

Technical Briefer Status of COVID-19 Funds and the 2022 National Expenditure Program

Status and Analysis of the COVID-19 Funds

1. As of 30 June 2021, total fund releases authorized under Bayanihan 1 and 2 amount to Php608.5 billion pesos. These funds were sourced from reallocations of funds from within the 2019 and 2020 General Appropriations Act. Under Bayanihan 1, Php394.4 billion pesos was released while under Bayanihan 2, Php214.2 billion was released.
2. Of the Php608.5 billion released to various government agencies, Php34.2 billion pesos remained unutilized and Php33.2 billion worth of obligations were left unpaid. Under Bayanihan 1, 20.3 billion was unobligated and Php11.8 billion was left unpaid. Under Bayanihan 2, Php13.8 billion was likewise left unobligated and Php21.4 billion was left unpaid upon the expiration of the Bayanihan to Recover as One Act.
3. Bayanihan funds have been included by the Commission on Audit in their latest audit reports of funds received by government agencies in fiscal year 2020. This includes the Php67.3 billion DOH funds flagged by the COA due mismanagement and underutilization. The COA audit report on the DOH budget for fiscal 2020 highlighted the following observations:
 1. Unobligated funds amounting to Php31 December 2020
 2. Php42.4 billion worth of funds transferred to the Procurement Service without proper documentation
 3. Procedural lapses in the procurement
 4. Lack of supporting documents for various transactions may by DOH units
 5. Lack of sufficient legal basis for the disbursement of certain funds
4. The Php42.4 billion funds of the DOH transferred to the Procurement Service has been the subject of investigations by the Senate Blue Ribbon Committee. Following initial investigations, allegations of overpricing and corruption have recently surfaced with respect to the procurement of medical supplies and equipment which were declared as common-use supplies by the Government Procurement Policy Board.

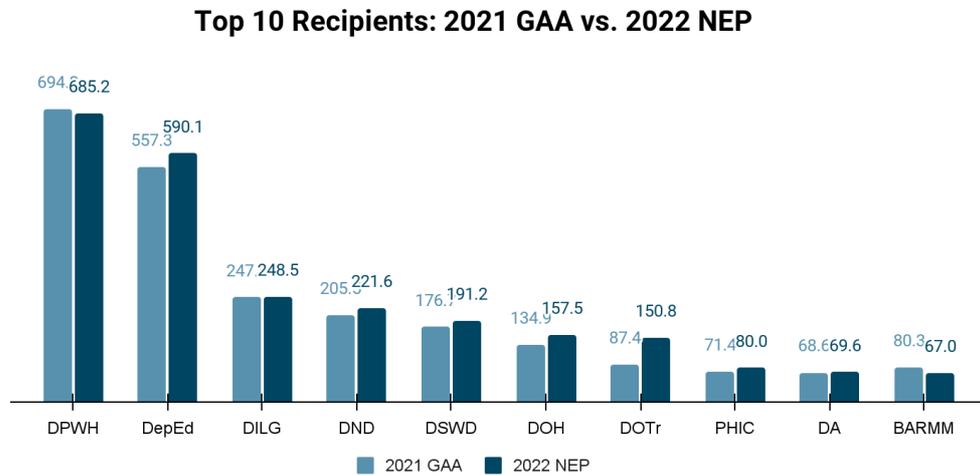
5. Aside from chronic underspending and misuse of funds, there is generally a lack of transparency in the utilization of the COVID-19 funds. Lack of transparency has been raised not only by civil society organizations but also by the COA. In its audit report on the funds transferred by DOH to the Procurement Service, COA pointed out the following:
 - a. PS failed to submit in a timely manner copies of contracts and purchase orders for COVID-related funds to the resident auditor. Some were not even submitted at all. Out of Php112 COVID-related contracts/purchase orders, 80 contracts/purchase orders were received by the resident auditor beyond the five-working day deadline mandated under COA Circular NO. 2009-001. 32 contract/purchase orders with a total amount of Php8.9 billion were also not submitted by the PS to the resident auditor.
 - b. PS did not post copies of the contracts/purchase orders awarded under the Bayanihan Acts in the GPPB online portal.
6. In general, there is also no systematic reporting of COVID-19 funds beyond the reports of the DBM which only show aggregate amounts of funds by department. There are currently no reports showing any breakdown of COVID-19 funds along with the target as well as financial accomplishments of the different departments and agencies despite the reporting requirement to Congress mandated under the two Bayanihan laws.

Highlights of the 2022 National Expenditure Program

7. The total proposed budget for 2022 is Php5 trillion. Based on the Budget of Expenditures and Sources of Financing (BESF), the medium-term fiscal program indicates that the target total expenditures is Php4.9 trillion. The expenditures encapsulated in the 2022 proposed national budget will be financed by revenues which is projected to reach 3.3 trillion pesos, while the deficit of Php1.9 trillion will be financed from foreign and domestic borrowings.
8. As a percentage of GDP, total government expenditures are projected to reach 22.4% of GDP. Revenues are projected to be at Php14.9%, while the deficit is projected to be at 7.5%. The projected deficit for fiscal year 2022 is lower than the projected deficit of 9.3% this fiscal year.
9. Compared to the current year's budget, the 2022 proposed national budget is about Php500 billion or 11% higher than the Php4.5 trillion 2021 national budget. The projected total expenditures of Php4.9 trillion is also higher than the projected total expenditures for this year which is only at Php4.6 trillion pesos.

10. Nevertheless, as of the latest reports of the Treasury, only Php2.6 trillion of the Php4.5 trillion budget for fiscal year 2021 has been disbursed. These disbursements comprise expenditures for Personnel Services and MOOE, as well as accounts payables from obligations incurred in previous fiscal years.
11. By sector, the highest allocation will go to social services. Php1.9 trillion or 38.3% of the national budget is allocated for various social services programs. The huge allocation for social services is partly due to the constitutional mandate to provide the highest level of funding for education. Next to social services, economic services comprises the second largest allocation at Php1.5 trillion. This is equivalent to 29.3% of the proposed national budget. General public services has an allocation of Php862.7 billion (17.2%), followed by debt burden with an allocation of Php541.3 billion (10.8%), and defense at Php224.4 billion (4.5%).
12. By recipient units, national government agencies continue to be the highest recipient of funding with total allocations amounting to Php3.2 trillion or 63.5% of the total fiscal space. This is then followed by Local Government Units with Php1.1 trillion or 22.2% of the total fiscal space. Creditors will receive Php541.3 billion, while GOCCs will receive total subsidies amounting to Php178 billion. These allocations for creditors and GOCCs are equivalent to 10.% and 3.5% of the total fiscal space, respectively.
13. The Department of Budget and Management typically presents education as the highest recipient of funding as compared to other departments. The sectoral budget for education includes budgets for the DepEd, SUCs, CHED and TESDA. A strict comparison of funding levels would, however, show that the budget of the DPWH under the current administration often exceeds the budget for the Department of Education.

14. In the 2022 NEP, the following are the top 10 departments



15. Despite the pandemic, the DPWH continues to emerge as the top recipient department while the DOH, along with other critical frontline agencies which are supposed to provide economic aid and fiscal stimulus, trail behind DILG and DND.

iLEAD Critique of the 2022 National Expenditure Program

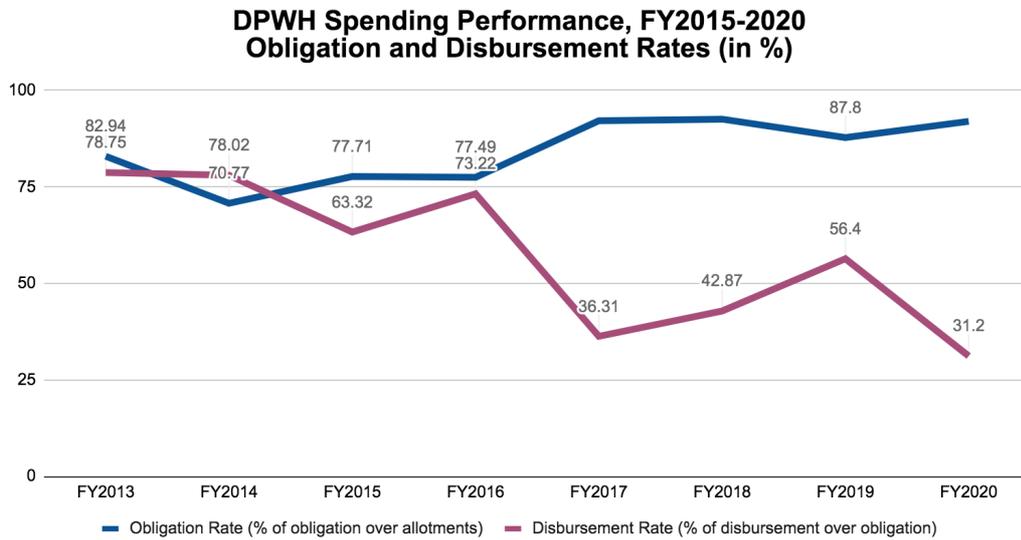
16. The pandemic has left behind long-lasting scars in Philippine economy and society as can be seen in the worst economic recession the country has ever faced and record-high economic misery due to the impact of the global pandemic. There is clearly a need to address the public health crisis first by managing the pandemic better before the economy can enter into recovery.

17. iLEAD’s analysis of the national budget shows that such a recovery strategy is not reflected in the priorities of the 2022 proposed national budget. Five key observations can be made regarding the 2022 National Expenditure Plan.

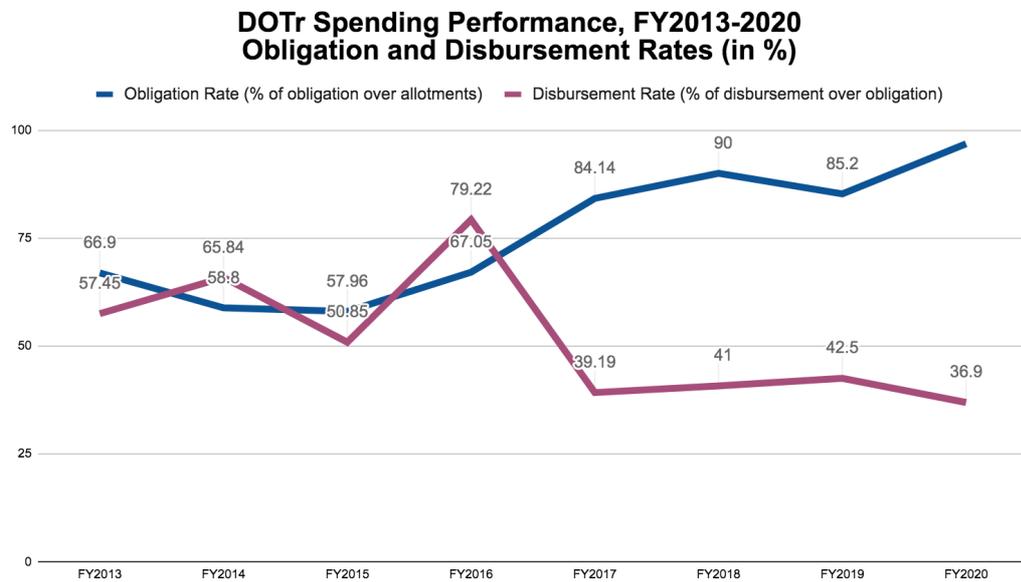
- a. First, infrastructure development continues to dominate the fiscal space even if Build, Build, Build is not the most effective strategy for health and economic recovery.
- b. Second, the 2022 NEP does not adequately support a more robust pandemic response.
- c. Third, the 2022 NEP is still not designed to support the welfare of ordinary Filipinos and the survival of small businesses in the midst of the global crisis.

- d. Fourth, the 2022 NEP is riddled with expenditure items that do not directly respond to the crisis and these continue to eat up the already limited fiscal space.
 - e. Fifth, even with the implementation of the Mandanas ruling next year, there appears to be no significant recalibration of the budgets of national government agencies.
18. Infrastructure spending remains the highest budget priority as the economic managers claim that Build, Build, Build will be the vehicle towards economic recovery. As such, a significant amount of funds have been poured into the budgets of the DPWH and the DOTr, the two main infrastructure departments of the government.
19. For FY2022, the proposed budget of the DPWH is Php685.2 billion, while the proposed budget of the DOTr is Php150.7 billion. While the proposed DPWH budget slightly decreased by 1.38%, it remains the top recipient department. Meanwhile, compared to its current year's budget level, the DOTr proposed budget for next year is 72.3% higher. This is due to the major increases in the department's railway programs.
20. Although the economic managers have repeatedly claimed that Build, Build, Build will be the vehicle towards economic recovery, this claim is not supported by hard data. Infrastructure spending involves capital expenditures, which take years to accomplish and therefore disburse. Thus, disbursements from infrastructure projects will only be able to significantly contribute to government spending 2-3 years on average for road projects and an even longer period of time for more complicated transportation projects.

21. iLEAD’s analysis of the obligation and disbursement rates of both the DPWH and DOTr shows that DPWH spending has worsened since 2017. Even if obligations rates have significantly improved, disbursement rates have slowed down as shown in the graph below:



22. Similarly, DOTr spending performance has likewise worsened since 2017 as shown in the graph below:



23. The economic managers have also claimed that Build, Build, Build has high multiplier effects, but to this day, there is no technical study published by the government to support this claim. The economic managers have also not released any data showing the measurable impacts of Build, Build, Build, such as the number of jobs created by infrastructure spending. Nevertheless, given the slow disbursement performance of DPWH and DOTr, it is unlikely that the impact of BBB will be immediately felt.
24. The infrastructure program also includes less strategic and patronage-driven projects. These projects have traditionally been lodged in the Local Program of the DPWH. In the 2022 proposed budget, funds for the local program have been slashed but this is not the end of pork. Instead, these projects were lodged in the Convergence Program of the DPWH. This program increased by a whopping 232% in the 2022 proposed budget.
25. It appears that the project categories originally included under the Local Program of the DPWH were simply rebranded for the 2022 Elections. These project categories are now called “Sustainable Infrastructure Projects Alleviating Gaps” (SIPAG) and “Basic Infrastructure Program” (BIP).
26. Economists have been pointing out that there is a need to address the public health crisis first before the country can even recover economically. However, as in the 2021 national budget, the 2022 proposed budget still does not adequately support a more robust and effective pandemic response.
27. Although the DOH budget increased by Php22.2 billion or 16.8%, the increase largely went to the Health Facilities Enhancement Program and Human Resources for Health. Nonetheless, the funds for vaccines are again parked under the Unprogrammed Appropriations. Php45.4 billion for the procurement of vaccines will again be financed by through loans despite projected revenues amounting to Php3.3 trillion.
28. There is also no allocation for contract tracing either in the budgets of the DOH or the DILG where it was lodged under Bayanihan 1 and 2. There is no allocation for the special risk allowances of healthcare workers and there is no additional budget to expand testing. The allocation included in the DOH budget under the 2022 NEP is limited to the procurement of testing kits, but not the creation of new laboratories that will enable massive testing.
29. Despite COVID-19 ranking now as the 5th cause of death in the Philippines, budgets for epidemiology and surveillance have been slashed from Php158.6 million this year to only Php113 million in the 2022 NEP.

30. Economic misery has been at an all-time high since last year. Civil society organizations and economists alike have been calling for ayuda and stimulus to tide over poor Filipinos and small businesses from the socioeconomic impact of the pandemic. But the economic managers continue to scrimp on aid, making the Philippines one of the countries in Southeast Asia with the least amount of fiscal stimulus provided to citizens. Worse, Bayanihan 3 remains unlegislated due to the absence of a certificate of availability of funds from the Department of Finance.

31. In 2020 NEP, the DSWD budget increased by Php14 billion, but there is no cash transfer program similar to the direct cash subsidies provided to households during the lockdown period last year. This is despite the fact that people continue to experience hunger and loss of livelihood.

32. The 2022 proposed budget for DSWD also shows a Php5.5 billion peso cut for budget item that is intended to help individuals and families in difficult circumstances as shown in the table below:

**Less funds for individuals and families in difficult circumstances;
little-to-no movement for programs targeting vulnerable groups**

DSWD	2021 GAA	2022 NEP	2021 GAA v 2022 NEP	
			Amount	% change
Office of the Secretary	174,718,184,000	188,983,243,000	14,265,059,000	8.16%
Protective services for individuals and families in difficult circumstances	23,560,925,000	18,033,820,000	-5,527,105,000	-23.46%
Assistance to Persons with Disability and Older Persons	11,167,000	11,167,000	0	0.00%
Comprehensive Project for Street Children, Street Families and IPs - Especially <u>Badjaus</u>	34,924,000	34,924,000	0	0.00%
Reducing Vulnerabilities of Children from Hunger and Malnutrition in BARMM or Bangsamoro <u>Umpungan</u> sa Nutrisyon (BangUN)	161,132,000	161,296,000	164,000	0.10%

33. While the total budget of the DOLE increased from Php24.9 billion in the 2021 GAA to Php27 billion in the 2022 NEP, there is only a marginal increase in labor assistance programs despite the persistence of unemployment and underemployment.

34. The 2022 proposed budget of the DepEd increased by Php32.8 billion. However, this budget remains inadequate to support distance learning and ill-prepared for the resumption of face to face classes.

35. Despite business closures, there were several cuts in the budget of the DTI. Its total budget increased by Php964 million - most of which went to the MSME development. However, the MSME development program is a regular program of the DTI which it has been implementing even before the pandemic. This budget item does not include the fiscal stimulus needed to support micro, small and medium enterprises. There is also currently no additional subsidy to the Small Business Corporation to provide greater assistance to struggling businesses.
36. Budget cuts or stagnation were also seen in the 2022 proposed budget of the DOT. Although its total budget increased by Php742 million, there appears to be no clear direction for the recovery of the tourism industry or a strategy to assist tourism workers who have been badly affected by the pandemic. Instead, the DOT budget included a Php1 billion increase for its branding campaign which will not likely deliver any significant impact in the immediate future given the continuous surge in COVID-19 cases.
37. While stagnation and budget cuts were generally observed in the budgets of key frontline departments, the 2022 NEP contains expenditure items that do not directly respond to the pandemic. Examples of these are the following:
 - a. NTF-ELCAC Barangay Development program with Php28.1 billion.
 - b. Anti-communist insurgency funds in the PNP budget amounting to Php1 billion and other smaller projects for the same purpose in the DILG budget.
 - c. Financial Assistance to Local Government Units with Php13 billion.
 - d. Confidential and Intelligence Funds of the Office of the President - Php4.5 billion.
 - e. President's Contingent Fund Php13 billion.
38. In the context of the pandemic and forthcoming implementation of the Mandanas Ruling, these lump sums funds are prone to duplication, abuse and electioneering. They could have been allocated instead to more urgent programs like vaccination, economic aid and fiscal stimulus that would benefit ordinary citizens and small businesses.

39. Lastly, despite the forthcoming implementation of the Mandanas ruling, there appears to be no recalibration of budgets of national government agencies. Nearly Php1 trillion will be downloaded to local government units as part of the National Tax Allotment. This alone constitutes about 20% of the total fiscal space and as such, national government agencies ought to identify programs and projects that need to be taken out of their budgets in view of the full devolution of functions enumerated in the Local Government Code.

40. With respect to the implementation of the Mandanas Ruling, there is also a need to strengthen local public financial management to ensure that the higher NTA will redound to benefits for local constituents.