the budget across all programs.

Armed Forces of the Philippines. The nineteen(19) interviewees from the AFP came from the General Headquarters (GHQ), Philippine Army (PA), Philippine Air Force (PAF), Philippine Navy (PN), Philippine Military Academy (PMA), AFP Medical Center (AFPMC) and the Presidential Security Guard (PSG). In the preparation of the APRs, the AFP conducted a Program Performance Review Assessment (PPRA), a command conference attended by major unit commanders to determine recommendations; functional conferences/meetings to gather total output of every functional program (such as personnel, intelligence and operations), submission of financial reports by accounting and finance services and the conduct of internal audit. The indicators submitted to the DBM were similar to the indicators used in the PPRA.

The considerations in the formulation of the MFOs, PIs and target setting were the thrusts and mission of the AFP that varied based on the requirements from the agency, the specific functions of each of the offices and the planning guidelines set by the AFP.

The interviewed mentioned that there is a need to establish performance parameters that are responsive and suitable to the AFP as a whole. The agencies under the AFP complained that the MFOs proposed by DBM and NEDA were not appropriate to their mandate and the nature of operations (e.g. there are no services provided to the public by the Philippine Military Academy, military hospitals have a different function than government hospitals). Given this, they expressed apprehensions of getting negative results and therefore reduced budget in the next APR. The suggestions from the AFP are for the NEDA and the DBM to have a workshop to jointly identify the MFOs.

They agreed that the APR is a good tool in evaluating agency performance and in defining the agency's role in the development of the country. According to the interviewees, the APRs were also disseminated to sub-units and used in the formulation of the annual operating program.

Department of Justice. There were fifteen (15) interviewees representing the Department of Justice(DOJ), Public Attorney's Office (PAO), the Parole and Probation Administration (PPA), Bureau of Corrections (BuCor) and the Bureau of Immigration (BI). The activities of the agency in the preparation of the accomplishment reports involves the submission of the accountability reports such as the Statement of Allotments and Obligations(SAOB), gathering of data from regional/district levels; consolidation of the reports, using targets from the Bureau of Immigration Performance Evaluation System (BIPES) and the data from the Strategic Action Planning exercise.

Considerations are the mandate, functions and operations of the agencies and a 5% increase in targets. For the BI, the MFOs were taken from those identified by the NEDA and the DBM and confirmed by the agency head.³

³ Bureau of Immigration MFOs were confirmed by Commissioner Domingo in a letter dated January 6, 2003.

The distribution of weights was also different for each office.

PAO: only one MFO was used

PPA: performed by the DBM based on the agency's report

BuCor: based on the rehabilitation mandate of the bureau

BI: based on actual performance targets and on the budgetary requirements of the bureau.

The strengths of the APR were that it provided a mechanism to control the budget releases, it allowed for the participation of NEIDA in performance assessment, it simplified performance measures by focusing on the MFOs and served as a basis for the 4th quarter release.

Weaknesses identified were that the reports submitted were not reviewed thoroughly by the agencies, the agency was not yet well versed in the APR process and that not all the agencies had planning officers who can prepare the reports.

Uses of the APRs in the agencies under the DOJ were for monitoring of compliance with targets, performance indicators for the agencies and used by management as basis for monitoring performance of each division.

Department of Finance. Interviewees were representatives from the Office of the Secretary (Osec), Bureau of Treasury (BTr), Bureau of Internal Revenue (BIR), Bureau of Local Government Finance (BLGF) and Bureau of Customs (BoC). Activities for the preparation of the agency submissions involved coordination with different operating agencies/offices for report consolidation. The bases for formulating the MFOs and the PIs were outputs from strategic planning workshops, soliciting clients' expectations, review of mandates and the priorities of the administration (SONA). For the BLGF, the MFOs were based on priority thrusts and key result areas, which were identified in an annual joint conference. The team was not able to get the basis for distribution of weights.

The DOF personnel found the MFOs and PIs a good instrument to measure performance. The BLGF mentioned that they did not know whether their targets were acceptable nor the criteria used for evaluating the targets. He added that there was no evaluation of the targets before the APR and that these should have been agreed upon between the agency and the DBM.

The agencies interviewed considered the APR as a good mechanism for performance evaluation. However, they had difficulty in formulating the MFOs and the performance indicators. They also articulated the need for feedback and guidance from the DBM regarding their submission, specifically on the quality of MFOs and PIs that they have submitted.

On the part of the DBM, there is a need to deepen their understanding of agency operations and the performance measurement systems, particularly **areas where these have to be consistent** with the OPIF framework.

Another area for development is how the agencies can be encouraged to use the incentives offered by the PEMIP.

Capacity Building Needs. Both the DBM operations personnel and the agencies identified the following areas where they needed more training:

For the DBM

- Familiarization with agency operations and performance management system
- Evaluating MFOs and performance indicators
- Evaluating P/A/Ps and contribution to MFOs
- Criteria and guidelines for assigning weights and setting targets
- Sharing of experiences and learnings from the first APR

For the Agencies

- Orientation on the APR process
- Formulating MFOs and performance indicators within the agency
- Reviewing P/A/Ps and their contribution to the MFO
- Assigning weights and setting targets

C. Analysis of Results

In order to check what transpired during the reviews and how the results were used both by DBM and the concerned agencies, the DAP project team conducted a detailed analysis of the APR results. The exercise provided both the project team and the BMBs an opportunity to revisit the activities carried out during the performance reviews, check consistency of approaches employed by the BMBs and ROs, identify good practices that can be adopted by other groups with an end in view of “standardizing” reviews. The analysis also surfaced areas for improvement of the review instruments and processes as well as the skills necessary to undertake a sound evaluation.

The findings in this section can provide insights on the weaknesses of the APR process, its limitations and areas where it should be tightened. The kinds of behavior or tendencies that are encouraged by the current set-up, the kinds of outputs produced. It should also show the areas requiring check and balance.

Due to time and resource constraints, the analysis was done only for selected agencies. These are the Department of Justice (DOJ), the Department of Health (DOH), the Department of Finance (DOF), and the Armed Forces of the Philippines (AFP) and their attached offices.

Analysis of the APR Results of the Department of Justice and attached offices

In the case of DOJ, the agencies covered were:

- Office of the Secretary (OSEC)
- Bureau of Corrections (BuCor)
- Bureau of Immigration (BI)
- Commission on the Settlement of Land Problems (COSLAP)
- Land Registration Authority (LRA)

- National Bureau of Investigation (NBI)
- Office of the Government Corporate Counsel (OGCC)
- Office of the Solicitor General (OSG)
- Parole and Probation Administration (PPA)
- Public Attorney's Office (PAO)

Below is the summary of APR rating of these agencies.

Table 3: Summary of APR Rating of DOJ and attached agencies

Agency	Physical	Income	Financial	TWS	Rating	Est. Savings
OSEC	3.89	-	1.84	3.07	VS	37,867,497
BuCor	4.33	-	2.6	3.10	VS	1,395,282
BI	4.93	4.0	2.6	4.0	O	709,656
COSLAP	4.05	-	3.82	3.96	VS	1,908,600
LRA	4.5	1	1.3	2.11	S	No figure
NBI	4.11	5	2.85	3.733	VS	1,893,336
OGCC	2.8	-	3.0	2.88	S	None
OSG	2.6	-	2.0	2.36	S	None
PPA	3.88	-	2.6	3.37	VS	None
PAO	3.26	-	3.8	3.48	VS	38,523,793

The Bureau in-charge was able to complete the agency performance review for DOJ and nine attached agencies. In the case of these agencies, the performance evaluation was conducted following the prescribed guidelines. A common format for the APR report was adopted across agencies making it easy to compare findings.

DOJ and its attached offices generally had satisfactory to very satisfactory performance evaluation. The Bureau of Immigration that garnered an outstanding rating (Table 3). BI also got the highest weighted score (4.93) on physical accomplishment. The Office of Solicitor General got a lowest rating for physical accomplishment (0.60). COSLAP got the highest weighted score on financial accomplishment (3.82) while LRA was given the lowest rating (1.3). NBI got the highest score for income accomplishment (5.0). LRA got low rating (1.0) for income accomplishment.

Except for the Office of the Secretary, the major final outputs of the nine agencies were stated in the reports. Many of the MFOs are not yet harmonized with DBM and NEDA(Annex 1).

For convenience, the Bureau depended on the agencies to identify the P/A/Ps and the performance indicators of MFOs. While it had its own idea which outputs of the agencies are important, the Bureau relied on concerned agencies to prioritize their outputs. The resulting prioritization became the Bureau's basis for assigning weights to physical and financial accomplishments.

In the assignment of weights for physical accomplishment, GASS and Support to Operations was given a weight of 40%. The weight assignment is consistent with the

guideline. What is notable though is that all agencies got the same weighted score i.e. 2.0, for GASS and Support to Operations. Physical accomplishment of Operations was assigned a weight of 60%. The assigned weight was divided per major output and further subdivided per performance indicator. See Annex 1.

Many performance measures focused on quantities (e.g. number of accomplishments, number of cases, number of admissions). Dimensions of quality (e.g. disposition of cases vs. resolution of cases, resolution of cases vs. gravity of penalty meted out) and timeliness (turn around time in resolving cases) were not apparent in the evaluation. Agencies tended to supply many indicators though some of the indicators are not mission-critical indicators.

Financial evaluation was somehow limited to actual obligation vs. allotment release. Cost effectiveness was not taken into consideration. This could perhaps be done by comparing data on physical accomplishment and financial report e.g. cost per case disposed, cost per admission to witness protection, cost per prisoner maintained / rehabilitated, cost per alien registered, cost per application processed, etc. Since data are already available, comparison of personal services (PS) to total budget, maintenance and other operating expenses (MOOE) to total budget, GASS and Support to Operations vs. Operations can be easily done to check on allocation of funds to mission-critical outputs of the agencies.

The prescribed rating for financial performance encourages savings. Prudence is generally okay but a very high percentage of savings should be viewed critically. The Bureau can take a look at how the agency managed to cut on costs at the same time meeting their targets, without sacrificing the quality. A match should be made between physical accomplishments and financial performance. Classification of agencies based on revenue collection mandate might be needed. The 50% weight assignment to income might unduly disadvantage agencies whose income is demand-driven e.g. LRA.

Except for summary of ratings, it was not practical to integrate the performance evaluation of the entire DOJ due to variations in the performance indicators used. Averaging of agency scores will not also mean anything. What can be done in the future is to check the alignment and complementation of the various MFOs and to adopt a common set of indicators across DOJ and attached agencies for comparison and benchmarking.

Analysis of the APR Results of the Department of Health and attached offices

In the case of DOH, the evaluation covered the seven attached agencies including regional offices and selected hospitals in the National Capital Region and Region IV, namely:

- Office of the Secretary
- Bureau of Food and Drug
- National Quarantine Office
- National Center for Mental Health
- Dr. Jose Fabella Memorial Hospital
- Jose R. Reyes Memorial Hospital

- Research Institute for Tropical Medicine
- Dangerous Drugs Board
- Center for Health Development –NCR
- Valenzuela General Hospital
- Las Pinas District Hospital
- Center for Health Development –IV
- Batangas General Hospital
- Dr. Jose N. Rodriguez Memorial Hospital

Table 4: Summary of APR Ratings of DOH and attached agencies

Agency	Physical	Income	Financial	TWS	Rating	Est. Savings
OSEC	3.609	-	4.0555	3.7876	VS	None
BFAD	1.7	5.0	5.0	4.0	O	None
NQO	4.0	5.0	2.0	4.1	O	None
NCMH	3.0	5.0	3.0	4.0	O	None
Fabella	3.0	1.0	3.0	2.0	S	None
JRRMH	3.15	4.0	3.0	3.55	VS	None
RITM	5.0	2.0	4.0	3.3	VS	None
DDB	2.0	5.0	2.0	3.5	VS	None
CHD-NCR	4.0	-	4.0	4.0	O	None
Valenzuela	4.52	5.0	5.0	4.808	O	None
Las Pinas	5.0	4.0	5.0	4.6	O	None
CHD-IV	3.65	-	4.0	3.79	VS	1,206,000
Batangas	4.1	5.0	3.0	4.33	O	None
Rodriguez	4.23	5.0	2.0	4.19	O	None

Many of the DOH agencies studied got an overall rating of outstanding. Based on the results, the lowest performer among these agencies is Dr. Jose Fabella Hospital that obtained a satisfactory rating (Table 4). In terms of physical accomplishment, the Research Institute for Tropical Medicine got the highest rating (5.0) among the agencies and the Las Pinas District Hospital (5.0) among the hospitals. Many agencies likewise obtained outstanding rating for income accomplishment (Table 4).

While DOH had already formulated its MFOs at the department level, these need to be cascaded to regional offices e.g. CHD-NCR. MFOs. The performance indicators of some agencies also need refinement. See Annex 2. In evaluating the physical accomplishments of the DOH and attached agencies, the Bureau in charge included only the Operations since GASS and Support to Operations were considered not measurable. RO IV also did not take account of GASS and Support to Operations in assessing physical accomplishments. But in the case of RO-NCR, GASS and Support to Operations was incorporated and given a weight of 25%. Some agencies oversupplied the Bureau with performance measures. For example, DOH-OSEC had about 187 performance indicators for its 18 P/A/Ps. Indicators were assigned weights proportionate to the weight of MFO supported. Within an MFO, however, all indicators were allocated same weights.

Some disagreements between the Bureau and concerned agencies arose in the evaluation of physical accomplishments. As a rule, good rating is given when actual accomplishment exceeds targets. In case of in-patient days, the opposite may be more desirable. In the case of NCMH, the number of in-patient days decreased (95%) because of the provisions under Acute Crisis Intervention Service (ACIS) in which the service is to observe and treat mental patients through short-term hospitalization within 3 to 5 days period only, thus reducing admission of patients in the general ward. Same observation is made in case of Fabella Hospital. Apparently, the reduction in the number of in-patient days and out-patient visits is attributable to the efficient, prompt and effective ante-natal and post-natal care provided by the hospital to its clientele, especially high risk mothers. Ideally, this should be considered a good accomplishment.

One good practice noted is that within the Bureau or concerned ROs, common indicators and measures were adopted for hospitals, thus allowing comparison to a limited extent. However, performance indicators across hospitals vary widely. For DOH hospitals, the indicators were limited to number of in-patient days and number of out-patient visits. There are no indicators of service quality and timeliness. Refer to Annex 2.

Generally for hospitals under RO-NCR, the following indicators were used: in patient days, ER patients served, out patients served, preventive / promotive programs, blood units, net death rate.⁴ There was no data however on which to base assessment of net death rate. For hospitals under RO-IV, the indicators used include quantitative measures such as bed occupancy, number of patients served per 100T MOOE, ER patients per day and measures of quality and timeliness e.g. survival rate, length of stay at ER/OPD. See Annex 2.

Though they have same mandates, the approach used in evaluating performance of two DOH regional offices, e.g. CHD-IV and CHD-NCR, diverged. For one, GASS and Support to Operations was treated differently. In the case of CHD-NCR, GASS and Support to Operations was given a weight of 25% but for CHD-IV, it was not considered. Another variation is in terms of services accounted. RO-IV identified four key services of CHR-IV. Each service with its own set of indicators. In the case of CHD-NCR, in the absence of harmonized MFO, all of these services were lumped under technical services. Only one measure was used for this purpose i.e. aggregated number of services. In the case of GASS, the sole indicator used is the number of Mancom/various meetings.

Agencies generally got outstanding rating for financial accomplishments despite the rather low utilization of funds released e.g. 41% for DOH-OSEC, 55% for BFAD, 67% for CHD-NCR. In case of CHD-IV, the percent ratio of obligations to allotment is 59% and was given a weighted score of 4.0. The RO however noted that the positive variance could not be attributed as savings of the agency. Accordingly, though the physical targets were met, the agency was not able to justify the huge unobligated amount.

Again, the financial performance evaluation was limited to comparison of obligation and allotment. Other measures can be used such as cost per patient, cost per research, etc.

⁴ Net death rate is computed as percent of total death occurring < 48hrs after admission to total discharges including death (which should range between 0.5% - 2.5%)

Except for RO-NCR, the financial evaluation was limited to ratio of obligations versus allotment of Operations.

In the evaluation of income accomplishment, hospitals were treated as agencies mandated to generate income since they are authorized to collect fees. RO-NCR, however, made minor adjustment in the allocation of weights. Instead of the prescribed the weight distribution for income generating agencies in the guidelines, RO-NCR assigned 40% to physical accomplishment, 20% to financial accomplishment and 40% for income accomplishment.

The Bureau recommended 100% release, despite lower entitlement based on review, in consideration of the 4th quarter needs of concerned agencies (e.g. hospitals with peak demand during 3rd and 4th quarters, PS requirements, need to procure medicine). In the case of Fabella Hospital, the concerned Bureau said, "the review does not take into account the seasonality of the demand for the special services of the hospital. Not releasing in full the allotment balance of the hospital due to its performance during the first performance may not be valid since, historically, it is called upon to deliver the most during the second semester of the year." All the agencies covered in the review of RO-NCR submitted favorable written comments after receiving feedback on the results of APR.

Analysis of the APR Results of the Department of Finance and attached agencies

In the case of DOF, the analysis covered the following agencies:

- Office of the Secretary
- Bureau of Internal Revenue (BIR)
- Bureau of Customs (BOC)
- Bureau of Local Government Finance (BLGF)
- Bureau of Treasury (BT)
- Central Board of Appeals Assessment (CBAA)
- Fiscal Incentives Review Board (FIRB)
- National Tax Research Center (NTRC)
- Privatization Management Office (PMO)
- Insurance Commission (IC)

Below is the summary of APR rating of these agencies.

Table 5: Summary of APR rating of DOF and attached agencies

Agency	Physical	Income	Financial	TWS	Rating	Est. Savings PS balance
OSEC	3.6	-	4.0	3.748	VS	
BIR	0.29895	0.49825	0.6777	1.47	Fair	None
BOC	0.76926	1.2821	3.0	2.65	S	None
BLGF	4.0	-	2.6157	3.446	VS	
BTr	4.8	4.5	2.0	4.09	O	
CBAA	2.0	-	0.4	2.8	S	Balance
FIRB	4.0	-	4.0	4.0	O	None
NTRC	4.0	-	2.6	3.4	VS	Portion of MOOE
PMO	1.0	1.0	4.0	1.4	Fair	495,187
IC	4.8	4.2	3.0	4.05	O	None

DOF agencies had uneven performance. Three agencies namely BTr, FIRB and Insurance Commission got an outstanding performance. Two agencies got fair rating: BIR and PMO. Except for BTr, BIR and BOC, MFOs of DOF agencies e.g. BLGF, PMO including OSEC are not yet harmonized.

Performance indicators of the agencies also need to be reviewed. In the physical accomplishment report of OSEC, for instance, a total of 47 pages of activities and performance indicators based on workload of each division were presented. The Bureau in-charge, however, limited the evaluation on the three MFOs. A number of performance indicators selected, though, were not quantifiable e.g. formulation, monitoring and review programs, consultation/meetings attended and reports/position papers prepared, grants/loans reviewed/negotiated/processed. Nevertheless, these were given the benefit of doubt and a rating of 100%.

Per guideline, the physical and income accomplishments are to be treated separately. In the case of BIR and BOC, the physical and income accomplishments were equated with collection efforts. A second look at the reports submitted by BIR indicated some physical targets e.g. intensified conduct of audits, monitoring of LGU remittances, review of big ticket items in the budget, DST metering machine system, improved withholding tax system, redefinition of gross income of PEZA, EPZA, improvement of excise tax administration system, limitations on deductions claimed, expansion of large taxpayers administration. These were not considered in the evaluation.

Similarly, BOC has targets which can be considered in assessing physical accomplishments not evaluated e.g. number of import entries processed, tonnage of goods secured, value of imports processed, number of export declarations, tonnage of goods secured, value of exports processed, no of bonds processed, value of apprehensions/surveillance on smuggling activities, number of shipments recommended for seizure, number of shipments recommended to pay additional duties and taxes. Weights were allocated to collection districts but since revenue target and actual collection can be summed up easily, assigning weights no longer seemed necessary.

For BLGF, the MFO was not clearly identified but a number of P/A/Ps were cited. It was noted that the Bureau gave a score of 4.0 on physical accomplishments out of appreciation of the efforts of BLGF. In rating the physical accomplishment of BTr, some adjustments were made. A higher score was given as the percentage of actual versus target on interest payment and debt servicing decreased. Accordingly, lesser interest payment and debt servicing costs would be more favorable to the national government. The evaluation of financial accomplishment of CBAA was slightly different. Contrary to guidelines, for a lower obligation compared to release, the agency got a lower rating (80%) for financial performance. In a number of agencies e.g. OSEC, BLGF, FIRB, CBAA, NTRC, income was no longer deemed important in the evaluation. For instance, OSEC's income of P1.5M from filing fees for tax and duty exemption taxes was not considered crucial to agency operations.

Difficulty was encountered in the financial analysis for agencies that adopted NGAS account.

Analysis of APR Results of the Armed Forces of the Philippines and attached agencies

For the AFP, the study was limited to the following agencies:

- Armed Forces of the Philippines-General Headquarters
- Philippine Army
- Philippine Air Force
- Philippine Navy

The APR rating of these agencies are shown in Table ---.

Table 6: Summary of APR rating of AFP attached agencies

Agency	Physical	Income	Financial	TWS	Rating	Est. Savings
Philippine Army	5.0	-	3.45	4.4	Very Satisfactory	None
Philippine Navy	4.2	-	1.6	3.16	Very Satisfactory	None
Philippine Air Force	5.0	-	3.0	4.2	Very Satisfactory	None

The Bureau referred to the MFOs harmonized between DBM and NEDA in identifying the items for evaluation. For the Philippine Army, the MFOs as harmonized between NEDA and DBM are: (1) Ground Defense Operations through the identification and neutralization of armed threat groups to maintain peace and order and (2) Army-civilian Operations Services through the conduct of community-oriented programs for public readiness and awareness on national security issues and concerns. The Philippine Army agreed with the harmonized MFOs. However, it was noted that PA needed to formulate and refine further the existing performance indicators to better reflect the quantity and quality of outputs. As presented, many of the performance indicators were statements of work processes, activities and inputs.

For the Philippine Navy, the MFOs as harmonized with DBM and NEDA are: 1) naval defense operations services through the defense of territorial limits, patrol of seashores, intelligence services, maritime law enforcement, and other related naval operations to maintain peace and order and 2) naval civil-military operations services through the conduct of community-oriented programs for public readiness and awareness on national security issues and concerns. It was noted that performance indicators used by the agency for Naval Defense Operations were mostly quantity measures and were input-driven e.g. number of steaming hours, number of flying hours and number of ground operations. As the Bureau discussed with the agency, quantitative measures need to be developed in order to better assess the effectiveness of navy's operations.

For the Philippine Air Force, the MFOs as harmonized by NEDA and DBM are: (1) Air Defense Operations Services through air defense, border patrols, operations against terrorist threats, intelligence service, support to ground operations and other security measures to maintain peace and order and (2) Air Force Civil-Military Services through the conduct of community oriented projects for public readiness and awareness on national security issues and concerns. During the consultation with the agency, there was no agreement on these MFOs. Hence, it was agreed that for this purpose, the indicators as reported should be made the bases for the performance evaluation. The Bureau advised the agency to improve the performance indicators by eliminating the input indicators and formulating the quality measures such as operational readiness.

GAS and Support to Operations were treated differently in the case of these three agencies. In the case of the Philippine Navy, GAS and Support to Operations were included in the evaluation of physical accomplishments. For PAF, GAS and Support to Operations were considered in the evaluation of physical accomplishment. However, the weight assigned (5.0%) was less than what was assigned to PN's GAS and Support to Operations (30%). For PA, GAS and Support to Operations were not included in the evaluation of physical accomplishment. They were however included in financial evaluation.

Prior to physical evaluation, weights were allocated to major services (e.g. operations, military intelligence, logistics and civil-military operations) of the two agencies, except for the Philippine Air Force. See Annex 4. The Operations of PAF was assigned a full weight of 95% and this was no longer allocated to the four key services identified. All activities and measures were considered of equal weight. All three agencies including the GHQ oversupplied the Bureau with performance measures and accomplishments. For GHQ alone, there were about 169 performance measures. The Bureau considered all of these measures in assessing the physical accomplishment of GHQ.

Many of the performance measures were input-driven e.g. number of liters of fuel consumed, KWH of electricity, number of medals procured, number of personnel procured, number of steaming hours, number of flying hours, etc. In some cases, statements of work processes and or activities were supplied. For example, under direction of combat operations, the performance indicators given were conduct of major operations, conduct of minor operations, conduct of small unit operations. Under direction of combat research and tactical studies, the measures given were conduct study on restructuring program, conduct visits inspection, conduct seminar

workshops, publish operations manuals/references, submit accomplishment reports, participation in cultural heritage activities, participation in parades and ceremonies.

While there was an attempt to give weight to every measure, the evaluation did not provide an opportunity to do so. What was done to assess accomplishments vis-à-vis targets was to sum the targets and the actual accomplishments and then merely get the ratio as could be seen in the table below. This was definitely a too simplified analysis and also not advisable since the activities and accomplishments cannot be added like apples and oranges.

Table 7: Performance Indicators Used in the APRs of the AFP

Output/Activity	% Weight	Actual	Target	Variance	Physical Accomplishment
c. Logistical services		38,709,431	27,232,780	11,476,651	142%
No of vehicles repaired		187	179	8	
No of vehicles maintained		1,056	1,092	(36)	
No of vehicles registered		902	535	367	
No of vehicles insured		1,056	1,092	(36)	
No of liters POL (peculiar)		10,537,730	8,397,223	2,140,507	
No of liters POL (common)		1,526,084	1,379,542	146,542	
No of facilities / buildings maintained		128	105	23	
No of KWH of electrical power consumed		25,762,875	16,984,107	8,778,768	
No of cu. M water consumed		827,462	415,884	411,578	
No of ships /craft repaired		14	38	(24)	
No of aircraft repaired		9	7	2	
No of shore based communications equipment repaired		29	29	0	
No of class E allotment released		28,781	30,000	(1,219)	
No of tactical comms maintained		96	101	(5)	
No of shipboard equipment maintained		100	80	20	
No of avionics equipment maintained		17	18	(1)	
No of computers and peripherals maintained		56	50	(6)	
No of LAN maintained		2	2	0	
No of weapons / armaments m repaired – naval gun type		61	65	(4)	

No of weapons / armaments repaired common type	-	22,786	22,631	155	
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Based on the results of the APR, the three agencies did not qualify for full release. Nevertheless, the concerned Bureau recommended 100% release to enable the three agencies to pursue their mandate and implement the salary adjustment under RA 9166. The Bureau was the only unit that documented in writing the minutes of consultation meeting with the agencies e.g. Philippine Navy.

Summary of Findings on the APR Results

General Findings. Bureaus and Regional Offices sampled completed the performance review of the agencies assigned to them given the limited time. While the APR was made a pre-requisite to the release of the remaining balance of agencies, the results were not the entire basis of the decision to release. Fixed items like personal services and needs of the agencies were still the overriding consideration.

Overall evaluation of agency performance generally followed the prescribed procedure though there were some variations and or modifications in the application of criteria and scoring system. These refinements can be incorporated in the guidelines for replication and standardization.

The review depended mainly on the information supplied by the agencies. As such, incomplete and late submission of reports necessarily delayed the review process. Bureaus and regional offices also accepted what was submitted by the agencies and gave the benefit of doubt as to the accuracy of reports. Bureaus noted some inconsistencies in agency submissions but since they did not have other means to validate them, they accepted what was given. Nevertheless, it might be useful, in the future, to allow actual site visits on random basis to validate claims of agencies.

The results of the APR were documented. While agencies were consulted during the review, there was generally no formal feedback on the results of the APR except for information relayed to the agency on the amount of budget balance to be released. This is understandable considering that some Bureaus / offices have reservation on the APR process employed and thus were not confident enough to discuss them with concerned agencies. Prior to the next cycle of APR though, it would be helpful to give feedback to agencies on the results of their performance evaluation.

Selection of MFOs. To the extent available, harmonized MFOs were used in the performance reviews. This was apparent in the case of DOH, BTr, and many agencies attached to DOJ. For the AFP, the concerned agencies acknowledged the MFOs harmonized between NEDA and DBM but expressed the need for further dialogue.

Without clear MFOs, Bureaus and ROs picked up the items for evaluation from the statement of agency mandates and P/A/Ps. The statement of MFO of some agencies are too complex e.g. COSLAP, BuCor, PMO, BLGF. These may need immediate review and refinement before the next APR cycle.

Programs, projects, activities (P/A/Ps) were used as the bases for evaluation of MFOs. For example, DOH-Office of the Secretary supported its five MFOs with 18 P/A/Ps. The general tendency of agencies was to enroll all P/A/Ps in the evaluation though some were perceived to be not mission-critical. Bureaus and ROs recognize this problem but approached differently. Some were very selective, others were too inclusive. In the next round of APR, it would be desirable if balance can be achieved. It may be reiterated that the P/A/Ps must contribute to the agreed MFOs.

Grouping agencies with similar operations somehow promoted consistency of evaluation items within an agency and consistency of review approach employed within Bureaus and ROs. This was evident in the case of the Army, Navy, Air Force and the hospitals. Grouping was not done in the case of DOJ agencies but a consistent pattern in identifying MFOs and performance indicators was apparent. There also seemed limited coordination between the central office and the regional offices and among ROs as evidenced by differences in the evaluation items between DOH hospitals and regional hospitals and CHD IV and CHD NCR.

Despite attempts at grouping, the assignment of weights among similar operations / services still varied e.g. Philippine Navy and Air Force, Fabella Hospital and Jose Reyes Hospital. This was probably due to the prioritization that was made after consultation with the agency.

Scoring system. Bureaus adopted the prescribed scoring system with some variations in applying the criteria, assigning weights and rating. Bureaus had dilemma in applying the three criteria for agencies whose income are demand-driven and or incidental to operations.

Scoring system was seen to put a premium on income accomplishment (50%). Hence, a slight deviation in the target will largely influence the overall score of the agency.

Evaluating physical performance. Bureaus depended on agencies to identify the performance indicators to be used and to assign weights to the MFOs and or major items for evaluation. It was gathered though that Bureaus had some idea on what the priorities based on the allocation of budget and their understanding of the agencies' mandates. The criteria, however, were not disclosed to agencies. Some agencies completely agree with the prioritization made by DBM e.g. BIR and BOC. For others, the DBM prioritization differ from the opinion of the agency e.g. BI, PPA.

Variations were observed in the treatment of General Administrative Services and Support to Operations within and across Bureaus. Some included both in the assessment of physical accomplishments e.g. DOJ and attached offices, CHD-NCR, Philippine Navy, and Philippine Air Force. For others, these were excluded since they were deemed not measurable e.g. DOH and attached agencies, DOF and attached agencies.

For those where GAS and Support to Operations were considered, the weight assigned also varied, from around 5%, in case of PAF, to around 40%, in case of DOJ and attached agencies. Perhaps due to difficulty in quantifying accomplishments of administrative and support services, one Bureau gave them the benefit of doubt and granted a score of 2. Other units attempted to rate GAS based on performance indicators but the difficulty with this approach was that the measures available were mostly activity and or input-driven e.g. conduct of management committee meetings, procurement of

supplies, repair of vehicles, security and the like.

The weight assigned to Operations also varied. It ranged from 60%, in case of DOJ and attached agencies, to 95%, in case of PAF, and 100% for the rest (where GAS and Support to Operations were excluded). The assigned weight was divided among the MFOs and P/A/Ps based on priorities and further allocated per performance indicator. This process was not easy since agencies oversupplied the Bureaus with performance indicators. For instance, DOH-OSEC had 18 P/A/Ps and 187 performance measures that they wanted to be considered in the review. AFP-GHQ had 169 performance measures. Some Bureaus and offices discriminated the performance indicators and selected only what were perceived as key measures. For others, every item was accounted for but assigned equal weights (as low as 0.24% each) e.g. DOH-OSEC, PA, PN, PAF.

On the other hand, the performance measures adopted for other agencies e.g. NCMH, Fabella Hospital, RITM, OGCC, BLGE, CBAA, FIRB and NTRC, were too limited. Moreover, there seemed to be little attempt to match the performance indicators to be used for hospitals as evidenced by the varying measures applied. Many performance indicators were either input-driven, activity based and focused on quantities. Very few quality and timeliness indicators surfaced. RO IV adopted a combination of performance indicators for hospitals e.g. relapse, prevalence rate, survival rate, average duration of consultation. RO NCR attempted to use net death rate as indicator of quality but this was not taken into account in the final rating of physical accomplishments of DOH agencies in NCR.

To get the physical rating of accomplishments, two approaches emerged. The first one seemed to be consistent with the guideline i.e. individual rating of target versus actual accomplishments multiplied by assigned weight. This approach was employed in DOJ and attached agencies, DOH and attached agencies, and DOF and attached agencies, CHD-IV and RO IV hospitals. The other approach tried to sum up the target for each measure then compare the total with aggregate accomplishments. This was the case for Valenzuela and Las Pinas Hospitals, CHD-NCR, PA, PN and PAF. This approach seemed somewhat erroneous in the sense that the targets and accomplishments were added like apples and oranges.

As per guideline, favorable rating was given whenever the target is exceeded. Though in some cases, what is more desirable would be lesser figures e.g. number of in-patient days in hospitals, amount of inputs consumed like gasoline, electricity, lower interest payments and debt servicing costs, etc. Though in the case of BTr, the necessary adjustment was made.

There seemed to be some confusion with the physical and income accomplishments of agencies mandated to generate income. In the case of revenue generating agencies like BIR, BOC and PMO, the physical accomplishment was equated with income accomplishment. The sole measure applied was actual collection.

Evaluation of Financial Performance. Financial evaluation was done either as aggregate or by major items in used in reviewing physical accomplishments e.g. GAS, Support to Operations, Operations, etc. Some units also assigned weights. Basically,

financial evaluation was limited to comparison of actual obligation to release. This creates incentives to save, and or underutilize budget. One striking observation is that for a very low utilization of funds e.g. 41% for DOH-OSEC, 55% for BFAD, these agencies received outstanding rating for financial performance. It was noted though that in one isolated case e.g. CBAA, the financial criteria was interpreted differently. The agency was rated accordingly for low fund utilization.

Generally, savings is desirable but in the conduct of APR, a very high percentage of savings e.g. exceeding 20% must be viewed critically. Financial evaluation seemed not to have taken into account how the agencies were able to cut costs and at the same time meet targets without sacrificing quality. One way to do this is to match physical accomplishments with financial performance as was done by RO IV.

Perhaps due to data and time limitations, very little or no consideration was given to cost effectiveness in the financial evaluation. The Bureau C for instance recognize the need to assess costing of outputs e.g. cost per case disposed, cost per admission to witness protection, cost per prisoner rehabilitated, etc. but were not able to do so due to lack of benchmarks for comparison. Without benchmarks however, costing of outputs can still be analyzed and compared with historical data. Financial evaluation can also take account of ratios such as PS to total budget, MOOE to total budget, GASS and Support to Operations budget versus budget for Operations to check on the allocation of funds to mission-critical functions.

Evaluating Income Performance. The evaluation of income accomplishment was straightforward i.e. ratio of actual income versus target. Bureaus had dilemma in applying the income criteria. For some agencies whose income is incidental or demand driven e.g. LRA, BI, NBI, the 50% weight was considered too heavy. In case of agencies whose income was very minimal e.g. BLGF, NTRC, the income criteria was no longer considered relevant hence excluded from evaluation.

It is interesting to note though the effect of income criteria in the overall performance of agencies. In the case of hospitals and other DOH attached agencies, the income criteria made a lot of difference in the overall score. Though the income targets were generally small, many agencies got favorable rating for income accomplishment for exceeding targets, which boosted and or offset the agency's physical and financial accomplishments. For a lower income though, the overall score of an agency will be pulled down significantly.

Having considered the above situation, some adjustments in the allocation of weights to the three criteria in the case of agencies whose income is demand-driven may be considered as was done by one Bureau. Instead of the 30-20-50 combination, the Bureau adopted a 40-20-40, meaning 40% for physical accomplishment, 20% for financial accomplishment and 40% for income accomplishment.

Recommendations

Using the APR to deepen the PEMIP reforms requires improvements in the APR as a tool for agency performance review and making use of the results to expand the reform efforts.

As a mechanism for agency performance review. The recommendations are intended to address the gaps in the process, and develop capacities of DBM personnel and the agencies for the conduct of the APR.

Selection of appropriate MFOs and performance indicators. The first concerns to be addressed are the gaps in the MFOs and performance indicators of the agencies. Without appropriate MFOs and performance indicators, both for physical and financial performance, it is difficult to ascertain the accuracy of performance assessment. The MFOs and PIs also provide the reform framework of the agencies in making them more performance focused. Having a defective guide for reforms will certainly lead to poor results.

A good starting point for this are results of the 1st APR and the revisions should be in time for the next budget preparation process. For purposes of model building and the limited lead time, the DBM may want to select agencies that need few revisions in the OPIF parameters (e.g. DOH and DA), and use these as models in the next APR. The critique of agency submissions and the results of the APR can be used to identify further areas for improvements in the agency MFOs, performance indicators, assessment and relative weights of PAPs and performance targets.

Improving capacities for the conduct of the APR. The purpose of capacity building is to improve the APR process and the skills of DBM and agency personnel to implement it to ensure that it attains its objectives.

For the DBM the capacities needed are on critiquing the submissions of the agencies and the giving advice on the areas for improvement. These include familiarization with agency operations and performance measurement systems; critiquing MFOs and PIs and recommending aspects for improvement, evaluating and assessing relative importance of P/A/Ps and advising agencies on the those that have to be changed, and evaluating recommendations for weights and targets. Another level is on how to compare performance across agencies including developing indices of performance.

The other aspect of capacity building is on providing clear and detailed guidelines to the DBM and the agencies on appropriate parameters for the APR, including the steps leading to the formulation of these parameters. Mechanisms that will link physical performance to financial performance can also be identified.

A third aspect is to strengthen the information base for the conduct of the APR. This involves starting computations and developing a database on costs of outputs and standards for performance that can be used as benchmarks for the next APR. This includes determining data that will be used to measure performance of agencies and to track improvements over time.

The fourth aspect is to facilitate the sharing of lessons learned and good practices in the implementation of the APR. The DBM operations personnel can learn from each other's experiences in critiquing the agency submissions, the process and considerations in the computations of performance and their experiences in dealing with similar agencies or outputs and services. Supervisors can also serve as mentors to those who conduct the APR.

For the agencies, aspects of capability building are on orientation on the APR process, formulating MFOs and performance indicators within the agency, reviewing P/A/Ps and their contribution to the MFO, and assigning weights and setting targets. Agencies can be also helped to relate their existing agency performance measurement systems with the OPIF.

Finally, consultations and feedback sessions between the DBM and the agencies on how to improve agency submissions and how to use the APR results to improve operations. A suggestion on this is to use the APR results as input to Strategic Planning exercises of agencies.

As a tool for reforms under the PEMIP. The results from the APR can also be used as feedback on the progress of the reforms and basis for identifying areas for improvement in the agencies' operations.

As input for monitoring and evaluation, the results of the APR can be used to review the extent that the PEMIP reforms are proceeding on track and will attain their objectives. Based on the results of the review, the DBM unit in charge of implementing the PEMIP may want to review its efforts implementing the reforms and assess whether the strategies are appropriate to the concerns that have to be addressed. The PEMIP to be effective should, in the long run result to changes in the way the agency operates and allocates its resources. This is a large scale change and one that will not be readily welcomed or voluntarily made by the agencies. Starting from the OPIF, the agency will have to reorient its operations and cascade the changes throughout the organization. An example is how to discard the P/A/Ps or agency units that no longer contribute to the MFOs.

While the APR can provide data on the directions for these reforms, the DBM needs to facilitate (as the implementor of PEMIP) and manage (as an oversight agency) these reforms at the agency level. As a facilitator for these reforms, the DBM can draw on its oversight mandate and its management role in helping the agencies implement the necessary changes.

The role of the DBM is providing the conditions where the agencies will be encouraged to change. What alternatives are available to the agencies in making these changes? What kind of policy environment is needed for the agencies to make these changes? Will the changes require the cooperation of other oversight agencies such as the Civil Service Commission, the Commission on Audit or the NEDA in making these changes? The pace for these changes will depend on the incentives provided by the DBM. The other tasks for the DBM are providing directions for the reforms and building the capacities of both the implementors and targets of the reforms.

The DBM needs to sustain, through rewards and sanctions, the agency's motivation for making the changes.

Data on costs of MFOs can be used to determine the most cost-effective ways of delivery services, appropriate level of resources that can be allocated to agencies and

identifying opportunities for savings.

Documenting Best Practices and Lessons Learned. The other use for the APR is to facilitate learning and identification of lessons learned through documentation of reforms in agencies that account for better performance and efficient use of resources. Lessons can be used to review the reform strategies under the PEMIP. Sharing of lessons and good practices, generating feedback on the reforms, developing incentives and enhancing the policy environment for reforms are a function of how well the lessons are captured.

The last set of recommendations is on how the DBM is organized for these reforms. In the current set-up is that the conduct and use of the APR results are limited to the DBM operations personnel and for making decisions regarding the remaining allocation for agencies. The other units in the DBM can benefit from the results and findings from the APR. Results of the APR can be used as reference in budget preparation phase and during budget execution. Units handling the PEMIP reforms can also utilize the detailed agency performance information used in the preparation of the APR.

Annex 1
Department of Justice - Agency Performance Review
MFOs, P/A/Ps and Pls Used in Evaluating Physical Accomplishments

Major Final Output	Assigned Weight	Sample Performance Indicators Used
DOJ-OSEC		
MFO: Not stated		
1. GASS and Support to Operations	40%	
2. Operations		
2.1 Prosecution Services	27%	No of disposed cases/tasks
2.2 Special Legal Services	10%	No of legal opinions prepared
2.3 Pardon and Parole Services	10%	No of accomplishments
2.4 Witness Protection, Security and Other Benefit Program Services	10%	No of admissions
2.5 Board of Claims Services	3%	No of applications acted upon
Bureau of Corrections		
MFO: Custody, maintenance and rehabilitation of national prisoners and operation of agro-industries		
1. GASS	40%	
2. Operations		
2.1 Custody, maintenance and rehabilitation of national prisoners	40%	No of prisoners maintained, no. of attendees in rehabilitation programs
2.2 Operation of Corrections Agro-Industries Livelihood Programs	20%	No of inmates compensated
Bureau of Immigration		
MFO: Implementation / enforcement of immigration, deportation and alien registration laws		
1. GASS and Support to Operations	40%	
2. Operations		
2.1 Registration of Aliens	20%	No of application for registration processed
2.2 Immigration, deportation and other activities	10%	No of immigration cases processed
2.3 Intelligence and Security Services	30%	No of intelligence cases processed
Commission on the Settlement of Land Problems		
MFO: Adjudicatory settlement of land disputes and problems		
1.0 GASS and Support to Operations	40%	
2.0 Operations		

2.1 Policy Formulation and Coordination of Activities on the settlement of Land Problems	60%	Cases resolved / terminated, no of seminars /workshops
Land Registration Authority MFO: Land titling and deeds registration services through registration of decrees, and custody, reconstitution and issuance of titles to ensure their integrity		
1.0 GASS and Support to Operations	40%	
2.0 Operations		
2.1 Issuance of Land Titles and Registration of Deeds	55%	No of deeds registered, no of titles issued, no of decrees issued
2.2 Reconstitution of Certificates of Titles Lost or Destroyed	5%	No of titles reconstituted
National Bureau of Investigation MFO: Investigation services of any crime and offence that are of interest to the public order and safety and treatment and rehabilitation services for drug dependents		
1.0 GASS and Support to Operations	40%	
2.0 Operations		
2.1 Investigation and Detection of Crimes and Other Related Activities	35%	No of cases investigated / terminated
2.2 Scientific Criminal Investigation and Records Modernization	20%	No of criminalistics technical cases rendered, no of laboratory specimens examined
2.3 Treatment and Rehabilitation of Drug Dependents	10%	No of drug dependents discharged
Office of the Government Corporate Counsel MFO: Legal services to Government-Owned and or Controlled Corporations and their subsidiaries through provision of legal opinions/orders/decisions/advice/studies for the expeditious administrative settlement or adjudication of disputes, claims and controversies		
1.0 GASS	40%	
2.0 Operations		
2.1 Legal Services to Government-Owned and or Controlled Corporations	60%	Competent and adequate rendition of legal services to client corporations and their subsidiaries, speedy and competent drafting and review of contracts, competent and speedy rendition of legal opinion
Office of the Solicitor-General MFO: Legal services to the Government of the Philippines, its agencies and instrumentalities, officials and agent in any litigation, proceeding, investigation or matter requiring the services of a lawyer, or the Government Owned and or Controlled Corporations when authorized by the President		

1.0 GASS and Support to Operations	40%	
2.0 Operations		
2.1 Legal Services to Government	50%	No of cases, no of other legal services
2.2 Operation of the Special Committee on Naturalization	10%	No of applications
Parole and Probation Administration:		
MFO: Reformation of criminal offenders through a non-institutionalized system, reduction of the incidence of recidivism and a less costly alternative to the imprisonment of the first-time offenders who are likely to respond to individualized, community based treatment programs		
1.0 GASS	40%	
2.0 Operations		
2.1 Investigation of petitions for probation, parole or executive clemency	46%	No of cases received for investigation, no of investigation reports submitted within 60 days, no of recommendations confirmed by the courts
2.2 Supervision of probationers, parolees and pardonees	7%	No of probationers, parolees and pardonees supervised, cases due for termination which were acted upon, decrease in revocation and re-arrest rate
2.3 Rehabilitation program and services	7%	No of clients assisted
Public Attorney's Office		
MFO: Representation of indigents in judicial and quasi judicial cases as well as rendition of a wide spectrum of legal services		
1.0 GASS	40%	
2.0 Operations		
2.1 Representation of indigents in criminal and civil cases (judicial)	30%	No of new cases, no of terminated cases
2.2 Representation of indigents in administrative and labor cases and in cases pending before the Prosecutor's Office	9%	No of new cases, no of terminated cases
2.3 Rendition of Limited Judicial and Non-Judicial Services (mediation and conciliation)	21%	No of new cases, no of terminated cases

Annex 2
Department of Health-Agency Performance Review
MFOs , P/A/Ps, and Pls Used in Evaluating Physical Accomplishments

Major Final Output	Assigned Weight	Sample Performance Indicators Used
DOH-Office of the Secretary Mandate: Promote, protect and or restore the health of the Filipino people through the efficient delivery of health services.		
1. Public Health System	25%	Consultative and monitoring visits per person days, provision of drug augmentation, development of IEC prototype materials
2. Health Regulation System	20%	Development of survey tools for dialysis, conduct of inspection of health facilities
3. Local Health System	20%	Provision of technical expertise, provision of training
4. Hospital System	20%	Development of schematic plans for subspecialty centers; institutionalization of HOMP
5. Health Care Financing System	15%	Advocacy on the social health insurance schemes, training on health care financing
Bureau of Food and Drugs MFO: Regulatory services for health providers, facilities and the general population through the implementation and enforcement of regulation on food, drugs, cosmetics, health technology and facilities of policies pertaining to standards development, licensing and enforcement to ensure the quality and access to health care services		
1. Health regulatory, including Policy Formulation, Standards Setting and Monitoring		
1.1 No of seminar on licensing conducted	5%	Same
1.2 No of inspection conducted on food and drug manufacturer	15%	Same
1.3 No of inspection conducted on food and drug outlets	15%	Same
1.4 No of licenses issued	10%	Same
1.5 No of certificate of product registration issued	15%	Same
1.6 No of samples collected	5%	Same
1.7 No of samples examined	5%	Same
1.8 No of products for registration	5%	Same
1.9 No of products evaluated	5%	Same
1.10 No of cases docketed	10%	Same
1.11 No of cases disposed	5%	Same
1.12 No of ads and promo	5%	Same

National Quarantine Office:		
MFO: Public health development services and assistance		
1. Quarantine Services and International Health Surveillance		
1.1 Inspection and monitoring of vessels & aircraft	15%	No inspected
1.2 Medical examinations of aliens, stewards & food handlers	10%	No examined
1.3 Immunizations	30%	
1.4 Bacteriological examinations	5%	No of water, food & foodstuffs for export examined
1.5 Laboratory examination	10%	No of urine, stool & blood specimens for aliens, stewards & food handlers
1.6 Health education and IEC	5%	No of participants exposed, no of mobile trips conducted
1.7 Sanitation inspection	5%	No of inspections
1.8 Deratization of vessels	5%	No of fumigations / rodent infestations inspection
1.9 Plague prevention	5%	No of operations
1.10 Yellow fever preventions	10%	No of operations
National Center for Mental Health:		
Mandate: Promote mental health, prevent mental disorders, treat, care and rehabilitate the mentally-ill patients throughout the country		
1. Direct Hospital Services		
1.1 No of in-patient days	80%	Same
1.2 No of out-patient	20%	Same
Dr. Jose Fabella Memorial Hospital		
Mandate: provide health services to indigent patients in need of obstetrical, gynecological and pediatric treatment		
1. Direct Hospital Service		
1.1 Total in-patient days	40%	Same
1.2 Total roomed in-baby days	40%	Same
1.3 Total no of out-patient visits	20%	Same
Jose R. Reyes Memorial Medical Center		
Mandate: 1) provide out-patient consultation and treatment fro primary care and patient requiring secondary and tertiary health care; 2) provide emergency and in-patient care and treatment to the sick and injured, including specialized care, treatment and rehabilitation; 3) provide specialized training course for medical, nursing and allied personnel in the graduate and undergraduate levels to attain a high level of professional efficiency; 4) undertake study and researches to meet the people's changing and expanding need for better, safer and more effective care treatment; and 5) serve as an active agency in the community for the prevention of diseases and in the promotion of general health consciousness of the people.		
1. Direct Hospital Services		
1.1 No of In-patient days	85%	Same

1.2 No of Out-patient visits	15%	Same
Research Institute for Tropical Medicine Mandate: Undertake research on the diagnosis, treatment and prevention of tropical infectious diseases and provide preventive, promotive and creative medical care to the poor with such diseases which are the major causes of mortality and morbidity in the Philippines MFO: Direct Hospital Services		
1. No of research program initiated	50%	Same
2. No of vaccine production	50%	Same
Dangerous Drugs Board Mandate: Highest policy making and coordinating arm as well as the clearing house of all matters pertaining to law enforcement and control of dangerous drugs, treatment and rehabilitation of drug dependents, drug abuse prevention and community information, research and statistics on the drug problems and the training of personnel engaged in the aforementioned activities.		
1. Drug Prevention and Control Services	73%	No of drug dependents examined, no of drug establishments inspected, no of drug laboratories accredited
2. Education and Information Program Development Services	15%	No of projects conducted / assisted
3. Accreditation Services for Rehabilitation Centers and Drug Testing Laboratories	12%	No of centers assisted, no of claims processed / paid
Center for Health Development NCR MFO: (1) Provision of logistical support for health program implementation and technical assistance & provision of consultancy services to LGUs in the advocacy of health programs		
1. GASS and Support to Operations	25%	Conduct of Mancom/various meetings
2. Technical Assistance & provision of consultancy services to LGUs in advocacy programs such as "Iwas Tigdas, Garantisadong Pambata, Alay Lakad, etc.	75%	Total no of services
Center for Health Development IV Mandate: 1) enforcement and implementation of regulations, standards and licensing of health facilities; 2) health operations, inc TB control operations, disease prevention and control, health promotion and other health operations; 3) local technical assistance, including local health systems development, provision of logistic support to local health programs and assistance funds to support quality assurance in LGUs; and 4) support for social health insurance and other community health care financing activities		

1. Enforcement & implementation of regulations, standards and licensing of health facilities	15%	No of hospitals monitored, inspected, no of drug establishments monitored & inspected, no of food establishments inspected
2. Health operations inc. TB control operations, disease prevention & control, health promotion & other health operations	40%	No of provinces & cities where mass measles & polio-free immunizations were conducted, no of provinces monitored on rabies control
3. Local health technical assistance inc local health systems development, provision of logistic support to local health programs & assistance funds to support quality assurance in LGUs	40%	No of LGU recipient of LPP-MGP grants, no of inter-Local Health Zones provided with logistics assistance
4. Support to social health insurance & other community health care financing incentives	5%	No of LGUs provided with technical assistance on Health Care Financing
Batangas Regional Hospital Mandate: Provide general care services not only to the populace of Batangas Province, but other provinces in Region IV as well MFO: Direct Service Delivery		
1. In-patient services	75%	Bed occupancy rate, gross survival rate, net survival rate, no of patient per day served
2. ER Services	15%	ER patients per day, length of stay at ER, ER survival rate
3. Out-patient services	20%	Out patients per day, length of stay at OPD
Dr. Jose N. Rodriguez Memorial Hospital Mandate: Control and eradicate leprosy and provide general care services to non-hansenites and non-leper patients		
1. Leprosy Services	85%	
1.1 In patients	60%	Leprosy patients BOR, custodial care BOR
1.2 Out-patients	25%	Relapse, prevalence rate (per 10,000 persons)
2. General care services	15%	
2.1 In patients	2.5%	Bed occupancy
2.2 Out-patients	5.0%	Average consultation/hour (per 5 doctors), average duration (minutes)
2.3 ER Cases	7.5%	Average ER patients/day, a ER survivor rate, average length of stay
Valenzuela General Hospital		

1. Operations		
1.1 In patient days	60%	Same
1.2 ER patients served	18%	Same
1.3 OPD patients served	5%	Same
1.4 Physical Therapy (In/Out patient)	5%	Same
1.5 Preventive/promotive	2%	Same
1.6 Blood donors	10%	Same
1.7 Net death rate	(no weight given)	
1.8 Occupancy rate	(no weight given)	
Las Pinas District Hospital		
1. Operations		
1.1 In patient days	60%	Same
1.2 Out patients served	8%	Same
1.3 ER patients served	22%	Same
1.4 Blood units	10%	Same

Annex 3
Department of Finance-Agency Performance Review
MFOs, P/A/Ps, Pls Used in Evaluating Physical Accomplishments

Major Final Output	Assigned Weight	Sample Performance Indicators Used
DOF-Office of the Secretary: Mandate: 1) Formulation, institutionalization and administration of fiscal policies in coordination with other concerned subdivision, agencies and instrumentalities; 2) Generation and management of the financial resources of the government; 3) Supervision of the revenue operations of all local government units; 4) Review, approval and management of all public sector debt, domestic or foreign; and 5) Rationalization, privatization and public accountability of corporations and assets owned, controlled or acquired by the government.		
1. National Finance Services	40%	
1.1 Formulation, monitoring and review programs	25%	
1.2 Applications acted upon by the various revenue divisions	15%	
2. International Finance Services	40%	
3. Corporate Financial Services	15%	
4. Others	5%	
Bureau of Internal Revenue MFO: Collection of internal revenue taxes		
1. Collection of internal revenue taxes	100%	
Bureau of Customs Mandate: to generate revenues through the examination and appraisal of imports for proper assessment and collection of duties and taxes, and provision of assistance in the collection of taxes		
1. Customs revenue services through assessment and collection of customs duties by collection district	100%	
Bureau of Local Government Finance Mandate: To be an active partner in the transformation of LGUs into financially self-sustaining institutions by rendering technical supervision over local treasurers and assessors to improve local revenue administration and fund management efficiency.		

1. Policy formulation on local government revenue administration and fund management and the exercise of administrative and technical supervision and coordination functions over the treasury and assessment operations of local governments.		
Bureau of Treasury		
Mandate:		
1. Cash Management Services	50%	
1.1 Investment of idle funds	30%	
1.2 Monitoring of BTr Income	10%	
1.3 MDS Check replenishments	10%	
2. Debt Management Services	40%	
2.1 Auction of government securities	20%	
2.2 Servicing of NG Debt	20%	
3. Accounting of NG Balances	10%	
3.1 Cash transactions	10%	
Central Board of Assessment Appeals		
Mandate: To hear and decide on quasi-judicial basis, real property taxation and assessment cases appealed from the Local Board of Assessment Appeals throughout the country.		
1. Adjudicatory services		
1.1 Hearings / ocular inspections		
1.2 decisions		
Fiscal Incentives Review Board		
Mandate: Evaluation of fiscal incentives for government and private entities to properly enforce policies in maintaining fiscal discipline		
1. Evaluation of fiscal incentives for government and private entities to properly enforce policies in maintaining fiscal discipline		
1.1 Studies on entity basis	80%	
1.2 Administrative and related studies	20%	

National Tax Research Center		
Mandate/MFO: Conduct of studies and surveys on the tax system and tax policy structure for the continuous improvement of the Philippine Tax System, the tax policy structure and customs policy administration		
1. Tax System and Tax Policy Structure Studies and Surveys	100%	
1.1 Completed studies	80%	
1.2 Comments/technical assistance	20%	
Privatization and Management Office		
Mandate: To market/dispose government corporations, assets and idle properties to generate additional resources for the national government		
1. Management, custodianship and marketing of GOCCs, transferred assets and idle properties of the government to generate additional income to the national government	100%	
Insurance Commission		
Mandate: Regulation of the insurance industry		
1. Regulatory Services	40%	
1.1 Circular letters/resolutions/orders issued	2%	
1.2 Non-life/bond forms approved	4%	
1.3 Budget/financial plans reviewed	2%	
1.4 Life/MBAs policy forms approved	4%	
1.5 Licenses issued	8%	
1.6 Examinees attended to	5%	
1.7 Investment requests approved	2%	
1.8 Investment report reviewed	2%	
1.9 SPUCRI reviewed	2%	
1.10 Facultative placements reviewed	3%	
1.11 Treaties approved	4%	
2.0 Supervisory Services	40%	
2.1 Examination reports transmitted (financial)	15%	
2.2 Examination reports (tariff)	10%	
2.3 Synopses of annual statements	15%	

3.0 Adjudicatory Services	20%	
3.1 Claims settled	15%	
3.2 Assistance rendered	5%	

Annex 4
Armed Forces of the Philippines
Agency Performance Review
MFOs, P/A/Ps, PIs Used in Evaluating Physical Accomplishments

Major Final Output	Assigned Weight	Indicators
Armed Forces of the Philippines-GHQ		
1. GASS	17%	
1.1 General Management and Supervision		
1.2 Operation and Maintenance of AFPFC		
1.3 Morale and Welfare Activities		
2. Support to Operations	26%	
2.1 Command and Management		
2.2 Health Services		
2.3 Operations Services		
2.4 Strategic Planning and International Commitments		
2.5 Education and Training Services		
3. Operations	57%	
3.1 Operation and Maintenance of the Area Commands		
Philippine Army		
MFO: 1.) Ground Defense Operations through the identification and neutralization of armed threat groups to maintain peace and order; 2) Army Civil-military Operations Services through the conduct of community-oriented programs for public readiness and awareness on national security issues and concerns		
1. Operations Services	33%	
2. Military Intelligence Services	33%	
3. Logistical Services		
4. Civil Military Operations	34%	
Philippine Navy		
MFO: 1) Naval Defense Operations Services through the defense of territorial limits, patrol of seashores, intelligence services, maritime law enforcement, and other related naval operations to maintain peace and order; 2) Naval Civil-Military Operations Services through the conduct of community-oriented programs for public readiness and awareness on national security issues and concerns.		
1. GAS	10%	

1.1 General Management and Supervision		No of sports and athletic activities
1.2 Morale and Welfare Activities		No of awards and decoration, no of personnel availed of rest and recreation
2.0 Support to Operations	20%	
2.1 Command and Management		No of units subjected to annual general inspection, no of promotional examinees
2.2 Health Services		No of medical out-patients, no of medical in-patients
2.3 Strategic Planning & International Commitment/ Enhancement of capability and weapons systems		No of meetings and conferences on PM modernization program, no of attendance to defense exhibition
2.4 Education and Training Services		No of students trained, no of unilateral and multilateral exercises
3. Operations	70%	
3.1 Direction of Naval Operations		No of ships deployed, no of aircraft deployed, no of steaming hours
3.2 Military Intelligence Services		Intelligence operation domestic reports collected, foreign info collected
3.3 Logistical Services		No of vehicles repaired, no of liters, no of facilities maintained, No of KWH of electrical power consumed
3.4 Civil Military Operations		No of TI and E and values enrichment sessions, no of livelihood / cooperative skills development seminars conducted. No of bloodletting sessions
Philippine Air Force		
MFO: (1) Air Defense Operations Services through air defense, border patrols, operations against terrorist threats, intelligence service, support to ground operations and other security measures to maintain peace and order and (2) Air Force Civil-Military Services through the conduct of community oriented projects for public readiness and awareness on national security issues and concerns.		
1. General Administration and Support	2.5%	No of recommendees for career course, no of medals procured / awarded, no of sports activities supported
2. Support to Operations	2.5%	Unit anniversaries supported, no of personnel procured, no of physical examination, war gaming activities, weapons study activities, no of courses
3. Operations	95%	
3.1 Operations Services		No of hours flown
3.2 Military Intelligence Services		Conduct of case operations, conduct of aerial photo reconnaissance, production of PI reports, recruitment of informants, neutralization of target personalities

3.3 Civil-Military Operations		No of moral development seminars conducted, no of human rights info and education conducted, no of vocational skills training conducted, no of disaster relief assistance conducted
3.4 Logistical Services		No of supportable aircraft, no of policy formulation supported, no of vehicles maintained, procurement of radars, PLDT bills,