



2009 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

NOVEMBER 2008

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DIMENSIONS OF THE FY 2009 BUDGET¹

The national budget that we propose holds our hopes of tiding our people over the difficulties, and emerging as a nation capable of attaining sustainable growth.

- The President's Budget Message for FY 2009

The President submitted to Congress the FY 2009 expenditure program amounting to P1,415 billion. According to the President's Budget Message, next year's budget will prioritize programs that will cushion the effects of price increases particularly on the poor—without neglecting long-term investments that would sustain the country's growth. To support the commitments of the President, the National Government proposed a budget that is P188.3 billion or 15.4% higher than the 2008 appropriations. This is the closest that NG managed to match a 17.6% growth posted almost a decade ago (2000). Apparently, however, NG had to give up balancing the budget earlier than 2010 to accommodate a sizeable increase for next year.

Excluding allocation for debt service (*interest payment and net lending*), the 2009 budget will increase at a much higher rate of 16.4%. This is a positive development considering that as the national budget grows and interest payments decline, more resources are available for productive investments. Per capita² spending in 2009 is expected to be higher at P15,343 compared with P13,561 in 2008.

The proposed P1,415 billion budget is 12.7% (*net of debt service*) of the projected gross domestic product (GDP) in 2009. Historically, NG expenditure-to-GDP ratio steadily declined from 16.1% in 2001 to 11.9% in 2005 possibly due to efforts to bring down the deficit starting 2002 and because NG was forced to operate under a re-enacted budget³ in 2001 and 2004. However, the trend in NG spending (as a ratio to GDP) shows gradual recovery in recent years.

¹ Prepared by Pamela Diaz-Manalo with technical assistance from Aurea H. Sempio and Arlene Lopez-Tuazon. The author wishes to thank Director Dina de Jesus-Pasagui for her valuable inputs.

² Based on population projections of the National Statistics Office—90,457,200 for 2008 and 92,226,600 for 2009.

³ The 2005 GAA was re-enacted in 2006 but a supplemental budget amounting to P46.4 billion was passed. NG expenditure-to-GDP ratio is slightly higher (12.2%) than in 2005.

SECTORAL DISTRIBUTION

The President vowed to provide safety nets during these times of economic difficulties while addressing constraints that threaten the country's growth momentum. It may be expected that next year's budget places greater importance on two sectors—social services and economic services. On its third consecutive year, social services will receive the biggest share of the budget. For 2009, NG allocated for social services an amount of P434 billion representing 30.7% of the total expenditure program. However, it is the economic services sector that posts the highest growth rate (20.9%), apparently making up for a minimal growth of 2% in 2008. An additional allocation of P62.4 billion in 2009 also increases the overall share of economic services to a little over one-fourth of the proposed P1,415 billion budget.

TABLE I
NG EXPENDITURE PROGRAM BY SECTOR, 2007-2009

PARTICULAR	Level (in billion)			% Share to Total NG Budget			Growth Rates	
	2007	2008	2009	2007	2008	2009	07-08	08-09
Economic Services	293.2	299.0	361.4	25.4	24.4	25.5	2.0	20.9
Social Services	320.2	377.5	434.0	27.7	30.8	30.7	17.9	15.0
Defense	62.2	61.0	65.2	5.4	5.0	4.6	(1.8)	6.8
General Public Service	202.4	207.4	239.6	17.5	16.9	16.9	2.5	15.5
Net Lending	9.8	12.0	12.2	0.8	1.0	0.9	23.1	1.3
Debt Service	267.8	269.8	302.7	23.2	22.0	21.4	0.8	12.2
TOTAL	1,155.5	1,226.7	1,415.0	100.0	100.0	100.0	6.2	15.4

Source of basic data: BESF, DBM

Interest payments which in the past (2004-2006) got the biggest chunk of the budget pie, even exceeding the allocation for social services, gets the third highest allocation of P302.7 billion in 2009. In fact, the share of interest payments to total budget has been gradually declining from 23.2% in 2007 to 21.4% in 2009. Meanwhile, NG allocates P239.6 billion for General Public Services, P65.2 billion for Defense, and P12.2 billion for net lending. Net lending refers to NG advances for the servicing of debts incurred by government corporations (*net of repayments on such advances*).

Economic Services

The National Government allocated for economic services a total of P361.4 billion which is 20.9% higher than the 2008 level. A relatively huge increase for the sector can be traced primarily to additional allocations in agriculture and agrarian reform (P24.3 billion), communications, roads and

other transportation (P18.1 billion), and subsidy to local government units⁴ (P13.7 billion). Except for subsidy to LGUs which forms part of the Internal Revenue Allotment (IRA) and which naturally increases every year, allocations for the other two sub-sectors actually came from a negative growth in 2008. Meanwhile, the increase in allocation for natural resources and environment (P3.1 billion) and water resources, development and flood control (P2.9 billion) may be minimal in amount but both posts considerably high growth rates of 30.4% and 21.5%, respectively.

Communications, roads and other transportation gets the highest allocation of P138.8 billion or 38.4% of the total budget for economic services. About three-fourths or P104 billion will go to the Department of Public Works and Highways—which incidentally also accounts for the bulk of the increase (84%) for the sub-sector. It has been noted that budgetary support to government corporations which in 2007 amounted to P13.3 billion was significantly slashed to only P135 million in 2008 after subsidies to Light Rail Transit Authority, Philippine Postal Corporation, and the North Luzon Railways Corporation were discontinued. The Philippine National Railways (PNR), however, will still receive a P100 million subsidy in 2009, but this was also significantly reduced from P1.7 billion in 2007.

TABLE 2
ECONOMIC SERVICES EXPENDITURE PROGRAM, 2007-2009

PARTICULARS	Levels (Billion Pesos)			% Share to total		Growth Rates	
	2007	2008	2009	2008	2009	07-08	08-09
Agriculture, Agrarian Reform	60.0	43.0	67.3	14.4	18.6	(28.3)	56.4
Natural Resources	9.1	10.2	13.3	3.4	3.7	12.5	30.4
Trade and Industry	6.0	4.8	4.6	1.6	1.3	(20.0)	(4.9)
Tourism	2.2	2.0	2.1	0.7	0.6	(8.5)	6.5
Power and Energy	5.8	4.9	5.6	1.7	1.5	(15.3)	12.9
Water Resources Development and Flood Control	14.1	13.7	16.7	4.6	4.6	(3.0)	21.5
Communications, Roads & Other Transportation	126.3	120.6	138.8	40.4	38.4	(4.4)	15.0
Other Economic Services	5.3	25.9	25.6	8.7	7.1	389.2	(1.0)
Subsidy to Local Government Units	64.4	73.8	87.5	24.7	24.2	14.6	18.6
Total	293.2	299.0	361.4	100.0	100.0	2.0	20.9

Source of basic data: BESF, DBM

Total allocation for agriculture and agrarian reform (P67.3 billion) is expected to grow by P24.3 billion (56.4%)—apparently making up for a huge cut (P17 billion) in 2008. The growth in the budget for agriculture/agrarian reform can be attributed to increments in the following items: Agriculture and Fisheries Modernization Program (P16.9 billion), Department of Agrarian Reform (P5 billion), Tax Expenditure Fund (P3.9 billion), National Food Authority (P2 billion), and a fresh

⁴ For the purpose of sectoral budget presentation, total IRA amounting to P250 billion is distributed among economic, social and general public services.

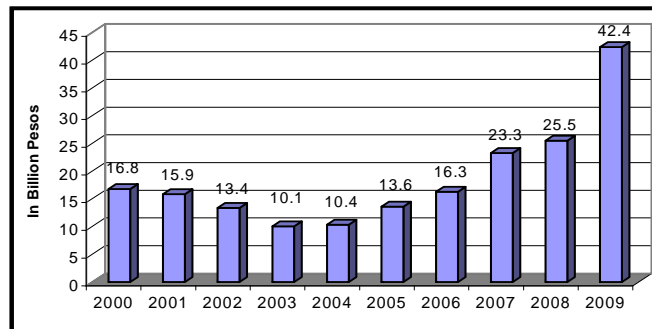
allocation of P470 million for Quedan and Rural Credit Guarantee Corporation. A huge increment for agriculture modernization is a welcome development considering the need to compensate for previous under-investment—*i.e.*, spending for AFMP was way below the annual funding requirement of P17 billion.

ALLOCATION FOR AGRICULTURE MODERNIZATION

Under the Agriculture and Fisheries Modernization Act (AFMA), a total of at least P190 billion should have been appropriated by 2009—*i.e.*, an initial budget of P20 billion in 1999 and P17 billion annually thereafter. Funding for AFMP started only in 2000. This means that the P20 billion for the first year of its implementation did not materialize.

Moreover, the yearly allocation for AFMP

during the period 2000-2006 have been consistently short of the prescribed P17 billion. In recent years, there are efforts to compensate for previous budgetary shortfalls in the agriculture modernization program.



Growing the budget for agriculture and agrarian reform in 2009 could very well support the food sufficiency objective of government in response to recent increases in food prices, particularly rice. At present, our rice-sufficiency level stands at 90% but the goal is to achieve 100% sufficiency by 2013. In support of food production, the Arroyo government launched the FIELDS Program that will channel funds to the following: Fertilizers (P3.3 billion), Irrigation and other infrastructure (P12.5 billion), Extension and education (P7.9 billion), Loans (P0.9 million), Dryers and other post-harvest facilities (P1.4 billion), and Seeds (P9 billion).

As part of investments for R&D in agriculture and fisheries, the allocations for research institutions under the Department of Science and Technology (DOST) was slightly increased in 2009 but not sufficient to cover the cuts made in 2008. The combined allocation for the Philippine Council for Agriculture, Forestry and Natural Resources Research and Development (PCARRD) and the Philippine Council for Aquatic and Marine Research and Development (PCAMRD) amounts to P313.5 million. Although, it increased by P6.5 million from P307 million in 2008, it is still below the 2007 spending level of P391.5 million. Considering the meager resources for agricultural research, NG needs to make an inventory of studies conducted independently by various research institutions (to avoid duplication) and ensure that future researches strategically support long-term goals for the sector.

Despite recent decline in global oil prices, NG should pursue its commitment of making the country less dependent on imported oil. This will help shield the economy by dampening the effects of future escalations in global oil prices on vital sectors like transportation, power, and manufacturing. NG targets to achieve a 60% self-sufficiency level by 2010 but this will require intensified efforts in promoting and engaging the private sector in developing other forms of energy sources (*e.g., natural gas, biofuel, geothermal, windmills, and solar cells*).

Total allocation for power and energy amounts to P5.6 billion of which the Department of Energy (DOE) accounts for 85%. While it appears that allocation to DOE substantially grew from P1.8 billion in 2007 to P4.7 billion in 2009, less than one-fourth of the budget actually supports the programs of the department. A large portion represents the Malampaya Fund which DOE administers for Palawan or for other national programs (not necessarily energy-related). Net of the Malampaya Fund, the DOE budget for 2009 is only about P1.1 billion. According to DOE, the entire P3.7 billion of Malampaya Fund in 2009 will be spent for various development projects in Palawan subject to the submission of an Investment Plan. It is important that under a 60-40 sharing scheme between NG and LGUs, the National Government is able to utilize its share particularly to support energy-related activities like the Alternative Fuels Program.

Meanwhile, the National Government allocates a meager P2.1 billion for tourism. This is almost negligible at 0.15% of the total budget for 2009. Next year's budget increased the allocation for tourism by P130 million, but this is insufficient to cover for the P186 million cut made in 2008. Considering the great potential of the tourism industry in creating jobs and livelihood opportunities, it is important that NG invest more on the sector particularly to intensify marketing campaigns and improve tourism manpower development. The country's spending for tourism significantly pales in comparison with that of Thailand especially in terms of marketing and promotions. Total budget for tourism in the Philippines (2006) was USD 27.6 million while that of Thailand was much higher at USD 90.1 million.⁵

Social Services

For three consecutive years (2007-2009), the National Government has placed the social services sector as top expenditure priority with allocations even exceeding that for interest payments. Growing on the average of 14.2% during the period 2006-2009 is a big improvement compared with the average growth in social spending (3.7%) in 2001-2005. For 2009, the total budget for social services accounts for P434 billion or 30.7% of the total P1,415 billion proposed expenditure program. Like in 2008, the budget for social services will increase by another P57 billion next year.

⁵ For comparison, official average annual exchange rates in 2006 were used—P51.31 to a US dollar and Baht 37.88 to a US dollar. Data was taken from the paper entitled "Maximizing the Potential of Philippine Tourism" (2008) by Elsie Gutierrez.

TABLE 3
SOCIAL SERVICES EXPENDITURE PROGRAM, 2007-2009

PARTICULARS	Level (in billion)			% Share to Total		Growth Rates	
	2007	2008	2009	2008	2009	07-08	08-09
Education, Culture, and Manpower Dev't.	167.4	186.6	204.9	49.4	47.2	11.5	9.8
Health	18.2	28.7	35.8	7.6	8.2	57.2	24.9
Social Security, Welfare and Employment	52.2	69.6	86.3	18.4	19.9	33.3	24.1
Land Distribution (ARF)	5.3	4.1	4.1	1.1	1.0	(22.0)	-
Housing and Community Development	7.9	5.0	5.3	1.3	1.2	(36.8)	6.4
Other Social Services	1.1	5.5	5.0	1.5	1.2	405.3	(9.6)
Subsidy to Local Government Units	68.1	78.0	92.5	20.7	21.3	14.6	18.6
Total	320.2	377.5	434.0	100.0	100.0	17.9	15.0

Source of basic data: BESF, DBM

Close to half (47%) or P204.9 billion of the social services budget goes to education, culture and manpower development. However, even as education continues to get the bulk of the allocation for social services, its share to total sector budget has been declining through the years—from 61% in 1998 to 47% in 2009. As percent of GDP, spending for education also declined from 4% to 2.4% in the same period. International standard is 6% of GDP per UNESCO Report. Despite the proposed increase of P18.3 billion for education, its share to total NG budget slightly dropped from 15.2% in 2008 to 14.5% in 2009.

Notably, there have been significant increases in the budgetary allocations for social security, welfare and employment, and the health sectors. Allocation for social security grew by some P17.4 billion in 2008 and another P16.8 billion in 2009. This is obviously much higher compared with the average yearly increments of only P2.8 billion during the period 2002-2007. It has been observed that recent increases for social security is due to budgetary increments in Pension and Gratuity Fund although in 2009 a notable increase of P5.6 billion more than doubled the appropriations (2008) for the Department of Social Welfare and Development. A higher allocation for DSWD supports NG's commitments to cushion the effects on the poor of increasing market prices through programs like the *Pantawid Pamilya* (P5 billion), Core Shelter Assistance Project (P500 million), and the *Tindahan Natin* (P160 million).

The health budget has been fluctuating almost alternate years since 1997, but it started to grow steadily since 2006 with particularly higher growths in 2008 (57.2%) and 2009 (24.9%). Total allocation for health in 2009 amounts to P35.8 billion which is up by P7.1 billion on account of budgetary increases for the DOH-Office of the Secretary (P4.2 billion) and the National Nutrition Council (P3.3 billion). Note that the *Malusog na Simula, Yaman ng Bansa* Nutrition Program was introduced as a new item under NNC, but this is an on-going program that the Department of Education will continue to administer. In 2008, allocation for the nutrition program under DepEd

amounted to P2.5 billion which means that additional funding for 2009 is lower at about P800 million.

Subsidy to LGUs have been consistently growing following the natural increase in the Internal Revenue Allotment. Part of the IRA amounting to P92.5 billion was classified under social services. Table 3 shows the following allocation for other sub-sectors under social services: Housing and Community Development (P5.3 billion), Land Distribution (P4.1 billion) and Other Social Services (P5 billion).

General Public Services

Total allocation for general public services amounts to P239.6 billion. The proposed allocation is P32.2 billion (15.5%) higher than the 2008 level but its share to total NG budget stays at 17%. Aside from subsidy to LGUs (part of the IRA), the increase in general public services is due to increments in general administration (P12.5 billion) and public order and safety (P8.9 billion). Under general administration, it may be noted that the allocation for the Office of the President was cut from P4.3 billion in 2008 to P3 billion in 2009.

PANTAWID PAMILYANG PILIPINO PROGRAM

The Pantawid Pamilyang Pilipino Program (4P) is a program implemented by the DSWD starting 2008 until 2013. It provides cash subsidies to poor families for their educational, nutrition and health needs. The P5 billion allocation for 2009 is expected to benefit 321,000 poor households. To determine the beneficiaries, household surveys were conducted in the poorest municipalities (of the poorest provinces) based on official poverty reports of the National Anti-Poverty Commission (NAPC) and the National Statistical Coordinating Board (NSCB).

Each household beneficiary is entitled to a maximum monthly cash grant of P1,400—i.e., P500 as food subsidy and P900 for educational assistance (at P300 per sibling). The cash subsidy is provided through an ATM at the Land Bank of the Philippines (LBP). Last February, a total of 14,000 indigent families have already received cash grants through ATM. As of 23 September 2008, there are 203,445 potential beneficiaries whose ATM cards are being processed.

On the other hand, the general administration budgets for the following agencies have increased as follows: Bureau of Customs (P3.4 billion), Bureau of Internal Revenue (P1.9 billion), Department of Foreign Affairs-OSEC (P1.8 billion), Commission on Elections (P1.1 billion), ARMM (P1 billion), and National Statistics Office (P423.7 million). Next year, BOC is set to pay its arrearages with the Societe Generale de Surveillance (SGS) while the BIR intends to hire some 3,400 revenue, assessment, collection and legal officers. In the case of COMELEC, a higher budget is meant to support preparatory activities for the 2010 elections as well as the planned automation of the electoral system (a national version of the ARMM computerized elections). Preparatory activities for the 2010 population census explain the increase in NSO budget. Note that despite the proposed increment for NSO, its budget is still insufficient to cover the P1.2 billion cut in 2008. The general administration budget also includes the P4 billion budgetary support for Bangko Sentral ng Pilipinas.

TABLE 4
GENERAL PUBLIC SERVICES EXPENDITURE PROGRAM, 2007-2009

PARTICULAR	Level (in billion)			% Share to Total		Growth Rates	
	2007	2008	2009	2008	2009	07-08	08-09
General Administration	71.0	62.3	74.7	30.0	31.2	(12.3)	20.0
Public Order and Safety	72.0	74.7	83.6	36.0	34.9	3.7	12.0
Other General Public Services	7.9	11.4	11.2	5.5	4.7	44.8	(1.4)
Subsidy to Local Government Units	51.5	59.0	70.0	28.5	29.2	14.6	18.6
Total	202.4	207.4	239.6	100.0	100.0	2.5	15.5

Source of basic data: BESF, DBM

Meanwhile, a total amount of P83.6 billion was allocated for public order and safety. Even as the Miscellaneous Personnel Benefits Fund under this sub-sector declined by P1.8 billion, there is a net increase of P8.9 billion largely due to budgetary increments at the Department of Interior and Local Government (P8.3 billion)⁶ and The Judiciary (P2 billion). Next year's budget includes funds for the creation of new positions and the purchase of capital equipment like prisoner vans, firearms, and fire trucks to support the capacity enhancement program of the Philippine National Police (PNP), Bureau of Jail Management and Penology (BJMP) and the Bureau of Fire Protection (BFP). Likewise, part of the increase in the Judiciary supports the creation of positions for new court salas and the Court of Tax Appeals.

OBJECT OF EXPENDITURE

The 2009 expenditure program shows more funds going to capital outlay. This is the fourth consecutive year that the share of capital outlay in the budget has been increasing. From only 10.3% in 2005, capital outlay is expected to get 17.9% or P253 billion of the total budget in 2009. Between 2006 and 2009, capital outlay increased by more than P40 billion except in 2008 when the increase was lower at about P22 billion.

Putting more resources to capital outlay particularly in infrastructure is important in reducing logistics costs for businesses—and making investments in the country more profitable to the private sector. The Philippines needs to continue investing on infrastructure development to improve its infrastructure competitiveness ranking (48th place among 55 nations) which is low compared with Singapore (3rd), Malaysia (25th), and Thailand (39th). This is primarily due to the weak performance in basic infrastructure (*i.e.*, energy, water, air transport, rail roads and roads) where the Philippines ranked a sorry 54th place⁷.

⁶ Net of allocations for DILG-OSEC and Philippine Public Safety College which were classified under General Administration (General Public Services) and Education, Culture and Manpower Development (Social Services), respectively.

⁷ Based on 2008 World Competitiveness Yearbook (WCY), Institute of Management Development (IMD).

TABLE 5
EXPENDITURE PROGRAM BY EXPENSE CLASS, 2007-2009

PARTICULARS	Level (in billion)			% Share to Total NG Budget			Growth Rates	
	2007	2008	2009	2007	2008	2009	07-08	08-09
Current Operating Expenditures	957.0	1,004.1	1,149.9	82.8	81.8	81.3	4.9	14.5
Personal Services	341.7	384.0	429.7	29.6	31.3	30.4	12.4	11.9
MOOE	152.4	171.2	206.9	13.2	14.0	14.6	12.4	20.8
Allotment to LGUs	147.2	168.6	200.0	12.7	13.7	14.1	14.6	18.6
Interest Payments	267.8	269.8	302.7	23.2	22.0	21.4	0.8	12.2
Subsidy	47.9	10.4	10.6	4.1	0.8	0.7	(78.3)	1.9
Capital Outlays	188.7	210.6	253.0	16.3	17.2	17.9	11.6	20.1
Infrastructure	111.5	115.4	139.3	9.7	9.4	9.8	3.4	20.7
Corporate Equity	11.7	2.1	6.6	1.0	0.2	0.5	(81.7)	209.4
Special Shares to LGUs	4.0	8.0	11.0	0.3	0.6	0.8	98.7	38.3
Other Capital Outlays	24.7	43.0	46.1	2.1	3.5	3.3	74.0	7.1
Capital Transfer to LGUs (IRA)	36.8	42.1	50.0	3.2	3.4	3.5	14.6	18.6
Net Lending	9.8	12.0	12.2	0.8	1.0	0.9	23.1	1.3
TOTAL	1,155.5	1,226.7	1,415.0	100.0	100.0	100.0	6.2	15.4

Source of basic data: 2009 BESF, DBM

Of the total P253 billion for capital outlay, 55% or P139.3 billion goes to infrastructure. This is higher by P23.9 billion compared with the P115.4 billion that was appropriated in 2008. The proposed infrastructure spending for 2009 is 1.6% of GDP which is way below the 5% benchmark that the World Bank recommends developing nations (like the Philippines) need in order for infrastructure to have an impact on growth and poverty reduction. Meanwhile, capital transfers to LGUs amounting to P50 billion represents the 20% Development Fund which is taken out of the IRA. It is not certain, however, whether or not the Fund is actually used to build up local capital investments or is utilized to augment other regular programs of LGUs.

Total current operating expenditures (COE) amounts to P1,149.9 billion or 81.3% of the budget next year. The budget for COE includes P429.7 billion for personal services which is up by 11.9% from this year's P384 billion largely due to the provision for the proposed Salary Standardization Law III. According to the President's Budget Message, SSL III aims to make the salaries in government competitive with that of the private sector and will significantly benefit teachers, nurses, lawyers and medical officers. Some P20 billion has been earmarked for the first tranche of the implementation of SSL III.

For interest payments, NG allotted P302.7 billion or 21.4% of the total budget. This is the fourth year since 2006 that the share of interest payments in the budget has been steadily declining. Meanwhile, programmed subsidy for 2009 slightly increased by P200 million to P10.6 billion but

this is significantly lower than previous years (2004-2007) when NG spent between P17.6 billion and P47.9 billion in subsidy.

COST STRUCTURE

The cost structure of the 2009 expenditure program (*net of debt service*) shows that projects will get more than half (54.4%) of the budget while general overhead and operations account for 6.2% and 39.4%, respectively. Allocation for each component is expected to increase in 2009, but the increment for general overhead is minimal at P7.2 billion compared with operations (P73.4 billion) and projects (P74.8 billion).

While it appears that general overhead substantially declined in favor of locally-funded projects in 2008, it was observed that lump sum funds like Pension and Gratuity Fund, Miscellaneous and Personnel Benefits Fund, Tax Expenditure Fund and International Commitments Fund are classified under locally-funded projects when they are being proposed. However, they are likely reclassified as general administration expenses as they form part of the budget of recipient agencies. The 2007 budget proposal originally assigned P39.1 billion for general administration and support, and P358.8 billion for locally-funded projects which included Pension and Gratuity Fund (P65.5 billion) among other lump sum funds. However, actual 2007 spending (as presented in 2009 BESF) for general administration was significantly higher at P130.3 billion while locally-funded projects was lower at P304.7 billion.

TABLE 6
COST OF STRUCTURE OF THE NG BUDGET
(NET OF DEBT SERVICE), 2007-2009

PARTICULARS	Level (Amount in Billion)			Percent Share to Total			Growth Rates	
	2007	2008	2009	2007	2008	2009	07-08	08-09
General Overhead	172.1	61.5	68.7	19.6	6.5	6.2	(64.2)	11.7
General Admin. & Support	130.3	42.9	44.9	14.8	4.5	4.1	(67.1)	4.7
Support to Operations	41.7	18.7	23.8	4.8	2.0	2.2	(55.3)	27.7
Operations	362.0	359.9	433.3	41.2	38.1	39.4	(0.6)	20.4
Project	343.9	523.5	598.2	39.2	55.4	54.4	52.2	14.3
Locally- Funded Projects	304.7	490.1	557.4	34.7	51.9	50.7	60.9	13.7
Foreign-Assisted Projects	39.2	33.3	40.8	4.5	3.5	3.7	(15.0)	22.4
Grand Total	878.0	944.9	1,100.2	100.0	100.0	100.0	7.6	16.4

Source of basic data: 2009 BESF, DBM

Total allocation for projects in 2009 amounts to P598.2 billion—of which P557.4 billion (93.2%) are locally-funded projects and P40.8 billion (6.8%) are foreign-assisted projects (FAPs). FAPs can be broken down into loan proceeds (P28.5 billion), NG counterpart (P11.9 billion), and grants

(P423.8 million). While some project loans (like the Official Development Assistance) are offered at much lower interest rates, it may be necessary for NG to assess whether or not they are truly cost-efficient given the conditions imposed on the Philippine government. The ODA usually ties up the Philippine government to hire contractors, suppliers and consultants from donor countries.

Most of FAPs are infrastructure-related and will be administered by the following departments: Public Works and Highways (P25.1 billion), Agriculture (P4.5 billion), Agrarian Reform (P3.8 billion), and Transportation and Communication (P3.6 billion). Implementing agencies should improve on their absorptive capacity to optimize the benefits from timely completion of projects and avoid being charged with commitment fees. Some implementation issues concerning ODA are problems of right-of-way acquisition/resettlement, slow procurement process, institutional/operational problems (*e.g., delays in approval process for disbursements and variation orders*) and poor performance of contractors or alleged violation of contract provisions.⁸

SOURCES OF APPROPRIATIONS

Of the proposed 2009 budget, only 56% or P792 billion in programmed new appropriations will need Congressional approval. The remaining P623 billion or 44% of the budget are automatic appropriations—huge portions of which will go to interest payments (P302.7 billion) and to local governments as Internal Revenue Allotment (P250 billion). Automatic appropriations also include an allocation of P18.9 billion for personal services particularly for retirement and life insurance premiums (RLIP).

TABLE 7
BUDGET LEVEL BY SOURCE OF APPROPRIATIONS
(IN BILLION PESOS)

PARTICULARS	Amount		Share to Total (%)	
	2008	2009	2008	2009
Programmed New Appropriations	681.8	792.0	55.6	56.0
Of which:				
Personal Services <i>a/</i>	367.3	410.8	29.9	29.0
Automatic Appropriations	544.9	623.0	44.4	44.0
Interest Payments	269.8	302.7	22.0	21.4
IRA	210.7	250.0	17.2	17.7
Sub-Total, Obligation Program	1,226.7	1,415.0	100.0	100.0
ADD: Unprogrammed New Appropriations		76.0	-	-
TOTAL APPROPRIATIONS		1,491.0	-	-

a/ Net of 18.9 billion for retirement and life insurance premiums (RLIP) which is automatically appropriated.
Sources of basic data: 2008 GAA, 2008 & 2009 BESF (DBM)

⁸ 2007 ODA Portfolio Review of the NEDA- Project Monitoring Staff.

Aside from automatic appropriations, there are other items under programmed appropriations that are considered non-discretionary—*i.e.*, personal services and special shares of LGUs from national taxes.⁹ Setting aside all mandatory expenditures, it appears that only P370.2 billion or 26.2% of the budget will be effectively tackled by Congress for possible cuts and reallocations. On a good note, the discretionary portion of the budget has been consistently growing from 15.7% in 2005 to 25% in 2008 partly due to the declining share of interest payments.

The National Government also submitted to Congress a total of P76 billion of unprogrammed appropriations.¹⁰ Its approval gives NG a standby authority to incur obligations for other priority programs/projects provided that revenue collections exceed the targets and additional grants and loan proceeds are generated. In the case of foreign-assisted projects (FAPs), the existence of a perfected loan agreement shall be sufficient compliance for the issuance of a Special Allotment Release Order (SARO) covering the loan proceeds.

ALLOCATION BY DEPARTMENT

Table 8 shows that the combined allocation for all agencies (P667.4 billion) accounts for less than half of the total budget in 2009. The highest allocation amounting to P167.9 billion (*including School Building Program*) goes to the Department of Education (DepEd). In nominal terms, the DepEd budget also posts the biggest increment of P18.7 billion in 2009.

The bulk of the DepEd budget amounting to P143.8 billion will support regional operations which includes allocations for repair and maintenance of school buildings (P967.2 million), provision of office and IT equipment for division offices/schools (P408 million), cash allowances (P376.8 million), in-service training (P269 million), and the conversion and reclassification of teacher positions (P308.2 million). DepEd's budget also includes about P5 billion to take care of the funding requirement for new teaching and non-teaching positions. For SY 2009-2010 alone, the allocation of P1.4 billion will be used to support the creation of 10,000 teaching positions.

Under the Government Assistance to Student and Teachers in Private Education (GASTPE), a total of 668,206 beneficiaries are expected to receive education voucher subsidies out of the P3.6 billion allocation next year. Also, NG has set aside P2.2 billion for the purchase of more than 30 million textbooks/instructional materials but data from DepEd shows that this still leaves roughly another 33 million of unfunded textbooks for non-core subjects.

⁹ LGUs have special shares in the following taxes: tobacco excise tax, utilization and development of national wealth, gross income tax from ECOZONES, franchise tax, VAT, and special privilege tax (hydro-electric).

¹⁰ Unprogrammed Funds will go to Infrastructure Projects and Social Programs (P30.5 billion), budgetary support to GOCCs (P29.8 billion), foreign-assisted projects (P7.1 billion), General Fund Adjustments (P6.5 billion) and strategic government reforms (P2 billion).

Aside from the School Building Program¹¹, DepEd has lined up several projects involving construction, repair and rehabilitation of school facilities under locally-funded projects: (1) science laboratories (with purchase of equipment), P1.9 billion; (2) elementary and secondary school buildings in areas with acute classroom shortage¹², P1.6 billion; (3) classrooms, school buildings, water and sanitation facilities, P1.6 billion; and (4) internet laboratories (with purchase of equipment for Computerization Program), P1.1 billion.

Other top ten biggest recipients in 2009 budget includes the following departments: Public Works and Highways (P120 billion), Interior and Local Government (P61.9 billion), National Defense (P56.5 billion), Agriculture including AFMP (P39.7 billion), Health (P27.8 billion), Transportation and Communications (P23.6 billion), State Universities and Colleges (P22.6 billion), Agrarian Reform (P16.1 billion), and Finance (P13.8 billion).

Also part of the top ten departments are those to receive the highest budgetary increments in 2009—DepEd (P18.7 billion), DPWH (P17.6 billion), DA (P14.2 billion), DAR (P12 billion), and DILG (P8.5 billion). It may be worth mentioning that only the Office of the President posts a notable reduction (from P4.3 billion to P3 billion), and that the high growth rates relative to the 2008 appropriations were posted by the Departments of Agrarian Reform (285.7%), Social Welfare and Development (114.7%) and Finance (70.4%).

Of the total P120 billion budget for DPWH, close to P100 billion will be used for projects—locally-funded (P74.6 billion) and foreign-assisted (P25.1 billion). Total funding for projects increased by P16.5 billion from 2008 primarily on account of additional funds for roads/bridges projects to support tourism hubs (P4.2 billion) and to address critical bottlenecks (P5.2 billion), and for the rehabilitation of damaged paved national roads (P5.9 billion). Meanwhile, NG has also programmed to spend P2 billion for flood control and drainage, P3.1 billion for payments of right-of-way, P1 billion for the construction/improvement of national buildings, and P6.6 billion for various infrastructure including local projects.

¹¹ Allocation for School Buildings is as follows: (1) 50% to be allocated pro-rata according to each legislative district's student population in relation to the total student population of the country; (2) 40% to be allocated among legislative districts with classroom shortages, pro-rata to the total classroom shortages of the country as determined by DepEd; and (3) 10% as may be determined by DepEd with priority given to calamity stricken areas.

¹² Refers to the following areas: where student-classroom ratio is 50:1 or worse, where classrooms are temporary in nature or are make-shift structures, or those without any classrooms at all.

TABLE 8
NG EXPENDITURE PROGRAM BY DEPARTMENT, 2008-2009

PARTICULARS	Adj. 2008	Prop. 2009	Increase/(Decrease)	
			Amount	%
<i>Department of Education a/</i>	149.2	167.9	18.7	12.5
<i>Department of Public Works and Highways</i>	102.4	120.0	17.6	17.1
<i>Department of Interior and Local Government</i>	53.5	61.9	8.5	15.8
<i>Department of National Defense</i>	51.1	56.5	5.5	10.7
<i>Department of Agriculture b/</i>	25.4	39.7	14.2	55.9
<i>Department of Health</i>	20.3	27.8	7.5	37.2
<i>Department of Transportation and Communications</i>	22.8	23.6	0.8	3.4
<i>State Universities and Colleges</i>	20.8	22.6	1.8	8.4
<i>Department of Agrarian Reform b/</i>	4.2	16.1	12.0	285.7
<i>Department of Finance</i>	8.1	13.8	5.7	70.4
The Judiciary	10.8	12.8	2.0	18.8
Department of Environment & Natural Resources	8.5	12.5	4.0	47.0
Department of Foreign Affairs	10.2	12.0	1.8	17.7
Department of Social Welfare and Development	4.9	10.5	5.6	114.7
Autonomous Regions	8.8	9.8	1.0	11.7
Department of Justice	6.9	7.2	0.4	5.2
Department of Labor and Employment	6.4	6.9	0.4	6.5
Congress of the Philippines	6.2	6.4	0.2	2.5
Other Executive Offices	5.9	5.7	(0.2)	(2.6)
Commission on Elections	4.4	5.5	1.1	25.6
Department of Science and Technology	5.5	5.4	(0.1)	(1.0)
Department of Energy	3.6	4.7	1.1	30.1
Commission on Audit	4.1	4.0	(0.1)	(1.4)
Office of the President	4.3	3.0	(1.3)	(30.5)
Department of Trade and Industry	2.5	2.8	0.2	8.6
National Economic and Development Authority	1.8	2.3	0.5	30.2
Department of Tourism	1.7	1.7	0.1	4.6
Office of the Ombudsman	1.0	1.2	0.2	17.0
Office of the Press Secretary	0.9	1.0	0.1	9.1
Department of Budget and Management	0.8	0.8	0.0	0.1
Civil Service Commission	0.5	0.6	0.1	14.6
Commission on Human Rights	0.2	0.3	0.0	11.3
Office of the Vice-President	0.2	0.2	0.0	2.1
Joint-Legislative-Executive Offices	0.0	0.0	0.0	8.9
Departments	558.0	667.4	109.4	19.6
Special Purpose Funds	668.7	747.6	78.9	11.8
Grand Total	1,226.7	1,415.0	188.3	15.4

a/ includes DepEd School-Building program

b/ includes AFMA

Source of basic data: BESF, DBM

Total budget for the Department of Agrarian Reform amounts to P16.1 billion—of which P11 billion will come from DAR Proper and P5.2 billion¹³ from the Agriculture and Fisheries Modernization Program. Of the total P11 billion budget of DAR Proper, P8.8 billion will be used for the requirements of CARP. This brings the total programmed funding for CARP in 2009 to about P14 billion. The expiration of RA 8532 (or the extended implementation of CARP) last June 2008 raises a legal question on whether or not it is appropriate to continue providing for CARP particularly on land acquisition and distribution.

Meanwhile, the Department of Agriculture is expected to enjoy a hefty increase considering NG's commitment to improve food production amidst economic difficulties. Total DA budget amounts to P39.7 billion—of which P3.8 will come from DA Proper and P35.9 billion from the AFMP budget. The AFMP budget for DA shows the following key allocations: (1) Development of the Crops Sector (P13 billion)—primarily for the GMA Rice Program (P9.4 billion) and for High Value Commercial Crops (P2.2 billion), Irrigation (P12.6 billion), Repair/Rehabilitation and Construction of Farm-to-Market Roads in Designated Key Production Areas (P3.7 billion), and Development of the Livestock Sector (P453.6 million). Appropriations for the construction of FMRs shall be released to the DPWH but it is DA that will identify the locations of the projects in coordination with LGUs, resident-farmers and fisherfolks. Local government units shall provide a counterpart of not less than 10% of the project cost subject to their IRA level.

Next year's budget greatly favors the DILG in terms of budgetary increases for the creation of new positions and the purchase of capital equipment intended to improve the police, jail and fire protection services. NG has programmed an additional P6.1 billion for personal services and about P2 billion for capital outlay. The Philippine National Police (PNP) which accounts for 76.1% of the DILG budget will receive an additional P6.4 billion primarily to pay for the salaries of 3000 new policemen, the procurement of patrol vehicles (watercraft and aircraft) and some 5,000 firearms, and the construction of additional police stations to improve police visibility.

The Bureau of Fire Protection (BFP) which has been allotted P6.6 billion in 2009 welcomes an additional P1.5 billion to support the creation of additional 500 fire officer positions and the acquisition of fire trucks, breathing apparatus and other fire fighting gears. Similarly, the budget of the Bureau of Jail Management and Penology (BJMP) will increase by P440 million to P4.2 billion in 2009 due to additional jail officer positions and the procurement of firearms and prisoner vans.

¹³ Of the AFMP-DAR allocation, close to P3.8 billion are foreign-assisted projects which include the *Tulay ng Pangulo Para sa Kaunlarang Pang-Agraryo* (P1.5 billion), the *Agrarian Reform Infrastructure Support Project II* under JBIC (P1.4 billion), and the *Second Agrarian Communities Project* under the ADB (P897 million). A total amount of P1.3 billion was allocated for locally-funded projects in support of the *Program Beneficiaries Development Component* of the CARP, and will be distributed to the following agencies: DAR (P935.9 million), DA-NLA (P235.2 million), DPWH (P100 million), DTI (P72.3 million) and DENR (P30 million).

The budget of the Department of Health is expected to grow by 37.2% from P20.3 billion in 2008 to P27.8 billion next year. This is due to an additional P4.2 billion for the DOH-Office of the Secretary and the P3.3 billion for the *Malusog na Simula, Yaman ng Bansa* Nutrition Program which was transferred from DepEd to the National Nutrition Council. Although funding for the nutrition program is lodged with NNC, the DepEd will continue to administer the food assistance to Grades 1-6 pupils and in day care center. The nutrition assistance program aims to improve school attendance of children from poor families by mitigating hunger through the provision of one (1) kilo iron fortified rice during school days.

Key allocations of the DOH budget include Disease Prevention and Control (P4.5 billion), Health Facilities Enhancement Program (P2 billion), and the operation of special hospitals and regional medical centers (P9 billion). On top of the amounts appropriated to government hospitals, they are allowed to retain all respective incomes to augment MOOE and capital outlays. According to the DOH, total reported income of government hospitals in 2007 reached P2.3 billion which in effect increases the hospital budget by roughly 25%.

Except for DAR whose budget almost quadrupled in 2009 due to a huge allocation under AFMP, it is the Department of Social Welfare and Development (DSWD) that significantly increased from only P4.9 billion in 2008 to P10.5 billion in 2009. Notable increases were posted in the following programs: Pantawid Pamilya (P4.7 billion), *Malusog na Simula, Yaman ng Bansa* Feeding Program (P1 billion), and Core Shelter Assistance Program (P375 million). Also, an amount of P1 billion was allocated for the National Targeting System of the DSWD.

SPECIAL PURPOSE FUNDS

A total amount of P747.6 billion or more than half (52.8%) of the proposed budget are considered Special Purpose Funds (SPFs). Unlike allocations for departments that are supported by programs/projects already identified in an Agency Budget Matrix, SPFs are usually lump-sum appropriations where projects still need to be identified before any release of allotment is made by the DBM (*e.g., PDAF*). In some cases, SPFs are set aside in anticipation of future expenditures, such as in cases of calamity and payments of pensions/gratuity.

Table 9 shows that the two biggest items under SPF are interest payments (P302.7 billion) and allocations to local governments units or ALGU (P271.8 billion). Aside from debt service and ALGU, significant increases were also noted in Pension and Gratuity Fund and Tax Expenditure Fund which grew by P11.1 billion each. On the other hand, cuts were made on the following items: Miscellaneous Personnel Benefits Fund (P10 billion or 24%), Priority Development Assistance Fund (P1.7 billion or 21%), and International Commitments Fund (P300 million or 17%). While it

appears that no funding for 2009 was given to Agrarian Reform Fund (ARF), allocations for CARP can be found under AFMP and the regular budget of DAR. Note that the summary of SPF as presented in Table 9 excludes the combined allocation of P41 billion for DA and DAR under AFMP.

Notably, allocation for *Tax Expenditure Fund*¹⁴ almost doubled from P12.3 billion in 2008 to P23.4 billion in 2009. This could be due to projected increase in rice importation by the National Food Authority (NFA). Data from the Bureau of the Treasury shows that for the period January-July 2008, total tax expenditures of NFA already reached P20.7 billion although the programmed TEF for the year was only P12.3 billion. It may be recalled that NFA increased its importation requirements particularly during the 2nd quarter to cushion the effects of rising prices of rice in the market.

TABLE 9
ALLOCATION BY SPECIAL PURPOSE FUNDS, 2008-2009

PARTICULARS	Adj. 2008	Prop. 2009	Increase/(Decrease)	
			Amount	%
Debt Service -Interest Payment	269.8	302.7	32.8	12.2
Allocations to Local Government Units b/	233.1	271.8	38.7	16.6
Pension and Gratuity Fund	60.0	71.1	11.1	18.5
Miscellaneous Personnel Benefits Fund	41.0	31.0	(10.0)	(24.3)
Budgetary Support to Government Corporations b/	24.9	30.0	5.1	20.6
Tax Expenditures	12.3	23.4	11.1	90.5
Priority Development Assistance Fund	7.9	6.2	(1.7)	(20.9)
AFP Modernization Fund	5.0	5.0	-	-
Calamity Fund	2.0	2.0	-	-
International Commitments Fund	1.9	1.6	(0.3)	(16.8)
E-Government Fund	1.1	1.0	(0.1)	(4.9)
General Fund Adjustments	-	1.0	1.0	-
Contingent Fund	0.8	0.8	-	-
National Unification Fund	0.1	0.1	-	-
Area Development Assistance Fund	-	-	-	-
Agrarian Reform Fund	8.9	-	(8.9)	(100.0)
Special Purpose Funds	668.7	747.6	78.9	(8.5)

a/ includes DepEd School-Building program

b/ includes AFMA

Source of basic data: BESF, DBM

Total allocation for the *Priority Development Assistance Fund (PDAF)* in 2009 amounts to P6.2 billion or about P1.7 billion lower than in 2008. Of the total PDAF, P1.9 billion are for nationwide application and P4.4 billion are distributed to the different regions. Considering the number of

¹⁴ Refers to subsidies for tax liabilities or import duties of agencies and government corporations. This, however, has a neutral effect on NG finances as expenditures through said subsidies are plowed back as revenue collections of the BOC and BIR.

districts within the region, an across the board allocation of PDAF would entitle each district to P20 million. This could prove favorable to regions with more political districts as more funds are made available for development programs/projects within the region. On a regional basis, highest PDAF allocation goes to NCR (P580 million), Region VI-A (P380 million), and Region VI (P360 million). On the other hand, lowest allocation of P140 million each goes to Regions IV-B, XII and CAR.

NG sets aside for 2009 a total of P71.1 billion as *Pension and Gratuity Fund* for the following purposes: (1) payment of pension, P44.8 billion; (2) payment of retirement and terminal leave benefits, P25.3 billion; and (3) incentive package for employees availing of the Rationalization Program under EO 366 (series 2004), P1 billion. Of the total allocation for payment of pensions, P41 billion was set aside for AFP retirees, war/military veterans and uniformed personnel—including the payment for validated arrearages (as of 31 December 2005) in Old Age Pension due to World War II veterans, and the retirement benefits/pension differentials of PC-INP retirees.

Meanwhile, Congress has been appropriating P1 billion every year for the Rationalization Program since 2007 but only P160 million (as of March 2008) have been used to pay for the separation or optional retirement of some 1,632 government employees. According to DBM, a total of 2,131 regular plantilla positions (including unfilled positions) and 1,137 contractual/casual positions have been abolished. This resulted in a total estimated savings of P415 million which should be plowed back to support the maintenance and other operating expenses and capital outlay requirements of agencies concerned.

ALLOCATIONS TO LOCAL GOVERNMENT UNITS

Total allocation to local government units (ALGU) in 2009 amounts to P271.1 billion—of which the Internal Revenue Allotment (IRA) accounts for 92% or P250 billion. The IRA which automatically increases along with internal revenue collections grew by P39.3 billion (18.6%) from P210.7 billion in 2008. In addition, local governments will receive a total of P6.7 billion as special shares from proceeds of national taxes—*e.g.*, P5.4 billion from VAT collections (RA 7643), P607 million as shares from the utilization and development of national wealth, and P465 million from tobacco excise tax (RA 7171).

ALGU also includes an amount of P4.3 billion representing prior years' obligation due to unreleased IRA. A total of P2.5 billion will be paid out to LGUs as third installment of the NG obligation (P17.5 billion) involving the 2001 IRA that was set aside under Unprogrammed Fund. Another P1.8 billion will cover the first installment of IRA differentials due to the re-enactment of the 2001 and 2004 General Appropriations Act. Taken together, the IRA (*including settlement for prior years'*

obligation) and special shares from national taxes comprise almost one-fifth (18.4%) of the national budget.

The National Government has allocated P5 billion as premium subsidy for indigents under the National Health Insurance Program (NHIP). The target is to sustain the health insurance coverage of five million indigent families. At P1,200 enrollment cost, it will require NG about P5.4 billion¹⁵ to cover 90% of the premium contribution of five million first year enrollees. Next year's allocation of P5 billion is the highest so far but not all of it will be used as financial assistance to LGUs for the health insurance coverage of indigents. An amount of P1.7 billion has been set aside for the partial payment of accumulated arrears which according to PhilHealth is about P4 billion (*as of June 2008*).

TABLE 10
ALLOCATION TO LOCAL GOVERNMENT UNITS, 2007-2009
(IN MILLION PESOS)

PARTICULARS	2008	2009	Increased/(Decreased)	
			Amount	%
Internal Revenue Allotment	210,730.2	249,988.9	39,258.7	18.6
ADD: Prior Years' Obligation (IRA)	2,500.0	4,296.7	1,796.7	71.9
Special Shares From:				
Tobacco Excise Tax (RA 7171)	607.5	465.4	(142.1)	(23.4)
Utilization and Development of National Wealth	738.6	607.1	(131.5)	(17.8)
Gross Income Taxes paid by enterprises w/in the ECOZONES (RA 7227)	127.0	156.0	29.0	22.8
Value Added Tax (RA 7643)	3,977.0	5,433.0	1,456.0	36.6
Franchise Tax (RAs 8407 and 7963)*	10.0	56.5	46.5	465.1
2% Special Privilege Tax (Hydro-electric) (RA 7156)	12.0	12.0	-	-
Sub-Total	218,702.3	261,015.5	42,313.3	19.3
Metropolitan Manila Development Authority	1,774.3	1,792.4	18.1	1.0
Pasig River Rehabilitation Commission	254.8	769.9	515.1	202.2
Municipal Development Fund	932.1	457.5	(474.5)	(50.9)
Barangay Officials Death Benefits Fund	37.0	50.0	13.0	35.1
Premium Subsidy for Indigents under the NHIP	4,500.0	5,000.0	500.0	11.1
Financial Subsidy to LGUs	3,540.0	-	(3,540.0)	(100.0)
Kalayaan Barangay Program Fund	-	1,000.0	1,000.0	-
Kilos Asenso Support Fund	2,000.0	1,000.0	(1,000.0)	(50.0)
TOTAL	231,740.4	271,085.4	39,345.0	17.0

Source of basic data: 2009 BESF, DBM

Apparently, NG has accumulated arrears due to enrollments higher than what the programmed spending for the year can match. This can be disadvantageous both to NG and PhilHealth because it can unpredictably bloat the NG budget with accounts payables while it deprives PhilHealth of cash to readily pay for hospital and medical consulting services.

¹⁵ Estimation assumes first year enrollments for five million indigents of 4th to 6th class municipalities at 90-10 sharing scheme between NG and LGU. However, as LGUs' counterpart gradually increases in succeeding years, requirement for NG counterpart is expected to be lower assuming there are no additional new indigent enrollees.

In 2004, a total of 6.3 million indigent families were enrolled with PhilHealth—exceeding the five million target despite a meager budget of P500 million (under a re-enacted budget). However, this was not sustained in 2005 as coverage drastically dropped to 2.3 million even with a slightly higher budget of P750 million. This could be partly due to LGUs' inability to put up their counterpart in premium contributions especially as NG's share in the premium sharing scheme¹⁶ is gradually reduced in the succeeding years that an indigent is enrolled. For 2008, a total of P4.5 billion was appropriated for the Indigent Program but only P3.5 billion will be effectively released as the President vetoed the additional P1 billion introduced by Congress exclusively as LGU counterpart¹⁷ in the premium payment. The 2008 GAA also includes P3.5 billion of Financial Subsidy to LGUs to fund priority projects/sectors of legislative districts.

The National Government also provides funding for local development projects through the Municipal Development Fund (P1.2 billion including AFMA), Kalayaan Barangay Program (P1 billion), and the Kilos Asenso Support Fund (P1 billion). The MDF involves foreign-assisted projects¹⁸ meant for relending or loaning operations to LGUs with obligation to pay principal and interest like other commercial loans. The other two Funds represent additional transfers to LGUs separate from the block-grant IRA—i.e., direct transfers to address infrastructure gaps in conflict-afflicted areas and conditional transfers to encourage local investment in growth-enhancing projects.

The P1 billion allocation for the Kalayaan Barangay Program will support infrastructure projects in at least 200 conflict-afflicted barangays to be determined by the President upon recommendation of the Office of the Presidential Adviser on the Peace (OPAPP) and the Secretary of Defense. Meanwhile, the Kilos Asenso Support Fund will be used for projects like the construction of farm-to-market roads, small bridges, daycare centers, improvement of potable water supply, and agro-forestry projects—but these will require local governments to shoulder 50% of the project cost.

BUDGETARY SUPPORT TO GOCCS

Total budgetary support to government corporations in 2009 is programmed to be at P30 billion—of which P12.2 billion (40.5%) will go to net lending, P11.2 billion (37.5%) to subsidy, and the remaining P6.6 billion (22.1%) to equity. It may be noted that next year's budget introduces two relatively big items in the form of equity—Bangko Sentral ng Pilipinas (P4 billion) and Quedan and Rural Credit Guarantee Corporation (P470 million).

¹⁶ NG subsidizes the insurance premiums of indigents from 4th to 6th class municipalities by 90% during the first year of enrollment, but LGUs' share increases 5% every year until a 45-55 sharing (between LGU and NG) is reached. In the case of 1st to 3rd class municipalities, a 50-50 sharing is implemented even from first year of enrollment.

¹⁷ The amount of P1 billion was appropriated as LGU counterpart for indigents in 3rd to 6th class municipalities including the urban poor in highly urbanized towns and cities. This was vetoed because it effectively makes NG shoulder the LGU share in premium payment.

¹⁸ EAPs funded under MDF include the Mindanao Rural Development Program (P701.2 million), Health Sector Reform Agenda (P267.8 million), and the Integrated Coastal Resource Management (P189.7 million).

Net lending are cash advances by the national government for servicing guaranteed corporate debts to avoid payment defaults. Unlike equity and net lending where NG subsequently gets returns through dividends¹⁹ and repayments for cash advances, subsidies are outright NG expense used to cover operational expenses or losses of GOCCs.

Table 11 shows the repayment rate for cash advances to GOCCs for the servicing of NG-guaranteed debts. Unlike in 2006 when GOCCs were able to pay back almost all (99.5%) the cash advances—thus using up only about P100 million of the P8.3 billion programmed net lending, the 2007 repayment rate is rather low at 51.1% with actual net lending exceeding the program by P700 million.

TABLE 11
NET LENDING, 2006-2009
(AMOUNTS IN BILLION PESOS)

PARTICULARS	2006	2007	2008 Jan-Aug	2009
NET LENDING				
Program	8.3	9.1		12.2
Actual [a-b]	0.1	9.8	7.9	-
Advances [a]	27.2	19.9	13.6	-
Less: Repayments [b]	27.1	10.2	5.8	-
Repayment Rate [b/a]	99.5	51.1	42.3	-

Sources of basic data: COR, BTr and BESF (2006-2009)

As of August 2008, total NG cash advances amount to P13.6 billion but repayments were short by P7.9 billion—hence, utilizing about 66% of the programmed net lending for 2008. Based on the Cash Operations Report (COR) of the Bureau of the Treasury, the following corporations have payment deficiencies as of August 2008: NFA (P2.5 billion), NPC (P2 billion) including Casecanan, NIA Casecanan (P1.9 billion), and LRTA (P941 million).

Total budgetary support to GOCCs is P5.4 billion (21.8%) higher than in 2008 but net of allocations for BSP and Quedancor, the increase is much lower at about P900 million. This is primarily due to subsidy cuts to attached corporations of the Department of Transportation and Communication—*i.e.*, Light Rail Transit Authority (LRTA), Philippine National Railways (PNR), and North Luzon Railways Corporation (NLRC). Also, budgetary support to housing institutions like the National Housing Authority (NHA), National Home Mortgage and Finance Corporation (NHMFC) and the Home Guaranty Corporation (HGC) are expected to be lower in 2009.

¹⁹ *Cash dividends equivalent to at least 50% of the annual net earnings of GOCCs shall be remitted to the National Treasury pursuant to RA 7656 as income of the General Fund.*

Consistently on top of the list of GOCCs receiving budgetary support from the national government are the National Food Authority (NFA) and the National Housing Authority (NHA). For 2009, NG proposed to double its subsidy to NFA (from P2 billion to P4 billion) for the procurement of 925,000 metric tons of palay and 1.5 million metric tons of imported rice. On the other hand, budgetary support to NHA which declined by 30% (from P5 billion in 2008) but still one of the highest among GOCCs will be used for local housing and resettlement programs—*i.e.*, the Northrail-Southern Linkage Project, Northrail Settlement Project and North Luzon Expressway (NLEX Phase 2) Resettlement Project.

TABLE 12
TOP 10 RECIPIENTS OF BUDGETARY SUPPORT
TO GOVERNMENT CORPORATIONS, 2007-2009

PARTICULARS	LEVEL (In Billion Pesos)			Growth Rates	
	2007	2008	2009	07-08	08-09
National Food Authority	1.10	2.00	4.00	81.8	100.0
Bangko Sentral ng Pilipinas	-	-	4.00	-	-
National Housing Authority	1.36	5.00	3.50	268.5	(30.0)
National Home Mortgage Finance Corporation	0.50	1.40	0.90	180.0	(35.7)
Cagayan Economic Zone Authority	0.21	0.60	0.80	180.4	33.3
Home Guaranty Corporation	1.50	0.90	0.60	(40.0)	(33.3)
National Electrification Administration	0.30	0.32	0.50	6.6	55.1
Philippine Coconut Authority	0.29	0.36	0.49	24.1	36.1
Quedan and Rural Credit Guarantee Corp.	-	-	0.47	-	-
Philippine Rice Research Institute	0.26	0.26	0.42	-	60.8
Others	11.76	13.82	14.36	17.6	3.9
TOTAL	17.28	24.66	30.04	42.7	21.8

Source of basic data: BESF, DBM
Note: Net of tax subsidy

Last year (2007), the Bangko Sentral ng Pilipinas incurred a huge loss of P89.2 billion while trying to defend the peso currency from fluctuations in the foreign exchange rate which if left unchecked could have been damaging to the economy. To recover part of BSP losses, NG will provide in 2009 a P4 billion equity chargeable against the unsubscribed capital of P40 billion due the BSP. Under Section 2 of Republic Act 7653 (known as the BSP Charter), the BSP is entitled to a total capitalization of P50 billion but only P10 billion has been paid by NG since July 1993.

The National Government also intends to provide debt-ridden Quedancor a budgetary support (equity) amounting to P470 million. Quedancor, a state credit institution for the agriculture-fisheries sector, currently owes various banks a total of P11.4 billion. Due this, it pushed for a P3.5 billion rescue package but the Department of Finance (DOF) stands firm that the programmed P475

million was all that it needed to buy time to address creditor concern while it looks for a sustainable solution.²⁰

Meanwhile, National Home Mortgage Finance Corporation (NHMFC) will receive a P900 million budgetary support—of which P500 million will be in the form of subsidy and P400 million as equity. The release of appropriations for NHMFC is conditional subject to the implementation of a rehabilitation program to increase collection efficiency and improve quality of its loan portfolio. On a positive note, attaching conditions to NG subsidy could be one way of making sure that recipient agencies do their share in ensuring the optimal and efficient use of government resources.

REGIONAL ALLOCATION

On the aggregate, total regional budget amounting to P557.1 billion accounts for 39.4% of the proposed 2009 budget. This is a slight improvement from the past two years when the regional share of the budget was down by about four percentage points²¹. In nominal terms, regions with the highest allocations include National Capital Region (P52.4 billion), Region III (P51.4 billion), and Region IV-A (P48.4 billion). However, these same regions have relatively high population counts—thus, per capita allocation are among the lowest.

Table 13 indicates some imbalance in the per capita allocation of the budget when compared with the poverty incidence in the region. The Autonomous Region of Muslim Mindanao (ARMM) which has the highest poverty incidence (61.8%) has one of the lowest per capita allocation of P5,710 (rank 13). On the other hand, Region II and the Cordillera Administrative Region (CAR) which have relatively low poverty incidence enjoys much bigger per capita allocations of P8,520 (rank 4) and P13,851 (rank 1), respectively.

It is also worth noting that high poverty incidence in some regions like Mimaropa (IV-B) and CARAGA is appropriately matched by relatively high per capita allocations. For 2009, per capita spending for these two regions are programmed to be at P9,388 and P9,659, respectively. Similarly, regions with least poverty incidence (NCR, Region 3 and Calabarzon) are the same regions belonging to the bottom three in terms of per capita allocation.

²⁰ “*Quedancor wants P3.5-B gov't bailout*”, *Business World*, 30 September 2008.

²¹ *Total regional budget was based on 2007 and 2008 BESF.*

TABLE 13
REGIONAL ALLOCATION
VIS-À-VIS POVERTY INCIDENCE, 2009

REGION	Poverty Incidence (2006)	Rank	2009 Allocation		
			Amount (in Billion)	Per Capita	Rank
Philippines	32.9				
ARMM	61.8	1	23.5	5,709.7	13
IVB - Mimaropa	52.7	2	24.0	9,387.7	3
CARAGA	52.6	3	22.2	9,658.9	2
V - Bicol	51.1	4	35.0	6,853.6	8
VIII - Eastern Visayas	48.5	5	32.6	8,337.5	5
IX - Zamboanga Peninsula	45.3	6	23.9	7,409.7	7
X - Northern Mindanao	43.1	7	31.5	7,964.1	6
XII - Socksargen	40.8	8	24.2	6,320.1	11
VI - Western Visayas	38.6	9	45.5	6,655.1	10
XI - Davao	36.6	10	25.8	6,199.9	12
VII - Central Visayas	35.4	11	36.0	5,626.0	14
CAR	34.5	12	21.1	13,850.9	1
I - Ilocos	32.7	13	30.9	6,792.1	9
II - Cagayan Valley	25.5	14	26.0	8,520.4	4
IVA - Calabarzon	20.9	15	48.4	4,119.1	17
III - Central Luzon	20.7	16	51.4	5,283.2	15
NCR	10.4	17	52.4	4,533.4	16
Total Regional Budget			554.3	3,129.7	

Note: Total regional budget is net of P2.75 billion allocated to Region IV but which was not specified for either VI-A and IV-B.

Aside from the P557.1 billion that will be shared among the different regions, NG allocates another P339 billion for projects/activities of nationwide application—and the remaining P518.9 billion will be used to support Central Office operations. It is important that funds for programs of nationwide application be utilized to strategically address disparities across regions, particularly to augment the low per capita spending for regions with high poverty incidence.

CONCLUSION

As the share of interest payments continue to decline, the National Government is able to free more resources for productive and growth enhancing investments like infrastructure and education. However, as more funds are spent for infrastructure projects, it is important that government finds solutions to problems affecting the absorptive capacity of agencies. Along with this, Congress needs to ensure that agencies are cost-efficient in managing public resources and that programs are producing the right outcomes.

Amidst economic difficulties, a substantial increase for social protection programs could be a welcome proposal provided it is accompanied by a well-designed targeting and distribution system. Cash transfers to mitigate hunger should be short-term in nature—i.e., government needs to find more sustainable solutions that will eventually release poor households from dole-outs. In the case of government corporations, the provision of subsidy should be made conditional to improvements in their operations so as to reduce future dependence on national coffers.

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