PHILIPPINES:

Making Education Spending Count for the Children of the Autonomous Region in Muslim Mindanao

Public Expenditure & Institutional Review for ARMM Basic Education

A JOINT REPORT BY
DFAT AUSTRALIA AND THE WORLD BANK

Australian Government
Department of Foreign Affairs and Trade

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Preface

This ARMM Public Expenditure and Institutional Review (PEIR) resulted from a request by the Governor Mujiv Sabbihi Hataman for assistance in improving public resource use and basic educational outcomes in the region. We would like to thank the Governor and his office for their openness to carry forward a frank and forward looking effort to improve governance and performance in the region's basic education sector. In particular, Executive Secretaries Attys. Anwar Malang and Laisa Alamia provided support and guidance during the process. ARMM Secretary of Education Jamar Kulayan, Assistant Secretaries Noor Mohammad Saada and Maisara Latiph, Alfadar Pajiji (Chief of Staff), Mosbicak Ibrahim (Budget Chief), Analee Biruar (Accountant), Rosana Hassan (Cashier), Virginia Besana (Planning), and Marjuni Maddi (SPCO Managing Director) all spent a great deal of time assisting the team. In addition, many other officials from DepEd ARMM, school division and district administrators and individual staff and teachers gave their time and enthusiasm during both research and workshop activities.

In DepEd National Under-Secretary Francisco Varela, Assistant Secretary Jesse Mateo, and Assistant Secretary Armando Ruiz participated in the project workshop on strategic budgeting and offered their time and expertise on DepEd National policies and procedures. In DBM, special thanks are due to Director Tina Rose Marie Canda (BMB – D), Grace de los Santos (Division Chief in charge of ARMM), and Assistant Director Dante de Chavez (BMB-B in charge of DepEd National) for their participation and provision of key data.

The Consortium of Bangsamoro Civil Society (CBCS) ably implemented the schools survey under challenging circumstances. Without the efforts of Guiamel Alim, Wahab Guialal, Tarhata Sambutuan, Amier Dodo and over 90 dedicated enumerators from all parts of the ARMM, the study would have been impossible. We also thank all the respondents in individual schools who gave their time during the survey.

The BE-PEIR project is overseen by Teresita Felipe (Education Specialist, Australian Embassy Manila), Kai Kaiser, Lynnette Perez, and Matthew Stephens (WB). The report was produced by Hamish Nixon, Alma Mariano, Futoshi Yamauchi, Roy Tordecilla, Pinky Esguerra, Miro Capili, Carole Belisario, and Lea Neri. The following reviewers gave helpful comments: Samer Al-Samarrai, Elizabeth King (Sector Director, HDNED), Yongmei Zhou (Manager, Fragile and Conflict-affected Countries Unit (OPCS)), Daan Pattinasarany (Senior Economist, EASPI), Francisco Varela (Undersecretary for Finance, Department of Education), Bruce Stacey (Advisor, Performance Informed Budget (PIB), DBM), Prof. Paul Hutchcroft (Adviser, Australian Embassy Manila), Sam Chittick (Adviser, Australian Embassy Manila), Evelyn Daplas (Portfolio Manager, Australian Embassy Manila), and Assistant Secretary Noor Mohammad Saada (DepEd-ARMM).

Financial support for the exercise came from a joint Australia WB Philippines Development Trust Fund and the World Bank State and Peacebuilding Fund.

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Acronyms

ABM Agency Budget Matrix
ADM Alternative Delivery Modes
ALIVE Arabic Language and Islamic Values Education
ALS Alternative Learning Systems
ARG ARMM Regional Government
ARMM Autonomous Region in Muslim Mindanao
BAR Budget Accountability Report
BE Basic Education
BEIS Basic Education Information System
BEFF Basic Education Facilities Fund
BESF Budget of Expenditures and Sources of Financing
BLGF Bureau of Local Government Finance
BTC Bangsamoro Transition Commission
CO Capital Outlay
DBM Department of Budget and Management
DILG Department of Interior and Local Government
DPWH Departments of Public Works and Highways
DSWD Department of Social Welfare and Development
EQUALLS Education Quality and Access for Learning and Livelihood Skills
FAB Framework Agreement on the Bangsamoro
GAA General Appropriations Act (National Budget Law)
GASTPE Government Assistance to Students and Teachers in Private Education
GDP Gross Domestic Product
HDI Human Development Index
HRIS Human Resources Information System
IRA Internal Revenue Allotment
LGC Local Government Code (RA 7160)
LGU Local Government Unit
MFO Major Final Output
MILF Moro Islamic Liberation Front
MMA Muslim Mindanao Autonomy (Act)
MNLF Moro National Liberation Front
MOOE Maintenance and Other Operating Expenses
NBM National Budget Memorandum
NCA Notice of Cash Allocation
NDHS National Demographic and Household Survey
OPIF Organizational Performance Indicator Framework

ORG Office of the Regional Governor
PEIR Public Expenditure and Institutional Review
PEM Public Expenditure Management
PHP Philippine Peso
PI Performance Indicators
PS Personal Services
QSDS Quantitative Service Delivery Survey
RA Republic Act
RBMO Regional Budget and Management Office
REDPB Regional Economic Development Planning Board
RG Regional Governor
RLA Regional Legislative Assembly
SAOB Statement of Allotments, Obligations and Balances
SARO Special Allotment Release Order
SBM School Based Management
SBP School Building Program
SDO School Division Office
SDS School Division Superintendent
SEF Special Education Fund
SY School Year

EXECUTIVE SUMMARY

Children in the Autonomous Region in Muslim Mindanao (ARMM) have long suffered from the effects of underdevelopment, neglect, poor governance, and conflict. The proportion of impoverished families in the ARMM is the highest in the country, amounting to over twice the Philippines average. The region is beset by multiple forms of violence, has a history of weak governance and corruption, and depends heavily on a central government with whom it shares both mutual distrust and ties of patronage politics. Since 2012, the new regional administration has pursued a reform and anti-corruption agenda focused on strengthening services and relations with the national government. Negotiations between the Moro Islamic Liberation Front (MILF) and government have also produced a "Framework Agreement" and road map to establish the "new political entity" known as Bangsamoro.

This Basic Education Public Expenditure and Institutional Review (BE-PEIR) examines the public expenditure management (PEM) system for basic education in the ARMM. It describes ARMM's Public Expenditure Management "Syndrome," which is characterized by longstanding socioeconomic and political issues, and assesses its impacts on public expenditure and education delivery and outcomes. It has three inter-related objectives:

- To improve the quality of basic education in ARMM by diagnosing public expenditure management issues and suggesting improvements;
- To improve public expenditure management processes and practices in the region;
- To improve fiscal autonomy arrangements and inform planning for the proposed Bangsamoro political entity.

This review is one component of a joint Australian Aid and World Bank supported project to enhance fiscal transparency and budget effectiveness in the ARMM (particularly in the basic education sector), reinforce the reform agenda for ARMM, and contribute to preparations for establishing the Bangsamoro. Basic education (BE) is defined broadly to include elementary and secondary schooling as well as other programs for school aged children such as Alternative Learning Systems (ALS) and Islamic education. The project builds on prior support to DepEd ARMM through the Australian Aid Basic Education Assistance for Mindanao (BEAM) activity.

The project was initiated at the request of the ARMM regional government to enhance dialogue and reduce the trust gap between ARMM government and national and regional stakeholders, enhance efficiency and effectiveness of spending in basic education,

and support institutional reforms. It has three components:

- This Public Expenditure and Institutional analysis and report;
- Technical assistance to ARMM Regional Government and DepEd ARMM on planning, budgeting, and dialogue with national budget institutions; and
- Technical assistance on issues including vulnerabilities in the education payroll: "ghost teachers," Human Resources Information and Payroll systems reform, and a facilities survey focused on teacher and student absence.

Positive change is contingent on the peace process, reform orientation of the regional government, and improvements in the relationship between ARMM and national authorities. These opportunities can be best seized by enhancing ARMM and national institutions in the short-term, and learning from the ARMM's history to inform the design of enhanced autonomy institutions for the Bangsamoro.

Key findings

ARMM suffers from extremely poor education outcomes (Chapter 2). Enrolment, completion, and attainment rates for elementary education lag behind most regions in the Philippines. These outcomes perpetuate "poverty traps" and decrease the prospects of children in the region to enjoy better living standards and attain secure employment. From 2011-12, only 23 percent of students in Grade 1 made it to grade 6 against a national average of 73.5 percent. At secondary level, around 45 percent of 1st Year students continued studying until 4th year, whereas the national average was 78.8 percent. In other terms, only 1 out of every 10 students who began primary education in ARMM will graduate from high school.

Such low completion rates decrease the efficiency of a given level of education inputs, amplifying the impact of problems in the public expenditure management system. Due to the attrition of students leaving the system, it takes 32 percent more spending and effort to produce a single high school graduate in ARMM than elsewhere in the Philippines, and twice the effort to produce a Grade Six graduate in ARMM as elsewhere.

In 2011-12, the average achievement test score for Grade 6 students in ARMM was 54.1 percent, whereas the national average was 66.8 percent. The average achievement score of 4th Year high school students was 37.1 percent, more than ten points below the national average of 48.9 percent. Literacy rates for people aged 10-64 were estimated to be 71.6 percent in 2010, well below the national average of 86.4 percent.

There have been longstanding issues on the effectiveness and quality of education delivery, including ghost teachers, poor infrastructure, and lack of teaching and operating resources in schools. The project carried out a representative surprise survey of schools in ARMM.

The survey confirmed widespread school closures and absence rates for teachers of about 31 percent, and pupils of 29 percent. Areas where teacher absence was high also generally experienced high student absence, and these problems appear particularly in Lanao del Sur (Chapter 5).

After years of underfunding, the aggregate amount of regional funding for education inputs (sourced almost exclusively from national transfers) is coming in line with national levels under the Aquino administration. However, the effectiveness of public expenditure for ARMM is hampered by an ARMM Public Expenditure Management "Syndrome," discussed in detail in Chapter 3. This is characterized by:

- **Fragmentation of planning, budgeting, and execution processes** across a range of national, regional, and local actors and systems;
- **Poor integration** between regional government and national budgeting systems including the OPIF framework;
- **Inconsistencies between autonomy** arrangements for ARMM and national decentralization under the local government code;
- **Weak stewardship** and accountability for public funds.

These problems go beyond typical public expenditure challenges found throughout the Philippines, because of the exceptional burdens they cause for poor linkage of plans with budgets, weak budget comprehensiveness, slow budget execution, as well as a lack of accountability and data availability.

Summarized recommendations

For the 2014 and 2015 budget years, the ARG, DBM, and DepEd could take a number of concrete steps to improve education delivery and manage public expenditure:

- **Continue to strengthen payroll and human resources.** The DepEd ARMM and ARG should build on substantive actions already initiated to clean the teacher payroll and introduce systems to improve its integrity. These include continuing to integrate and cross-reference payroll and Human Resources Information Systems (HRIS), develop internal structures and procedures for human resource management, streamline merit-based recruitment processes through appointment boards, and communicate these achievements to both ARMM citizens and the national government. An additional priority would be to introduce incentives to improve teacher attendance, which appears to influence pupil attendance as well. A start would be utilizing attendance records during payroll processing through the HRIS.
- **Tackle a routine MOOE gap in the region.** As a result of budget fragmentation, the level of operational "routine" MOOE available to schools is significantly smaller in ARMM than elsewhere, and elementary schools do not receive regular MOOE funds. DBM, ARG, and DepEds

ARMM and National should negotiate an arrangement by which operating MOOE levels can be based on a similar norm to the national level, taking into account concerns about enrolment data quality. This will require increased budget allocations from the national government, as well as clearer policies on the allocation, delivery, and use of the MOOE and improved reporting by school divisions and districts. Until a more permanent policy is in place, an interim measure such as a capitation grant similar to School Based Management could be considered. Given ARMM's history, special emphasis must be placed on governance and monitoring. Renewed MOOE payments could be linked to a grass-roots information campaign to encourage bottom-up accountability through citizen report cards or mobile reporting.

- Plan and implement a transition of centrally managed education programs to the region. DBM, ARG, and both DepEd ARMM and National should commit to the overall objective of eventually moving all or most funds for use in the region onto the ARG budget appropriation. The first step (already underway) is information sharing between DepEd ARMM and National about the basis for the allocation of centrally-managed funds. For the preparation of the 2015 budget the DepEd National and DepEd ARMM should participate jointly in preparing the program budgets. At the same time, by mutual agreement, a few funds of importance to ARMM could be included in the ARG budget appropriation for direct execution in the region, taking into account accountability demands. Madrasah education is a good candidate, as almost half of its national appropriation is dedicated to ARMM at this time. In the medium-term (2016 budget), the ARMM or Bangsamoro could begin making allocations among programs according to its priorities.

In addition to these short-term steps in the education sector, the ARMM Regional Government and its partners can address public expenditure management more broadly through the following initiatives:

- Strengthen the intra-ARMM budget process. A more effective process of budgeting within the ARMM Regional Government is needed to shift the ORG budget team's role away from preparing the budget submission towards ensuring the inputs of the ARMM sectoral agencies support regional plans and national requirements. To do so, the ORG should supplement the National Budget call with guidelines setting out the responsibilities of ARMM agencies, building in time for agencies to collate Budget Accountability Reports (BARs), and guiding preparation of ARMM agency spending proposals by specifying data requirements and aiding integration with a regional performance informed budgeting framework (see below). Like a national budget call, these guidelines can include: indication of prior-

ity areas of government activity, programs and projects; general and specific guidelines for agency budget proposals; and calendar of budget preparation activities within the region.

- **Develop a regional performance budgeting framework that works for the region and is acceptable to national government.** The ARG budget currently has to conform to the national performance-based budgeting framework which is ill-adapted for the region. Performance accountability needs to be balanced with the need for financial control, and adapted to the region's unique conditions – its cross-sectoral responsibilities, and its partial control over its resources. The DepEd ARMM, ORG, and DBM could agree to modify the national OPIF framework for ARMM to promote a simple and limited results-based program budgeting framework that integrates activities budgeted through the ARG and national agencies and relates them to an agreed set of objectives and results indicators. The current ARMM HELPs framework of the ARMM regional government should form the basis for elaborating this framework. The need for a regional performance management framework will only become greater as more fiscal control is shifted to ARMM, and subsequently the Bangsamoro.
- **Include civil society and communities.** Effective public services depend on both top-down and bottom-up accountability. There is potential for social accountability mechanisms to improve the efficiency and effectiveness of public services in ARMM. These tools could include: increased budget transparency and publication of sector budgets or ARMM's overall budget (for example, increased MOOE funding could be publicized so that schools and communities know their entitlement); feedback mechanisms such as citizen report cards and community score-cards, hotlines, and websites; periodic survey and monitoring by civil society organizations to identify key issues and locations for attention. A second civil society implemented school survey is already being planned under this project, and will be used to pilot CSO monitoring tools. In doing so, it is important to consider the challenges for demand side interventions in the region. Teacher appointments have been at the mercy of entrenched political patronage; parents and children have been displaced; education stakeholders such as parents, civil society, and government reformers are subject to intimidation and violence; and popular expectations of what constitutes acceptable basic education have been undermined by years of poor governance and performance.

Table 1, explained in more detail in Chapter Six, summarizes these recommendations according to the Public Expenditure Management problems they are intended to confront, and potential indicators for improvement.

Table 1:
Indicative Action Plan

Problem	Actions	Indicators/Milestones
Improving ARMM Basic Education Public Expenditure Management		
Weak payroll integrity (ghost teachers, unqualified teachers, leakage of personal services)	• Continue data clean-up on HRIS and payroll • Complete and institutionalize payroll and HR manual • Enhance HRIS-payroll integration	• Completeness of HRIS & HRIS-payroll congruence • Organizational restructure complete, establishment of personnel boards • National integration of HRIS-payroll system
Teacher & pupil absence	• Incentivize teacher attendance and prevention of early dropouts • Include communities & civil society in monitoring	• Absence rates
Routine MOOE gap	• Provide additional MOOE operational funds & agree a norm-based budgeting approach with DBM/DepEd National • Introduce policy for distribution to ARMM schools • Establish reporting system to region & regional budget reporting to DBM • Include communities & civil society in monitoring	• Operational MOOE availability • Reporting on MOOE utilization
CMF budgets unconnected to policy or regional conditions	• Increase ARMM involvement in budgeting Centrally-Managed Programs, beginning with enhanced liaison capacity, participation in budget process	• ARMM/DepEd National liaison activities
CMF execution slow	• Move key centrally-managed programs to ARMM appropriation for direct release (Madrasah, ALS) • Agreed reporting benchmarks • Capacity support & staffing for program implementation (temporary & long-term)	• Proportion of program budget appropriated directly to ORG • Reporting on program fund utilization
Low or unknown completion of classrooms	• Clarify monitoring responsibilities for BEFF/SBP • Involve communities & civil society in monitoring	• School construction projects completed
LGU education spending inconsistent & inequitable	• Integrate LGUs into regional planning & budgeting, agree regional LGU expenditure responsibilities for education	• Level of LGU spending on education increased • Increased information on LGU spending to region
Improving ARMM Regional Public Expenditure Management		
Budgets unconnected to policy & planning for region	• Revise OPIF framework for ARMM • Establish sectoral budget working groups and/or joint national/regional program-budget based on HELPs framework with results indicators • Improve budget transparency & include civil society & communities in monitoring	• Develop framework of key indicators for HELPs, agree with national agencies • Pilot ARMM open data initiative
ARG budget proposal weak	• Strengthen intra-ARMM budget process prior to ORG submission (calendar, guidelines, hearings) • Increase RBMO role	• Issuance of ARMM budget circular with calendar & guidelines • Timely submission of ARMM agencies

International experience suggests that autonomy in itself is no guarantee of better governance and public services. The above short term steps need to be buttressed by a strategy for Bangsamoro to avoid the pitfalls of the ARMM PEM syndrome by addressing each of its dimensions:

1. Planning and budgeting for the fragmented sources of funds for the region need to be unified as far as possible, alongside improved revenues;
2. Regional budget processes need to connect effectively with national systems;
3. LGUs need a clearer framework of responsibilities and reporting to the region;
4. Monitoring and accounting of public funds need to be strengthened both within government and with communities, citizens, and children.

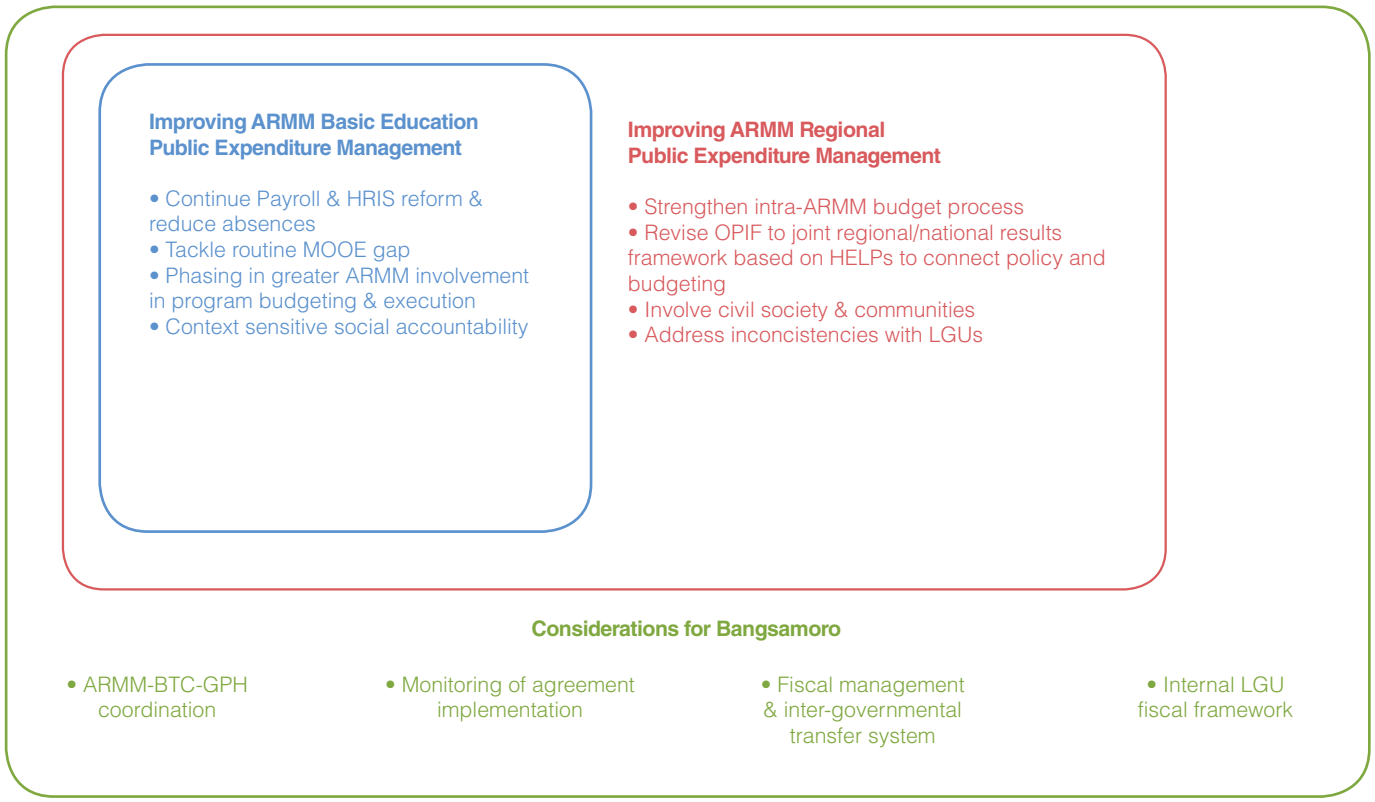
Some lessons from ARMM's experience are relevant to the work of the Bangsamoro Transition Commission (BTC) and others involved in negotiating the Basic Law and public finance provisions for the Bangsamoro:

- The importance of implementation. The failure of fiscal autonomy in ARMM is not simply the result of insufficient autonomy or poor governance. The ARMM PEM syndrome is also the result of incomplete implementation of the Expanded Organic Act, such as the establishment of effective regional budget and management institutions. A key concern for the negotiators of the Bangsamoro institutions should therefore be asking how should implementation be measured, monitored and enforced, and by whom?
- Fiscal management capacity and framework. As a subnational government the ARMM has not had to produce macro-fiscal estimates of revenue or expenditure over the medium-term, nor has it had any opportunity to make strategic cross-sectoral allocation decisions. Under Bangsamoro these two functions will likely become much more important due to an increase in the amount and flexibility of revenue under regional control. So the institutionalization of regional macro-fiscal and cross-sectoral strategic planning capacity should be a key priority.
- LGU fiscal framework. ARMM LGUs exist in a kind of limbo, having revenues that derive from the national decentralization framework, but few responsibilities or accountability to the region. The relationship between the LGUs and the region needs elaborating. In return for this increased accountability to the region, LGUs should be given a role in planning and budgeting. In short, there is a need for a fiscal decentralization framework between the region and its LGUs. A key question is whether reform of the IRA is more feasible nationally or through the regional peace process.
- BTC-ARMM-GPH coordination. The historical experience of ARMM

shows that autonomy in the context of continued central support increases the need for all actors to share information and influence, and enable capacity building. When these processes are not in place, negative cycles of weak accountability, mistrust, and blame will harm citizens and in the case of education, children. Emphasis should be given to establishing problem-solving, coordination and monitoring institutions between the Bangsamoro and the national government. Coordination should also be established between ARMM authorities and the negotiating teams to consider the transition of existing institutions – particularly for large departments such as DepEd ARMM.

Figure 1 summarizes these recommendations in relation to the objectives of improving basic education public expenditure management, strengthening the region's PEM systems overall, and informing preparations for Bangsamoro institutions.

Figure 1:
A framework for improvement



CHAPTER ONE: INTRODUCTION

Children in the Autonomous Region in Muslim Mindanao (ARMM) have long suffered from the effects of underdevelopment, neglect, and conflict. The proportion of families in poverty in ARMM is the highest in the country, and at 47 percent is over twice the Philippines average.[1] Disruption due to insurgent and clan-based conflict has been periodic but severe – in 2008 some 750,000 people were displaced during confrontations. Such levels of poverty, violence, and disruption affect childhood opportunities and ability to learn, and the poor economic climate keeps emerging graduates from employment, reducing returns to household investment and commitment to education.[2] Historically low investment and institutionalized corruption further deepened these problems.[3]

The current institutional form of the Autonomous Region in Muslim Mindanao (ARMM) dates back to the 1996 "Final Peace Agreement" between the Government of the Philippines and the Moro National Liberation Front (MNLF).[4] Its creation was an attempt to satisfy longstanding aspirations of Moro political actors for greater autonomy, while correcting years of actual and perceived neglect of the region's development needs. Unfortunately, the record of the ARMM has been poor on both counts. The Moro Islamic

Map 1:
Provinces of ARMM

Source:
Wikipedia
(pending official
NAMRIA maps)

[1] Government of Philippines 2012 National Poverty Statistics. (http://www.nscb.gov.ph: accessed 4 April 2013). The national average family incidence of poverty is 22.3%. ARMM's incidence is almost 10 percentage points higher than the next poorest region, neighboring Region XII.
[2] World Bank (2003), pp 19-21.
[3] In 2003 per capita spending on education in the ARMM was about three quarters the national average: World Bank (2003), p 31.
[4] In 1977 two new administrative regions (IX and XII) were created in Mindanao, and the ARMM was actually formed in 1989 via Republic Act 6734.
[5] HDN/UNDP (2013).

Liberation Front (MILF), a breakaway group, did not accept the terms of the agreement, and there was a return to armed conflict. Over the same period, indicators of human development in the region stagnated or worsened until they were at or among the worst in the Philippines. In the most recent Human Development Index compiled for 2009, all provinces of ARMM except Basilan were in the bottom ten provinces. Tawi-Tawi, Maguindanao, and Sulu were the three provinces with the lowest human development index scores in the country.[5]

The national government has increased funding for ARMM in order to correct historic imbalances and support the peace process between the national government and the MILF. Both the regional budget and national agency budgets intended for the region have grown dramatically: in one estimate, these combined allocations to ARMM grew by 37.9 percent in 2011 and 72.4 percent in 2012.[6] However, while budgets for ARMM may be growing, service delivery and development outcomes have continued to fall behind because of public expenditure management problems. These include low regional revenues and extreme dependence on national government, limited control over the budget, and limited program and financial management capacity, combined with vulnerabilities in budget execution and accountability.[7] These issues have contributed to trust deficits between regional and national government, citizens, and international donors.

In response, the national government installed a caretaker administration in the ARMM in early 2012. Regional Governor in Charge Mujiv Hataman (subsequently elected in May 2013) has pursued a reform and anti-corruption agenda, and sought to strengthen services and relations with National Government. At the same time, negotiations between the MILF and the Government progressed from an April 2012 statement of principles to the signing of a "Framework Agreement on the Bangsamoro" (FAB) in October 2012. The FAB lays out a road map for a "new political entity" with a ministerial form of government, its own basic law, and an "asymmetric" relationship with the Philippine national government.[8] Should the FAB be implemented on schedule, the new entity, to be known as the Bangsamoro, will replace ARMM in 2015.

One point of view is that reform or institutional learning in ARMM are irrelevant because the end goal of the peace process is to replace the regional administration with the Bangsamoro. This study's premise is that new institutions of autonomy can be improved through the analysis of previous attempts, and the capacity to provide public services in the future can be influenced by improved systems and processes now, particularly as there will inevitably need to be some migration of larger institutions such as education systems to the new entity. In the words of one ARMM public servant:

[6] Antonio and Habito (2012), para 22.

[7] INCITEGov (2007), pp 55-59 and World Bank (2003), pp 36-39.

[8] GPH-MILF, Framework Agreement on the Bangsamoro (October 2012), Art. I.2-4.

[9] DepEd ARMM staff, personal communication (January 2013).

[10] World Bank (2004), pp. 34-39 and 181-185.

If the establishment of the Bangsamoro is like the act of prayer, then what we do until then is equivalent to the ablutions. The ablutions are as necessary as the act of prayer itself. [9]

In this sense, this review is also addressing the question "What factors have prevented the ARMM from creating a successful form of autonomy?" Public expenditure management for basic education is an important window into understanding both failing services and truncated autonomy. It is public expenditure management institutions that determine if budget composition, execution, delivery, and incentives allow services to be delivered effectively.[10] At the same time, the subnational fiscal system is the backbone of any effective territorial decentralization or autonomy relationship.

Improving education outcomes is among the top priorities of the regional government, forming a key component of its strategic ARMM HELPs (Health, Education, Livelihoods and Peace Support) framework. Education is by far the largest single category of expenditure for the ARMM, yet it has been beset with widely publicized problems with "ghost teachers", inadequate resourcing, and poor education outcomes. The Department of Education in ARMM accounts for 57 percent of the regional government budget in 2013, and when regional, national, and local expenditures on education in ARMM are combined they amounted to about 8.5 billion pesos in 2012 (See Chapter Four).

Structure of the BE-PEIR project

The project was initiated at the request of the ARMM regional government to enhance dialogue and reduce the trust gap between ARMM government and national and regional stakeholders, enhance efficiency of spending in basic education, and support institutional reformsincluding through the peace process. It has three components:

1. This Public Expenditure and Institutional Review;
2. Technical assistance to ARMM Regional Government and DepEd ARMM on planning, budgeting, and dialogue with national budget institutions;
3. Technical assistance on issues including vulnerabilities in the education payroll (e.g. "ghost teachers," Human Resources Information and Payroll systems reform, and a March 2013 representative facilities survey focused on teacher and student absence).

The project builds on support to DepEd ARMM through the Australian Aid Basic Education Assistance for Mindanao (BEAM) activity, and further initiatives by the World Bank and partners.

Chapter Two of this report proceeds with an introduction to ARMM's development context, including the evolution of regional institutions and the basic education system. Chapter Three describes the unique ARMM Public Expenditure Management "syndrome" that contributes to the weaknesses analyzed in this report, and in turn informs its policy

recommendations. Chapter Four analyzes public expenditures for basic education in terms of aggregate spending, expenditure composition, and specific challenges that the ARMM PEM syndrome poses for budgeting. Chapter Five assesses budget execution and frontline delivery aspects of basic education resources, incorporating findings from the facilities survey. Chapter Six summarizes the findings on public expenditure management for education in ARMM and derives recommendations both for reforms to ARMM institutions and for consideration by the Transition Commission and other stakeholders in the preparations for a new *Bangsamoro* political entity.

CHAPTER TWO: ARMM DEVELOPMENT & BASIC EDUCATION CONTEXT

Historical development of the ARMM

The Autonomous Region in Muslim Mindanao (ARMM) traces its roots to the long history of the quest for self-determination by the Muslims of Mindanao. The first Muslim settlements in the Philippines were recorded in the 1200s. By the 14th Century, the Sulu Sultanate was well established, long before the Spanish arrived in Manila in 1571. Muslims in Mindanao repelled attempts at colonization throughout Spanish rule, and this resistance continued through the American occupation.

After the establishment of the Republic of the Philippines there was large-scale migration of Christians to Mindanao, and the proportion of Muslims in Mindanao has dropped from 76 percent in 1903 to less than twenty percent today. Settlement was preceded by the establishment of military camps to clear the entry of the settlers, driving Moro and Lumad communities on to less productive land, and formal land ownership arrangements generally favoured settlers.[11]

In February 1973, the revolt escalated into an armed conflict between the Moro National Liberation Front (MNLF) and the Philippine Armed Forces. In 1975, the Western and Central Mindanao administrative regions were established, and in December 1976 in Tripoli, the Government and the MNLF agreed in principle to an autonomous region in Southern Philippines. However, when the Marcos government established this in March 1977 it was viewed by the MNLF as a unilateral step and armed struggle continued.

After assuming power in 1986, Corazon Aquino revived peace talks with the MNLF and enshrined the creation of an Autonomous Region in Muslim Mindanao in the 1987 Philippine Constitution. In August 1989 the Organic Act of the Autonomous Region in Muslim Mindanao was passed into law, and in November a plebiscite on membership in the autonomous region was conducted. Four provinces – Maguindanao, Lanao del Sur, Tawi-Tawi and Sulu – decided to join. In September 1996, the MNLF and the Government signed a peace agreement that led to MNLF Chairman Nur Misuari becoming ARMM Regional Governor. President Gloria Macapagal Arroyo supported a September 2001 plebiscite ratifying Republic Act 9054 (the "Expanded Organic Act"), which further defined the powers and responsibilities of the regional administration, and expanded the autonomous region to include Basilan province and Marawi City.[12]

A breakaway group known as the Moro Islamic Liberation Front (MILF) surfaced after 1984 and continued armed struggle through-

[11] Lumad is the common term used to describe indigenous peoples in Mindanao as distinct from both Muslim and Christian settlers.

out the 1990s. In 2000, clashes between the military and the MILF escalated to so-called "all-out war," displacing hundreds of thousands of people. President Arroyo initiated peace talks with the MILF in January 2001. A major breakthrough seemed imminent in August 2008 when the parties were set to sign a Memorandum of Agreement on Ancestral Domain (MOA-AD). The MOA-AD was declared unconstitutional by the Supreme Court in response to cases raised by local and national politicians, and renewed fighting displaced some 600,000 people.

Peace talks were revived after the election of President Benigno Aquino III in 2010. In April 2012, a set of "Decision Points on Principles" were agreed upon in Kuala Lumpur to guide the negotiations towards "the creation of a new political entity in place of the ARMM."[13] On October 15, 2012, the parties signed the Framework Agreement on Bangsamoro (FAB), which created a Transition Commission to draft a Basic Law for the Bangsamoro and established security arrangements (called "normalization"), wealth, and power sharing. Announcing the FAB, President Aquino emphasized the need for structural reform and referred to the ARMM as an experiment that had "tightened the shackles of poverty."[14]

The Basic Law will provide for a MILF-led Bangsamoro Transition Authority until a duly elected Bangsamoro government is installed in 2016. The implication is that if the new transitional authority is installed prior to the 2016 elections, it will take over from the current ARMM administration, elected in May 2013. However, the degree to which ARMM institutions will continue in force during the transitional period is still unclear.

Box 1: Selected provisions of the Framework Agreement on Bangsamoro

I.1 The Parties agree that the status quo is unacceptable and the Bangsamoro shall be established to replace the Autonomous Region in Muslim Mindanao…

I.2 The government of the Bangsamoro shall have a ministerial form.

I.3 The provinces, cities, municipalities, barangays and geographic areas within its territory shall be the constituent units of the Bangsamoro. The authority to regulate on its own responsibility the affairs of the constituent units is guaranteed…

I.4 The relationship of the Central Government with the Bangsamoro Government shall be asymmetric.

III.1 The Central Government will have reserved powers, the Bangsamoro Government shall have its exclusive powers, and there will be concurrent powers shared by the Central Government and the Bangsamoro Government.

IV.3 The Bangsamoro will have the authority to receive grants and donations from domestic and foreign sources, and block grants and subsidies from the Central Government.

IV.7 There shall be an intergovernmental fiscal policy board composed of representatives of the Bangsamoro and the Central Government in order to address revenue imbalances and fluctuations in regional financial needs and revenue-raising capacity…Fiscal autonomy shall mean generation and budgeting of the Bangsamoro's own sources of revenue, its share of the internal revenue taxes and block grants and subsidies remitted to it by the central government and any donor.

[12] Provinces that voted against inclusion in the ARMM either in 1990 or 2001 are Cotabato, Davao del Sur, Lanao del Norte, Palawan, South Cotabato, Sultan Kudarat, Zamboanga del Norte and Zamboanga del Sur; and the cities of Cotabato, Dapitan, Dipolog, General Santos, Koronadal, Iligan, Pagadian, Puerto Princesaand Zamboanga. A key element of the opposition to the Memorandum on Ancestral Domain (MOA-AD) signed in 2008 and annulled by the Supreme Court was its inclusion by fiat of some areas that had twice voted against inclusion. Under the FAB some of these areas will hold a plebiscite on membership in Bangsamoro should 10% of residents request it.

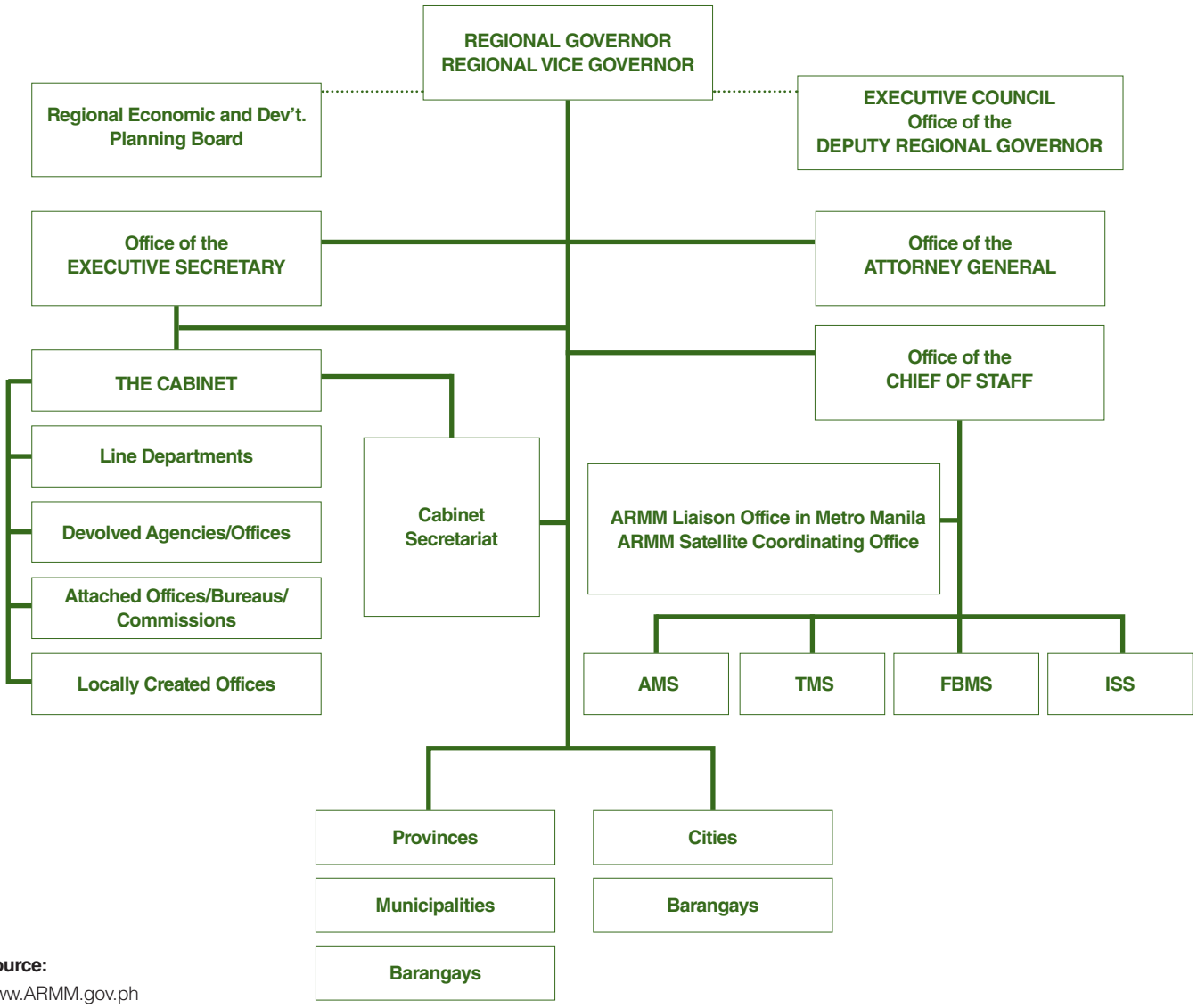
[13] GPH-MILF, Decision Points on Principles as of April 12 2012 (April 2012), point 2.

[14] Office of the President of the Republic of the Philippines, Full Text of the Speech of the President on the Framework Agreement with the MILF (7 October).

Structure of the Autonomous Region in Muslim Mindanao

As the only nominally autonomous region among seventeen administrative regions in the Philippines, ARMM has a regional government headed by a Regional Governor and its own Regional Legislative Assembly (RLA). As depicted in Figure 2 below, the Governor and Vice Regional Governor head the ARMM Regional Government, supported by an Executive Office and an Executive Secretary. The ARMM RLA is unicameral and comprises three members from each national congressional district. The ARMM Government also has a cabinet of regional secretaries and corresponding line ministries. While RA 9054 itself authorizes "no more" than ten cabinet secretaries, in practice there is a regional counterpart office for nearly every national government agency. Currently there are four bureaus, 20 departments, and nine locally created offices beyond the Office of the Regional Governor and the RLA.

Figure 2: ARMM Government Organization



Source:
www.ARMM.gov.ph

A Regional Economic and Development Planning Board (REDPB) is chaired by the Regional Governor and includes the region's provincial governors and mayors, the RLA Speaker and two additional RLA members, and five private sector representatives. In practice the REDPB deals with the limited resources raised in the region and the regional share of the Internal Revenue Allotment (IRA). Of much greater significance, the regional government receives an appropriation from the national government, and national line agencies allot funds from their own budgets for the ARMM, although until recently these were often neglected or channeled through neighboring regions.

ARMM also has ambiguous relationships with the other Local Government Units within the region. Provinces, cities, municipalities and barangays appear formally subordinate to the Regional Government (Figure 2). In reality, as pre-existing entities with their own elected local governments, and guaranteed resources under the national decentralization provisions of the Local Government Code, the LGUs within the ARMM are themselves effectively "autonomous" from ARMM control. This situation has complicated the efforts of the regional government to assert its own autonomy, and is a key structural issue for the proposed Bangsamoro.

Table 2: LGUs in ARMM

		No. of LGUs		
	Population	**City**	**Municipalities**	**Barangays**
ARMM	**3,256,140**		**116**	**2439**
Basilan (excluding Isabela City)	293,322	Lamitan City	11	209
Lanao del Sur	933,260	Marawi City	39	1155
Maguindanao	944,718	Shariff Aguak	36	462
Sulu	718,290	Jolo	19	410
Tawi-Tawi	366,550	Bongao	11	203

Source: 2010 Population Census, NSCB

ARMM development context

ARMM is the poorest region in the country, with poverty incidence among families of 47 percent, about double the national average. Although the Philippines has enjoyed a decade of economic growth, poverty levels are higher in ARMM now than in 2003. The region suffers a relative lack of economic integration even with growth centers in Mindanao itself, and this effect is worsened by conflict and related displacement and disruption.[15] Weak governance is a persistent factor undermining the delivery of services, dampening investment, and further driving continued poverty.

Widespread conflict

Multiple inter-related forms of violence affect ARMM and neighboring provinces. Insurgency and counter-insurgency, clan feuds locally known as *rido*, and pseudo-ideological criminal banditry affect different parts of the region.[16] The consequent lack of security is a major disincentive to the private sector investment necessary for job creation.

Mass displacement is a defining characteristic of violence in ARMM. Nearly a million people have been displaced in each of the 2000 and 2008 conflicts, and a 2011 survey determined that 41 percent of households in central Mindanao had been displaced between 2000 and 2010, rising as high as 82 percent in Maguindanao province.[17] Displaced people lose crops and livelihood and often sell assets, locking them into debt and long-term poverty. Displaced children are highly vulnerable, losing long periods of time in school and ending up twice as far from available schooling, even after returning to their home areas[18].

In addition to insurgency-related violence, rido conflicts may be as "pertinent to the daily lives of the people – and cause them more concern."[19] Rido are localized but can continue for long periods and trigger wider violence. The Quantitative Service Delivery Survey carried out in March 2013 found two schools closed due to ongoing rido violence – in one case, killings had taken place inside the school. Banditry and violence associated with groups such as the Abu Sayyaf are also found primarily in coastal areas.

Weak governance

The early years of ARMM were colored by a number of high profile corruption scandals, and to this day much of the region's governance is characterized by clientelistic practices, elite capture, and weak technical capacity. Governance in ARMM has been further undermined by a vicious circle of extreme dependence on a national government, resulting in a distorted and limited version of the intended autonomy. At the same time, the region has been linked to important dimensions of national politics through patronage in return for the provision of votes by local leaders in national elections. Many national government agencies implemented programs for the region through their regional offices surrounding ARMM, or simply did not make allocations for the region. ARMM effectively

[15] World Bank/Australian Aid (2010), pp 12-27.
[16] Torres (2007).
[17] World Bank/WFP (2011).
[18] World Bank/WFP (2011),
[19] World Bank/Australian Aid (2010), p 13.

was "less autonomous than local government such as cities, towns, and provinces and more subservient and dependent on the national government than any other political subdivision in the country."[20]

In this situation, the regional government, soundly re-elected in May 2013, has had limited traction against poor LGU governance. Accounts of absent local officials, non-existent development plans and programs, and personal use of LGU budgets abound, a record reflected in national good governance measures: two of five provinces, no cities and 29 municipalities out of 113 in ARMM received the Department of Interior and Local Government's (DILG) Seal of Good Housekeeping in 2011, as against a national average of 78 percent of LGUs.[21] Many LGUs lack a rating altogether due to a lack of information, and are run by entrenched political clans with private armies who operate with impunity from the law.

An important implication of endemic poor governance in ARMM is poor data. Indicators such as population and enrolment rates have been problematic, making per capita and per pupil analyses difficult. Population numbers were manipulated[22], as both voter numbers and the population-based share of the IRA could be increased this way. The 2010 census was more carefully verified, and indicated an apparent slowdown in population growth from a suspiciously high 5.4 percent in 2007 to a more realistic level of 1.51.[23] The total population in 2010 was measured at 3,256,140 million. During 2011-12 there were estimated to be 914,991 children of elementary school age (6-11 years) in ARMM, and 478,522 of secondary (11-15) age.[24]

Box 2: Selected legal provisions for ARMM's education responsibilities

Republic Act 9054 (Art. XIV, Sec. 2, par. (g)): Funding for local education programs shall be the responsibility of the Regional Government.

MMA Act No. 279 on Basic Education: The Regional Government shall establish, maintain and support as a top priority a complete and integrated system of quality education and adopt an educational framework that is meaningful, relevant, and responsive to the needs, ideals and aspirations of the people in the region (Section 2, Art. 1).

GAD Code (MMA Act No. 280) The Regional Assembly shall enact legislations for the strengthening and development of the Madrasah Educational System in the Autonomous Region (Section 10, subpar (i), Chapter III); The Autonomous Regional Government shall establish, maintain and support, as top priority, a complete and integrated system of quality education. It shall adopt an educational framework that is meaningful, relevant and responsive to the needs, ideals and aspirations of the people in the Autonomous Region (Section 56, Art. XI).

Magna Carta for Children in ARMM (MMA Act No. 162): The Department of Education in the Autonomous Region in Muslima Mindanao shall undertake an educational program that is culture sensitive and relevant to the needs and existing situation of communities in the region, including indigenous communities (Section 19, Art. 5).

[20] Bacani, B. (2005), p 46.

[21] DILG (2012).The seal of good housekeeping rates LGUs on transparency, accountability, participation and performance, particularly their disclosure policies and Commission on Audit findings.

[22] "Sharp Spike in Maguindanao, ARMM Population a Big Riddle." Philippine Center for Investigative Journalism. Web. <http://pcij.org/stories/sharp-spike-in-maguindanao-armm-population-a-big-riddle/>

[23] The national population growth rate in 2010 was 1.90 percent. ARMM's rate is likely lower due to the correction from inflated 2007 census figures. Philippines National Statistics Office 2010 Census of Population and Housing: http://www.census.gov.ph/content/2010-census-population-and-housing-reveals-philippine-population-9234-million

[24] DepEd National, Enhanced Basic Education Information System (EBEIS), SY 2011-12, online.

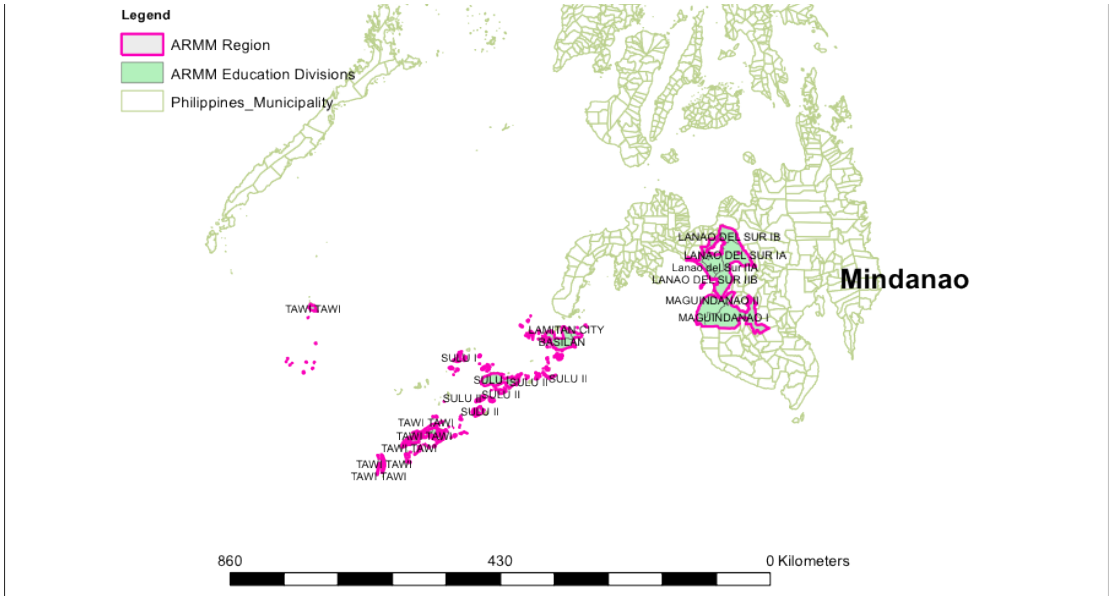
ARMM education context

Education is a regional responsibility. The first ARMM Organic Act specified that the regional government would operate a "subsystem" of the national education system, and devolution of "control and supervision over [DepEd] offices in the region" took place in September 1991 by Executive Order 459. The expanded Organic Act also stipulates that the regional government is responsible for funding education (Box 2).

The ARMM public basic education system includes 2,173 primary schools and 298 secondary schools.[25] These physical and human resources are spread across a varied landscape on the Mindanao mainland as well as the island provinces of Sulu, Tawi Tawi, and Basilan at the southern tip of the Philippine archipelago. Limited access, particularly to these "island divisions", makes supervision particularly challenging, a problem deepened by historic understaffing of supervisors for the regional DepEd. Basic education administration is divided into twelve divisions across the five provinces and two cities: one each in Lamitan and Marawi cities; one each in Basilan and Tawi-Tawi provinces; two in each of Sulu and Maguindanao; and four divisions in Lanao del Sur (Map 2).

Lanao del Sur subdivided its original two school divisions into four, though DepEd National does not officially recognize these additional divisions. In general, there appears to be a greater problem of additional staff and facilities being attributed to Lanao del Sur than the other provinces. For example, Lanao del Sur accounts for 43 percent of the region's secondary schools, despite having only 29 percent of its population.[26] DepEd ARMM has attempted to reassert a more streamlined administration in the province, but with limited results so far.

Basic Education echoes the national format: six years of elementary schooling followed by four secondary, with the phased introduc-



Map 2:
ARMM Education Divisions

Source:
DepEd, NARMIA

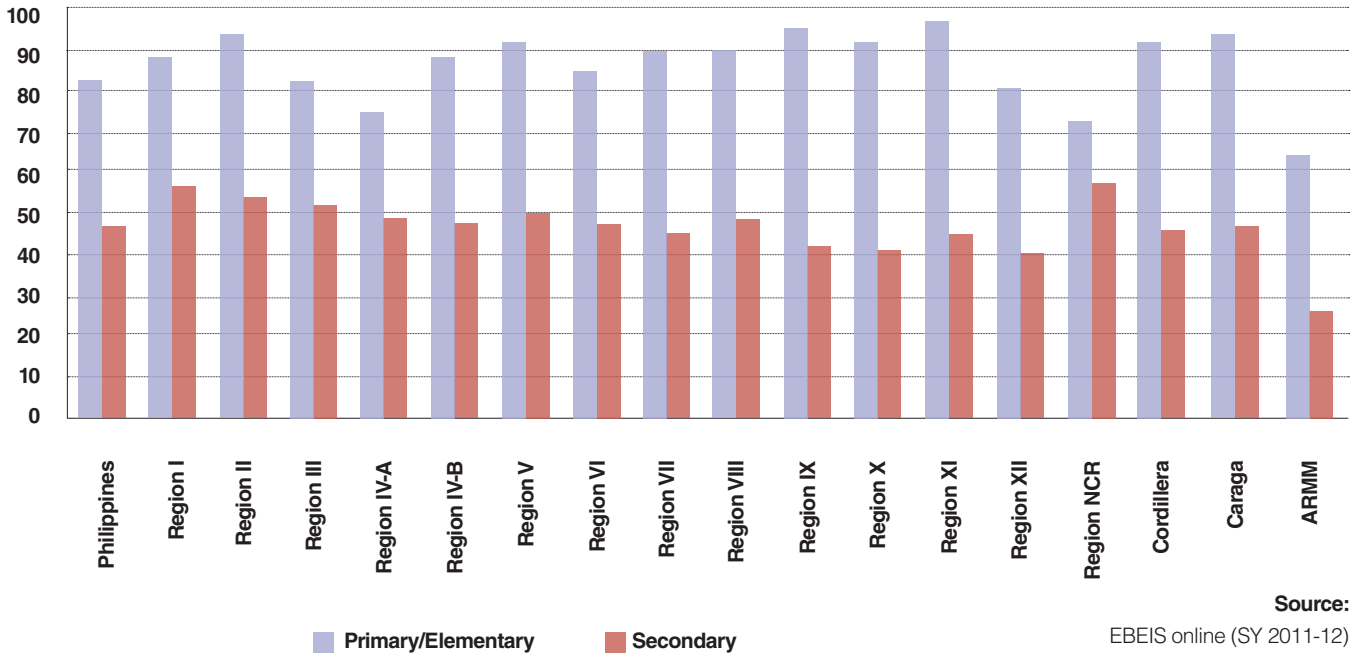
[25] DepEd National, Enhanced Basic Education Information System (EBEIS), online (SY 2011-12).
[26] National Statistics Office; EBEIS online.

tion of a K-12 program underway. Due to the remoteness and displacement already discussed, there is a higher than normal demand for Alternative Learning Systems to provide education services to out of school youth and/or displaced populations. Private alternatives, primarily madaris, have been an important part of the system, and in recent years efforts to register and regulate their curricula have been introduced. Development assistance is also addressing these conditions through, for example, the construction of community learning centers (e.g. the ARMM Social Fund) or community-based schools (under the BEAM-ARMM project).

Education outcomes

The triple challenge of limited autonomy, violent conflict, and weak technical capacity and governance are starkly reflected in

Figure 3: Net enrolment rate (%), SY 2011-12



Source:
EBEIS online (SY 2011-12)

[27] EBEIS Net Enrolment ratio nationwide was recalculated before publication, hence at time of publication national figures do not match regional figures reported on August 13, 2013 and reflected in Figure 2.

the region's education outcomes. The net enrolment rate is 64.4 percent for primary education and 26.1 percent for secondary education (SY2011-2012). While these rates are improving, they remain the lowest in the country by a large margin, and well below the average national net enrolment rates of 91.2 percent and 62.0 percent for primary and secondary education, respectively.[27]

Even worse than the problems with low enrollment, staying in school, completing secondary education and having opportunities for further study and/or employment is an extreme challenge. In SY 2011-12 only 23.1 percent of students in Grade 1 had made it to grade 6, against a national average of 73.5 percent. The situation is similar at secondary level, with only about 45.1 percent of the Year 1 students staying on to year 4 (national average is 78.8 percent). When considered together, this means that only one out of every 10 students who begin primary education will graduate from secondary school. Given net enrolment rates, fewer than six percent of children will graduate high school in ARMM. The need for Alternative Learning Systems (ALS), incentives and scholarships, and Alternative Delivery Modes (ADM) to serve out of school youth is thus greater in ARMM and similar regions than elsewhere.

High early dropout rates contribute to this low cohort survival. The dropout rate in Grade One is the highest in the country as of 2011. Lack of interest among students, difficulty of travel between home and school due to geographic isolation of some communities and the poor condition of infrastructure, and conflict and disruption hinder the quality of teaching and attendance of students. During the school survey two schools were closed due to ongoing Rido or local conflict, and four more indicated peace and order or local conflict were the number one challenge they faced.[28] The situation is the same for secondary, where the drop-out rate of 5.6 percent is higher than the achievement score of high school Year 4 in ARMM is only 37.1 percent, more than ten points below the national average of 48.9 percent. [29]

Those who graduate from high school find it difficult to continue in tertiary education, due to a combination of factors including poverty. Only 11.5 percent of females and 9.2 percent of males in ARMM are likely to have some college education, compared with the national

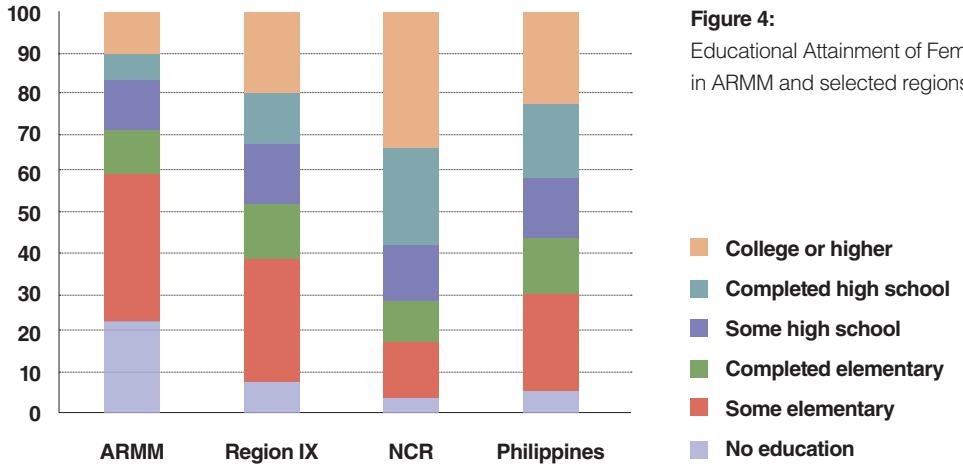


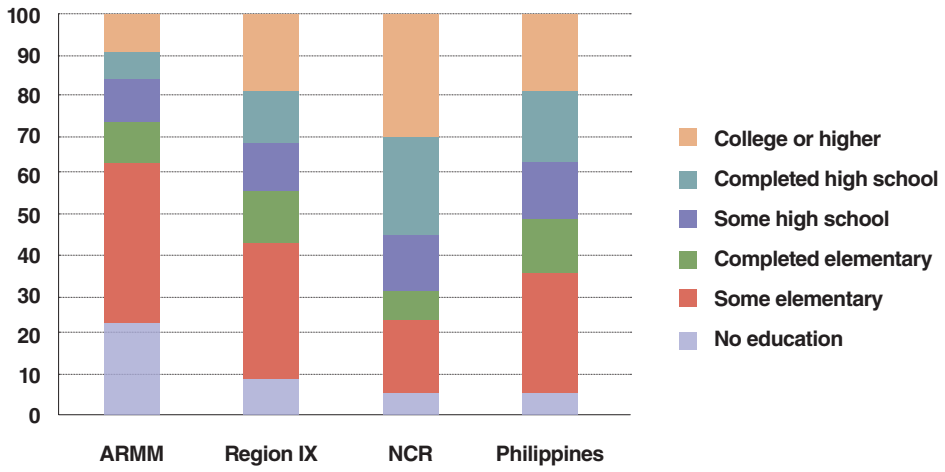
Figure 4:
Educational Attainment of Females in ARMM and selected regions (2008)

Source:
NDHS 2008

[28] BE-PEIR School Survey Data.

[29] DepEd NETRC Directorate Presentation (May 2012).

Figure 5:
Educational Attainment of Males in ARMM and selected regions (2008)



Source:
NDHS 2008

averages of 22.4 percent for females and 19.0 percent for males.

These poor education outcomes result in graduates with reduced opportunities for training or employment. Low investment means few jobs, but people in ARMM are also ill equipped for the few employment opportunities that are available in the formal sector. Limited labor force participation rates and a reliance on agriculture reduces returns on education, limiting its relevance to youth in ARMM who are required to work to sustain their families. Taken together these reinforcing dynamics threaten to keep more than half of the families in ARMM trapped in poverty for another generation.

Past underinvestment by government has reinforced the poor performance of the education sector in ARMM. The allocation of national government funds for school buildings, furniture, textbooks, and teachers has not historically been able to meet the needs of the sector. As recently as 2009 ARMM had the highest classroom and teachers shortages among all regions, yet the Department of Education was only able to allocate resources to 10 percent of the schools that needed new classrooms and 21 percent of those with teacher shortages. While some have protrayed resource shortages in the past as symptomatic of central government neglect, at the same time governance concerns limited national support for additional budgets for the Region. Well-founded concerns over "ghost teachers," "ghost schools," and "ghost pupils" and the lack of regular strategic communication between the national and regional governments were central factors in the chronic under-resourcing of the sector.

More recently the national government has dramatically boosted education budgets as a whole, increasing them by 18 percent in 2011, 15 percent in 2012 and 23 percent in 2013. Since 2011 the DepEd National has priori-

tized ARMM divisions for program funding, and in many areas the region is now relatively advantaged in terms of available program budgets, as discussed in Chapter Four.

As with the increased prioritization of ARMM by national government, the regional government has also actively introduced measures to address these problems. The government has supported efforts to make the standard curriculum culturally relevant to the Muslim population through the integration of Arabic Language and Islamic Values (ALIVE) in public schools and the development of madrasah curriculum for private schools. The DepEd ARMM has continued implementation of the Region-wide Assessment for Maths, Science, English, and Arabic Language (RAMSEA) introduced by the BEAM project. The results of the RAMSEA can inform targeted interventions such as teacher deployment, supervision and continuing training.

The Department of Education in ARMM is also aiming to expand alternative delivery modes to respond to the specific needs of the learners in the formal school system. Efforts are also underway to expand the coverage of the Alternative Learning System Program to reach more learners in areas that are exposed to the problems identified above and support them with better accreditation and equivalency testing. Recently, through the BEAM-ARMM project, an Alternative Delivery Model has been introduced using the BRAC education model developed initially in Bangladesh. At the time of writing, BRAC (an international NGO) has established over 1,000 Community Learning Centers (CLCs) in the five provinces of ARMM. These are located in communities with no government school or difficulty in access, and have targeted out of school children as enrolees. The CLCs are operated by BRAC and 11 Local NGOs. The BRAC model is an alternative to government financed public schools and could be an option under the Education Service Contracting Scheme, subject to the development of an appropriate policy.

CHAPTER THREE: PUBLIC EXPENDITURE MANAGEMENT IN ARMM

Weak public expenditure management institutions and practices have been central to the failure of ARMM to perform effectively as an autonomous regional administration. These problems derive from poorly developed fiscal arrangements to manage the unique relationship and dependence between ARMM and national government, contradictions between these arrangements and the wider decentralization process in the country, and a lack of sound internal governance institutions in the region itself. While some problems are similar to those found elsewhere in the Philippines, the unique nature of the relationship between ARMM and national government adds particular challenges.

Delays and partial implementation of the regional autonomy granted first by the 1989 creation of the ARMM, and revised via the "Final Peace Accord" and resulting "Expanded Organic Act" of 2001, have undermined the coherence of public expenditure management institutions. This incomplete devolution stems from both a failure to establish necessary legal codes and functional institutions to support the provisions of the Organic Act and a lack of capacity and compliance by the region with the fiduciary requirements of national government and principles of sound budget accountability.

At the same time, there has been a tension between the nationwide decentralization process under the Local Government Code (RA 7160 of 1991) and regional devolution under RA 9054 (Box 3). These two frameworks have not been resolved coherently, resulting in ambiguity over the relationships and responsibilities ofthe ARMM regional government and other Local Government Units. In this sense ARMM has been doubly trapped between a truncated devolution process from above and a lack of integration with the system of Local Government Units below.

The resulting ARMM public expenditure management "syndrome" has four interrelated dimensions, discussed in the rest of this chapter:

- Fragmentation of public expenditure management processes for budgeting and budget execution between local, regional and national agencies;
- Poor integration of regional budgeting processes with national systems;
- Ambiguity between regional and national decentralization processes resulting in weak application of LGU resources to devolved services;
- Weak accountability and reporting on public funds within the region, poor data availability and mistrust between national and regional stakeholders.

Box 3: Selected provisions of RA 9054

Art. III, Sec. 3: "The regional government shall adopt policy on local autonomy whereby regional powers shall be devolved to local government units particularly in the areas of education, health, human resource, science and technology and peoples empowerment. Until a law implementing this provision is enacted by the Regional Assembly, Republic Act No. 7160, the Local Government Code of 1991, shall continue to apply..."

Art. III, Sec. 11: "The Regional Government shall provide, maintain, and ensure the delivery of, among other things, basic and responsive health programs, quality education…"

Art. IV, Sec. 1: "The powers and functions already vested upon and the shares of the national taxes provided by…the Local Government Code…to provinces, cities, municipalities, and barangay… shall not be reduced."

Art. VI, Sec. 20: "The annual budget of the Regional Government shall be enacted by Regional Assembly."

Art. VII, Sec. 21: "The form, content, and manner of preparation of the budget shall be prescribed by law enacted by the Regional Assembly. Pending the enactment of such law, the budgeting process shall be governed by existing laws and rules and regulations prescribed by the Department of Budget and Management."

Art. IX, Sec. 2: "The Regional Government shall enjoy fiscal autonomy in generating and budgeting its own sources of revenue, its share of the internal revenue taxes and block grants and subsidies remitted to it by the central government or national government or any donor."

Art. IX, Sec. 9: "The collections of a province or city from national internal revenue taxes, fees and charges, and taxes imposed on natural resources, shall be distributed as follows: (a) Thirty-five percent (35%) to the province or city; (b) Thirty-five percent (35%) to the regional government; and (c) Thirty percent (30%) to the central government or national government.

Fragmented public expenditure management of ARMM resources

In theory, RA 9054 provides the ARMM regional government with an almost "plenary authority" over the region's development and welfare, excepting a negative list of clear national powers such as foreign affairs and defense.[32] The regional government is granted fiscal autonomy including control over the budgeting of the revenues that come to it, whether locally raised or remitted by the central government (though these are subject to audit).[33] However, in reality the majority of funds for the region are not under the control of the regional government.

There are six main types of government revenue that flow into ARMM:

1. ARMM Regional Government's(ARG) appropriation within the national budget;
2. Congressional Priority Development Assistance Funds and other appropriations under special purpose funds such as the school-building fund;
3. funds earmarked or sub-allotted for use in the ARMM by other national government agencies;
4. the region's own source revenue from local taxes and fees;

[32] RA 9054, Art. IV, Sec. 3. See also LGSPA/InciteGOV (2007), p 25.

[33] RA 9054, Art. IX, Sec. 2.

5. the Internal Revenue Allotment (IRA) share reserved for ARMM as a region;
6. and the IRA allotted to the other various LGU levels.

While these funds are all resources intended for use in the ARMM, they are each budgeted, appropriated, and executed in different ways and by different actors. This fragmentation is partly explained by parts of the Organic Act that remain unimplemented, as well as fiduciary requirements for funds originating from national government. The Organic Act calls for the creation of a regional Department of Budget and Management and the passage of a regional budget law, neither of which has occurred.[34] Without these, central government funds remain under the "rules and regulations of the Department of Budget and Management of the central government".[35] This means they must be budgeted through the standard national budget process, or be appropriated by other national agencies under their own procedures. At the same time, the provisions of the Local Government Code regarding the use of IRA funds for local government remain in force in ARMM, leaving these funds outside the public expenditure management systems of the region as well.

These six resource flows can be notionally divided into three broad "funds" based on where primary control over programming and budgeting them takes place. These correspond to the national budgeting level, the regional level, and in Local Government Units below the region level.

First, consider resources that can be budgeted autonomously by the regional government as opposed to those budgeted by other entities. This "regional fund" comprises locally raised taxes and fees and the regional administration's share of the IRA, but excludes the shares for other LGU tiers. The regional government has powers to raise revenue from an open list of taxes and fees and can enact a regional tax code. The regional share of the IRA is set at 35 percent, with 35 percent distributed among the other LGUs, and 30 percent remaining with national government.[36] This regional fund is under the full budgetary control of the ARMM Regional Government within audit limits set by the Organic Act, and in practice forms a devolved regional budget. This regional budget is programmed by the Regional Economic and Development Planning Board (REDPB) described in Chapter Two, approved by the Regional Legislative Assembly and managed by a Regional Budget and Management Office (RBMO).[37]

A second group of resources could be termed the "national fund" and includes support to the ARMM Regional Government in the national budget, the Congressional Priority Development Assistance Funds (PDAF), and funds appropriated by other government agencies for use in the ARMM. In the case of the Regional Government budget, the ARG negotiates with the national government via

[34] There is a Regional Budget and Management Office but it deals only with locally raised finances.
[35] RA 9054, Art. VII, Sec. 21.
[36] RA 9054, Art. IX, Sec. 9. From 2003 to 2007 the 30 percent national share of ARMM-derived IRA was directed to the ARG as well, pursuant to RA 9054 Art. IX, Sec. 15.
[37] Sevilla (2008), pp 2-3.

the national budget process. In practice, this appropriation—at least for education—has only covered the recurrent components of the budget: Personal Services (PS) and Maintenance, Operations and Other Expenses (MOOE). It has been budgeted incrementally, with periodic percentage increases set by the Department of Budget and Management. In practical terms, the ARG is treated as a primary budget unit just like any other, not a devolved political entity with the political and fiscal autonomy set out by RA 9054.

Beyond the ARG budget, many other national agencies also budget or later sub-allot funds for use in the ARMM, but fiduciary, political or administrative barriers have prevented the devolution of these resources to regional government control. These funds include larger Capital Outlays (CO) and various special program or purpose funds. In addition, many funds are still centrally managed, and therefore not devolved to the agency offices in any of the regions, ARMM included.[38] A significant example from the education sector is the financing of textbooks, which are procured centrally and distributed in kind to the different administrative regions of the country. Before 2012 few national agencies identified their budget allocations for the ARMM in the National Expenditure Plan or GAA, and others assumed either that the ARG appropriation was to cover their sector's activities within ARMM or implemented their activities via neighboring regions. It is therefore difficult to account completely for funds budgeted for the region, and harder still to measure fund utilization, as will be seen in Chapters Four and Five.

A last component of the "national" funds are the appropriations according to congressional district for priority projects identified by national representatives, known as the Priority Development Assistance Funds (PDAF). These funds have grown substantially for Mindanao as a whole in relation to other island groups since 2010, and contribute to a significant improvement in potential fiscal flows to Mindanao during that period. They have been appropriated at PHP 70 million per district across the eight ARMM congressional districts as in the rest of the country, but this appropriation is not fully utilized as payouts for PDAF projects vary among legislators.[39] Over the two fiscal years 2010 and 2011 only Tawi-Tawi used its full appropriation, and the region as a whole had a utilization rate of 57 percent.[40]

Thirdly, one can consider the funds available to and programmed by local government units below the regional level. As noted above, while the regional government receives an IRA allotment of 35 percent of national revenue from the region, the other local government levels share an additional 35 percent that is used at the discretion of the local government units in question. This portion is divided among the LGU tiers as follows: in provinces 45 percent goes to the province, 35 percent to municipalities, and 20 percent to barangays, while in cities it is evenly divided between the city and barangays.

A comparison of these sources of funds

[39] Antonio and Habito (2012), para. 3. Senators also receive a larger PDAF allocation of 200 million PHP. While PDAF is budgeted at a flat rate, its disbursement requires executive and DBM involvement and approval, which explains the varying utilization of the entitlement.

[40] Antonio and Habito (2012), para. 26. According to the expanded Organic Act, separate Public Works funds were also appropriated for regional infrastructure projects approved by the Regional Legislative Assembly for the first six years of the Act being in force. In practice some funds were earmarked for regional projects, and some were a kind of regional PDAF for Regional Assembly representatives.

forcefully demonstrates the limited scope of ARMM fiscal autonomy (Table 3). Regionally raised revenue has been very limited and comprises only 25 percent of the regional fund; when these revenues are added to the regional share of IRA, the resulting total regional fund is a mere 2.2 percent of the total resources intended for use in the ARMM, a proportion that has actually been falling. By contrast, the national government appropriates 38 percent of the funds for ARMM directly to the ARG budget, while an additional nine percent is earmarked to the ARMM in other agencies' budgets.[41] Surprisingly, the "local budget" is the largest of the three components. In fact, the local level IRA allocations comprise the largest single source of revenue flowing into the ARMM, accounting for about half.

The consequences of this fragmentation is illustrated by analyzing the "locus of control" of these resources by quantity and whom is able to budget them (Figure 6). As discussed in the introduction, there is indeed a significant upward trajectory in the aggregate resources available to the ARMM. However, it is also clear that a small and even declining share of those resources are truly under the purview of ARMM's own public expenditure management systems. The resultant scenario is of a regional government squeezed between much larger flows of resources controlled from above and below. Another way to look at this domination of local resources by national and LGU flows is through the lens of weak revenue generation in the region, a central concern for a future Bangsamoro.

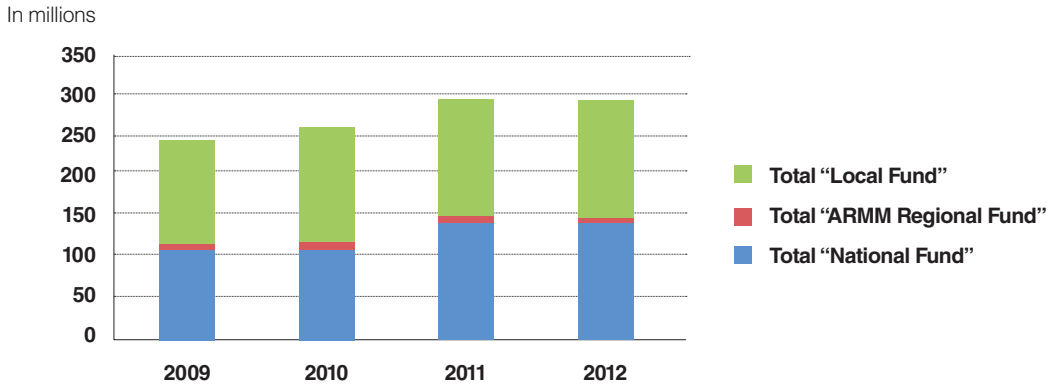


Figure 6:
Funds flowing to ARMM by locus of budget control (PHP Millions)

Source:
GAA, NEP
(various years)

[41] This earmarking understates the true quantity of resources due to the implementation of some ARMM programming via neighboring regions.

Table 3: Principal sources of government funds to ARMM (Thousands Pesos)*

Source of Funds	2009	% of total	2010	% of total	2011	% of total	2012	% of total
Total ARG Appropriation	9,448,957	38.6%	9,285,089	35.7%	11,179,638	37.8%	11,717,707	40.0%
PDAF	121,000	0.5%	133,500	0.5%	538,800	1.8%	576,700	2.0%
NGA sub-Allotments for ARMM	1,327,784	5.4%	1,806,160	6.9%	2,691,332	9.1%	2,138,129	7.3%
Total "National Fund"	**10,897,741**	**44.5%**	**11,224,749**	**43.2%**	**14,409,770**	**48.8%**	**14,432,536**	**49.3%**
Regional Own Source Revenue	216,920	0.9%	300,320	1.2%	139,950	0.5%	190,050	0.6%
ARG IRA Share	660,000	2.7%	660,000	2.5%	462,000	1.6%	462,000	1.6%
Total "ARMM Regional Fund"	**876,920**	**3.6%**	**960,320**	**3.7%**	**601,950**	**2.0%**	**652,050**	**2.2%**
Provinces IRA	3,609,289	14.7%	4,014,094	15.4%	4,352,476	14.7%	4,141,669	14.2%
Cities IRA	470,336	1.9%	432,584	1.7%	465,022	1.6%	605,008	2.1%
Municipalities IRA	5,942,938	24.3%	6,311,312	24.3%	6,840,396	23.1%	6,630,169	22.7%
Barangays IRA	2,705,485	11.0%	3,069,806	11.8%	2,886,879	9.8%	2,802,080	9.6%
Total "Local Fund"	**12,728,048**	**51.9%**	**13,827,796**	**53.2%**	**14,544,773**	**49.2%**	**14,178,926**	**48.5%**
GRAND TOTAL	**24,502,709**	**100%**	**26,012,865**	**100%**	**29,556,493**	**100%**	**29,263,512**	**100%**

*Totals may not be 100% due to rounding error. Figures are nominal.

Sources: GAA, NEP (various years)

Fragmentation of the public expenditure management institutions for the ARMM has two important consequences. First, the amount of ARMM resources whose budgetary control is shared or rests entirely with national institutions is vastly greater than those under regional control. This situation was summed up well by the World Bank's 2003 review of Human Development in ARMM, which describes ARMM as

> *a legally autonomous regional government that has no more real or practical autonomy in deciding the level and allocation of funds intended for its politically distinct mandate than other non-autonomous administrative agencies of the National Government.* [42]

The ability to prioritize spending according to local conditions – particularly across sectors – is one of the key advantages of decentralization, and one of the key mechanisms by which it may help address socio-economic causes of intra-state conflicts.[43] The lack of genuine fiscal decentralization embodied in the ARMM's fragmented public expenditure framework

[42] World Bank (2003), p 29.

[43] Siegle and O'Mahony (2006), pp 37-40.

therefore represents a fundamental flaw in the strategy of using autonomy in the ARMM to promote either peace or socioeconomic development through self-determination.

A second, related consequence of this fragmentation is that no single budget document or process comes close to including the bulk of resources to be used in the ARMM. It is therefore very difficult to promote a coherent set of policy goals through budgetary allocations. This is both because no coordinated budget process effectively captures all the available resources, and because there is a lack of connection between key dimensions of the budget – particularly the link between recurrent and capital expenditures which helps to ensure investments are properly sustained. This lack of "comprehensiveness and integration" is widely recognized as a major impediment to effectively connecting policy with planning and budgeting. [44]

A final point about fragmented public expenditure management is that these weaknesses apply equally to budget execution arrangements as to budget planning. When the flow of funds depends on different release arrangements the coordination of input purchase becomes more difficult, as the timing and quantity of different resources becoming available depends on different conditions being met. In addition, information and reporting on these resources is more difficult to manage. The demands of fragmented budget execution on an already stretched regional administration make active monitoring and coordination of actual resource flows difficult, as illustrated in the discussion of basic education budget execution in Chapter Five.

Poor integration of ARMM regional and national budget processes

The second dimension of ARMM's public expenditure management "syndrome" involves challenges in budgeting the ARG appropriation itself. The national process led by the DBM is essentially designed for national sectoral agencies, while the ARG budget submission represents all its constituent sub-agency budgets across multiple sectors. The Office of the Regional Governor (ORG), which leads the budget process for ARMM, must both present and defend the budget requests of some 17 departments and agencies that have line items in the ARG budget, as well as the budget of the Office of the Regional Governor and Regional Legislative Assembly. As an "autonomous" regional government with unique cross-sectoral responsibilities its budgetary requirements do not always fit neatly into the national process.

This situation places considerable demands in terms of timing, preparation and presentation on budget management institutions in the ARMM. The allotted time in the national budget calendar for an agency to report on the previous year's budget and submit the new request is the same for a single national sector agency as it is for the entire ARMM Regional Government. For the 2014 budget that was two months to submit past budget reports and three months to provide the new budget

[44] World Bank (1998), p 1; DFID (2001), pp 27-28.

submission.[45] The ARMM ORG submission requires collecting and collating both the budget accountability reporting from the past year from among the regional agencies, and their submissions for the coming year. This process is made more difficult by the challenge of receiving accurate reports from LGUs and other sub-regional offices that are not clearly subordinated to the ARMM. As will be seen in Chapter Five, in practice these reports are not collected for education, meaning the budget accountability reporting provided to DBM is not credible and fails to support new budget requests.

While this period may seem adequate, the demands of budget preparation have been intensified in recent years, with each additional requirement having to be duplicated among the constituent ARMM agencies. The Budget Call for preparation of the 2014 budget includes expanded or new provisions on consultations with civil society and the private sector, submission according to Major Final Outputs (MFO) of the relevant Organizational Performance Indicator Framework (OPIF), periodic Zero-Based Budgeting, Program Budgeting, and Bottom-up Budgeting.[46] While not all of these immediately affect every ARMM agencies' preparation process, they complicate the budget preparation requirements in the region and place demands on the Office of the Regional Governor's constrained budget preparation team.

One area where the mismatch between the requirements of the "dual" faces of the ARG as both a national agency and a regional government is most clear is adherence to the OPIF. The OPIF is a results-based logical framework linking agency budgets to performance as defined by a clear set of Major Final Outputs (MFO) each with a suggested maximum of two Performance Indicators (PI). An MFO is defined as a "good or service that a department/agency is mandated to deliver to external clients through the implementation of programs, activities and projects".[47] DBM's guidelines for the preparation of the budget submission in these terms are rigidly structured and require submission via Budget Preparation Forms A and B which respectively detail the MFOs and PIs – failure to submit according to these matrices requires that appropriations will be limited to the previous year's actual levels.[48]

There is much to recommend moving towards a performance-based budgeting system such as this one. However, international experience suggests that such a transition should "respect institutional differences among agencies and help them to develop approaches suitable for their own situations and contexts", and be accompanied by consultation, support and updating of accounting systems.[49] The application of a rigid results-based framework onto a cross-sectoral regional agency such as ARG, rather than a sector agency with a clear mission and mandate, results in program budgeting that is both complex and vague.

The OPIF framework for the ARG as a whole has to encompass the regions overall

[45] NBM 115 (December 28, 2012), Annex D.
[46] NBM 115 (December 28, 2012), Sec. 3.3.2-5,
[47] NBM 155 (December 28, 2012), Sec. 3.3.2.
[48] NBM 115 (December 28, 2012), Sec. 5.1.3.
[49] Shah and Shen (2007), p. 173-4.

objectives, but also all those of its constituent agencies. In the ARG budget, the newly revised Program/Activity/Project (PAP) structure involves only one program for basic education among 20 operational programs across the other sectors. A comparison of the PAP structures for basic education proposed in November 2012 for the DepEd National with that of the ARMM Regional Government is illustrative of these very different program budget structures (Table 4).

The ARMM PAP entails only one program for "implementation of basic education services" subdivided by regional office and schools divisions, while the DepEd Central Office framework involves 12 programs under the basic education MFO, itself one of three education MFOs. This result reflects a common failing in program budgeting reforms worldwide, in which the new budget classification simply echoes former line item categories, usually in order to remain mapped to an unchanged organizational structure. The ARMM submission includes similar structures for all its departments and agencies, diluting the detailed objectives that the adoption of a results-based framework aims to bring to the budget process, while retaining all the additional demands of preparing the budget to this format.

Table 4: PAP structures for Basic Education in National Government and ARMM

DepEd National		**ARMM Regional Government**	
MFO	**P/A/P**	**MFO**	**P/A/P**
MFO1 Basic Education Services	Curricular programs and learning management	**MFO12 Implementation of basic education services**	Regional Office
	Curricular and special learning support		
	Alternative learning and delivery modes including distance education		
	Learning systems for special needs		
	School health and nutrition		
	16 Regional Operations at kindergarten, elementary, secondary, and learning center levels (excludes ARMM)		9 Division operations at elementary, secondary and technical/vocational levels
	Assistance to private education (GASTPE)		
	Acquisition, procurement and equitable distribution of learning resources		
	Facilities and teaching and learning-conducive environments		
	ICT enabled solutions		
	Assessment systems		

Sources
DBM, Authors

As this framework is increasingly used by the Department of Budget and Management to justify new spending requests, the lack of elaboration in the ARMM OPIF may – if due consideration is not applied – undermine the ability of the ARMM Regional Government to articulate its needs effectively. ARMM is left in a Catch-22, in which it cannot meaningfully adopt the performance budgeting framework as is, yet failing to adhere to the framework can affect its budgetary outcomes.

Results-based budgeting systems are a kind of program budgeting – an approach that aims to group together as a single "program" all expenditure activities that serve a coherent aim, operation, output, or outcome.[50] A meaningful performance or program budget needs to include and relate all budget components or activities contributing to this goal – in this case defined as an MFO. In the ARMM Regional Government budget this is simply not possible, because the fragmentation of public expenditure systems described above means that significant resources contributing to any given MFO lie outside that budget. In this sense, the idea of program or results-based budgeting in such a fragmented public expenditure environment is nearly meaningless. The paradox was astutely expressed by one ARMM civil servant:

> *How can we be expected to submit a program budget, when our budget does not cover most government programs?* [51]

Naturally, the impact of this mismatch depends largely on how it is interpreted in practice, particularly at the level of the national budget institutions. However, even if the worst effects of poor integration between regional and national budget processes are mitigated through dialogue and compromise, this remains uninstitutionalized and vulnerable. At the very least it undermines regional fiscal autonomy by increasing dependence and reducing the bargaining power of the regional government.

Besides the mismatch in the ARMM Regional Government linkage to central government budgeting, there is a lack of sound budgeting processes among the ARMM institutions. In addition to the lack of a regional budget law or regional DBM, few if any ARMM-specific budget procedures are in place to help ARMM's sectoral agencies support the ORG preparation process in the time available. These shortcomings involve both budgeting and reporting, and undermine the ability of the region to represent its budgetary performance and future requirements effectively to the national government.

Inconsistency between ARMM regional "devolution" and national decentralization

The third dimension of the ARMM PEM syndrome is that, in addition to the lack of budgetary control over many centrally derived resources, the regional government is disadvantaged with respect to the resources flowing to other levels of local government nominally within its jurisdiction. This situation is the re-

[50] Fölscher (2007), p 119-20.

[51] ARMM BE-PEIR interview, ARMM Regional Government Staff (March 2013).

sult of contradictions or tensions between the two distinct decentralization processes in the region: the nationwide process embodied by the 1991 Local Government Code, and the unique regional devolution under RA 9054.

The absence of the regional policy and legislation on "local autonomy" called for in the Expanded Organic Act means that IRA funds are distributed to LGUs in the ARMM according to the provisions of the 1991 Local Government Code. This law provides that LGUs "discharge the functions and responsibilities of national agencies and offices devolved to them".[52] At the time of the Philippines-wide decentralization instituted under the LGC, these functions and responsibilities included a wide range of public services, though notably not education excepting some construction and maintenance of school buildings.[53] IRA shares are meant to support provision of those services. In terms of their expenditure assignments,

> *non-ARMM LGUs are treated on an almost equal footing as the regional government of ARMM … although the functions and responsibilities assigned to the regional government of ARMM are slightly broader than those given to non-ARMM LGUs.*[54]

But this devolution is not implemented in the ARMM, where the responsibility for services lies primarily with the regional government under the regional autonomy provisions. In 1994 the ARMM Regional Legislative Assembly (RLA) passed Muslim Mindanao Autonomy Act (MMA) 25, the regional version of the local government code adopted nationwide. This regional act did not specify that local government units are responsible to discharge devolved responsibilities, so these services, including education, remained a regional function. When RA 9054 superseded this act, it specified once more that the LGC applies until a regional local government code is adopted. The situation remains the same until now:

> *Asymmetry exists between ARMM-LGUs and non-ARMM LGUs in terms of the expenditure responsibilities that are assigned to them because the regional government of the ARMM has not devolved any of their functions to the LGUs within their jurisdiction even if RA 6734 allows them to do so. Thus, ARMM-LGUs did not receive any of the devolved activities that have been transferred to non-ARMM LGUs under RA 7160.*[55]

ARMM LGUs continue to receive the full IRA allocation as per the stipulation of RA 9054 that the shares of national taxes due to LGUs may not be reduced, regardless of the expenditure responsibilities of the region or the LGUs.[56] As noted above, this share of resources is about half of all public resources flowing to the region, more than the ARG budget itself. In short, LGUs have substantial external resources but reduced expenditures due to the responsibilities given to the ARMM regional level through the Expanded Organic Act. This has the effect of reducing the incentives for LGUs to raise own source

[52] RA 7160, Sec. 17.
[53] Asian Development Bank/World Bank (2005), p 4.
[54] World Bank (2003), p. 22.
[55] Asian Development Bank/World Bank (2005), p. 5.
[56] RA 9054, Art. IV, Sec. 1

revenues. In addition, when LGU resources in other regions are directed to social spending even if not directly to education, it increases the fiscal space in those areas to allocate other funds to education. In the ARMM by contrast, the IRA available in ARMM are widely reported as used for personal slush funds by local LGU heads, or diverted to settle rido-type conflicts.[57]

Weak stewardship and accountability in handling public funds

The fourth dimension of ARMM's public expenditure management syndrome is the history of poor governance as expressed in weak budget accountability and reporting. A 2010 review of ARMM's education budget control institutions found that there are "[w]eak internal control systems" and "no clear guidelines for reporting on budget utilization by the implementing units, and more importantly a report correlating budget spent with achievement of physical outputs or performance targets is non-existent".[58]

At least until the 2013 budget, the typical education budget reporting practices within ARMM have consisted of schools, districts, and divisions failing to provide proper reporting to the regional office on budgets they received or used, while the regional office has responded by submitted budget accountability reporting on those funds to the DBM that it completed without corresponding data. Without data on actual spending, central institutions cannot budget additional resources for ARMM even when they are needed, as will be seen in the next Chapter in relation to budgeting for Alternative Learning Systems. The result is an ongoing cycle of incomplete budget proposals and centrally-determined incremental budgets.

The lack of sound information on the use of government funds in the ARMM plays into and increases the mistrust in the relationship between the ARMM Regional Government and the national authorities, particularly the DBM. At the same time, the ambiguity has served the purposes of some national political forces, as relatively unaccountable support to ARMM has been part of a system of interdependence in patronage politics, in which support and autonomy are given in return for the provision of electoral support. These problems are exacerbated by some national agencies dismissing the need for improvements to reporting systems, audit, and accounting as a regional responsibility due to the supposed "autonomy" granted under the Expanded Organic Act. There is therefore a lack of systematic capacity support in meeting national fiduciary and budget accountability requirements compared to other regions. That being said, as awareness and communication of needs between ARMM and the national government improve, there is increased willingness to provide training and support from national agencies, particularly the DBM and DepEd National. More concerted support is needed to offset the deficits in this area.

A lack of qualified or appropriate staffing for the important functions of budget

[57] Torres (2007), p. 109.

[58] Tribal Helm (2010), p 32-34.

accountability has also developed in the ARMM. This is in part due to a historical politicization of appointments resulting in inappropriate skills and the emergence of vested interests in the continuation of the system. But it can also be traced to the lack of attention to requirements of a fully-fledged planning and budgeting function at regional level, leaving the ARMM somewhere between being a true local government with the necessary staffing for public expenditure management, and an administrative tier with minimal capacities to implement budgets given from above. In general, the continuation of these practices and entrenchment of clientelistic hiring has resulted in various kinds of productivity damaging forms of corruption, such as the introduction of ghost workers, and a focus on manipulating existing flows of resources rather than accounting for those used and planning for those needed in the future.

Finally, there is little or no provision for public or civil society scrutiny and accountability for public expenditure or service quality. In some respects, the lack of accountability has been deepened by the diversion of electoral processes towards patronage politics, and few incentives yet exist for active "horizontal" or "downward" accountability to citizens. While some of these accountability issues can be found throughout the Philippines, they are more severe in the ARMM, and compounded by the lack of clear responsibility for proper reporting created by the ambiguous nature of the autonomy arrangements.

[52] RA 7160, Sec. 17.
[53] Asian Development Bank/World Bank (2005), p 4.
[54] World Bank (2003), p. 22.
[55] Asian Development Bank/World Bank (2005), p. 5.
[56] RA 9054, Art. IV, Sec. 1

CHAPTER FOUR: BUDGETING FOR BASIC EDUCATION IN ARMM

The relationship between expenditure and good education outcomes is complex. Levels of spending do matter, but as or more important is the composition of that spending in relation to strategic goals and the input mix required for quality education services. The budget is the concrete expression of a government's goals, and if budgeting is poorly connected to policy and plans these goals have little chance of being realized. Indeed, it is broadly accepted that the "[f]ailure to link policy, planning and budgeting may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing countries."[59]

This chapter outlines the size and composition of public budgets for basic education in ARMM. It then traces the impact of the public expenditure management syndrome outlined in the previous chapter on budget preparation and composition.

Aggregate basic education spending levels in the ARMM

A low level of aggregate education spending in recent years has been a key contributor to poor education outcomes countrywide. Whether measured as a proportion of GDP or real expenditures per pupil, government education spending fell significantly after the financial crisis of the late 1990s until about 2006, and in 2008 real per pupil expenditures had still not regained 1998 levels. Spending also fell considerably short of that required by the DepEd's Education for All (EFA) resource estimates and was only about half the predicted GDP shares for countries of similar income levels.[60]

A 2011 Philippines-wide public expenditure review concluded that "[i]n education, trends in public spending and key sector outcomes are closely related" and a 2012 education public expenditure review showed "compelling evidence that deterioration in outcome indicators has coincided with the weakening of government support at the level of public spending on the education sector".[61] More recently, real education budgets have been on the increase, and it can be expected that this renewed resourcing of the sector will bring benefits.

Non-government basic education spending

Education spending in ARMM – as in most developing contexts – involves a combination of government spending, donor contributions, and private expenditure by households. However, compiling comparable aggregate measures of spending on basic education in ARMM is complicated by three factors: the fragmentation of government spending among multiple budget channels, the lack of accurate donor information broken down by region or by year, and incomplete reporting

[59] World Bank (1998), p 31.

[60] World Bank/Australian Aid (2012), pp 22-27.

[61] World Bank (2011), p 6; World Bank/Australian Aid (2012), p 21.

on Local Government Unit supplementary spending on education. Due to the impossibility of generating strictly comparable spending figures that include all government and non-government sources for ARMM, and the public expenditure management focus of this study, this analysis focuses on government spending on basic education. Nevertheless, before focusing on government spending it is worth reviewing the contribution of non-government sources.

Donor spending on education in ARMM can be traced primarily to Australian Aid through its BEAM project, UNICEF, and USAID. BEAM-ARMM is the continuation of the Mindanao-wide BEAM project, providing a range of capacity development, community-based schooling and other services. USAID's EQUALS II program is aimed at enhancing community participation, improving teaching capacity, access for out of school youth, and support grants to secondary schools.

Table 5: Indicative key donor education sector support to ARMM (thousand Pesos)

Source	Program Budget	Annualized Budget
BEAM – ARMM (2012-2017)	3,927,000	785,400
USAID (EQUALS II) (2006-11)	1,239,000	246,000
ARMM Social Fund	N/A	658,140

Source: BEAM-ARMM Program Design Document (2011); ARMM BE-PEIR Interview, USAID (February 2013).
Note: The annualized EQUALS II budget is based on US $60 million over a five year period.

UNICEF is also a major donor to education, but available data is nationwide. For 2012-15 US $21.2 million is budgeted for the Philippines as a whole. In addition, two major multisector and multidonor projects, the Mindanao Trust Fund and the ARMM Social Fund make contributions to the education sector. The Social Fund is a government project with World Bank and JICA lending that contributes to the sector primarily via construction of mixed-use community learning centers and earlier through support to the madrasah sector. The Mindanao Trust Fund focuses on development activity in conflict-affected areas and is administered by the World Bank.

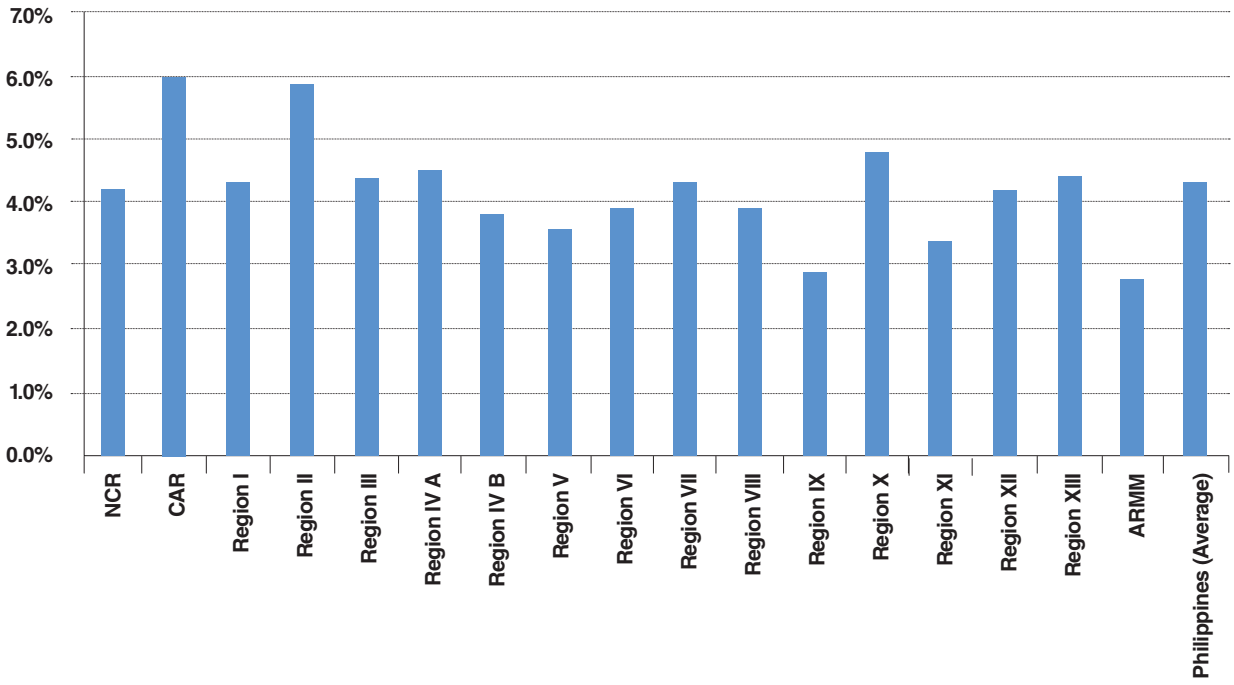
While these amounts are estimated, the current donor spending specifically earmarked for education in ARMM would amount to about 1.7 to 2 billion PHP annually. This represents about a quarter of the amount of government spending. It is worth considering the sustainability implications of this figure. In general, donor spending on education in ARMM is geared towards capital invest-

ment in the form of infrastructure, with some resources for alternative delivery modes or the Alternative Learning System Program. Since these donor contributions are not considered in the annual budgeting process the long term recurrent implications of the new infrastructure are not necessarily being considered.

On the other hand, as these facilities are in many cases planned for areas where regular primary or secondary schools are not planned – as in mixed use or community learning centers – the distortionary impact of donor spending on facilities planning may be less important.

Figure 7:
Household Expenditure on education, 2009 (percent by region)

Source:
NSO, 2009 Family Income and Expenditure Survey Final Results



Information on household expenditure on education in the Philippines as a whole is available from household level expenditure surveys, but is not disaggregated by the type of schools (private or public) that children attend, nor by grades. It is therefore difficult to make robust comparisons between public and private expenditures on education.[62] As a relatively impoverished region, the impact of the low percentage of household expenditures on education is even greater in absolute terms: ARMM families spend about 1,567 Pesos on education, against a national average of 8,071 Pesos. [63] Private expenditure is thus small, and donors tend to support needs of a particular type, addressing education system issues and infrastructure in particularly remote or conflict-affected areas that may be less integrated to the public education sector.

[62] See also World Bank/Australian Aid (2012), p 31.
[63] 2009 Family Expenditure and Income Survey Final Results.

Government spending on basic education

Basic education in ARMM is heavily dependent on public sector resources, with the majority of these flowing through the ARG budget in the form of Personal Services expenditures for salaries and other compensation. Capital outlay and various program expenditures form a smaller portion of the total funds, and are primarily budgeted via DepEd National's programs. These resources have been growing steadily, in both nominal and real terms (Table 6 and Figure 8).

Government spending on education can be divided into four main categories:

- DepEd ARMM budget in the ARG appropriation of the national budget;
- DepEd National allotments for ARMM, including program funds such as textbooks, School-based Management grants, and others;
- Spending on education via other Ministries such as education facilities built by the Department of Public Works and Highways (DPWH) through the School Building Program, and the cost of the Conditional Cash Transfer grants under the DSWD, which provides support to families on the basis of both health and education conditions;
- Local Government Unit spending including the earmarked Special Education Fund (SEF).

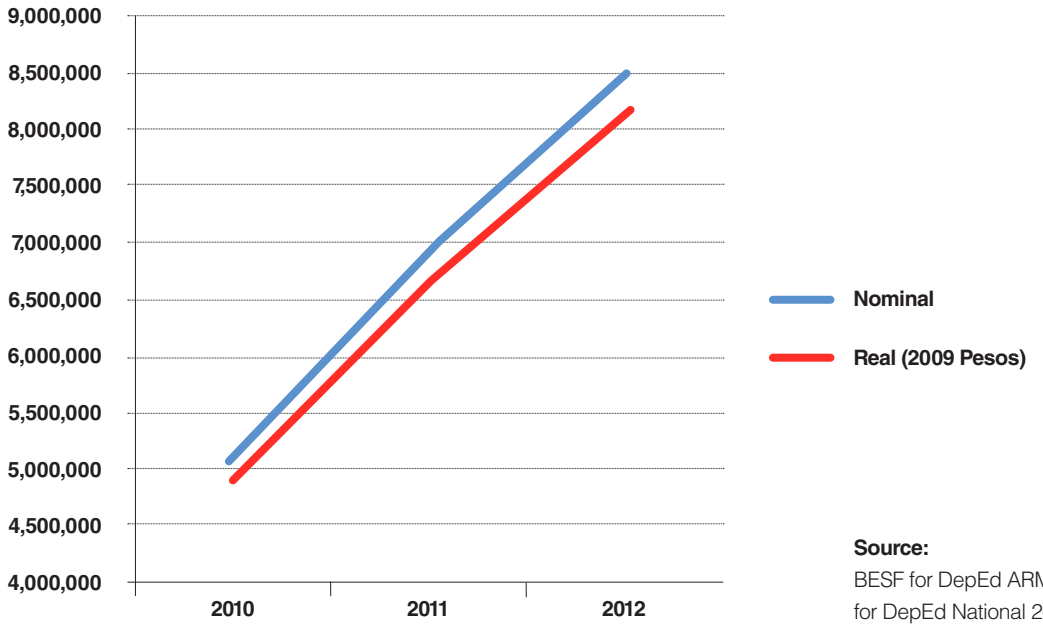
Table 6: Aggregate government education expenditures in ARMM (thousand Pesos)

Source	2009	%	2010	%	2011	%	2012	%
DepEd ARMM	4,644,785	89%	4,846,119	96%	5,818,269	84%	6,370,646	75%
DepEd National	454,122	9%	203,449	4%	1,096,447	16%	2,086,615	25%
SPF-SBP (DPWH)	77,709	1%	N/A	N/A	N/A	N/A	N/A	N/A
LGU	17,690	0%	16,797	0%	42,868	1%	20,675	0%
Total	**5,194,306**	**100%**	**5,066,365**	**100%**	**6,957,584**	**100%**	**8,477,936**	**100%**

Source: BESF for DepEd ARMM, BLGF for LGUs, SAOB for DepEd National 2008-11.

***Note:** DepEd National ARMM allotments for 2009-2011 are obligations and not budgeted amounts due to the absence of regional allotment information in the national budget prior to 2012.

Figure 8:
Nominal vs. Real government education expenditures in ARMM, 2009-12



Source:
BESF for DepEd ARMM, BLGF for LGUs, SAOB for DepEd National 2008-11; Philippines IPIN deflator

Direct comparison of the ratio of education spending in ARMM to total spending are complicated by the fragmentation of education budgets between regional and national agencies described in Chapter Three. The ARMM DepEd budget has grown from 49 percent of the ARG appropriation in 2009 to about 57 percent in 2013. However, this represents only spending that is appropriated to the ARG, and excludes national agency spending in ARMM for both education and non-education purposes. However, the aggregate spending on education from all government sources also grew as a proportion of aggregate public expenditure from all sources. This proportion went from 21 percent of the aggregate public expenditure for ARMM in 2009 to 29 percent in 2012, indicating growing prioritization of education by both regional and national government.[64]

While underspending in social sectors has occurred in the ARMM historically, more recently the primary issue for basic education delivery is no longer the level of aggregate resources, at least in comparison to other regions in the Philippines. Instead, the problems center on issues of composition (what is bought with the available funds), execution (how efficiently funds are spent), and delivery (whether the purchased inputs are available at the point of service delivery). The next section discusses budget composition and its relationship to fragmented public expenditure management in the ARMM, and the following Chapter addresses issues of execution and delivery.

Composition of government spending on basic education

The fragmentation of the public expendi-

[64] Authors calculation based on data in Tables 3 and 6.

ture system between national, regional, and local institutions outlined in Chapter Three has an important influence on how budget composition evolves in ARMM generally, and for education in particular. The bulk of the recurrent budget is held by the ARMM regional government, with existing staff benefits under Personal Services (PS), and routine Maintenance and Other Operating Expenditures (MOOE) falling with the ARG appropriation. However, there are significant exceptions. Many of the funds for specific education programs and textbooks are classed as MOOE but budgeted by DepEd National. In addition, some expenditures are slightly misleadingly categorized: for example budgets for new staff and for Arabic and Islamic Education (ALIVE) teachers are with DepEd National and managed through a cash allowance classed as MOOE despite its actual use for salaries and benefits.

Capital outlay, particularly for school buildings and furnishings, is virtually entirely within the national purview, though it is itself divided among different programs and special purpose funds. Finally, some capital construction does come through the PDAF congressional allocations and LGU allocations.

This kind of "dual" or divided budgeting in which recurrent and capital budgets are prepared separately and remain unintegrated is common in many countries and ministries. Recurrent budgets are often prepared by finance departments within line ministries or finance ministries, while planning departments or ministries handle capital expenditure.[65] However, the ARMM education case is extreme in three respects: the recurrent budget and capital budget proposals for education are split between two entirely separate government line agencies (the ARG and DepEd National); they are prepared at different levels of government (the regional and the national); and the MOOE budget is spread across the two agencies and two levels (Table 7).

Table 7: Locus of control of government spending by economic category, FY 2013

	DepEd ARMM	%	DepEd National	%	Total
PS	7,114,906	100%	3,118	0.04%	7,118,024
MOOE	359,222	36%	647,636	64%	1,006,858
CO	-		58,475	100%	58,475

Source: FY 2012 NEP Appropriations/GAA. Note: Excludes LGU spending. MOOE for "New Teacher Items" in DepEd National budget has been reclassified here as PS.

[65] Schiavo-Campo (2007), pp 246-8.

An analysis of composition of expenditure therefore involves estimating from disparate sources of funds. The main components of government education expenditures in ARMM are:

- Personal services expenditures (wages and benefits) for existing staff, budgeted in the GAA under the ARMM Regional Government appropriation, and managed via the ARMM regional government;
- "Regular" MOOE under the regional government appropriation and managed by DepEd ARMM;
- Cash allowance for new staff positions, budgeted under the DepEd National appropriation as MOOE;
- A range of centrally-managed program funds including key operating expenditures such as textbooks, key capital expenditures through the Basic Education Facilities fund, as well as a range of programmatic activities budgeted by DepEd National and categorized variously as MOOE and Capital Outlay (CO);
- Congressional allocations via the PDAF and contributions to educational facilities from the infrastructure allocation, also programmed by legislators and classed as CO; and
- LGU spending on education from the internal revenue allotment and the SEF budgeted and managed through the LGUs themselves.

Personal Services

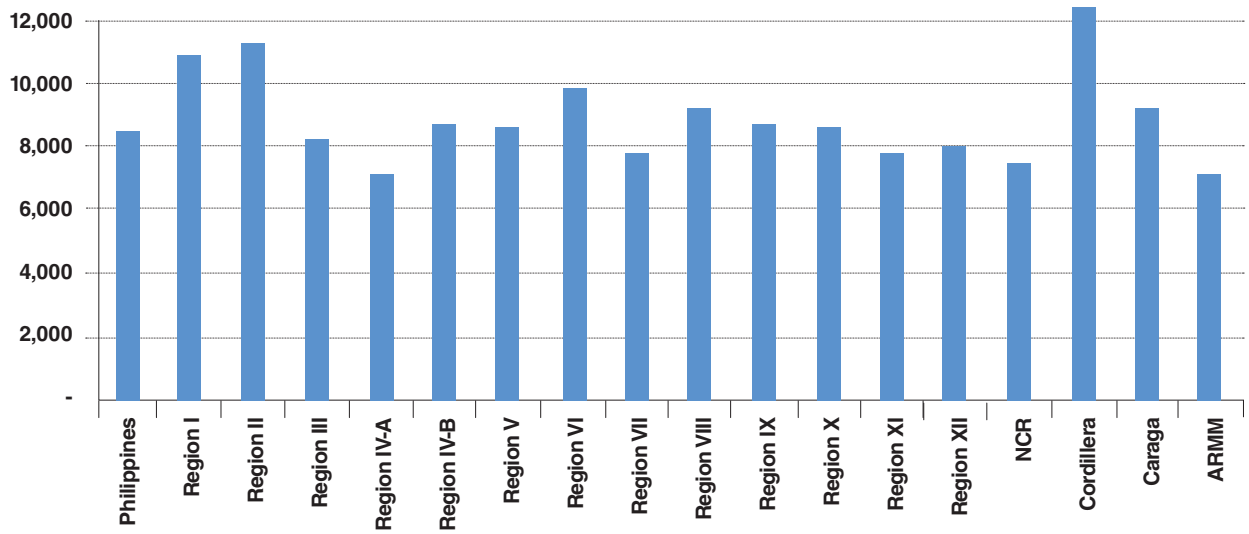
As Personal Services are included in the ARG budget, comparison with equivalent spending elsewhere is relatively straightforward. For the SY 2011-12 the Philippines average regional operations spending on Personal Services was just over 8,500 PHP per pupil.[66] ARMM had the lowest per pupil spending at 7,104 PHP, but this was close to the level of several other regions. Given concerns about enrolment figures, with enrolment discounted by 10 percent, the figure in ARMM would be 7,900, slightly below the national average. An alternative measure of equity in PS allocations could be operational PS per head of current population (based on the much improved 2010 census and population growth figures). This measure shows that the 2013 budget ARMM allocations are about equivalent to the national average, actually coming in at 2,070 PHP per capita, very slightly higher than the national average of 1,980 PHP.[67] In sum, the level of PS spending in ARMM may be slightly low on a per pupil basis, but not far out of line with levels elsewhere in the country.

[66] This is in order to compare regions: the PS for each region is used, and PS at DepEd Central Office is excluded. Includes all public school enrollees, both elementary and secondary.

[67] Population is from 2010 Census with reported regional growth rate to 2013; 2013 GAA/NEP.

Figure 9:
PS per pupil by region (SY 2011-12 enrolment, FY 2013 budget)

Source:
EBEIS online; 2013 GAA/NEP



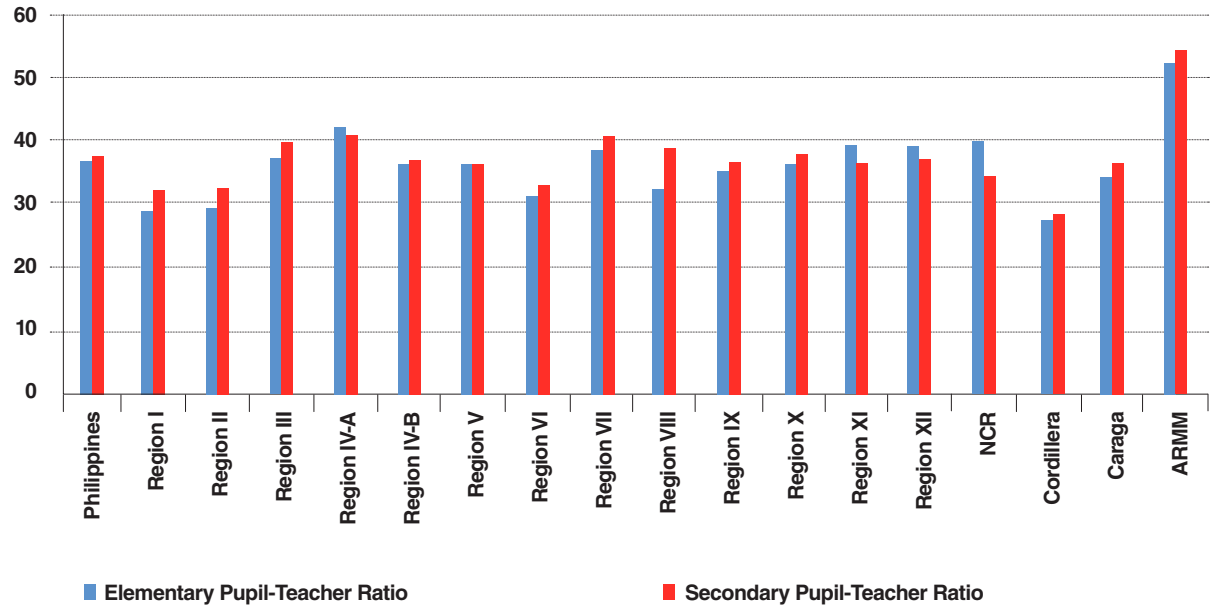
Note:
Note: This and the per pupil analyses that follow rely on SY 2011-12 enrolment figures, the latest full set available, against the FY 2013 General Appropriations Act. They are not therefore a strictly accurate per capita figure for either year.

However, current allocations are not themselves an indicator of adequate provision, particularly if past spending has been deficient. In both elementary and secondary grades for the 2011-12 SY, the reported pupil-teacher ratios are the highest in the country by a significant margin. In Elementary education, ARMM education divisions account for 7 of the 11 with the highest "severe" need classification (50 students per teacher as against a standard of 40-45 depending on grade). 9 of the 13 divisions in the region have severe secondary teaching shortages, and every division registers some shortage.[68] Even if discounted by 10 percent, these ratios would still be higher than anywhere else. What these figures show is that while efforts are generally being made to adequately resource teachers for ARMM, there are still barriers to this budget being converted into actual teachers in classrooms – these barriers are discussed in the next chapter.

[68] EBEIS Online, SY 2011-12.

Figure 10:
Primary and secondary teacher-student ratios by region (SY 2011-12)

Source:
EBEIS online, SY 2011-12



However, officials in ARMM have recently publicly claimed that with the elimination of fraudulent student enrolments, it is no longer the number of teachers or the PS budget allocation that is the primary constraint to education performance, at least in terms of national policy guidelines on teacher-pupil ratios or comparison with other parts of the Philippines.[69] Such a rebalancing of figures onto a more accurate footing represents a significant and important achievement for ARMM governance.

MOOE and the "routine operations and maintenance gap"

The quality of education services is not just a function of teachers, but also of the resources available for teaching materials and the operation and maintenance of facilities. These "non-salary recurrent" expenditures are squeezed in many budget settings due to the relative difficulty of reducing staffing expenses and the separation of the recurrent and the capital budgeting processes alluded to above. In the Philippines such a dynamic was dramatic during the 1990s, when aggregate MOOE spending per pupil fell by half to a paltry 422 PHP per pupil.[70]

MOOE allocations for ARMM education consist of both an "ordinary" component budgeted in the ARG education budget for operations, and several programmatic allocations in the DepEd National Budget. The

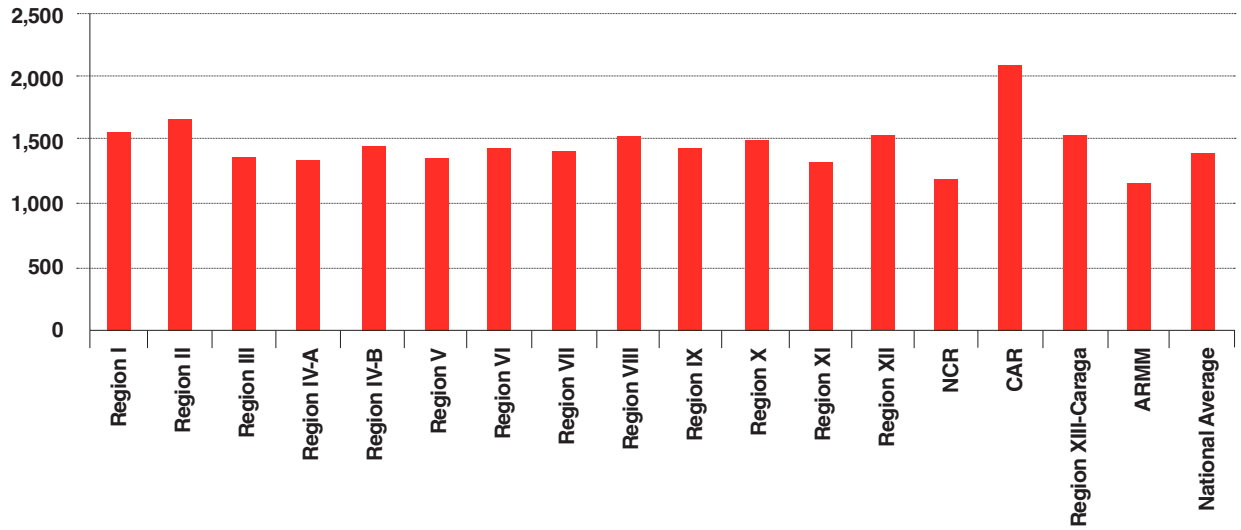
[69] Señase (2013).
[70] World Bank/Australian Aid (2012), p 46.

former operating MOOE is for distribution among schools to meet their routine maintenance and operating needs. The latter, nationally programmed expenditures include key inputs for basic education institutions such as textbook allocations and school-based management grants, as well as many significant special program costs that are generally, though not entirely, classed as MOOE. ARMM was again the region with the lowest allocation per pupil, about 1170 PHP against a national average of just over 1400 PHP.

Figure 11 examines the allocations of MOOE per pupil by region, taking into account both ARG and DepEd National program budgets for all regions.[71] ARMM was again the region with the lowest allocation per pupil, about 1170 PHP against a national average of just over 1400 PHP.

Figure 11:
MOOE (operations and programs combined) budget per pupil by region (SY 2011-12 enrolment, FY 2013 budget)

Source:
EBEIS Online; 2013 GAA.



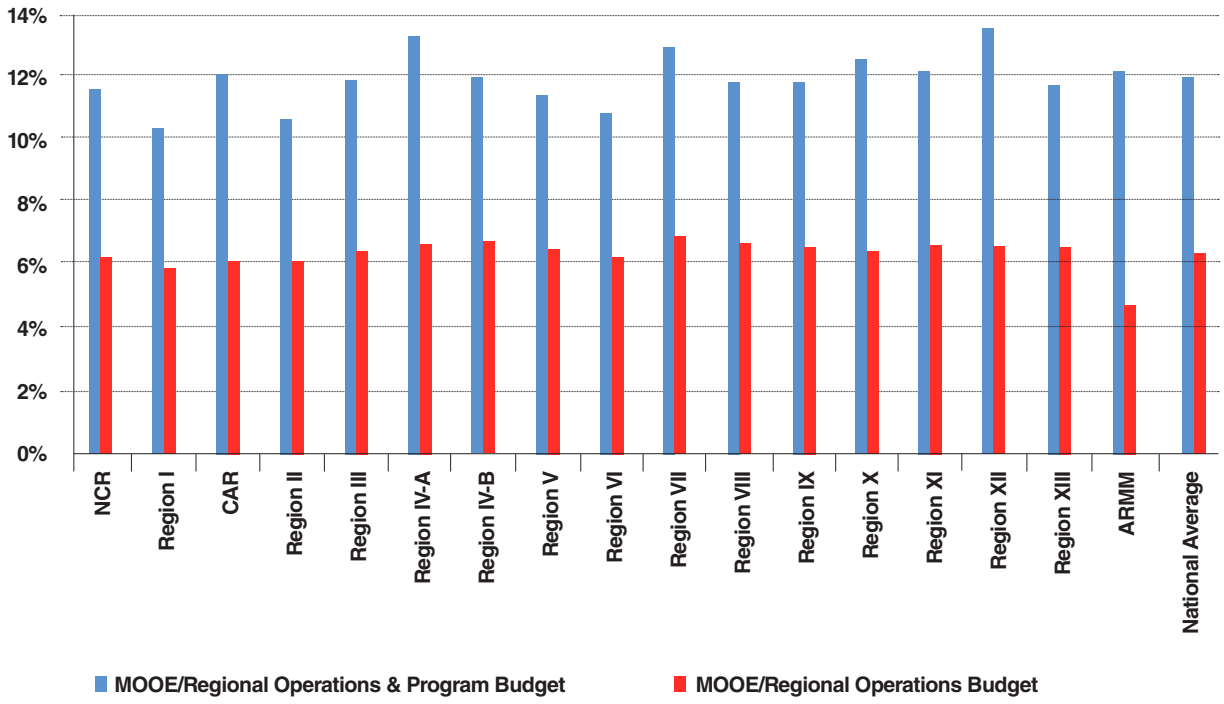
Given the concerns about enrolment numbers as a basis for comparison, another measure of aggregate MOOE provision by region could be to express it as a proportion of the overall budget for operations and programs. This can be thought of as the amount of MOOE available per unit of spending on personnel and programs. On this measure, which shows high consistency across regions, ARMM is marginally above the national average of 12.1 percent with 12.3 percent of its operations and program budget consisting of MOOE. The implications are that both PS and MOOE may be low against reported enrolment, and by similar amounts.

[71] This measure excludes the budget for PS and MOOE in the national and regional education headquarters as these are not allocated to regions.

However, using the aggregate MOOE allocation for ARMM overestimates the MOOE available for ongoing or routine maintenance and operations activities. Most programs' MOOE expenditures are linked to specific activities and are therefore not available for more routine activities. As such, including all MOOE allocations for programs obscures significant underfunding of regular operations and maintenance for education services in ARMM relative to other regions. Figure 12 illustrates this "routine operations and maintenance budget gap" by comparing the regional MOOE budget as a proportion of the regional operating budgets including programs, with MOOE as a proportion of the regular operating budget (the DepEd ARMM appropriation available to fund routine school operations and maintenance).

Figure 12 :
MOOE as % of operating & program budget vs. % of operating budget, FY 2013

Source:
2013 GAA/NEP

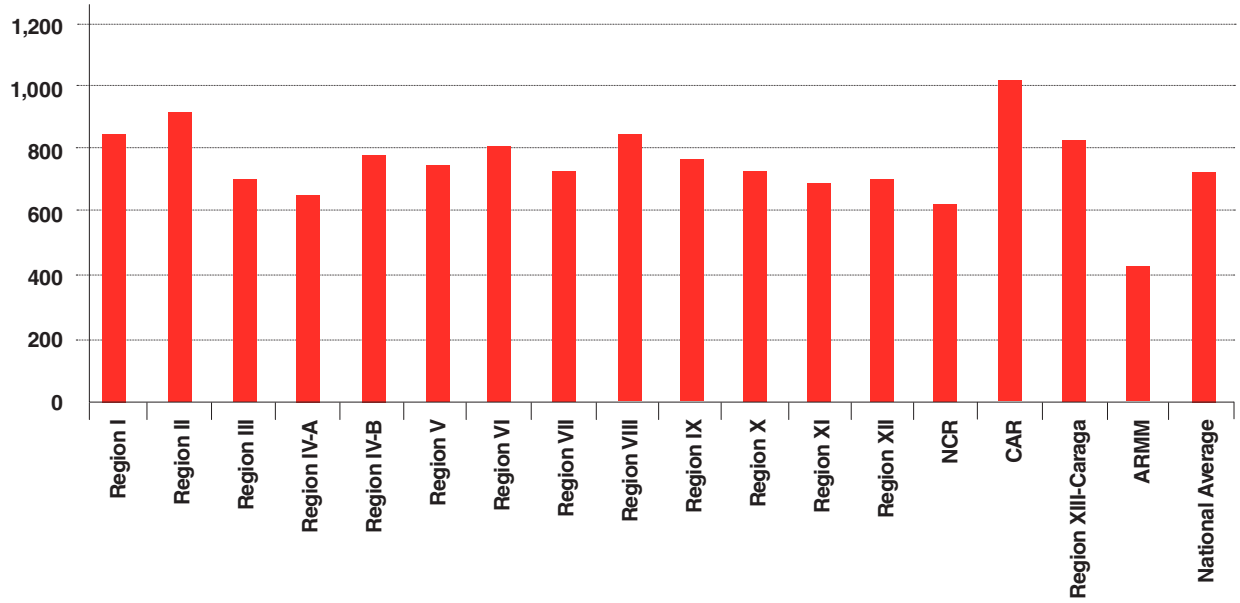


The difference in the two measures is striking. When program specific MOOE allocations are included, regional MOOE allocations range from 10.5 percent to 13.6 percent of the combined operating and program budgets. As just noted, ARMM's proportion is slightly over the national average of 12.1 percent with an MOOE allocation of 12.3 percent. However, separate analysis of the operations budget reveals a different picture: ARMM's MOOE allocation is only 4.8 percent of the regular operating budget, well below 6.0 percent in the next worst off region and the national average of 6.5 percent. In short, the MOOE available for routine operations and maintenance as a proportion of the operations budget is only about three-quarters of the national average, and 81 percent of that in the next lowest region, Region I.

This "gap", which is invisible if MOOE for both programs and operations is lumped together, is even more striking if calculated as a per pupil amount (Figure 13). ARMM again has the lowest allocation in the country, 417 PHP per pupil. The national average is 715 PHP. The next worst off region (the National Capital Region, which also enjoys the highest availability of Special Education Funds) still has over 600 PHP per pupil. In short, ARMM enjoys only 58 percent of the national average in per pupil MOOE allocations for routine operations, a significant disadvantage in terms of the provision of basic education services.

Figure 13:
Per pupil MOOE in regular operations budgets by region
(SY 2011-12 enrolment, FY 2013 budget)

Source:
EBEIS Online; 2013 GAA/NEP



This low routine operating and maintenance budget allocation within the ARG budget is hidden by larger MOOE allocations for ARMM within program funds budgeted and executed by DepEd National. In particular, the ARMM allocation for just one centrally-managed program accounts for almost all the difference between the two measures: Madrasah education was allocated 209 million pesos in 2013, about eight times the national average of 26 million. This high allocation makes sense contextually and is without doubt welcome for its contribution to Arabic Language and Islamic Values Education (ALIVE) programming in the ARMM region. However, despite its size it cannot compensate for the low MOOE availability for routine maintenance since it is used for different purposes: primarily the training and compensation of ALIVE teachers.

This "routine operations and maintenance gap" has very significant real-world implications. In the ARMM the operating MOOE budget for primary and elementary schools is entirely utilized by Division and School District offices, with none being distributed to primary or elementary schools. This situation has until recently been considered by ARMM local education staff as an accepted matter of policy, despite no such policy in the remainder of the Philippines. This is worth emphasizing: in part due to a shortage of regular MOOE budget in the ARG appropriation, primary and elementary schools in the ARMM receive no regular operating budget from the DepEd ARMM and must fund any routine operations and maintenance expenditures from other sources.[72]

Figure 14
Lack of operating and maintenance resources

[72] ARMM BE-PEIR Interviews with DepEd ARMM and district staff, confirmed by QSDS survey results in which no primary or elementary schools reported receiving a regular MOOE allotment.

Within DepEd National's program budget there is one item that arguably can contribute to routine operation and maintenance and might therefore provide a remedy for the gap: School-based Management (SBM) funding. School-based Management grants are intended to assist schools to face identified challenges, and is to be merged with MOOE funds for schools in future budgets.

Unfortunately, as yet budgets for SBM are both small when compared to regular MOOE allocations, and they are distributed unevenly, with ARMM at a small disadvantage as a proportion of its operating budget. Including the SBM budget as part of the MOOE budget available for routine maintenance increases the proportion of MOOE in the operating budget nationwide from 6.5 percent to 7.0 percent, but the corresponding rise in ARMM is from 4.8 percent to 5.1 percent, which leaves the ARMM allocation at effectively the same relative level: 74 percent of the national level. SBM allocations therefore provide some increase in the overall funds available for school improvements everywhere, but do not compensate for the disparity in routine operations and maintenance funding between the ARMM and other regions of the Philippines.

Distorted expenditure composition with respect to MOOE is not a new phenomenon in the ARMM, and not limited to education. A review of education, health and social protection in ARMM published in 2003 found the proportion of MOOE spending to be about one quarter of that found nationwide, and argued that lack of maintenance and operations spending was a "critical" supply factor explaining low performance.[73] The overall picture of MOOE for education in ARMM has therefore improved a great deal as aggregate allocations have been brought in line with national averages. But when examined more closely these numbers obscure a continuing and crucial "routine operating and maintenance expenditure gap", and this gap has an ongoing impact on frontline service delivery, especially at primary and elementary level.

Textbooks

In addition to the ability to regularly maintain and fund operations in schools, MOOE also is a key source of educational materials, chiefly in the form of textbooks. A comparison of regional textbook allocations reveals no systematic disadvantage to ARMM, though of course the impact of any allocation also depends on existing textbook stocks. ARMM is currently budgeted for more textbooks than the national average, and this likely is needed to overcome historically lower stocks (Figure 15).

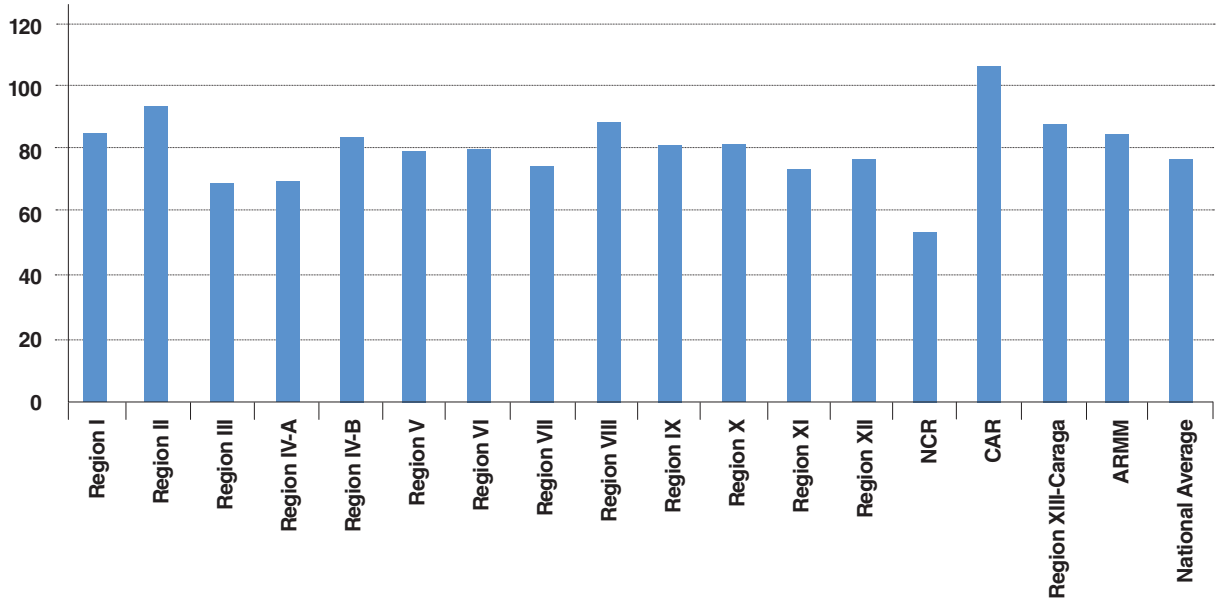
Beyond the question of budget allocations, the most important concerns regarding textbooks relate to the execution of the budget: how many books are bought and delivered, when and on what basis are they distributed? Textbooks are budgeted by DepEd National, procured centrally and delivered directly to school divisions and districts. Even though the DepEd National maintains records of

[73] World Bank (2003), pp 28, 47

textbook allocations, poor data provision from ARMM division and district offices to inform national textbook distribution, and limited dissemination of the information available at national level on the distribution within ARMM means that schools in ARMM generally have little information about what books they might receive, how many, and when. In the next chapter the budget execution data shows low and variable rates of budget utilization, and the data from the BE-PEIR schools survey also discussed in Chapter Five suggests uneven delivery of books to school level.

Figure 15:
Textbook budget comparison per pupil
(SY 2011-12 enrolment, FY 2013 budget)

Source:
EBEIS Online; 2013 GAA/NEP



Other programs

A large part of the government education budget consists of about 20 programs budgeted and managed by DepEd central, of which most now (since 2012) have earmarked appropriations by region, ARMM included. As noted earlier, previously these regional allocations were sub-allotted to regions during the year, or administered from neighbouring regions. These programs have different objectives, from the provision of key inputs such as classroom construction to programmatic activities such as support to special schools, Islamic education, or Alternative Learning Systems. The main programs are listed in Table 8 with the corresponding allocation for ARMM in 2013.

Table 8: Centrally-managed fund allocations for ARMM, FY 2013

Program	Amount for ARMM (PHP thousands)
Cash Allowance for Newly Created Teaching Positions	3,118
Purchase of Textbooks and Instructional Materials	73,284
Support to Private Education – GASTPE	184,587
Financial Assistance for Regional Science High Schools	1,634
Support to Special Programs for the Arts and Sports	1,000
Support to Special Education Centers/Schools	2,140
Support to ESEP High Schools	-
Support to Special Elementary Science Schools	-
Support to tech-Voc High school Programs	-
Human Resource Training and Development	62,140
Purchase of Office and IT equipment	5,693
Basic Education Facilities	N/A
Support for MultiGrade Schools	5,775
Computerization Program	46,414
Basic Education Madrasah	209,700
SBM Installation and Support	25,924
Kindergarten Education for All	52,110
Mass Production of Math and Science Equipment	27,692
Alternative Learning Systems	7,699
Alternative Delivery Mode Programs	4,900

Source: 2013 GAA/NEP; ALS is the allocated amount planned by DepEd Bureau of Alternative Learning Systems, and may not reflect actual appropriation.

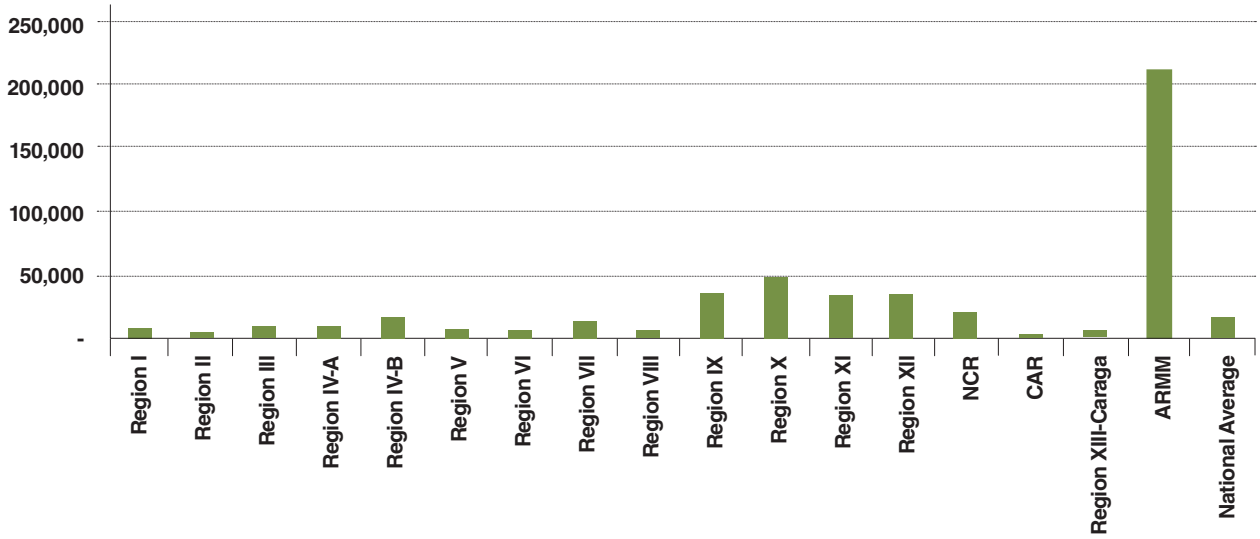
An analysis of the equity in spending across regions for these programs shows variations whether on a per pupil or per capita basis, as would be expected of programs meeting varying needs and applying varying planning criteria and processes. Support to special arts and sports programs has been given as an equal share (1 million PHP) to all regions. Support to multigrade schools varies widely per pupil, with ARMM below the national average of about 9 PHP per student at 6.7 PHP per student. In the past the varying planning, budgeting, and execution rules of the programs have been a barrier to transparency between the regional education authorities and the national level making these decisions. A more regular dialogue has been developing and regional input can be integrated into these programs as recommended in Chapter Six.

One of these programs, Madrasah education (which in fact does not primarily fund madrasahs but rather ALIVE subject teachers) is a key component of the national education

authorities' spending plans for ARMM. About 46 percent of national spending on the program is allotted for the region, far more than any other part of the Philippines. The budgeting and execution of this program, which is so heavily weighted to the ARMM, may be a good potential candidate for more regional planning and expenditure management input.

Figure 16:
Total allotment for "Madrasah Education" by region, FY 2013

Source:
2013 GAA/NEP



A second program that is of particular importance to the ARMM is Alternative Learning Systems (ALS), as it targets the out of school youth of which there are disproportionate numbers in the region. ALS budgeting provides a good illustration of the problems created by the ARMM's public expenditure management syndrome. ALS needs are calculated by the Bureau of Alternative Learning Services in DepEd National, based on the numbers of mobile teachers and coordinators in each region's divisions. The appropriation approved in the national budget is then prorated according to these proportions across regions.[74]

The regions and school divisions are required to provide reporting on the number and identity of the mobile teachers and coordinators, and the learners attached to each, to verify their inclusion in the budget calculation. Due to the weaknesses in accountability and the unclear responsibilities for reporting described in Chapter Three, the reporting on ALS needs is very problematic. Despite the purported needs, in 2012 ARMM registered

[74] BE-PEIR interviews, BALS and DepEd National Budget Department.

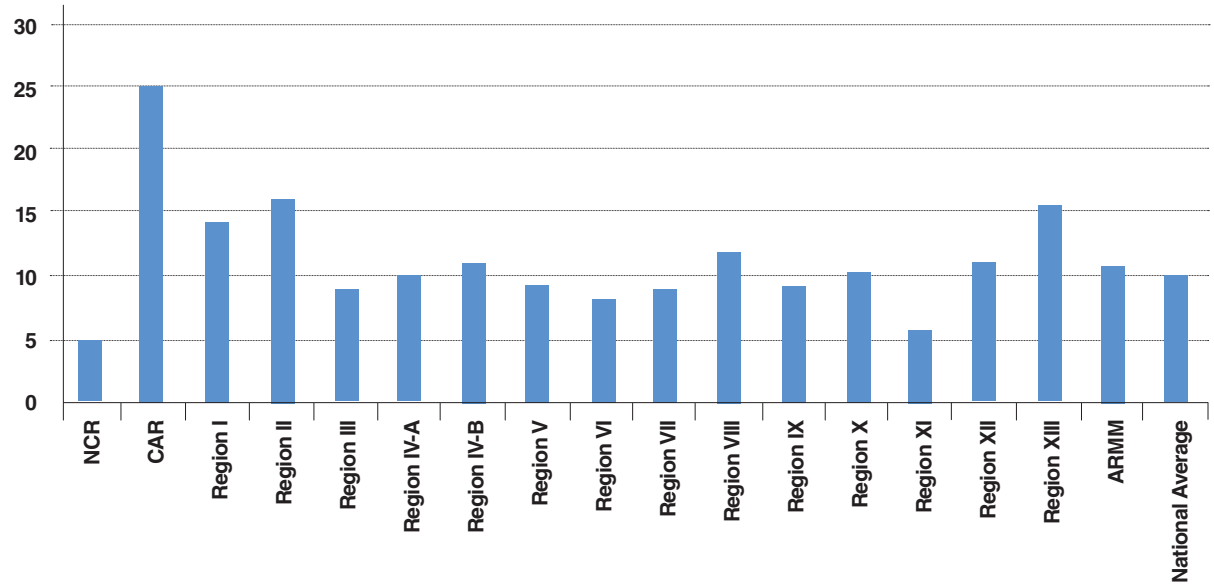
the lowest number of ALS enrolees of any region (10,073), and as of May 2013, only 230 enrolees are in the records held at DepEd National for that year, and only four of twelve ARMM divisions have provided any reporting at all for the 2013 year.

These weaknesses have a double impact. First, they influence the budget allocation given to ARMM by underestimating needs. The lack of involvement of ARMM in the budgeting process may weaken the regional office's ability to gather the adequate reporting from its divisions. Second, and perhaps worse, even the money that is allocated cannot be disbursed without verification that there are both learners on hand, and teachers to teach them. In 2012, allowances for only 11 out of 58 mobile teachers were disbursed in ARMM, though this latter issue appears to be a problem common to many regions.[75]

In this respect, planning for ALS spending is largely driven by the completeness of administrative reporting and current provision levels, rather than needs. An analysis of the allocation of operational budget for mobile teachers and coordinators against the potential learner population reveals that allocations vary widely between regions from just over 4 PHP per learner to 25 PHP (Figure 17) – all seemingly low allocations.[76] ARMM is not particularly disadvantaged, with 9.9 PHP per learner against a national average of just over 10 PHP, so it would appear budgeting issues for ALS are shared in other parts of the Philippines.

Figure 17:
Planned ALS Allocation per Target Learner 2013 (PHP per Learner)

Source:
Learner estimates from Koyama and Yamauchi, 2013, based on data from the Functional Literacy, Education and Mass Media Survey 2008; Allocation data from DepEd BALS planning allocations CY 2013.



[75] DepEd National BALS documentation.

[76] Based on estimated learner populations as determined from FLEMM 2008 household survey by Koyama and Yamauchi (2008), and BALS allocation planning data.

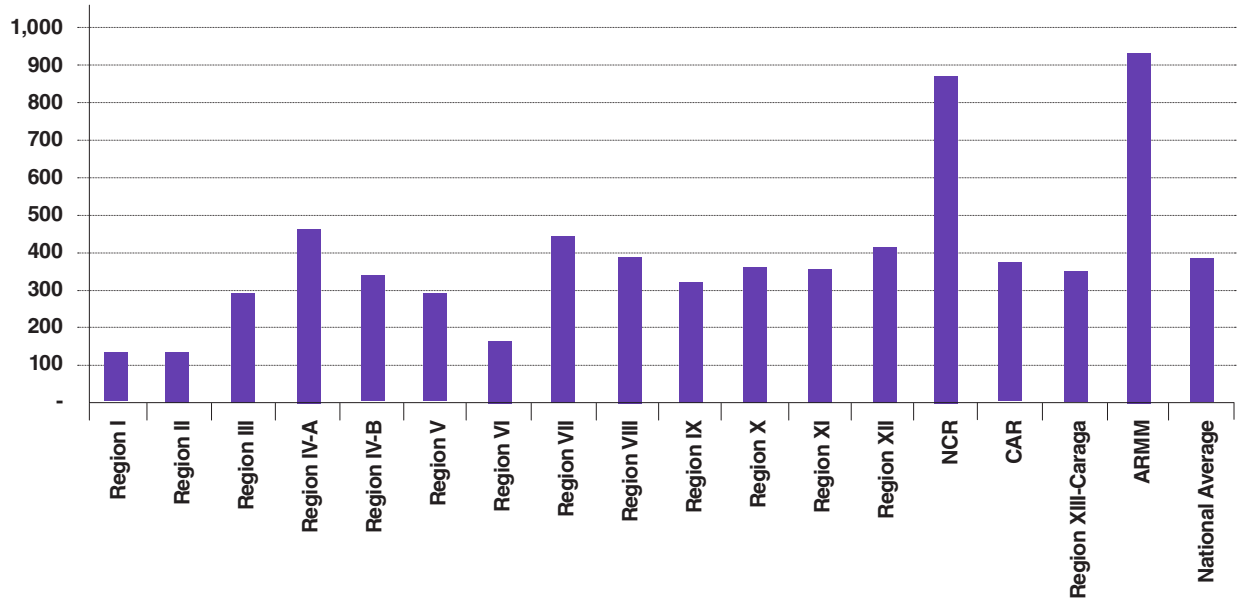
Capital Outlay

Capital expenditure on basic education consists primarily of money for construction and repair of school facilities, as well as smaller amounts for programs such as technical and vocational education or computerization. The provision of funds for construction and repair are primarily driven by two sources: the Basic Education Facilities Fund (BEFF) within the DepEd National appropriation, and the School Building Program, a national special purpose fund channeled to the Department of Public Works and Highways for implementation.

The BEFF is by far the larger of the two sources, with about ten times the allocation nationally of the special purpose fund. The regional sub-allotment of both these funds has not typically been presented in the national budget, so allocations for the BEFF are available for 2012 only from year-end reporting. The BEFF is to be allocated according to color-coded lists of schools with facilities shortages assembled from the EBEIS.[77] The BEFF for 2012 reveals a strong intention to improve ARMM's educational infrastructure, with the region being allotted 928 PHP per pupil, against a national average of 387 PHP (Figure 18). ARMM is thus the most favored region in the country for the construction and repair of classrooms, with the National Capital Region close behind. However, as discussed in the next Chapter, there are questions regarding the efficiency of the execution of these funds and little information on the completion of projects.

Figure 18:
Basic Education Facilities Fund (BEFF) allotment per pupil by region, FY 2012

Source:
2013 NEP (2012 Actual Expenditures)



[77] DepEd Order 94/2011 "Guidelines on the Implementation of the Basic Education Facilities Fund". (November 29, 2011).

BEFF regional allotments do appear to respond effectively to differing levels of classroom stock and the high allotment for ARMM appears amply justified. Indeed, the records show both NCR and ARMM as areas of high priority for classroom shortages. Seven of ARMMs 13 divisions are in "severe" shortage of elementary classrooms and there are over 62 pupils per classroom in the region. This is compared to a national average of 40 pupils, and a national minimum service standard of 45 pupils for single shift schooling.[78] The NCR appears even worse situated, with over 77 students per classroom in 2012.

Secondary classroom shortages are more evenly distributed around the country than those in elementary schools. However, they are extremely severe in ARMM. In 2012 the region had 82 enrolled pupils on record per classroom against a national average of 52, and a policy standard of 45 (55 for high school). In eleven of twelve ARMM school divisions, there is no way to meet the national standard even under double shifting. NCR is again the second worst provided region for secondary school facilities. At the same time as efforts to close these gaps are ongoing, investment in ALS and ADM canhelp address classroom shortages by continuing to provide learning opportunities outside the classroom.

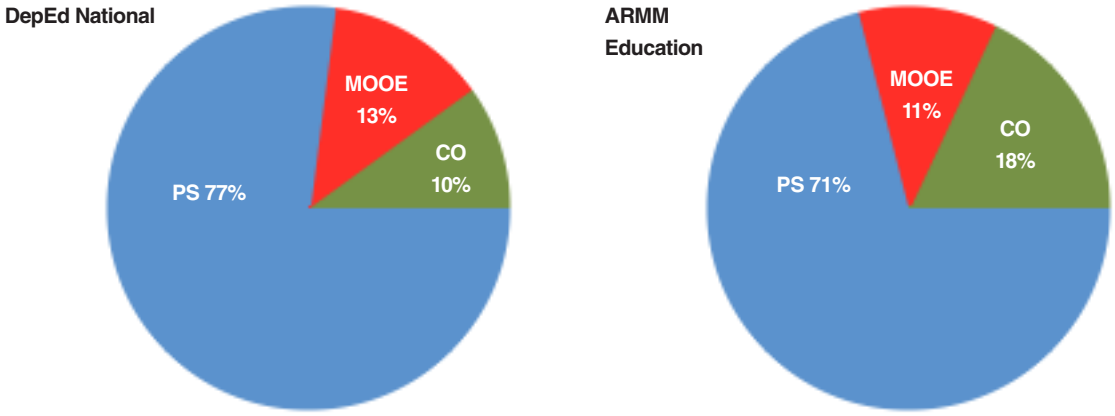
Determining the regional allotments within the School Building Program Special Purpose Fund is more difficult, both as allotments to regions are not made in advance, and because there has been some school building through the program implemented from ARMM's neighboring regions. 2009 data, the last available, shows about 90 PHP per pupil allocated to ARMM, about 10 percent below the national average of 102 PHP.[79] The School Building Program appears therefore to be allocated based on criteria other than classroom shortages, although the other region of extreme shortage – the NCR – did in 2009 receive the highest per pupil allotment of this fund. A key question for the linkage of planning needs with composition of budgeted expenditure is therefore how planning for these two flows can be better integrated to address classroom needs as a whole.

Overall, government expenditure composition for ARMM education is broadly in line with national proportions when taking into account both DepEd National and DepEd ARMM budgets, but excluding LGU and SPF data. About three quarters of the budget is expended on PS, 11 percent on MOOE, and the remainder on CO. As noted above, for 2012, the last year for which the BEFF allocation by region is available, the share of ARMM expenditure for capital outlay has grown to 18 percent, as compared to 10 percent across the country. Given increasing emphasis on school building and the lack of routine MOOE already discussed, the ratio suggests increased attention will be needed to the recurrent operations and maintenance implications of the new infrastructure, perhaps through continued provision of school repair and maintenance grants.

[78] All classroom gap data from EBEIS Online (SY 2011-12)

[79] Source on SBP.

Figure 19:
DepEd national and overall ARMM education expenditure composition, FY 2012



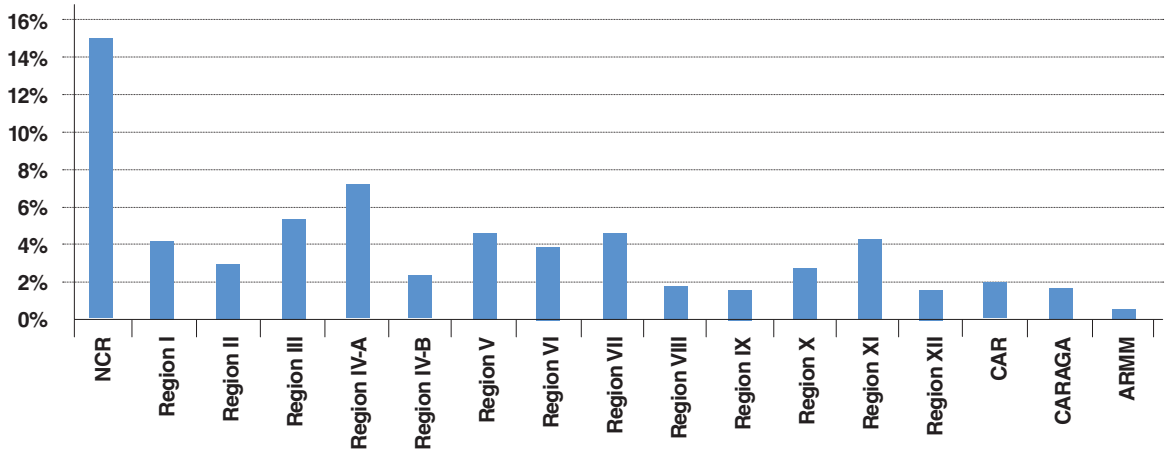
Source:
2013 GAA/NEP (2012 Actual expenditures)

Local government unit contributions

LGU expenditures on education, culture and arts, and manpower development show that ARMM LGUs spend little of their own resources on supporting education compared to other regions in the Philippines (Figure 20). ARMM LGUs barely register any education spending, while other regions devote between about one and a half to 15 percent to these activities.

Figure 20:
% LGU spending on education, culture & arts, and manpower development (2011)

Source:
2011 Statement of Revenue and Expenditures, Department of Interior and Local Government (Updated 2013).



One key source of education-specific resources through LGUs is the Special Education Fund (SEF). The SEF is levied as one percent of the real property tax collected by the LGU intended for specific support to finance public education.[80] The problem is, as with other elements of LGU financing, the collections and therefore expenditures through the SEF vary widely across the country and are generally higher in more prosperous localities. Across the country, "LGUs account for roughly half of capital expenditures in basic education through the SEF financed through real estate taxes".[81] The lack of such funds in ARMM can be assumed to stem from a combination of very low rates of LGU collections, low property values and the ambiguity over devolution of education responsibilities outlined in Chapter Three.

This means that LGU financing of education, to the degree it exists, is highly unequal. These variations do not compensate for variations in national spending, and national government spending on education is not designed to offset LGU-level inequalities in fiscal capacity: there is "no evidence of such a pattern of vertical coordination".[82] In fact, LGU spending tends to reinforce existing resource inequalities, accentuating regional differences in human capital accumulation with serious implications for regional income distribution: "LGU spending is strongly regressive and has become more so, especially in education".[83]

In summary, beyond the aggregate allocations for basic education in ARMM, this closer look at the composition of expenditures in terms of their economic classification and distribution across different programs reveals several important concerns with respect to education budgets. Chief among these are low routine MOOE spending, large and uneven variations in program spending between the ARMM and other regions of the Philippines in part driven by poor reporting and lack of budget participation by ARMM, a growing emphasis on capital outlay that may not be matched by adequate recurrent spending, and the regressive effect of LGU spending on education.

The ARMM PEM syndrome and distortions in budget composition

It is important to understand that these expenditure composition issues arise out of the ARMM Public Expenditure Management Syndrome described in Chapter Three. As with public expenditure as a whole in the ARMM, the fundamental issue facing basic education is that the government "budget" for educating children is made up of different components each planned, budgeted and subsequently managed by different institutions across three levels of budgeting – national sector agencies (the DepEd National), the regional government (in the ARG appropriation), and other local government units (Table 9).

[80] Republic Act 2447 (1968).
[81] World Bank (2011), p. 74.
[82] World Bank/Australian Aid (2012), p 31.
[83] World Bank (2011), p 10.

Table 9: Budgeting basis for education components

Budget Component	Budget Relationship	Budget Basis
PS for existing staff	ORG-DBM Bureau D	Incremental
New teachers	DepEd CO-DBM Bureau B	Teacher-Student Gaps
MOOE	ORG-DBM Bureau D	Incremental/Negotiated
Centrally Managed Funds School Building Textbooks GASTPE Madrasah Alternative Learning Etc…	DepEd CO-DBM Bureau B	Various Criteria, more or less transparent
Special Purpose Fund – School Building	DepEd CO-DBM-DPWH	Executive Political Priorities
PDAF	Congress-President	Legislative Priorities
LGU Education Spending	LGU	Local Priorities& Fiscal Capacity
Donor/NGO spending	Donor-Partner	Various

Source: Authors

By far the largest of the budgeting "channels" for basic education in the ARMM is the education budget within the ARG appropriation and the ARMM allocation within the centrally managed funds budgeted by DepEd National. As noted above, the former covers the vast majority of PS and MOOE expenses including the budget for routine operations and maintenance. This "ARG channel" is budgeted and negotiated with the DBM as part of the aggregated ARMM Regional Government Appropriation by the Office of the Regional Governor, not by the DepEd ARMM. It is therefore determined by criteria negotiated between ORG and DBM, and not directly based on education planning guidelines. In practice this means it has tended to be determined incrementally.

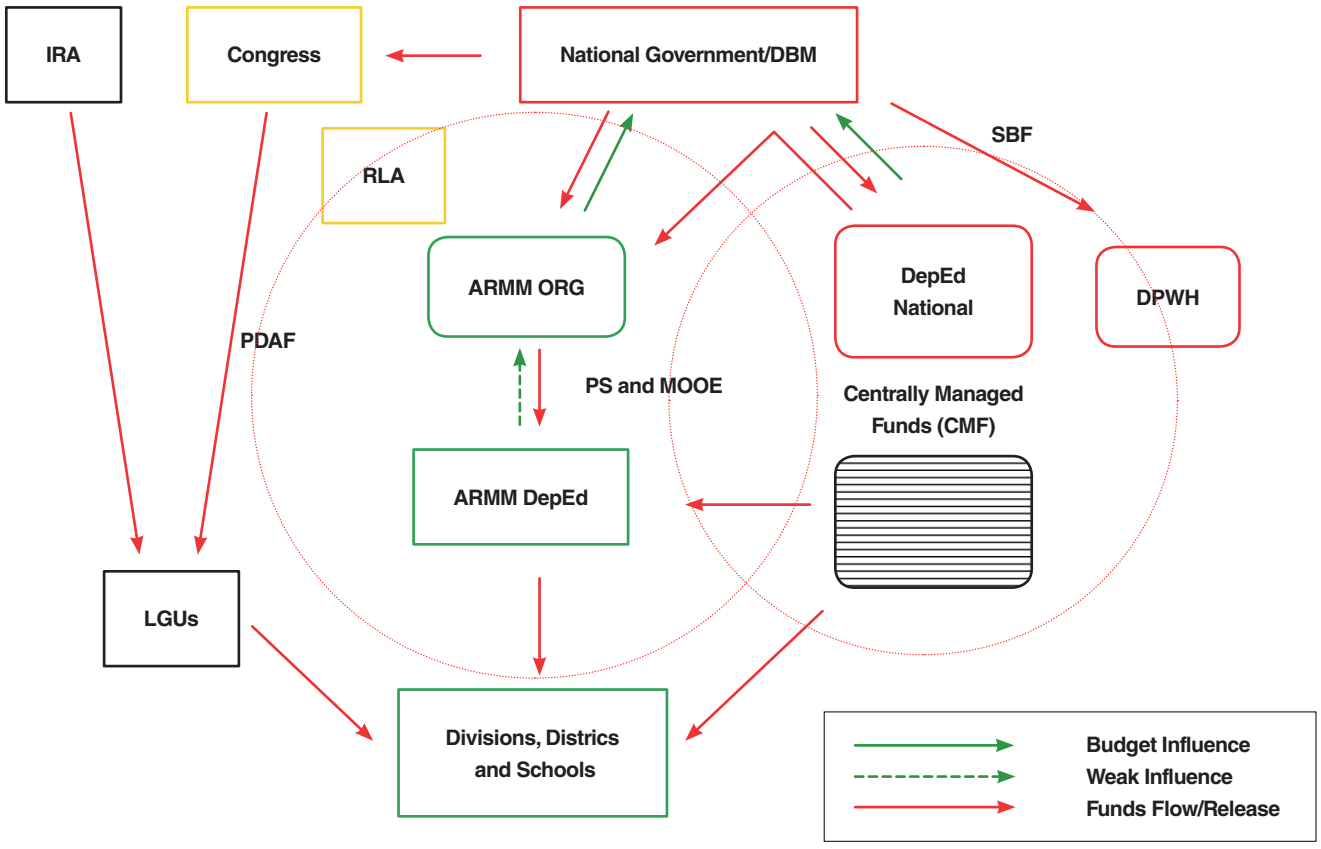
For this ARG channel, it is crucial that the planning and budgeting relationships between the constituent agencies of the ARMM regional government and the ORG function well in order for the ORG to aggregate their submissions into a single budget proposal under national guidelines. In past years, a lack of information on DepEd ARMM performance and final budget for the previous year have meant that the ORG began budget preparation without fulfilling basic Budget Accountability Reporting (BAR) requirements, and was therefore at a significant disadvantage in its relationship to DBM. At the same time, the relationship between the DepEd ARMM and ORG did not support the development of a strong evidence-base for spending proposals in education, a problem that also affected other departments. In this sense, the "intra-ARMM"

budgeting process is as important as the relationship with national government.

Frequent leadership and policy turnover in the ARMM have worsened this situation. Between 2006 and 2010 the region had five education secretaries and experienced two "management takeovers" in which accounting, budgeting and cash functions were taken on by the ORG in response to irregularities. A review in 2010 concluded there would "not be one member of staff that has institutional memory with regard to budget preparation", a striking illustration of the potential need for capacity support from national institutions.[84]

The second "DepEd National" channel, budgeted or later divided as sub-allotments to the region within the DepEd National budget, covers the majority of capital outlay, as well as operating expenditures for many programs that bear on the effectiveness of basic education spending. These programs each have their own planning and budgeting criteria, set by DepEd National – in some cases with input from its subordinate offices – but without any direct input from the ARMM authorities due to their "autonomous status". In this sense, the ARMM education authorities have little or no direct input into the two main budgeting processes that affect their resources.

Figure 21:
The two main channels of ARMM education budget preparation



[84] Tribal Helm (2010), p 22.

The fragmentation of budget preparation in this way helps explain the skewed composition of expenditure described in the previous section. The operating MOOE allocations for ARMM are budgeted as part of the ARG appropriation, while the DepEd National's planning and budgeting process determine those for the rest of the Philippines. While DepEd National applies a needs-based planning norm that has recently increased regular MOOE allocations (Box 4), the ARG has received incremental budget increases from DBM. Furthermore, while the education budget for the rest of the Philippines is prepared in cooperation with Bureau B of the DBM, that of the ARMM is with Bureau D. Even inside the DBM, ARMM education budgeting is fragmented and isolated from its own education budgeting specialists.

Box 4: Expenditure norms for MOOE allocation in DepEd National

The National Department of Education has introduced a system of needs-based expenditure norms for planning the allocation of MOOE resources in the budget. The formula is based on a few weighted factors for which data is readily available, in line with good international practice.[85] For elementary schools the current planning norm aims at an MOOE allocation that is the sum of the following:

- 40,000 PHP per school
- 200 PHP per pupil
- 4,000 PHP per teacher
- 3,000 PHP per classroom

The intended allocation for high schools is to be calculated in the same way with double the allowance for each factor. This needs-based approach displaces and greatly improves upon a pattern of incremental budgeting whereby previous years' allocations are increased gradually without reference to needs – a very common poor budget practice.

Unfortunately, while DepEd National introduced these improvements, budgeting of MOOE for DepEd ARMM was excluded from the process as their recurrent budget allocation is negotiated as part of the overall ARG budget appropriation. As a result, ARMM MOOE continues to be budgeted incrementally between ORG and DBM, diminishing participation by education stakeholders in the planning process. In 2014 improved dialogue between DepEd National's planning and finance teams and DepEd ARMM leadership is allowing the national experience to be shared and contribute to the development of similar planning norms in ARMM.

This gap is therefore not the result of conscious neglect, and national government has even compensated in a sense with greater allocations in other portions of its own education budget. Nevertheless, because those budgets are for specific programs, this effort does not balance the shortage of routine MOOE downloads to schools through the ARG and DepEd ARMM. As a result, ARMM schools become significantly disadvantaged when it comes to routine maintenance and operations requirements as described earlier in the Chapter.

Just as the DepEd ARMM is separated from the preparation of the recurrent budget and therefore MOOE, they are also isolated from the preparation of the program allocations for ARMM within the DepEd National appropriation. As seen earlier, DepEd National has in fact made generous allocations for ARMM

[85] ARMM BE-PEIR interview, DepEd National Planning Department Staff (November 2012).

to overcome historical neglect in many areas, such as the construction of new education facilities and the provision for ALIVE education services. However, in other lower profile areas that are important for the quality of service delivery, the needs of ARMM can easily remain unconsidered since ARMM authorities are excluded from the process. Weak reporting by districts and divisions within ARMM as with the Alternative Learning Systems or textbooks exacerbates this problem, undermining even sound planning processes.

Similarly, the planning process of DepEd National determines allocations for the capital budget. As seen above, national government has prioritized increased capital expenditure for ARMM to close the classroom gap. However, this spending remains unconnected to the recurrent budget, meaning linking MOOE spending or increases in staff to the new facilities is difficult or impossible. As new facilities become available due to generous construction budgets, the ability of the DepEd ARMM to provide operating and maintenance expenditure or to staff them may be compromised by the lack of integration between capital and recurrent budgets.

In sum, the ARMM PEM syndrome results in a basic education budgeting process that is very fragmented, not comprehensive, and with limited participation by the main education provider in ARMM. The resulting expenditure allocations are distorted, and lack transparency and predictability for the ARMM government and the region's citizens. This makes the formation of strategic linkages between regional education policy and plans and the budget very difficult. In this sense, adjusting budget composition cannot simply be a matter of reallocating available resources to new priorities. Instead, problems in budget composition are a function of deeper structural features of the ARMM PEM system, and need to be addressed in that light. Before looking at how to do so in Chapter Six, the next chapter introduces some issue of budget execution and service delivery.

CHAPTER FIVE: ISSUES IN BUDGET EXECUTION AND SERVICE DELIVERY

While the process of budgeting is central to public services, equally important is the question how effectively does the budget reach the frontline? Analysis of budget allocations and composition such as that presented in Chapter Four is only part of the picture. Equally significant in determining outcomes is technical or operational efficiency. This chapter looks at the institutions that execute the ARMM education budgets already discussed, and the transformation of those funds at school level into essential education inputs including teachers, textbooks, operating expenditures and classrooms. It also presents selected results from a school level survey of 163 ARMM primary, elementary and secondary schools, which provides a window into the reality that these problems create for students in the region.

Budget execution and the ARMM PEM syndrome

Chapter Three described the fragmentation of public expenditure management in the ARMM, and Chapter Four spelled out the implications of these divided institutions for education budgets. Fragmentation of public expenditure management also threatens the efficiency and effectiveness of budget execution, because institutions and processes for releasing budgeted funds vary between the different components of the education system. This divided system can reinforce the disconnect that already exists at the planning and budgeting stage by causing slow, uneven, or inconsistent release of funds.

Unfortunately, the ARMM PEM syndrome also makes it more difficult to accurately assess budget execution due to the gaps between local, regional and national systems, and poor accountability and reporting in the region. As the 2012 Basic Education Public Expenditure Review for the Philippines notes, "[t]racking actual execution against the original authorization is a complicated task" that "dilutes accountability for expenditure management" even in those areas of the Philippines outside ARMM.[86]

Budget execution procedures in the Philippines are complex and changing, and this is doubly so for the ARMM. Allotment by the DBM of funds appropriated to a given agency takes place through two main means: Agency Budget Matrix (ABMs) for "standing" recurrent or regular payments such as Personal Services, and Special Allotment Release Orders (SAROs) for specific programs or items that require clearance. Once expenditure is approved, DBM releases a Notice of Cash Allocation (NCA) that informs the agency that the money can be liquidated. As in many systems worldwide, these budget execution steps are intended to control expenditure by checking

[86] World Bank (2012), p 56.

it is being used for the intended purposes and that it conforms to agency and national cash planning and availability.

Just as budgeting is divided, the channels and procedures for executing basic education funds are also divided between the components executed by the ARMM Regional Government – PS and regular or "routine" MOOE – and the programs managed by DepEd National. In the case of the majority of the recurrent budget, managed by DepEd ARMM and the ORG, funds are downloaded to the regional office for distribution as salaries or school and district level MOOE payments. For the other programs, a range of different policies and procedures determine how these funds are obligated and disbursed depending on the program.

Personal services and payroll management

The execution of the Personal services budget is relatively simple, in that the appropriation is held with the ARG budget and therefore downloaded directly through the same procedures governing PS for other departments. As these are ABM allotments, they are released without additional clearance. The ORG tasks the DepEd ARMM management with the transfers or physical distribution of salaries. The actual rate of budget execution for the ARG budgeted education PS and MOOE is impossible to derive: interviews verified that SAOB reporting for DepEd ARMM was prepared by the ORG budget office without actual expenditure reports for recent years, giving a notional 100 percent execution rate for these funds. The national DBM has in recent years taken the curious position of both requiring this reporting to be completed, while considering it to be spurious and therefore not a valid basis for future new spending requests.[87]

The execution rates of the Personal Services budget to the level of the region may be presumed to be quite high (though not 100 percent), but the execution of salaries and other compensation, and their distribution to teachers presents a number of major issues. First, the processing of the payroll by DepEd ARMM has not been institutionalized and experiences delays. Second, the integrity of the data in the payroll has long been suspect, and ongoing efforts are needed to cleanse it of spurious entries and introduce processes to prevent future problems. The loose control of payroll and the resulting inaccuracies has also played into the historical role of ARMM institutions in providing a patronage vehicle for local and national politicians, rather than as providers of quality public services.

Widespread suspicions of ghost teachers and the integrity of the ARMM education payroll and human resource information systems have been key concerns of the caretaker administration since it took office in early 2012, and these were motivating factors behind the request for assistance through this project. DepEd ARMM themselves estimated that these problems were resulting in a leakage of about 30 million pesos per month.[88] A diagnostic of human resources management and payroll services at DepEd ARMM was therefore under-

[87] Author interviews: DBM and DepEd ARMM staff.

[88] Presentation of DepEd ARMM Assistant Secretary Noor Mohammad Saada, June 2012.

taken as a component of the BE-PEIR project, and issues of teacher absence were specified as a focus for the school survey.[89]

The diagnostic process identified three broad weaknesses in the hiring, payroll and human resource information management system:

1. Lack of integration or communication between HRIS and Payroll processes;
2. Weak accountability and safeguards in hiring and payroll entry and processing;
3. Lack of skilled staff to ensure accuracy in data in both HRIS and Payroll.[90]

There are three databases which may be used to keep track of the notional teacher workforce in ARMM: the approved DBM plantilla (the approved staffing establishment against which budgets are made), the payroll system, and the Human Resource Information System (HRIS). At the beginning of the BE-PEIR project these three systems showed different numbers of employees and had not been cross-checked. Out of the 22,493 plantilla positions filled, only 20,996 were in the payroll and only 18,780 in the Human Resources Information System (HRIS). These systems were not integrated with each other, and each was compromised in important ways.

The Human Resources Information System (HRIS) should maintain the most current information about staffing, including registering new incoming teachers (and their qualifications) as well as retirements and salary increments for seniority.[91] These factors impact the payroll within the parameters of the plantilla as different staff fill approved staff posts. The HRIS was both incompletely populated (with only about 80 percent of the required 22,000 entries) and was unable to link unique teacher identities to particular school assignments or generate a region-wide list as it only processed data by division.[92] This also made it difficult to validate teacher presence as part of the surprise school survey. It is important to note that school principals appeared to report teacher's assigned to their schools relatively accurately, but this had no real feedback to the HRIS system.[93] The HRIS, due to technical issues related to its design and the scale-up and transfer of servers to national level, does not have an integrated payroll processing capability. While in theory the approval system for data entry to the HRIS is stronger than that of the payroll, in reality a lack of trained data entry staff meant that the data was entered by casual labor using a single user-ID, and errors were detected during the diagnostic exercise.

In turn, the payroll must be up to date and free of spurious entries to ensure that only the correct salaries are processed and distributed. The regional payroll system runs on a separate platform (earlier devolved from DepEd National) with each School Division having separate databases – thus duplicate names, errors, and discrepancies across Divisions cannot be validated automatically. There is no system to check payroll data with that

[89] Australian Aid engaged Carole Belisario, HR operations analyst and Jonathan Masalonga, IT expert: Belisario and Masalonga (2013).
[90] Belisario and Masalonga (2013), p. 6.
[91] The HRIS runs on a web-based application using MS SQL Server hosted under DepEd national. The HRIS program was developed through the BEAM Project of Australian Aid for regions XI, XII and ARMM. It was turned over to DepEd Central Office at the end of the project in 2011. The nationwide scale up on the use of HRIS is under DepEd Central management.
[92] Belisario and Masalonga (2013), p. 5.
[93] While the HRIS platform was initially rolled out for ARMM at the regional level, the server was subsequently transferred to DepEd Central. Connectivity issues then made it de facto impossible to update information in a timely fashion.

of official plantilla position numbers, and employee absences, transfers, termination and retirement were not regularly being inputted. Informality, discretion and a the lack of a processing calendar were observed in the processing of new entries, transfers and other payroll-related requests.[94]

These weaknesses led to delays in the release of salaries and inaccurate salary payments, excessive retirement terminal leave payments, and fraudulent payments to "ghost" employees. The discrepancies and delays also have an impact on budgeting as they affect the release of funding for additional plantilla positions from DBM as reports are difficult to reconcile. In this situation, DepEd ARMM management sought to validate the payroll by deploying RPSU personnel accompanied by civil society organization (CSO) representatives in April and May 2013 to the various divisions to distribute payroll cheques manually, with the exception of Maguindanao school-based personnel that picked up cheques at the ORG Complex (Figure 22). A significant number of cheques were left unclaimed, suggesting ghost teachers. However, this approach had a number of limitations. Even if cheques were collected, this was no guarantee that teachers would actually teach regularly. For many bonafide teachers, physically coming to central points also involved significant time and financial costs.

At the same time, the project team carried out a triangulation of data between the three database systems for a sample of school divisions (Box 5). Subsequently, the DepEd

Figure 22:
Payroll Cheque Collection in ARMM

[94] Belisario and Masalonga (2013), p. 9.

ARMM has taken steps to cleanse the payroll database. Following the diagnosis of the system flaws, the technical assistance to DepEd-ARMM helped clean up the payroll list by correcting or deleting names that are not eligible for payment of salaries. As a direct result of these efforts by DepEd ARMM, 400 spurious data sets have been removed from the payroll, resulting in an estimated saving of 800 million PHP per year.[95]

A software solution was also developed to manually link the cleaned HRIS to the payroll database. This tool generates a list of duplicate or inaccurate entries using the HRIS as reference, and cross validating them with the payroll database. A new operations manual (see below) specifies the use of this report as a validation document required for the processing of the disbursement voucher that releases the payroll cheques. This system, however, is a temporary fix that should not substitute for continued efforts by DepEd National or DepEd ARMM to launch a functional HRIS with local server access and an integrated payroll module.

A final important issue for Personal Service execution has been a history of varied hiring procedures and criteria for selection, resulting in allegations of subjectivity, fraud and delays in the deployment of teachers in the schools.

Box 5: Triangulation of HRIS, payroll and plantilla databases

A triangulation of the three main databases (HRIS, Payroll and Plantilla data) revealed spurious or duplicated entries in all three databases, delays in payroll processing, and a failure to calculate leave balances and absences in the payroll. In total, the triangulation revealed 7,772 errors or possible duplicate entries across the three systems, and 862 were selected for further investigation. The triangulation identified duplicate entries of various kinds in both the plantilla and the payroll database. The regional payroll database revealed some internal inconsistencies, chiefly 20 duplicate employees with different employee numbers (allowing for multiple pay cheques to be issued), and over 300 that share duplicated GSIS numbers. Analysis of the plantilla for Basilan, Tawi-Tawi and Lanao del Sur revealed between 180 (in Basilan) and over 1,000 problematic entries (in Lanao del Sur) in each province. In Lanao del Sur 1,011 entries are incomplete or suspicious, with a full 600 entries sharing one spurious taxpayer identification number.[96] These errors may be due to a combination of poor and incomplete data entry, failure to update personnel data, and more serious problems of ghost workers or avoidance of tax through use of duplicate Taxpayer Identification numbers.

Subjective and partial interpretation of the Localization Law has meant that school divisions often hire locally without assessment of qualifications, often choosing non-eligible teachers over LET passers from other areas. As a result, the quality of teaching staff in ARMM has declined.[97]

There had been no active monitoring and evaluating team at the Region assigned to conduct follow up visits to divisions or schools to verify that personnel listed on the payroll are physically reporting at schools. However, the school survey described below helped to identify the scope of the problem of teachers absence, and the DepEd ARMM has been granted much

[96] Belisario and Masalonga (2013), 38-41.

[97] Belisario and Masalonga (2013), p. 8-9. The Localization Law (RA 8190) aims to grant priority in hiring of teachers to local residents, but in consideration of qualifications.

needed division supervisor posts in the 2014 budget, in line with staffing already available in other regions of the Philippines. Availability of biometric scanners should also improve the situation, assuming they are used to inform payroll processing and the management information system.

An operations manual has been developed in consultation with regional and division level staff with roles in personnel and payroll processes. The manual sets out roles, structures, and defines agreed principles guiding HR and payroll operations. It lays out steps for all key HR processes including hiring, new forms and timetables, and establishes enhanced accountability for concerned offices/staff positions. Institutionalizing the procedures in this manual throughout ARMM is a vital task going forward to sustain these reforms.

The final report of the TA to DepEd ARMM includes recommendations for sustaining the new business processes, staff capacity building and internal reorganization.[98] The creation of an internal audit unit to concentrate on data integrity within the DepEd ARMM is recommended to complement the oversight of the Action Center for Education (ACE) over procedures, timelines and hiring processes. The long-term integration of the payroll and HRIS system is the key structural reform needed. Crucial also is continued dialogue with the DBM and DepEd National both to ensure alignment with national human resources policies, but most importantly to coordinate on the use of the savings gained from payroll cleansing to further strengthen the integrity of the system. This could be through the approval of additional supervisor, finance and data entry posts, and continued attention to developing the HRIS to its technical potential. The current addition of new division supervisors in the 2014 budget is a welcome first step in this direction.

MOOE

MOOE expenditures, like PS, appear outwardly to be effectively executed – information on the monthly downloads of MOOE to schools or district offices are available and suggest the MOOE budget is executed in a timely fashion. However, liquidation reports of this routine MOOE from schools and districts are absent, meaning there is no reliable way to know the actual use to which the funds have been put. As noted in Chapter Two, the response by DBM to the failure to demonstrate expenditure needs and history is to budget incrementally rather than based on needs, thereby perpetuating the relatively low levels of routine operating and maintenance funding.

The weaknesses of budget execution for the recurrent budget – PS and MOOE – channeled through the ARMM are therefore not so much in the process of obligations or releases, but in the poor integrity of the payroll and the inadequate reporting on funds use. These deficiencies mean that salary is used for non-productive or even unauthorized purposes, and MOOE needs are not well known. This situation constrains the budget possibilities for the ARMM by reinforcing a cycle of mistrust that encourages DBM to continue budgeting for

[98] Belisario and Masalonga (2013), p. 14-15.

staff and operations and maintenance incrementally rather than on the basis of plans.

Execution processes of centrally-managed funds

The execution of the many important programs for ARMM basic education that are managed by DepEd National present considerably more complications. The funds must be released to the DepEd National first, and then to regions or divisions, according to a set of guidelines and procedures prepared by the DepEd National, as well as several different mechanisms for the sub-allotment process set out by the DBM. The policies surrounding release of funds have been frequently changed and this is a key factor influencing the effective execution of education resources. The 2012 Philippines-wide education public expenditure review found that policy instability surrounding the procedures for key flows such as furniture, school-building, and textbooks had major negative impacts on the pace of budget execution Philippines-wide: "As desirable as they may be, policies, operational changes, or rule changes create a risk of implementation failure".[99]

Many of the major programs of the DepEd – notably Basic Education Facilities and textbooks – have been appropriated to the DepEd budget as a lump sum. That is, at the time of budgeting they were not broken down by region, and therefore specific clearance for each allotment to regions are needed from DBM during the budget year. The DepEd then must "sub-allot" the funds to the regions or other administrative levels as needed, introducing additional steps to the national budget execution process.[100] In general, the allotment for regions requires an additional "sub-Allotment Release Order" or "sub-ARO" in addition to the SARO used for the lump sum. For some funds, notably ALS, the ARMM regional allotment is handed over directly to the regional education office via a funding cheque, potentially saving some time.

This procedure is cumbersome even for the national agency, never mind for the ARMM. In most cases funds or the inputs purchased with them are distributed to schools divisions offices, with the regional offices playing a managerial or oversight role. For example, funds for the distribution of textbooks are sub-allotted directly to school divisions offices, based on the issuance of a Notice of Cash Allotment (NCA) from the corresponding region's DBM office. The region education office oversees delivery.[101]

However, for ARMM the purported "autonomy" of the regional DepEd (as an agency of the ARG) works against it. The DBM does not have an office in ARMM and so sub-allotments and NCAs cannot be handled within the region and thus do not reach the regional authorities. Consequently, textbooks and funds for other programs may be downloaded directly to school divisions, at times without the knowledge of the ARMM region, and potentially without subsequent reporting back to the region. In addition, in the national DepEd accounts, the execution of the funds for ARMM is not broken out, rather being subsumed under the central office. Therefore, while it is

[99] World Bank (2012), p 73.

[100] DepEd ARMM Regional Sub-Allotments work through an Authority to Debit Account (ADA) which authorizes download to Region Offices and to Schools Divisions. For ARMM these procedures involve either a reversal of SARO or a specific funding cheque to the new recipient.

[101] DepEd Order 49/2012, "Policies and Guidelines on the Utilization of Distribution Funds for Centrally Procured Textbooks (TXs), Teachers Manuals (TMs), and K to 12 Basic Instructional Materials (BIMs)" (June 15, 2012).

possible to calculate obligation rates for several key education programs by region, the same information is not available for ARMM.

What is clear is that central office obligation rates of key funds such as the Basic Education Facilities Fund (BEFF), textbooks, and alternative delivery modes, fall dramatically behind those of the individual, non-ARMM, regions. For example, Regional BEFF and textbook fund utilization rates for 2012 were both above 70 percent for all regions, while the central office allotments for the same fund were only 8 percent and 24 percent used respectively. Unfortunately, it is not possible to impute a value for ARMM execution or obligation rates from this difference, both because ARMM funds are co-mingled with the other aspects of the national program, and because some programs also implemented some of their components for ARMM via neighboring regions. Nevertheless, it appears clear that problems experienced in efficiently disbursing resources to the other administrative regions are compounded for ARMM.

The sheer lack of information, and likely underperformance, is brought into relief by the 2012 BEFF project status report. While ARMM's target of 1,032 for new classrooms is actually the highest in the country, at year's end the program had reported no projects completed, nor any even ongoing.[102] Admittedly this is against a very low 22 percent completion rate nationwide, but the national average for the percentage of allocated new classrooms at least begun was 81 percent. While it is likely the rate of zero is a reporting failure, it goes to illustrate just how different monitoring of the execution of some of the most crucial parts of the education budget is for ARMM. Bear in mind, that it is this component of the budget that was increased so dramatically to tackle acute classroom shortfalls, meaning the increased budget allocation is likely having less impact on the ground than the budgets alone would suggest.[103]

A similar challenge might be found in Madrasah education, which as seen in the last chapter has been heavily funded for ARMM. In terms of utilization, the madrasah education program was 32 percent obligated on average, but the central office rate, in which ARMM is included, was 16 percent.[104] While a direct conclusion about the ARMM execution rate cannot be drawn, it appears certain to be very low.

Some of these complications may be improved somewhat by recent changes to national public financial management processes. In the 2013 budget the regional sub-allotment is being specified in the appropriation. For the 2014 FY there will be no SAROs to approve allotments, only NCAs. In this sense, the budgeted appropriation becomes automatically available to the agencies in question, which should eliminate one major source of delay to the execution of central funds intended for regional use. However, this raises its own questions about the procedures that can be adopted to control expenditures intended for ARMM. The continued absence of a DBM presence in the region implies downloads will still be handled

[102] CY 2012 Basic Education Facilities Fund, Project Status (December 31, 2012).

[103] The lack of progress on education facilities construction is an issue of such concern that the Regional Governor has tasked staff from his Office of Special Concerns to physically verify each individual project.

[104] Statements of Allotments and Obligations (FY 2012).

through the DepEd Central Office.

An additional point of interest are the high levels of "continuing appropriations" found across these important parts of the education sector. These figures reflect unobligated CO or MOOE funds that can be carried over from the previous year, to be spent in the second year. However, in a major change the 2014 national budget policy specifies that there will be only "one year validity of appropriations", meaning this process is disallowed. Should these levels of unused appropriations continue, the loss of resources to those programs that are slow to execute would be substantial.[105]

Frontline service delivery: the schools survey

The efficiency with which budgeted funds are executed shapes the levels and timeliness of education inputs available, but fiscal data alone cannot confirm if the staff and other inputs are actually available to deliver education servicesat the frontline. The ARMM government has had specific concerns in the area of human resources and school conditions. To investigate these issues, the project implemented a school and community-level survey with local partners the Coalition for Bangsamoro Civil Society (CBCS), between 4 and 8 March 2013. The survey gathered representative data on:

- Patterns of teacher and pupil absence;
- Perceptions of school and community leaders on education challenges;
- Textbook delivery;
- Community and Local Government Unit inputs (in cash or in kind) to basic education.

The survey was implemented across an initial sample of 180 schools drawn randomly from the full list of ARMM schools. There were 140 primary and elementary schools (out of total 2173 in the 2011 school list) and 40 secondary (of 298 total in the 2011 school list) in the sample. After replacement of inaccessible sample schools and some elimination due to data irregularities, there were 163 schools remaining in the final sample for analysis. The survey collected information through questionnaires administered to the school principal or ranking teacher, the Barangay captain where the school is located, and direct observation of the teachers and students present in the classroom on the day of the survey.

The survey used a surprise visit and direct observation approach that is standard in provider absence surveys.[106] While the teams had authorization by the regional education authorities, the list of sample schools was kept confidential until survey teams were deployed to their respective divisions. Only 21 schools reported being forewarned in any way of the visit, with only 5 of these aware of the timing. The trade-off is that the use of surprise visits, while essential to collect absence data, may undermine the quality of other types of data – such as financial or administrative information – collected due to the lack of preparation time for school officers.

A striking result from the survey was the high number of schools that were not open at all on the day that the survey teams visited, and

[105] NBM 115 (December 28, 2012), p 1.

[106] Rogers and Koziol (2011), p. 11.

which therefore could not be included in the statistical sample. Altogether 29 out of 163 schools visited (18 percent) were closed on the day of the survey visit. A portion of this school closure is related to the proximity of the survey to the end of the school year: the survey took place three weeks prior to the end of the official teaching period and 6 schools reported that they had already completed the year. This raises questions around the degree of rigor in observing the annual education calendar. The reasons given by schools for these closures are as follows (Table 10):

Table 10: Reasons for school closure during survey

Reason	Frequency	%
Closed for year	6	21
Staff meeting	6	21
Division meeting	3	10
Unknown	3	10
Classes finished for day	2	7
Classrooms in use for NAT	2	7
Local conflict	2	7
Biometric update	1	3
Exam preparation	1	3
LET exams	1	3
Postponed for feeding program	1	3
Students attending another school	1	3
Total	**29**	**100**

Source: 2013 CBCS-Australian Aid-WB ARMM School Survey

While the number of closed schools is too small to permit statistical analysis of reasons by province or division, it is striking that 19 of the 29 closures were in Lanao del Sur. As will be seen below, this province also registered very high absence rates for teachers and pupils in some of its divisions. When graduation and year-end activities (including "closed for year") are excluded, 23 schools were shut for other reasons. Over half of these remaining schools – 13 in fact – were reportedly closed for some form of education administrative function such as teachers taking LET exams or staff meetings. Such a high proportion of closure for administrative reasons suggests the very inefficiencies in the public expenditure management systems described in this report may create excess demands on teachers and increased absences or school closure, further damaging education quality.

Most dramatically, one school could not be located at all, and two more were closed due to local violence. Even if some of the impact of the survey timing is removed, the sample implies that on average it is likely that 15 percent or more of ARMM schools may be closed on a given day.

Teacher absence and ghost teachers

Teachers' absence is a serious issue in the ARMM education system.[107] Among 1,577 in-

dividual teachers captured in the survey, only 69 percent were present on the day of the survey, giving an average absence rate of 31 percent.[108] This absence rate may consist of a combination of working teachers who are absent on the day, and some "ghost teachers" who are reported as staff by schools in their reporting.

These rates compare unfavorably with international comparators – for example, a review of teacher absence in six countries for the 2004 World Development Report found an average absence rate of 19 percent.[109] As shown below, there are considerable variations in absence rates across provinces/divisions within ARMM. Teachers' absence is highest, nearing half of the teachers, in particular parts of Lanao del Sur (IIA and IIB), and Sulu (II). This is reflected in the province-level variations. In general,absence is lower in city divisions. Further analysis and future survey rounds may be able to provide additional insight into the reasons for this clustering of absence problems.

Province	Absence Rate (%)	Division	Absence Rate (%)
Basilan	11	Basilan	15
		Lamitan City	7
Lanao del Sur	35	Lanao del Sur IA	25
		Lanao del Sur IB	25
		Lanao del Sur IIA	49
		Lanao del Sur IIB	48
		Marawi City	25
Maguindanao	25	Maguindanao I	26
		Maguindanao II	25
Sulu	38	Sulu I	37
		Sulu II	46
Tawi-Tawi	37	Tawi-Tawi	37

Table 11: Provincial/ division teacher absence rates

Source: 2013 CBCS-Australian Aid-WB ARMM School Survey

The ability to identify ghost teachers was unfortunately limited in this representative survey. In the case of elementary schools the payroll identifies teachers not by post, but by school district, making it impossible to use the list of teachers being paid as a reference for a sample-based survey – a non-reporting teacher listed in the payroll may be assigned to another post in the district. Instead, absence rates were calculated based on monthly administrative reporting data on staff from school divisions collected prior to the survey. This data is at school level, but is likely to reflect mainly existing teachers, though some ghost workers may be included. The ability to separate out ghost absences from regular teacher absence was also constrained by the use of a single survey round in the year, which removed the possibility to discern persistent from occasional absence without a follow-up. A second survey is planned for the 2013-14 school year.

[108] The teachers captured in the survey comprise teachers listed in the DepEd ARMM's administrative records as assigned to a given school, if that school was open when visited.

[109] Rogers and Koziol (2011), p 7. See also World Bank (2004): the countries are India, Bangladesh, Uganda, Indonesia, Ecuador and Peru.

Male teachers were more likely to be absent (39 percent) than females (30 percent).[110] Seniority is weakly correlated with higher rates of absence, and Principals have the highest absence rate. The statistical significance of the difference is low but the finding is consistent with some international studies, with the proposed explanation that weaker accountability for more senior staff contributes to higher absence rates.[111]

Pupil absence

Student absence is also highly prevalent in ARMM. We calculated attendance rates at the class level (each section of each grade) based on the reported enrolment of the school in monthly reporting collected before the survey. On the day of the surprise visit, the average attendance rate was 71 percent.[112] Lanao del Sur has the highest absence rate for both male and female students, as with teachers' absence, though these figures are this time concentrated in the IA and IB divisions (Table 13).

Table 12: Presence by teaching grade

Teaching Grade	Absence Rate (%)
Teachers	23
Master Teachers	26
Head Teachers	25
Principals	30

Source: 2013 CBCS-Australian Aid-WB ARMM School Survey

[110] There were 101 teachers for whom the surveyors did not clearly identify sex, 96 of whom were not present on the survey date, but for the purposes of the study sex has been imputed from given names.

[111] For example, Kremer et al. (2005), found across several states in India that "[o]lder teachers, more educated teachers, and head teachers are all paid more but are also more frequently absent."

[112] This rate is calculated from schools and classes that are in session on the day of the survey.

Table 13:
Absence rates (%) of students in classes in session by province, division and gender

Province	Total	Male	Female	Division	Total	Male	Female
Basilan	16	19	13	Basilan	16	19	12
				Lamitan City	17	20	14
Lanao del Sur	61	62	59	Lanao IA	61	58	63
				Lanao IB	64	69	59
				Lanao IIA	38	51	25
				Lanao IIB	63	65	61
				Marawi	63	69	57
Maguindanao	23	25	21	Maguindanao I	25	25	25
				Maguindanao II	24	24	24
Sulu	26	28	24	Sulu I	21	23	19
				Sulu II	44	44	44
Tawi-Tawi	28	28	28	Tawi-Tawi	28	28	28

Source:
2013 CBCS-Australian Aid-WB ARMM School Survey.

Figure 23:
Prevalent pupil absence

Attendance rates do not vary greatly by grades, but as a whole, absence is a greater concern for secondary school than elementary school (Table 14). In all grades, female students were more likely to be in classrooms than males (74 percent for females versus 68 percent for males). An interesting feature of the absence rates is that they are lowest in the final year of either elementary or secondary schooling, suggesting a "near graduation incentive" for those who have not dropped out earlier. This data raises the importance of attention to early drop-outs in particular.

Table 14: Student absence (%) by grade and gender

Grade	Male	Female
Grade 1	39	33
Grade 2	41	38
Grade 3	41	35
Grade 4	38	41
Grade 5	38	31
Grade 6	27	26
Elementary Average*	**37**	**34**
Year 1	37	34
Year 2	50	43
Year 3	35	29
Year 4	26	25
Secondary Average*	**37**	**33**

Source: 2013 CBCS-Australian Aid-WB ARMM School Survey.

There is a complex relationship between municipality-level poverty incidence and absence.[113] Attendance rates of both teachers and students seem to show non-linear "U" type relationships with poverty incidence. In other words, attendance is higher when poverty incidence is very low or very high, and absence is highest in the middle level of poverty. It is possible that more urbanized settings offer higher returns to schooling while remote areas with high poverty incidence have lower opportunity costs for schooling (thus teaching), both of which strengthen the incentive to attend (and teach). However, the mechanisms behind the relationship between locality and teacher and pupil absence require further study.

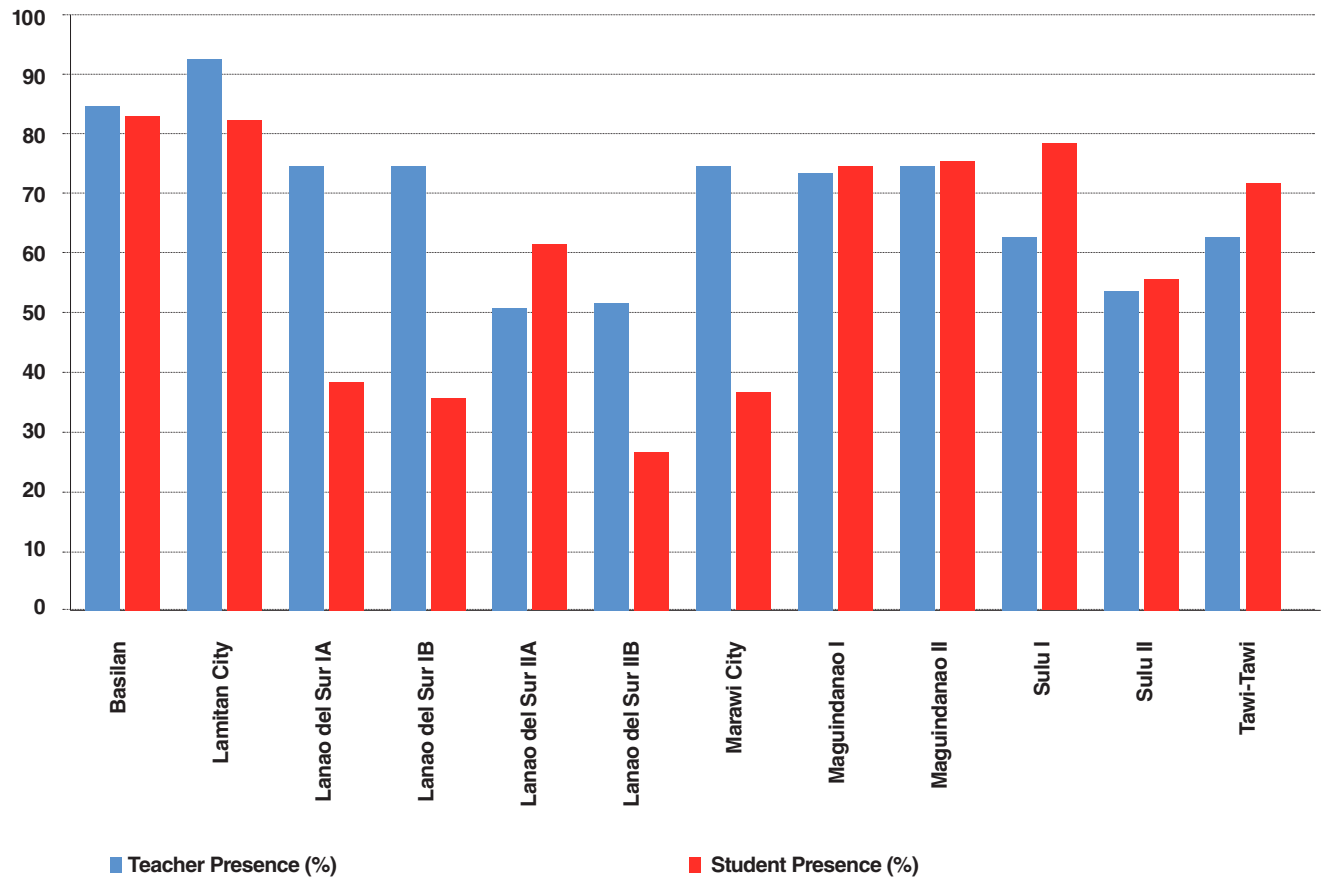
Teacher and student absence tend to vary together positively – that is high absence rates among teachers corresponds to higher rates among pupils (Figure 24). It is evident that students tend to attend their classes at a greater rate if teachers are likely to come, or equally, teachers tend to come to schools where more students attend their classes.[114] This finding suggests that efforts at increasing teacher presence in schools may contribute to a virtuous circle of attendance, and incentives for attendance should be found for teachers as well as for students (as currently exist in the national conditional cash transfer program).

[113] NSCB, Small Areas Poverty Estimates, 2010.

[114] Though the causality is still unclear, the data suggests that teachers' presence rates hypothetically rise from 65 percent to 80 percent as students' attendance rate moves from 40 percent to 100 percent. This finding, as with all absence rates reported, includes only students in classes in session on the day of the visit.

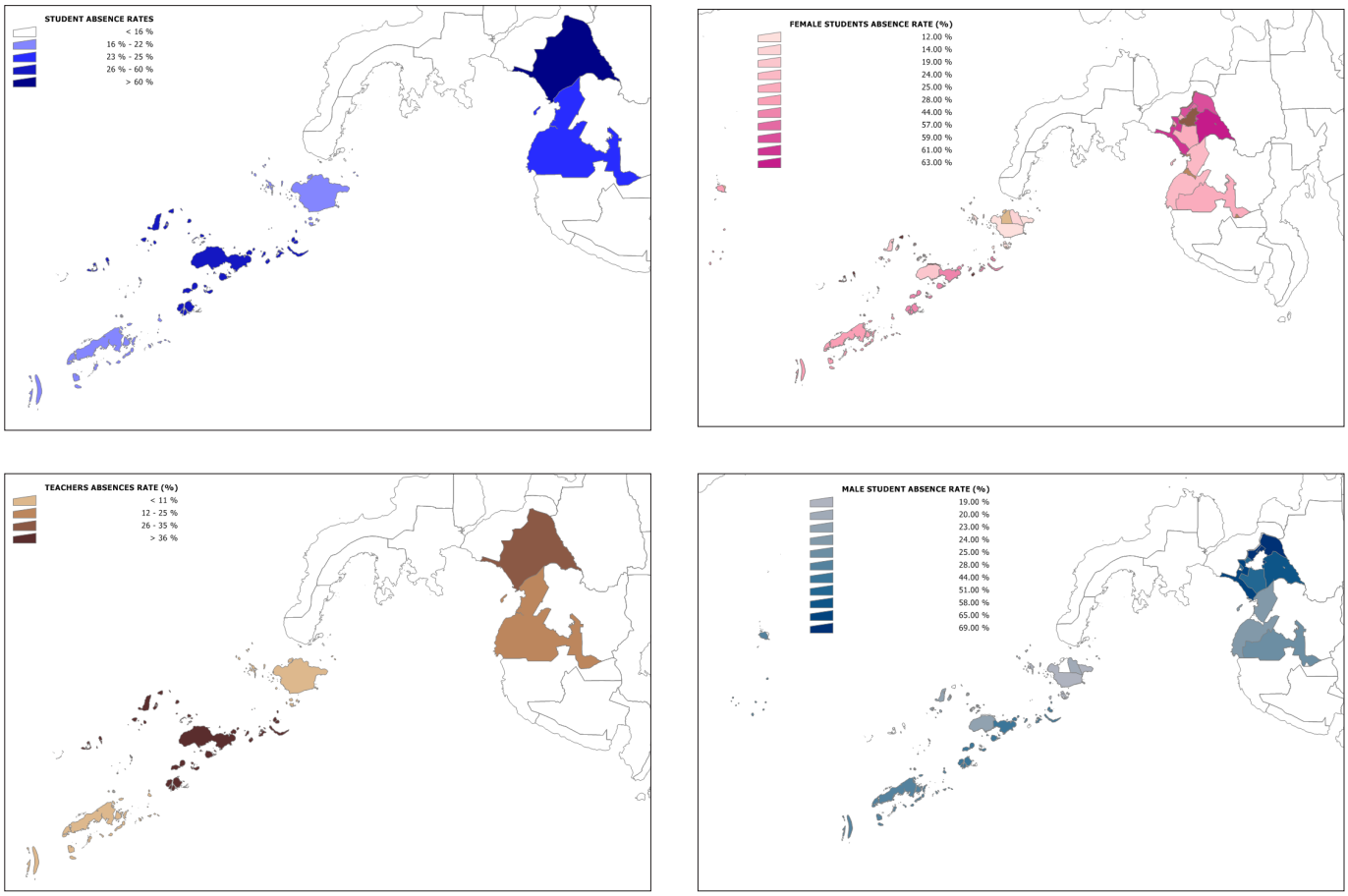
Figure 24:
Teacher and student presence (%) by division

Source:
2013 CBCS-Australian Aid-WB ARMM School Survey



Map 3:

Student and Teacher Absence Rates by School Division



Clockwise, from top left:

Student Absence Rate, Female Student Absence Rate, Male Student Absence Rate, Teachers Absence Rate

Challenges identified by schools

School heads reported a range of serious challenges to their ability to provide quality education services (Table 15). This "view from the frontline" confirms many of the deficiencies in the public expenditure system identified in the preceding sections of this report. Teacher and classroom shortages are reported most frequently as the biggest single challenge for schools, suggesting that recent investments in both the PS budget and especially basic education infrastructure may not yet have resulted in sufficient corrections at the school level, though these problems are no doubt echoed to verying degrees throughout the country. The quality of teachers is also raised frequently, reflecting the impact of many years of problematic recruitment practices.

Table 15:
Frequency of top challenges mentioned by school heads

Challenges	**Frequency**	**%**
Need more classrooms	37	23
Need more teachers	25	15
Need better building maintenance	18	11
Need better teachers	17	10
Need more textbooks	14	9
Need more budget	8	5
Need more teaching materials	7	4
Poverty in general	7	4
Drinking water	5	3
Too many students	4	2
Electricity	3	2
Need support personnel	3	2
Sanitation	3	2
Peace and order	3	2
Long commuting time	2	1
Students absenteeism	2	1
Need more support from parents	1	1
Family feud	1	1
Enrollees with insufficient supporting documents	1	1
Need financial support from LGU	1	1
Relationship between school staff and PTA, community	1	1
Total	**163**	**100**

Source:
Source: 2013 CBCS-Australian Aid-WB ARMM School Survey

Though some schools reported insecurity-related challenges, the majority of principals highlight problems in school conditions as the most serious challenge after teachers and classrooms. About 20 percent of the schools named some combination of issues related to maintenance, budget, and need for outside financial support for running costs or utilities as their single biggest challenge, and many more listed them second. The limited availability of routine operations and maintenance funds outlined in Chapter Four is reflected in the concerns of school heads. The survey confirmed that elementary facilities have not been given any regular MOOE budget from their divisions or districts. MOOE to high schools was generally being delivered, though 5 High Schools of 37 captured in the survey reported they had not received an MOOE payment in the last two school years. Some of this result may be due to the interviews being conducted with someone other than the principal or other errors.

Textbooks and teaching material shortages combined were the number one problem in 13 percent of schools. As noted earlier, procurement and distribution of textbooks is a central ministry function, and thus involves considerable logistical challenges. The survey collected some information on textbook deliveries to schools, and the data suggests that these are very few and very irregular. Out of the 158 schools providing information on educational materials they received, 29 schools, about 18 percent, claimed they had not received any textbooks in the previous two school years. It is difficult to compare these school level figures with central records on deliveries, which indicate only the district where textbooks are delivered, and this may be an area for further work. Even with some survey error, there is a significant problem in the completeness of textbook distribution.

Contributions from Local Government Units, particularly local Barangays, play a role in the overall education resource picture, although less so in ARMM than elsewhere in the Philippines as noted in Chapter Three. However, it is not easy to attribute LGU spending specifically to education from national and local government budget records. The survey was able to capture some aspects of the significance and variability of LGU support to schools. Again, out of 158 schools that gave information about their resource flows, 103 schools (65 percent) reported receiving some form of Barangay support. Conversely, this means that approximately one-third of schools reportedly do not have any inputs from their Barangay.

The lack of a regular pattern of Barangay and other LGU involvement in education has equity implications, as it may advantage certain schools over others. Of these 103 schools receiving support from Barangays, more than half received either cash or in-kind contributions or both (56 and 58 percent respectively). One quarter of the schools that received support did so in the form of Barangay funded or supported "volunteer" teachers. This means that some 37 or 38 percent of schools receive cash or in-kind resources that other schools do

not, and 16 percent have access to additional staff (though the question of the quality and attendance of that staff is open). While it is difficult to draw robust conclusions about provincial variation from this sample size, the "barangay participation rate" in supporting schools varies between 92 and 56 percent of schools depending on the province, suggesting large geographic variations in support. Support from other levels of LGUs was reported less frequently, though it is possible the survey data at times conflated support from Barangays with that of municipalities.

The amount of support also varies widely. For cash, schools reported contributions ranging from a few hundred pesos to a maximum of PHP 38,000 on an annual basis, suggesting that the range of LGU policies is indeed wide. Unsurprisingly, barangays themselves reported a higher rate of participation in education, claiming to support 91 percent of elementary schools (not all barangays had high schools in the sample). However, the amounts they claim to have given also vary widely, again from nearly nil up to PHP 120,000.[115] This variation further emphasizes that unregulated LGU participation in education has important implications for resource equity across the ARMM, and probably the Philippines as a whole.

Contributions from other LGU tiers and Congresspeople were less frequent, with only 30 percent of schools reporting such support. Unfortunately the information given on the source and amounts of these contributions was very inconsistent, but it does continue to suggest equity problems, with a very small number of schools receiving cash contributions in tens of thousands of pesos. Parent-Teacher Associations and communities in general frequently contribute to schools, again in about 65 percent of cases, potentially leaving one third of schools without this form of local support. 45 schools (28 percent) reported that they collected fees from parents and students, though the amounts reported tended to be less significant than other sources.

On the whole the survey revealed that in the absence of sufficient regular resources through the education budget, schools seek and may receive a range of additional support. However, not all schools have access to such means, and amounts vary widely. This implies that LGU funding may contribute to inequities among schools. An additional research question would be to correlate LGU spending on schools with poverty rates to see if this spending is progressive or, much more likely, regressive.[116] The dual lack of both policy and reliable reporting around LGU and community contributions to education is a serious gap in the ability to assess and plan education resources, and a major contributor to inequities in the availability of such resources. [117]

[115] Due to the surprise methodology of the absence survey, triangulation of Barangay and school reporting on assistance was not possible, but a second survey round may focus on this question.

[116] At the time of writing, additional analysis of the existing survey data and collection of a further round of information is planned for SY 2013-14.

[117] Lack of coordination between LGU spending and DepEd spending is a problem nationwide as well: World Bank (2012), p 76.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

Summary assessment of the PEM system for basic education in ARMM

All well-functioning public expenditure management systems share three broad goals. They aim to ensure fiscal discipline – that public expenditures do not dramatically exceed the available resources. The system must also provide a way of deciding how to allocate those resources among different priorities – the goal of allocative efficiency. Finally, they need to manage the resources in a way that they can efficiently and effectively produce the desired outputs and eventually outcomes – known as technical or operational efficiency.

As a subnational entity, ARMM has had limited control over the aggregate available resources, though this may change under new wealth sharing arrangements for the Bangsamoro. The BE-PEIR findings therefore relate mostly to the issues of allocative and technical efficiency – how are resources allocated and how efficiently and effectively are they spent. The overall performance of the PEM system for Basic Education for ARMM suffers from four broad weaknesses, each with their roots in the ARMM PEM syndrome.

Inability to link policy planning and budgeting

The DepEd ARMM and the national government have introduced various initiatives to more strategically allocate education resources, including regional education strategic plans, "bottom-up planning", and the national results-based budgeting process. In February 2009 the DepEd ARMM released an updated Regional Basic Education Development Plan for 2009-14, with an accompanying Strategic Plan.[118] The plan identifies limited operational funds as a key "constraint" on the department, noting that only 6.0 percent of the 2006 DepEd ARMM budget was MOOE.

However, rather than prompting an improvement, the MOOE proportion of the DepEd ARMM budget has not improved, but has actually declined to 4.8% in 2013. In keeping with meeting the challenges to school attendance outlined in Chapter Two, the strategic plan also emphasizes the need for more provision of Alternative Learning Systems to counter the region's low participation and functional literacy rates: "One of the major difficulties is DepEd's lack of sufficient budget to implement the ALS program."[119]

As seen in Chapter Four, the budgetary allocation for Alternative Learning Systems is based on the reported number of teachers and learners, not the needs in terms of potential target populations. In ARMM the provision of budgets is hampered by poor reporting on numbers of teachers and learners, though this problem appears to affect a large num-

[118] DepEd ARMM (2009), p 5. The plan is organized around three strategic pillars of governance, learning environment and infrastructure. It is itself an update of previous Asian Development Bank and BEAM supported master plans completed in 2003 and 2007.
[119] DepEd ARMM (2009), p 13.

ber of Philippine regions. There is therefore a disconnect between the policy objective in ARMM of emphasizing new ALS coverage, and the budget process as it takes place in the central government. Donor programs including BEAM-ARMM and USAID's EQUALS II provide significant support to Alternative Learning Systems in ARMM, making a like for like comparison with the rest of the Philippines difficult.

In a similar vein, ARMM's allocation for Alternative Delivery Modes (aimed at providing flexibility for pupils in school) in 2013 remains at a flat rate of 4.9 million pesos. This allocation is the same as all other regions excepting the largest two (NCR and IV-A), and ranking fifth in per capita terms – demonstrating that central ADM budgeting is based on an equal shares principle rather than an assessment of needs.

In short, the strategic planning of DepEd ARMM is not connected to the budget process, because the relevant parts of ARMM's education budget are not drawn up where the strategic planning took place. While certain areas in the development plan – new infrastructure for example – have received increased attention in national government allocations, this is not as a result of the ARMM strategic planning exercise, but rather changes in national political attention to the region. In fact, the education plan itself notes that, rather than shaping national budgets, it is primarily intended to be "a framework within which assistance programs for basic education in ARMM can be identified, effectively coordinated and managed," not a budget guidance.[120]

The ORG-DBM budget process to determine the overall ARG allocation also demonstrates the disconnection with regional strategic plans. In 2013 the Office of the Regional Governor introduced a strategic framework for articulating ARMM's spending priorities referred to as "HELPs" for health, education, livelihoods, and peace and governance. The framework was intended to both organize existing resources and to guide additional funding requests.[121] For education, new requests were made for regional education supervisors and other staff in managerial or health and nutrition posts, as well as 40 million pesos of additional MOOE, alongside infrastructure for specialized schools and the transfer of the madrasah education program funds from the national government to ARMM management. In the event, these requests were not successful, yet the region received a considerable increase in its overall infrastructure allocation. While additional resources were available, again the priorities identified by the ORG did not translate clearly through budget preparation.[122]

As described in Chapter Three, the DBM also requires the submission of the ARG budget in its standard OPIF results-based framework linking programs, activities and projects to desired final outputs. Yet the ARG budget for education covers only the recurrent expenditure for existing staff and the routine MOOE. It is therefore impossible for the

[120] DepEd ARMM (2009), p 11.

[121] ARMM Office of the Regional Governor (2012).

[122] In the 2014 budget preparation process some of these requests have been met – in particular allocation of funds for additional education supervisors – due to increased interaction between the DepEd ARMM and the DepEd National planning department.

ORG to submit a true program-based budget for education under the current structures.

The most important impact of the PEM syndrome and particularly its fragmentation among local, regional, and national institutions is therefore the great difficulties it creates in turning plans and policies into budgets. When strategic planning is done at regional level, or performance management frameworks are introduced at national level, the fact that the budget process is scattered across so many channels and institutions means that these efforts have little chance of shaping budget outcomes.

Lack of budget comprehensiveness, integration and predictability

A related failing is that there is no single "education budget" for the ARMM. Allocations are spread across the ARG and the DepEd National budgets, with additional components in Special Purpose Funds and LGU entitlements. The preparation of the recurrent budget occurs through one relationship, while most programs and all capital expenditures are separated in the DepEd National budget. This means, for example, that it is difficult to link recurrent implications with capital spending: currently the region receives low levels of "routine" MOOE to repair and operate existing infrastructure, while at the same time major increases in construction have been budgeted.

In addition to being unintegrated, the budget(s) are not comprehensive—meaning they do not capture the most important sources of funds in one place. Little information is transparently available on donor contributions to education for ARMM as a region. These need not be included in the budget, but they should be planned for and reported on in a way that enables region level budgeting and accounting. A significant share of the infrastructure program under the national government's Special Purpose Funds are not broken down for ARMM. Similarly, the use of LGU funds are not readily known in the region, and this prevents planning for LGU resources, which are applied very unevenly across the region. It should be noted, however, that this problem is also present outside ARMM.

A lack of comprehensiveness and integration has knock-on effects on the predictability and transparency of the budget. It exacerbates difficulties in comparing actual expenditures to budgeted ones caused by poor reporting by obscuring the amounts that have been allocated for a given purpose. A related weakness of the planning and budgeting cycle is that it does not have a multi-year outlook. These problems make constructive political engagement by regional representatives, civil society and the public more difficult because the budget is not prepared or presented in a single, transparent way.

Slow and ineffective budget execution

Just as in budgeting, the execution of key education funds is divided among local, regional, and national institutions. For the budget managed by DepEd ARMM and the ORG, funds

are downloaded to the regional office for distribution as salaries or school and district level MOOE payments. The other programs have a range of different policies and procedures to determine how these funds are obligated and disbursed depending on the program.

The weaknesses in PS execution are mostly related the poor integrity of the payroll, and inefficiencies and delays in hiring qualified teaching staff. The systems at regional level for recording human resource information such as attendance and retirement, and using it as a basis to generate accurate payrolls do not function as intended. In turn, there have been no consequences for abusive or shoddy reporting in the past. Procedures for updating the payroll are being developed but not sufficiently institutionalized yet, and the hiring process is being updated to encourage transparency, merit and qualifications, and speed.

The execution of routine MOOE – included in the ARG budget – is regular, but suffers from two problems. Due to its inadequate budgeted amounts as well as ingrained practices that need revisiting, no funds are distributed to elementary schools. Second, there is inadequate – or entirely absent – reporting on the use of these funds from the division, district and school level to the region, and from the region to DBM. True MOOE needs are thus hidden, and mistrust limits the budget for the ARMM by causing DBM to continue budgeting for operations and maintenance incrementally.

The execution of DepEd National programs is more complex. For most of the Philippines, major inputs such as facilities and textbooks are budgeted as a lump sum and need to be sub-allotted to regions, after which they are downloaded to school divisions and overseen by regional education offices. This process already causes significant delays in budget execution throughout the country. In the ARMM it is compounded because there is no regional DBM office to process the cash allocation.

Recent changes to national public financial management systems – specifically the presentation of regional program budgets in the National Expenditure Plan and the removal of the SARO – are opportunities to more clearly identify budgets for ARMM, and remove some of the steps in the process of sub-allotment. These changes will allow information to be shared more easily between ARMM and National DepEd on what resources should be expected. The next challenge is to increase ARMM's involvement in budgeting and managing these funds while not reproducing the accountability problems seen in PS and MOOE execution.

Weak accountability and reporting

The ability of public expenditure management systems to budget and execute funds effectively is also dependent on the budget accountability and reporting that they generate. Without knowing how funds are used it is difficult to either project future needs or authorize additional spending. In a way, reporting for ARMM has "slipped through

the cracks" because DepEd National has tended to assume ARMM should report, while ARMM has seen these funds as central government activities outside their own control. LGUs and school divisions do not have a strong reporting relationship to regional government, making it hard to gain an accurate picture of the use of resources.

Public expenditure management systems are increasingly monitoring the outputs and even outcomes of public spending. The wholesale application in the ARMM of the national government's results-based management framework is ill suited to the structure of public finance in the region. It imposes a system of outputs and indicators that is intended for agencies that are (a) focused on a single sector and (b) control all the components of their budget needed to produce given results. In ARMM, this framework is misapplied because the ARG covers many sectors, and there are many budget components that bear on program success controlled outside the ARMM. A more ARMM-specific results-based budgeting and management framework should be suited to the specific objectives of the regional government, while taking into account the nature of the ARMM budget.

Table 16:
Summary of key weaknesses in the basic education PEM system

	Budgeting	**Execution and Delivery**	**Accountability & Reporting**
PS	Based on spurious past payroll data	Payroll, hiring and HR integrity weaknesses	HR reporting systems not effective at region office, high absence rates
Routine MOOE	Budgeted by ARG & DBM on incremental basis	Insufficient levels & not delivered to elementary schools	No liquidation reporting reinforces incremental budgeting.
Other Programs	Lack of ARMM participation in setting programs	Cumbersome sub-allotment and execution procedures	Division reporting to region weak
	Program budgets hard to link to strategic plans	No regional DBM function	Region cannot report to DepEd National
CO	Lack of ARMM participation in budgeting	BEFF and SBP execution from different regions	Limited or no program completion information available at ARMM

The next three sections introduce recommendations for strengthening education public expenditure management, improving ARMM-wide public expenditure management systems, and preparing for a transition to the Bangsamoro. These recommendations and some preliminary indicators for a results framework are summarized in Table 18 and Figure 29 below.

Improving public expenditure management for basic education in ARMM

Improving performance of the education sector in ARMM will require fundamental changes in the institutional arrangements underpinning public financing for the region, while making frontline service delivery more responsive and accountable. Fortunately, the combination of the prospect of a lasting peace settlement, coupled with a national government committed to increasing investments and the reform orientation of the ARMM government, offer hope of a better future.

Any single actor working alone cannot resolve these problems, and the conclusions and recommendations that arise from this analysis are therefore directed at multiple audiences: the education departments at ARMM and national level, the ARMM regional government, the national budget institutions and particularly DBM. Equally they must also address the members of the Transition Commission and other organizations aiming to shape the institutions of the Bangsamoro to ensure better education and development outcomes, and to create genuine and effective political and fiscal autonomy.

Figure 25:
Improving ARMM education

Ensuring qualified teachers are budgeted, paid, and present

As the bulk of the education budget, Personal Services is the most important area for improving the effective use of funds. It is also one area where considerable progress has already begun, and can be deepened by:

- Continuing the data clean-up and updates in the HRIS for all employees as basic requirement for inclusion of personnale in the payroll, and resolve the technical issues in the HRIS preventing its use as a check for payroll integrity;
- Continuing the improvement of management systems for Human Resources and payroll management to break the high degree of individual discretion and access to data, including creation of an HR management unit responsible for HRIS database maintenance, and a separate payroll section with redefined unit assignments based on functions (such as deductions, fringe benefits) rather than Schools Divisions.
- Improving recruitment and promotion processes by instituting new business processes such as creation of personnel boards, equitable access to information and standard application of new selection criteria based on qualification and merit.
- Institutionalizating the HR and payroll operations manual.

Beyond weaknesses in the payroll, the school survey indicated that the absence rate among teachers is a major problem for service delivery. Areas with higher absence rates among teachers also experience lower pupil attendance.

- Teacher attendance must therefore be incentivized, both positively and negatively. This process can be supported through improved payroll processing to utilize current attendance or bio-metric records, promote performance-based mechanisms, and reinforce good attendance.
- Additionally, the evidence on pupil absence suggests interventions should be particularly geared towards preventing early dropouts.
- Social accountability tools to monitor problems in teacher attendance might be piloted.

Correcting the "routine MOOE gap"

The "routine MOOE" gap must be eliminated to help ensure predictable funds for day-to-day operations and maintenance. It is also unreasonable to expect additional appropriations without improvements in liquidation reporting from the divisions and schools, and without a policy to ensure the funds reach the school level. In the short-term it is necessary to increase the available funds quickly while ensuring accountability, and as soon as possible the budget for MOOE in ARMM should be set according to norm-based criteria rather than incrementally. Specific steps include:

- DBM could make additional funds available for use as routine MOOE by ARMM schools equivalent to the amount budgeted by DepEd National per school uder its planning formula, based on data

agreed between DepEd ARMM and DepEd National.

- DepEd ARMM should clarify the policy on distribution of existing MOOE between division, district and schools, with DepEd National confirming this policy to schools divisions to ensure compliance. The policy and the appropriations could be publicized to encourage transparency.
- Agreeing a set of reporting benchmarks between ARG, and DBM for the utilization of MOOE funds.
- DepEd ARMM and ORG work with DepEd National to develop and implement an operational MOOE planning norm for long-term use, taking into account any data limitations specific to the region. This is used as the basis for future budget requests.
- Outreach to division, district, and school staff to orient them on the opportunity for additional resources, but also the need for and procedures for reporting on the allocations.
- Civil society and communities could be involved in monitoring the arrival and use of MOOE funds through citizen reporting, NGO monitoring, or other mechanisms.

Integrating centrally-managed programs with ARMM's education budget

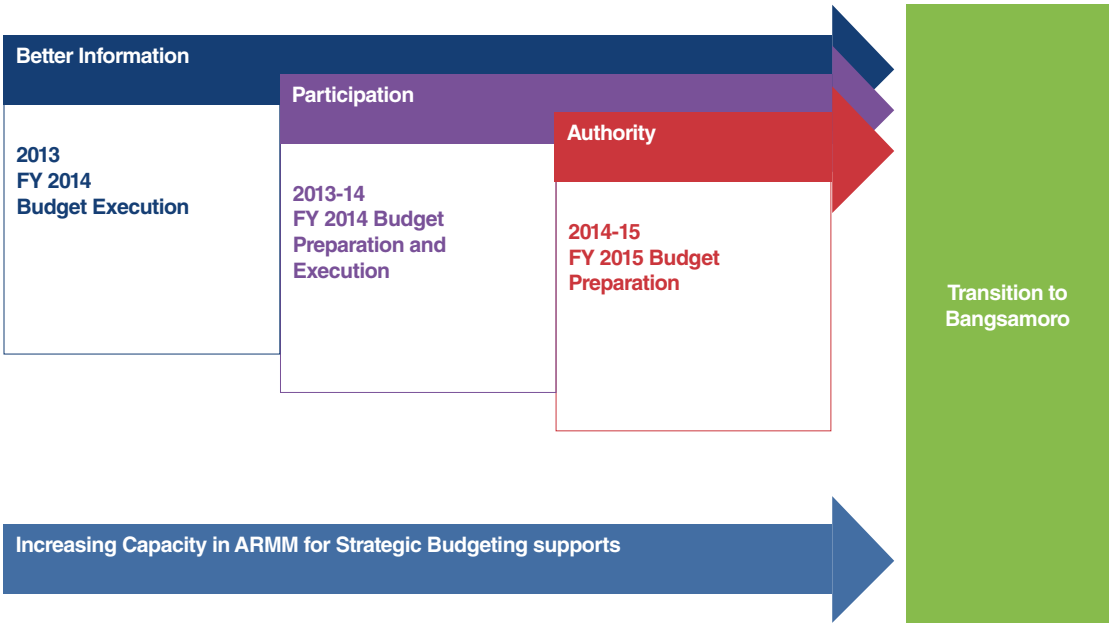
The programs of the DepEd National represent an important portion of the ARMM education budget and are budgeted and executed according to different procedures that are not always apparent to the ARMM, the eventual recipient. Integrating budgeting and execution for these resources with the ARMM is an important process that can begin immediately. An overall objective to eventually move funds for use in the region onto the ARG budget appropriation should be agreed with DBM and DepEd National. In the medium-term (2016 budget preparation), the ARMM or Bangsamoro should aim to be able to allocate the total pool of program funds according to its priorities.

However, this must be done in a phased manner through a transition to more ARMM participation and eventual authority over both budgeting and release of key funds (Figure 26), coupled with improvements in the accuracy and timeliness of budget accountability reporting by the region. The complexity of transferring the responsibility for these centrally-managed funds requires enhanced education liaison capacity and resources between region and national agencies.

- (Re-)introduce a dedicated education liaison who can use the standing invitation to participate in the weekly Executive Committee and monthly Management Committee at DepEd National where important policy, program and budget decisions are made.
- DepEd ARMM and DepEd National should discuss the basis for the regional allocation of all centrally-managed funds, and progress to jointly preparing the allocation of program funding. Regular ARMM participation in Management and Executive Committee meetings will promote this dialogue.

- At the same time, the appropriation for some crucial funds should be included in the ARG budget appropriation for execution, considering technical complexity and only upon the achievement of improvements on budget reporting – for example obligation and utilization of funds already implemented regionally. Madrasah education remains a good candidate since almost half of it is dedicated to the ARMM at present.
- Additional central resources – possibly through exchange or secondment of staff – may be required from DepEd National to support implementation capacity of DepEd ARMM for programs migrated to regional responsibility.
- Accounting arrangements should be explored that allow regional release of centrally-managed funds in the absence of a regional DBM office.
- In the medium term the budgeting and appropriation of key funds should be included in the ARG budget proposal.

Figure 26:
Transition to ARMM responsibility for centrally-managed education funds



The longer-term goal for PEM reform is bringing unity to these processes within the region, while ensuring that it has the capacity to handle funds effectively and transparently. A final point about budget fragmentation is that in parallel to a process of integrating the region's role in budgeting and executing national resources, increases in own source revenue generation can also have the effect of creating new possibilities for reduced fragmentation of public expenditure through the increased fiscal space they create.

Strengthening the intra-ARMM budget process

A more effective budget preparation process within the ARMM Regional Government would help sectoral priorities from the constituent ARMM sub-agencies to be introduced effectively into the national budgeting process. The Office of the Regional Governor should supplement the National Budget call with guidelines setting out the responsibilities of the ARMM agencies in budget preparation. The aim of the guidelines should be to shift the ORG budget team's role from preparing the budget submission itself towards managing the inputs of the ARMM sectoral agencies to ensure they are supportive of regional plans and DBM requirements (Figure 27).

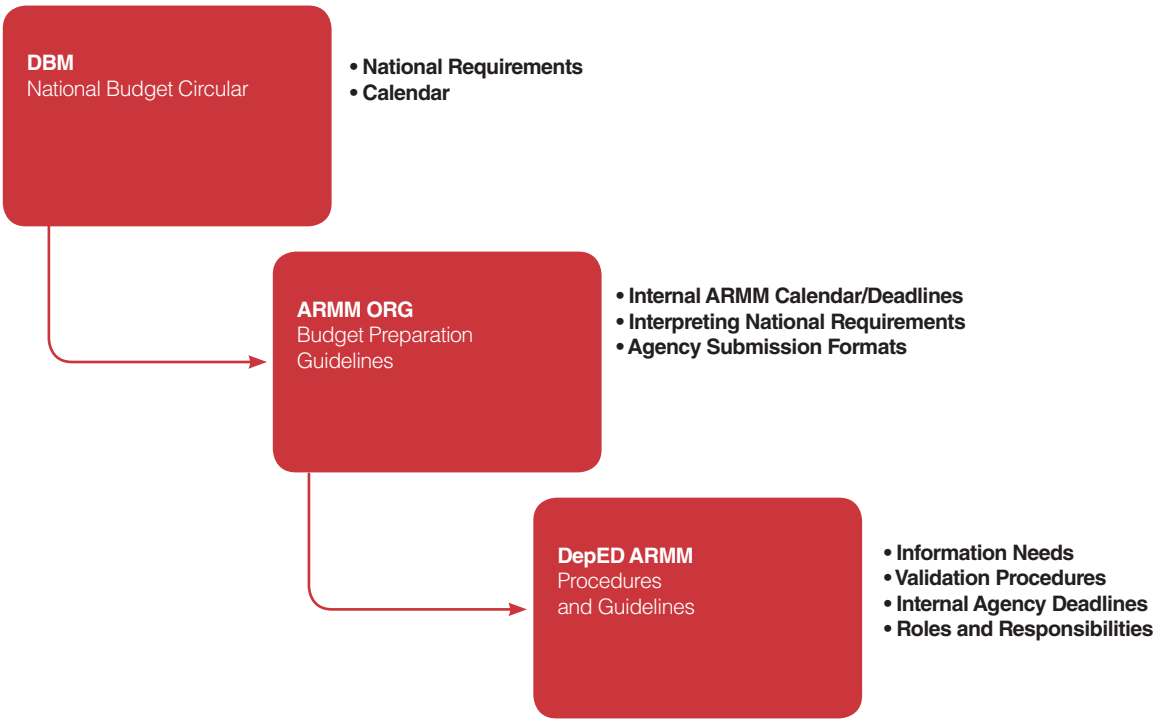


Figure 27: Relationship between national and regional budgeting guidelines

This guideline should build in sufficient time for the agencies to collate required Budget Accountability Reports (BARs) and guide the preparation of ARMM agency spending proposals, for example by specifying data requirements and aiding integration with the regional OPIF and P/A/P frameworks (see below). It should include:

- Indication of priority areas of government activity, programs and projects (i.e. based on ARMM HELPs);
- General and specific guidelines for formulation of agency budget proposals, for example through prescribed forms;
- Indicative budget ceilings to departments/agencies;
- Calendar of budget preparation activities within the region (Table 17).

Table 17:
Indicative ARMM regional budget preparation calendar (FY 2014)

Sources:
DepEd ARMM-Central Government Budget Relations, unpublished BE-PEIR discussion note (Feb 2014).

National Activity	ARMM Activity &Deadline	DepEd ARMM Activity
Budget Call (December 28)		
Budget Forum (January 11)	Include ARMM sectors	
Budget Ceiling(January 15)		
Consultations of Agencies with RDCs, CSOs, and other stakeholders (January-February)	ORG consultation with sectoral ARMM agencies on regional OPIF and circulates budget guideline (February)	DepEd ARMM consults with divisions and schools (and other stakeholders) (February)
Submission of Past Year's (2012) Actual Budget and Current Year's (2013) Approved Budget (March 15, 2013)	ARMM Agencies submit SAOBs and other BARs and Current Year Program (March 1)	Divisions and Schools submit SAOBs and other BARs to DepEd ARMM (February 15)
Submission of 2014 Proposal (April 15, 2013)	ARMM Agencies submit proposals to ORG budget team(April 1)	
Technical Budget Hearings (April 17-May 7, 2013)	ORG prepares Governor's Budget Message (April) ORG to attend TBH to be conducted by DBM for ARMM	
Presentation to President and Cabinet (June 21-29)		
Submission of Budget to Congress (July 23)		

Given the capacity constraints and the lack of previous opportunities for experiencing more integrated and performance-oriented budget preparation and reporting observed in both the DepEd ARMM and the ARG, this intra-ARMM budget process will require a capacity development plan with elements that might include training programs facilitated by DBM and DepEd National, exchanges of staff, and secondments to ARMM functions of national civil servants. This plan can also be linked to the transfer of certain centrally-managed funds to ARMM control.

Integrating regional and national budget systems

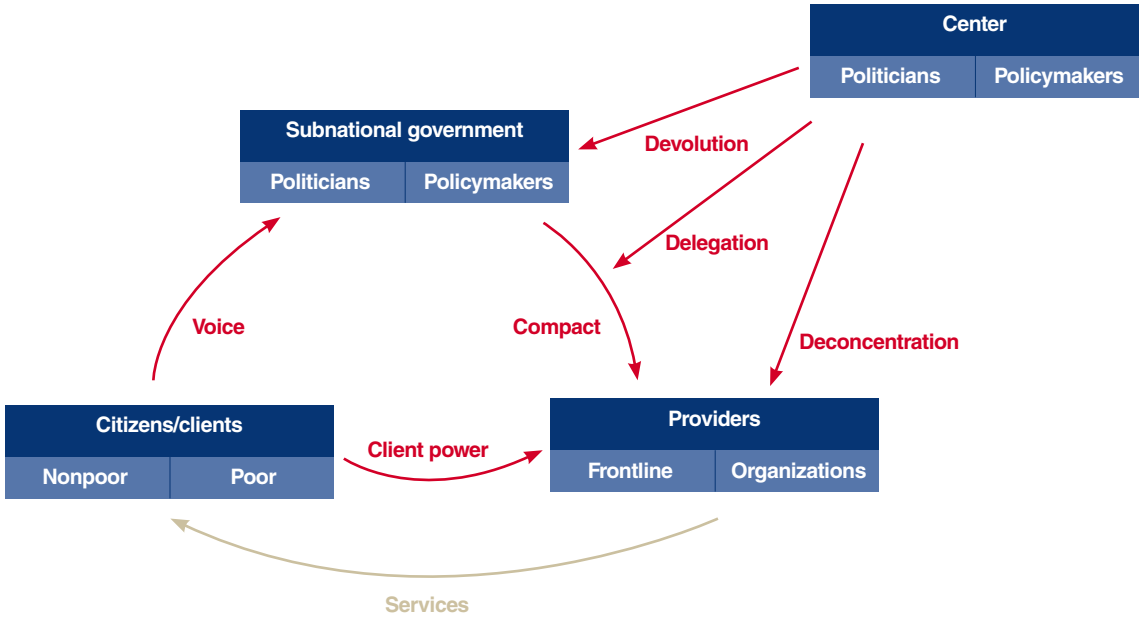
The ARG budget is prepared by the ORG and negotiated with Bureau D of the Department of Budget and Management. For education it only consists of PS and routine MOOE allocations, but in the submission process it has to conform to an ill-adapted national performance-based budgeting framework. There is a strong argument for introducing elements of performance accountability to the ARMM, but this needs to be balanced with the need for improved control and adapted to the region's unique conditions: its cross-sectoral responsibilities, and its partial control over the resources for use in its territory. The need for a regional performance framework will only become greater as more fiscal control is shifted to ARMM, and eventually Bangsamoro. The following changes are vital:

- The DepEd ARMM, ORG, and DBM should modify the national OPIF framework for ARMM to promote a simple and limited results-based budgeting framework that concentrate on elements of the budget that are negotiated via the "ORG channel", that is recurrent expenditures on Personal Services (PS) and Maintenance, Operations and Other Expenses (MOOE). This exercise can be a capacity-building step towards more comprehensive results-based budgeting as additional budgetary authority accrues to regional government in the future, for example through the transfer of certain currently centrally-managed education programs.
- At the same time, the ARMM regional government should identify key objectives and indicators for an ARMM regional results management framework, based on the HELPs priorities and taking into consideration the most important data requirements and current data limitations. The indicators in this framework can also be aligned with the gradual transfer of budgeting and execution participation by DepEd ARMM in selected centrally-managed funds just described.
- A simple joint regional/national program-based budget that links the two main channels of the ARMM Basic Education Budget process could be a way to link both ARG and DepEd National budgets to a set of agreed program objectives and results indicators. The ARMM HELPs framework can provide the basis for this program-based coordination mechanism.

Developing a framework of horizontal and downward accountability

In general, ARMM suffers from weaknesses in both top-down and bottom-up forms of accountability, which can be a risk to effective decentralization. As the 2004 World Development Report discussed in detail, both forms of accountability are needed to induce providers and governments to perform better (Figure 28). The region must consider the pathway from the current situation towards an accountability system connecting citizens, government and providers, that takes into account the challenging environment for communities and civil society. This pathway should acknowledge that important interests – for example both regional and national politicians seeking to boost vote numbers – have been advanced in the past through weak accountability in the region, and will be challenged by reform. Improved reporting, better results-based management and budgeting, social accountability, and improved and more open data are the building blocks of this pathway to decentralized accountability, and could help provide an important legacy for the Bangsamoro.

Figure 28: Decentralization and the service delivery framework



Source: 2004 World Development Report (p 188)

For both the ARMM in general as well its education sector, there is considerable potential to explore social accountability mechanisms to support better stewardship of public funds. At the same time, the challenging conditions for community and civil society engagement in accountability initiatives in ARMM need to be considered given the fragile and conflict-affected context. Given the role weak accountability has played historically in enabling local and national patronage politics, it is dangerous to assume that CSOs or communities are immediately placed to provide unguarded and open feedback. Civil Society Organizations

with a strong interest in social accountability for public funds exist in the region and may be further supported. Tools to do so include:

- Increased budget transparency and publication of sector budgets or ARMM's overall budget. For example, newly increased MOOE funding could be publicized such that schools and communities know their entitlement.
- Grass-roots levels information campaigns and initiatives to harness demand side-accountability by parents both for education and other public expenditure areas such as infrastructure.
- Service delivery feedback mechanisms such as citizen report cards and community score-cards, hotlines, and websites.
- The scheduled second round survey under this BE-PEIR project for SY 2013-14 can be used as a pilot for introducing sustainable mechanisms for CSO and citizen input and monitoring.

Table 18 summarizes these recommendations according to the Public Expenditure Management problems they are intended to confront, and potential indicators for improvement. This "Action Plan" is aimed at building on initiatives already underway for improving public expenditure management in both basic education and across the ARMM more generally, as well as establishing a foundation for a transition to the Bangsamoro, discussed next.

Problem	Actions	Indicators/Milestones*
Improving ARMM Basic Education Public Expenditure Management		
Weak payroll integrity (ghost teachers, unqualified teachers, leakage of PS)	• Continue data clean-up on HRIS and payroll • Complete and institutionalize payroll and HR manual • Enhance HRIS-payroll integration	• Completeness of HRIS & HRIS-payroll congruence • Organizational restructure complete, establishment of personnel boards • National integration of HRIS-payroll system
Teacher & pupil absence	• Incentivize teacher attendance and prevention of early dropouts • Include communities & civil society in monitoring	• Absence rates
Routine MOOE gap	• Provide additional MOOE operational funds & agree a norm-based budgeting approach with DBM/DepEd National • Introduce policy for distribution to ARMM schools • Establish reporting system to region & regional budget reporting to DBM • Include communities & civil society in monitoring	• Operational MOOE availability • Reporting on MOOE utilization
CMF budgets unconnected to policy or regional conditions	• Increase ARMM involvement in budgeting Centrally-Managed Programs, beginning with enhanced liaison capacity, participation in budget process	• ARMM/DepEd National liaison activities
CMF execution slow	• Move key centrally-managed programs to ARMM appropriation for direct release (Madrasah, ALS) • Agreed reporting benchmarks • Capacity support & staffing for program implementation (temporary & long-term)	• Proportion of program budget appropriated directly to ORG • Reporting on program fund utilization
Low or unknown completion of classrooms	• Clarify monitoring responsibilities for BEFF/SBP • Involve communities & civil society in monitoring	• School construction projects completed
LGU education spending inconsistent & inequitable	• Integrate LGUs into regional planning & budgeting, agree regional LGU expenditure responsibilities for education	• Level of LGU spending on education increased • Increased information on LGU spending to region
Improving ARMM Regional Public Expenditure Management		
Budgets unconnected to policy & planning for region	• Revise OPIF framework for ARMM • Establish sectoral budget working groups and/or joint national/regional program-budget based on HELPs framework with results indicators • Improve budget transparency & include civil society & communities in monitoring	• Develop framework of key indicators for HELPs, agree with national agencies • Pilot ARMM open data initiative
ARG budget proposal weak	• Strengthen intra-ARMM budget process prior to ORG submission (calendar, guidelines, hearings) • Increase RBMO role	• Issuance of ARMM budget circular with calendar & guidelines • Timely submission of ARMM agencies

Table 18:
Indicative Action Plan

***To be tracked by school division and LGUs**

The importance of implementation

Some lessons from ARMM's experience are pertinent to the process of negotiating the Basic Law and other provisions for the Bangsamoro. The first is that the failure of fiscal autonomy in ARMM is not simply the result of insufficient autonomy on the one hand, or poor governance on the other. A significant reason for the emergence of the ARMM PEM syndrome falls on incomplete implementation of existing provisions of the Expanded Organic Act, such as the establishment of effective regional budget and management institutions. Indeed, under different conditions the prior ARMM institutions would already have technically met many of the requirements of the Framework Agreement on Bangsamoro. A key concern for the negotiators of the Bangsamoro institutions should therefore be asking what mechanisms should be in place to ensure implementation of the provisions of the peace agreement and Basic Law be measured, monitored and enforced?

Second, the region therefore needs to consider, define and agree with central institutions and regional stakeholders, including civil society, a model for accountability. A regional results-based management framework developed by ARMM could be an important contribution to this process by setting objectives, developing and beginning to effectively measure indicators and baselines, and institutionalizing monitoring and civil society involvement. The ARMM and the Transition Commission and any transitional authority should coordinate and discuss this framework, rather than assuming it can be introduced anew when the Bangsamoro is established. Considerations include the means for achieving different forms of accountability:

- External accountability (for example to central agencies for inputs);
- Internal accountability (by spending departments of inputs);
- Managerial (by managers of outputs and total costs, against performance frameworks);
- Public input in decisions, assessing satisfaction and reporting irregularities (bottom-up or social accountability).

Fiscal management and inter-governmental framework

Third, as a subnational government the ARMM has largely been a passive recipient when it comes to the overall size of budgets. It has not enjoyed any significant own source revenues in the "regional fund", and has not tried to develop medium-term fiscal or expenditure frameworks. At the same time, budgets for ARMM have generally been determined on a sector-by-sector basis through negotiation with DBM and national agencies. The ARMM has thus not had to produce macro-fiscal estimates of revenue or expenditure over the medium-term, has limited experience with revenue policy and administration, and has not had any opportunity to make strategic cross-sectoral allocation decisions. It is fair to guess the MILF also is underprovided with these

policy skills. Under Bangsamoro these functions will likely become much more important due to an increase in the amount and flexibility of revenue accruing to regional control. So the development of regional tax and revenue policy and administration, and a macro-fiscal and cross-sectoral strategic planning capacity should be key priorities for the transitional institutions.

Fiscal framework for LGUs and regional autonomy

The lack of clarity over the accountability relationships between the regional government and the other levels of LGUs has resulted in incomplete information about LGU budgets and plans at the regional level, and inequities caused by uneven LGU spending on education. This is one of the most sensitive of all areas for reform, as the autonomy enjoyed by LGUs has formed deeply entrenched interests, and a key question is whether disciplining or reforming IRA in the ARMM is best seen as part of a national attempt at IRA reform, or pursued through the mechanisms of the peace process.

- In the medium and long-term the fiscal framework defining the relationship between the LGUs and the region needs elaborating: what will be the expenditure assignments (i.e. service delivery responsibilities) of the LGUs under the ARMM and eventually Bangsamoro?
- In return for this increased accountability to the region, LGUs should be given a role in planning and budgeting for the region. In short, there is a need for a decentralization framework between the region and its LGUs.

Coordination between BTC, ARMM and National Government

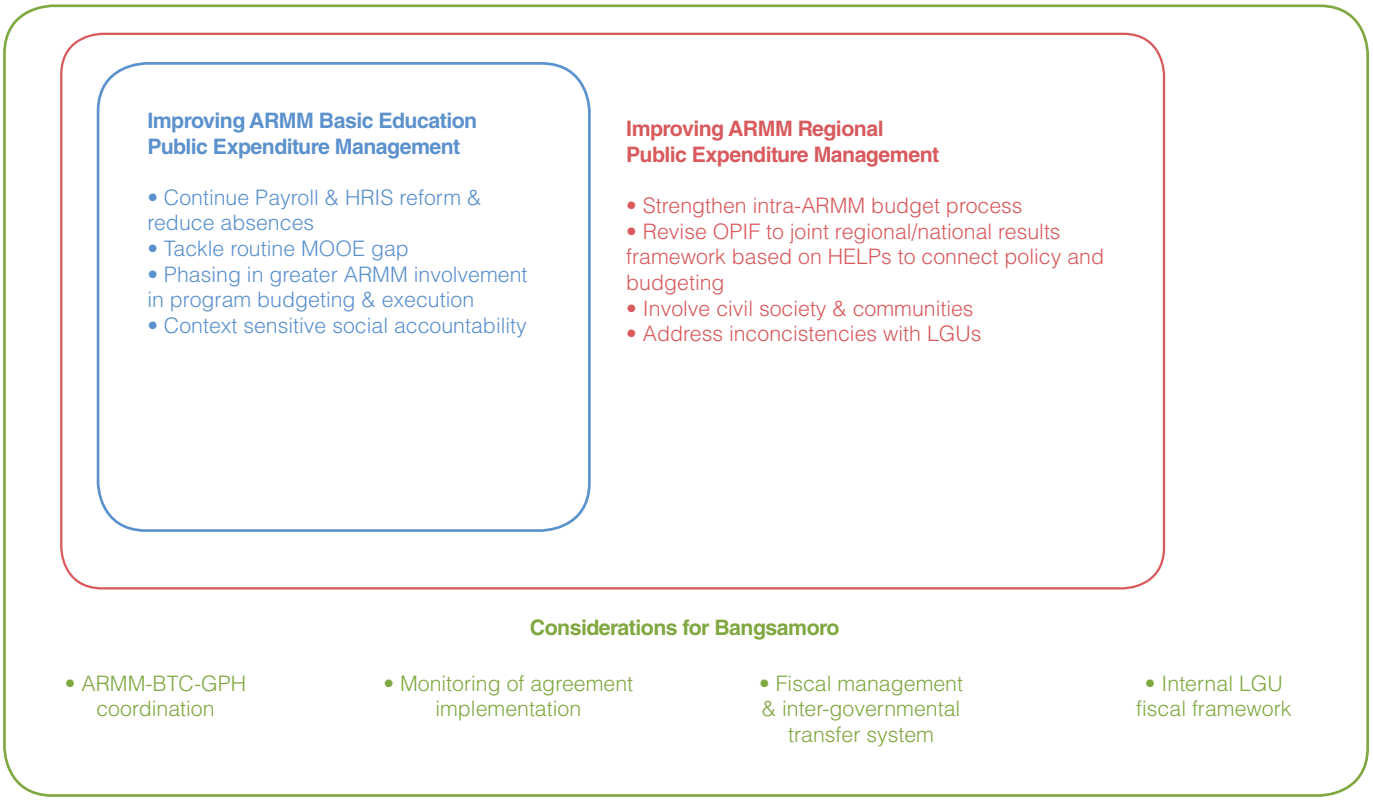
Regional autonomy does not in fact reduce the demand for coordination, dialogue and cooperation between regional and national authorities. If anything, the experience of ARMM shows that autonomy in the context of continued central support increases the demands on all actors to share information, support capacity building, and share influence. Institutionalized means to regularly communicate but also participate are more pressing for an autonomous region given continued dependence on national resources. In particular, consideration might be given to exchange and secondment arrangements that will ease the challenge for regional public servants and increase familiarity and competence with both national, regional, and future Bangsamoro institutions.

When these processes are not in place, it is easy to descend into negative cycles of weak accountability, mistrust, and blame that in the end harm the intended recipients of services – citizens and in the case of education, children – the most. Emphasis should therefore be given by the BTC to establishing problem-solving, coordination and monitoring institutions between the Bangsamoro and the national government. In the short-term, such coordination should be established immediately between the ARMM and the negotiating teams to begin making arrangements for

the transition of existing institutions – particularly in the case of large departments such as DepEd ARMM.

Figure 29 illustrates these recommendations in relation to the three objectives of improving basic education public expenditure management, strengthening the region's PEM systems overall, and informing the preparations for Bangsamoro institutions.

Figure 29:
A framework for improvement



Principles for future engagement

The BE-PEIR activity has been providing technical assistance to the DepEd ARMM and (to some degree) the DBM and DepEd National since mid-2012. The contributions have focused mostly on payroll and human resource management, but has also covered issues such as ARMM budget preparation and ARMM-DepEd interaction over centrally managed funds.[123] Constant support and collaboration are necessary to locally ground these recommendations and adapt them to changing circumstances which might emerge from the ongoing peace process.

The report has also shown that significant gaps remain in understanding many aspects of both public expenditure and education services in ARMM. Further research and technical assistance is planned, including an additional

[123] Written outputs from these TA interactions include the payroll and HRIS assessment by Belisario and Masalonga (2013), and two discussion notes on 2014 Budget Preparation and Centrally-Managed Funds by Nixon (2013) that have been circulated to the ARMM and National DepEds, DBM, and ORG.

Box 6: Areas for future research

- Equity and regressiveness of spending within the region;
- Patterns of LGU spending;
- What determines educational outcomes in ARMM – correlates of student performance and equity of achievement levels;
- Status and prospects for functioning Local School Boards in ARMM;
- Using social accountability to reinforce education services;
- Tracking expenditures under the BEFF.

round of school-level surveys. Potential areas for investigation are listed here.

Institutional reforms in basic education are a focus of Australian Aid's large scale BEAM-ARMM program, which provides one entry point for public financial management reforms within the regional government. Australian Aid has also recently approved a Mindanao Delivery Strategy to support institutional capacity building for peace and development in conflict-affected areas. In addition to Australian Aid's efforts, the World Bank through the Mindanao Trust Fund is involved in developing a Bangsamoro Development Plan, and through its partnership in the FASTTRAC initiative in providing support to the Transition Commission. These programs are opportunities to build on the diagnosis and reforms started by the BE-PEIR project, and active dissemination of findings and recommendations is ongoing.

The overarching rationale for continued technical assistance could be organized around the objective of developing the aforementioned regional results-based management and budgeting framework. This framework can be built around the HELPs clusters being proposed by ARMM regional government by developing results indicators for the clusters, and supporting means to measure them. Key principles for this ongoing engagement should include (a) building collaboration across ARMM and national reform constituencies, (b) encouraging coalitions/collaboration across ARMM DepEd, division/ district staff, and frontline facilities, (c) enhancing collaboration with NGOs and communities, and (d) encouraging information sharing between the current ARMM stakeholders and the key players in the Bangsamoro transition.

Immediate next steps can include continued and deepening civil society involvement, fostering public awareness of public expenditure, education access, and quality issues through public campaigns, improved reporting systems, and more effective data management and presentation. Continued frontline data collection in close collaboration with civil society utilizing information technology, and improved presentation and use of data through geospatial initiatives, are immediate steps that are being explored with the support of the regional government and its partners in the ongoing efforts to improve basic education in ARMM, and public expenditure management as a whole.

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