PIDS
Philippine Institute
for Development Studies

Policy Notes

December 1999 No. 99-13

Improving the Spatial Dimension of the Annual Budget

*Ruben G. Mercado**

National leadership regimes over the past three decades have recognized regional development as an important policy thrust and strategy for national development. To enhance regional development, the practice of regional allocation became an integral part of the national government budgeting system. Thus, national government agencies have tried to consider allocating their limited resources to respond to the diverse needs and priorities of the country's regions for greater efficiency and effectiveness.

The last three decades saw the unique transformation and modifications of the policy and practice of regional budgeting. These changes can be classified along a continuum of centralized-decentralized system in accordance with the budgeting authority and powers of the various levels of government under each leadership regime.

Regional budgeting in the Philippines under three leadership regimes

The practice of regional budgeting in the Philippines was an innovation introduced during the Marcos administration. The Marcos regime initiated the division of the country into twelve administrative regions, putting up regional offices of its executive departments, which eventually paved the way for regional allocation of the agency budget. The CY 1978 budget was the first effort at regional budget preparation. It has then set the stage for the adoption of regional budgeting and its further enhancement in the succeeding budget exercises. Regional budgeting during this period, though, was central agency-determined and participation of subnational institutions was insignificant.

The Aquino government, under a democratic and decentralized policy framework, pursued a top-down bottom-up approach in the budgeting process. Greater consultation at the lowest possible level and a more equitable and efficient allocation in consideration of agency thrusts and the regions' level of development and needs were effected. Thus, allocation criteria were formulated and defended by the agencies before the Regional Devel-

**The author is Research Associate at the Institute. This short* Notes *is based on his study entitled "Regional Budget Determination and Allocation: A Policy Revisit" which appears as PIDS Discussion Paper Series No. 99-29.*

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opment Councils (RDCs) in finalizing their budgets for the then 14 administrative regions.

The Ramos administration continued a decentralized budgeting approach but did not give emphasis to regional budget consultation in the same fervency as its predecessor (i.e., Agency-RDC consultations in Malacañang and in the regions were no longer held). Instead, during its incumbency, it pushed for a regional block fund through the Regional Budget Allocation Scheme (RBAS). Through the RBAS, it was hoped that the RDCs would have more substantial participation since instead of just reviewing the allocation determined by the agency's central office, they will have the authority to determine what programs and projects are to be funded and implemented in the region consistent with and in support of the region's development plan and investment program. However, it did not meet a favorable reception from the legislature as it was perceived to be a form of election fund for the 1995 local poll despite efforts to explain the development objectives of the proposed fund. Attempts were made to pursue the scheme in the succeeding budget exercises but were stalled in the process.

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Regional budget allocation trends

Based on an analysis undertaken on the regional budget trends and distribution of the nine economic and social agencies, namely, Department of Public Works and Highways (DPWH), Department of Agriculture (DA), Department of Agrarian Reform (DAR), Department of Transportation and Communications (DOTC), Department of Environment and Natural Resources (DENR), Department of Trade and Industry (DTI), Department of Education, Culture and Sports (DECS), Department of Health (DOH), and Department of Social Welfare and Development (DSWD) from 1990 to 1999 in real terms, the following were the major findings:

- Except for DA, DOTC, DTI and DSWD which have given, on the average, less than 30 percent of their budgets to the regions, more than half of the total budget of the agencies have been allocated to the various regions. This also applies to the 1999 budget.

- All the agencies have shown significant fluctuations from the average regional budget over the ten-year period. For instance, the DA budget for the regions registered an all-time low of 8.8 percent in 1993 and a relatively high regional allocation of 43.7 percent in 1991. DENR had the lowest allocation at 19.1 percent in 1990 but improved it at 71.9 percent in 1996. DSWD showed the highest variability in terms of total regional allocation, ranging from P70 million in 1994 to P494 million in 1992. On the other hand, DAR, DENR and DECS showed some stabililty in both the regional budget levels and their shares to total agency budget.

- A significant positive relationship existed between regional allocation and total agency budget during the ten-year period except in the cases of DAR, DENR and DTI. In other words, when the total budget of the agency increases, its regional budget also increases. However, the rate of increase or decrease in the regional budget of agencies has been observed to be disparate with that of the total agency budget. Thus, even though regional and total budget showed consistent movements of increase or decrease, the rates of these movements do not match.

- Low regional allocation across agencies occurred in the period 1992-1994. The decrease can be attributed to the reduction in the regional budgets of the agencies as a result of the full implementation of the

1991 Local Government Code. By contrast, LGU allocation increased considerably during this period. It rose by 10 percent in 1992, 134 percent in 1993, and 42 percent in 1994 from the previous years' allocations.

❇ In 1999, the budgets of all the agencies under study were reduced relative to the previous year, except for DA and DTI. The decline in the total agency budget is reflected in the contraction in the 1999 regional allocation except in the cases of DPWH, DOTC, DA and DSWD. In terms of proportion to total agency budget, however, all agencies except DA, DTI and DSWD increased their allocation to the regions.

❇ The nine agencies exhibited variations in their allocation to the 14 regions of the country. However, some generalizations can be made with respect to the major island groupings, i.e., Luzon, Visayas and Mindanao. For all social agencies, the distribution conformed more or less to a 50-20-30 sharing for Luzon, Visayas and Mindanao, respectively, except for DOH which showed a 50-25-25 distribution from 1990-1994 and then a 70-15-15 sharing during the remaining years. For economic agencies, the shares have been variable every year. Nevertheless, Luzon, in most cases, consistently received not less than half of the total allocation. Visayas and Mindanao usually shared the remaining half. They also interchangeably shared in the reductions whenever Luzon increased its share beyond 50 percent.

❇ Per capita regional budget for all agencies declined in the 1999 budget from their levels in 1990, except for DECS. Marked reduction in per capita budget was observed for DPWH, DOH and DSWD. For DECS, however, per capita budget in 1999 was sevenfold from its figure 10 years ago.

❇ Analysis of the regional budgets utilizing some of the regional indicators relevant to the agency revealed the following in the case of the 1999 budget:

- DPWH budget per road length showed that all regions, except NCR, I, III, VII and VIII, received below the national average for the year. Mindanao got the lowest budget which was way below the average. Luzon and Visayas got about twice what Mindanao received.
- DA's budget per unit of alienable and disposable land benefited mostly Regions III, VIII and XII. The margin of difference among regions has been wide, ranging from P38 for Region VI and P575 for Region III. Luzon and Mindanao received more than the national average. In terms of budget per person engaged in agriculture, the same regions received most of the allocation. However, in terms of island groupings, Luzon received more than the national average and significantly higher than the two other islands.
- DENR's budget per unit of forest land had been given more to the Luzon and Visayas regions. Regions CAR, II, IV, VIII and all the Mindanao regions received below the average budget for the year.
- DECS budget per student had been less favorable for Regions NCR, III, IV, VII and XII. Mindanao received the least budget compared with the other two islands, but the gap has been relatively minimal compared with the 1990 allocation.
- DOH budget per poor family favored NCR and CAR. The other regions obtained less than the average for the year. Visayas and Mindanao got less than half of what Luzon received. Luzon's allocation is mostly for NCR.
- DSWD's budget per poor family favored NCR, CAR, II, III, VIII, IX and XII while the other regions got less than the average. However, in terms of island allocation, the difference in allocation has been minimal.

Standing policy issues and recommendations

Two major problems in regional budgeting have gained prominence over the past years: *methodological* and *institutional*.

The *methodological issue* concerns the alleged inconsistency between the approved agency regional allocation and the regional priorities identified in the region's development plans and investment programs. This problem was atttributed to either the inappropriateness or unresponsiveness of the allocation criteria or method used by the agencies in allocating regional budget or the absence of such allocation methodology which thereby renders the process of determining regional budget as arbitrary.

The *institutional issue* refers largely to the question of the role and power of the RDC vis-à-vis national government agencies in regional budget determination. The review and recommendatory powers of the RDCs in the allocation of agency regional budgetary ceilings and in the review and approval of the annual and multi-year regional infrastructure programs and other sectoral programs requiring national funds are recognized in both past and current executive issuances. These roles or functions, however, become irrelevant as *actual* budget allocation by the national agencies to their regional offices runs parallel with the RDC recommendation.

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Regional budget determination

The determination of how much of the total agency budget will be allocated to the regions has always been dependent on the decision of the agency leadership. The common decision parameters are the agency thrusts and policies as well as the readiness and capability of the agency regional offices to administer the funds efficiently. This study revealed that the increase in allocation for regional activities also largely depends on whether or not the agency gets a raise in its total allocation for each budget year. Historically, though, this has not been the case for the DAR, DENR and DTI.

Most of the agencies under study have, to a large extent, regionalized their budgets. Agencies such as the DPWH, DAR, DENR, DECS and DOH, for instance, allocated more than half of their total budgets for the regions. In contrast, DA, DOTC, DTI and DSWD have historically kept their budget in the center, allocating less than a third of their annual budgets to the regions.

The FY 2000 Budget Call has reverted the determination of the indicative expenditure levels back to the agencies as guide in the regional budget preparation. The challenge, therefore, is for agencies to derive the optimal proportion of regional budget relative to their total agency appropriations. This is especially serious for the four abovementioned agencies which have remained centralized. While it may be easier to understand the constraints for agencies like the DTI and DOTC, whose programs are strategic, and the DSWD, whose funds are normally centrally kept for disaster relief, in further increasing funds for their regional activities, it is quite difficult to appreciate the case for the DA. After all, agricultural activities rest largely on the dynamism of the agricultural sector in the regions which is further enhanced if sufficient funds are made available. The need to seriously examine the seeming disproportionate allocation between centrally-administered and regionally-managed funds, especially for DA, is thus imperative.

Regional allocation

The study likewise showed that the use of regional allocation criteria had been effective in influencing the shape of the final regional budget, making it more sensitive to the region's development conditions. Thus, the need to revisit the respective agency's allocation criteria for application in future budget exercises cannot be overemphasized.[1] Despite some observed weaknesses in the methodologies, their application proved to be more responsive than their nonuse. The absence of a set of logi-

[1]Related to this, according to a NEDA report, during the Technical Budget Hearing for the FY 2000 budget, only the infrastructure agencies were prepared to present the regional breakdown of their programs and projects. DPWH even discussed the regional allocation scheme currently under review by the agency.

cal criteria in allocation can lead to greater risks of inefficiency, unresponsiveness and inequity. It may even worsen the already unfavorable situation.

One of the problems for the nonsustainability of use of the methodology is the unavailability of updated statistical data needed for the use of the allocation formula. The absence of a model that will take into account qualitative criteria such as relative comparative advantage or relative competitiveness of the region in a particular development sector is also a factor. The development of models to capture more complicated summary indicators to make the allocation methodology more rational is therefore a possible area for further research.

Meanwhile, even if the use of formula may prove to be rational, there is also a problem of absorptive capacity. Rich regions are said to always get the bigger slices of the national budget. For instance, during the first Legislative-Executive Department Advisory Council (LEDAC) meeting under the Estrada administration, it was pointed out that poor regions, especially in Mindanao and Regions VIII, V and CAR, receive less than the other regions. In response, the Department of Budget and Management (DBM) admitted that this is so because the poorest regions have the lowest rate of fund utilization due to their poor absorptive capacity or institutional capability to utilize the available resources. Moreover, it was stressed that economic performance should be a reward rather than a punishment in setting the allocation rule. Thus, regions like Regions III and IV, aside from Metro Manila, should not suffer in the allocation process for the reason that they lead in per capita income, industrial capacity and economic dynamism.

Both arguments are valid. On the one hand, efficiency in the utilization of funds should be rewarded. On the other hand, the laggard regions must be supported to catch up with the level of the more advanced regions. Efforts to help them achieve the infrastructure and technology of the richer regions as well as to build up their institutional capacities for effective governance must be fully extended by the government. In particular, agency

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regional offices should be empowered to be less dependent on central office by allowing them to take on a greater role in designing programs and projects and carrying them out more efficiently. This may be done through the provision by the central office of the administrative environment and flexibility as well as financial resources accompanying the increased responsibilities and accountabilities.

It must be pointed out, though, that rich and poor regions may also require a relative differentiation in the priority services. For instance, poorer regions may need to have more in terms of the social development budget while highly urbanized regions performing international functions may require specialized urban infrastructure.

Regional budgeting process, institutions and innovations

The present budgeting process no longer considers regional budget consultation as a *milestone activity* in the entire budget preparation calendar as it was in the last two regimes, especially during the Aquino administration. Rather, regional consultation has become a *procedural activity* in the agency budget preparation. The FY 2000 National Budget Call issued in February 1999, for instance, indicates that:

"The following items shall be incorporated in the agency proposals:

Regional/spatial dimension. The regional/spatial dimension of the budget shall be reflected in the agency budget such as region, province, district or municipality.

Agency central offices shall provide indicative expenditure levels to their regional units as guide in the preparation of the regional budget. RDCs shall be consulted to ensure consistency of the proposal with Regional Development Investment Programs."

The seeming lack of a mechanism provided for regional budget consultations has led the RDCs to reach a major agreement during the National Conference of their Federation in April 1999 in Malacañang which states that:

"an administrative policy shall be formulated such that the DBM shall, before finalization of the government's budget and its transmittal to Congress, consult the RDCs on the agreed budget allocation by region and by agency (for possible changes, provided any recommendation for realignment shall no longer affect the budgetary ceilings)."

While the FY 2000 Budget Call provides for the RDCs to be consulted as part of the agency budget preparation, the actual process left the RDCs to design their own strategies (technical and political) to influence agency allocation for their respective regions. This absence of a clear and organized framework for the various players in regional budgeting to harmonize their concerns may yield inequitable distribution in agency allocation for the regions.

A more standardized system needs to be in place so that regional leaders and agency heads can interact face to face and, in a more transparent fashion, discuss budget allocation and prioritization. Planning-programming and budgeting linkages can thus be done in a "cozy room" than through the "backdoor." Allowing the respective RDCs to design their own strategies to influence agency allocation for the region is a political gamble which not only entails risks but also leads to a fragmentation of development concerns.

There is also a need to look into how spatial-based budgeting, instead of just listing where agency programs are to be located, can be operationalized. An Island Budget Summit (Luzon, Visayas and Mindanao) can perhaps be held to integrate agency regional program funds.

On the logistical side, a longer budget review should be proposed. Sufficient consultations should be held on the regional breakdown of agency budgets in order to have ample time to explain and discuss the allocation scheme utilized for this purpose.

There is also a need to venture into some budgeting innovations, with the end in view of addressing the needs of the poorest regions. For instance, the RBAS or a similar scheme that was proposed in the past but never tried can be given an opportunity to show its effectiveness as a decentralized budgeting instrument. This scheme can be pilot-tested in the poorest region in each of the major island groupings (i.e., one in Luzon, one in Visayas and one in Mindanao) and evaluated on how it can be beneficial or improved for future application. A region may pertain to the traditional administrative region or to an amalgamation of a number of contiguous local government units. The Countrywide Development Fund (CDF) of senators and congressmen can also be creatively used for this purpose.

Annual regional budget analysis

Finally, a complete actual annual agency regional budget data source must be made available to extend the present analysis. With this information, it would be possible to evaluate the distribution of actual investments of the major government departments across regions and island groups on a yearly basis. Government agencies should make this readily available for their own use and evaluation and for more in-depth policy analysis of the spatial dimension of government budgeting and spending.

For further information, please contact

The Research Information Staff
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street
Legaspi Village, Makati City
Telephone Nos: 8924059 and 8935705;
Fax Nos: 8939589 and 8161091
E-mail: mruben@pidsnet.pids.gov.ph,
jliguton@pidsnet.pids.gov.ph

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