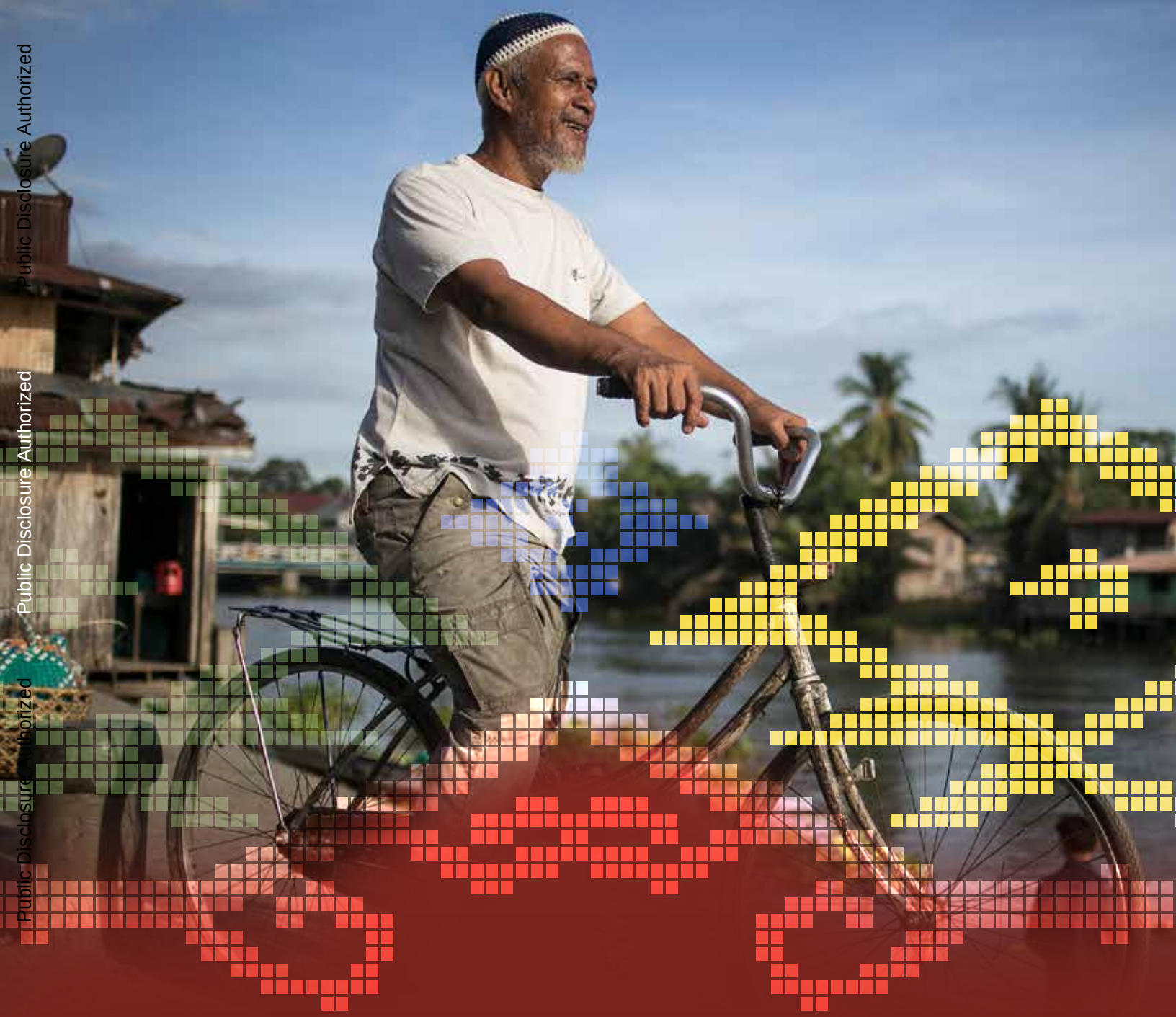

Preparing for Effective and Robust Financial Management in the Bangsamoro Region

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ACRONYMS AND ABBREVIATIONS

AOL	ARMM Organic Law
ARMM	Autonomous Region in Muslim Mindanao
BAC	Bids and Awards Committee
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BG	Bangsamoro Government
BOL	Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao (Republic Act no. 11054)
BP	Bangsamoro Parliament
BTA	Bangsamoro Transition Authority
BTC	Bangsamoro Transition Commission
BTMS	Budget and Treasury Management System
CBPRD	Congressional Budget and Policy Research Department
COA	Commission on Audit
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DepEd	Department of Education
DILG	Department of Interior and Local Government
DOH	Department of Health
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
eNGAS	Electronic New Government Accounting System
GAA	General Appropriation Act
IASPPS	Internal Auditing Standards for the Philippine Public Sector
ICSPPS	Internal Control Standards for the Philippine Public Sector
IFPB	Intergovernmental Fiscal Policy Board

IPSAS	International Public Sector Accounting Standards
IRA	Internal Revenue Allotment
LGC	Local Government Code 1991
LGU	Local Government Unit
MOA	Memorandum of Agreement
NAT	National Achievement Test
NDRRMC	National Disaster Risk Reduction and Management Council
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NG	National Government
NGA	National Government Agency
NGO	Non-Government Organization
ODA	Overseas Development Assistance
OIC	Organization of Islamic Conference
PDP	Philippine Development Plan
PPSAS	Philippine Public Sector Accounting Standards
RBMO	Regional Budget and Management Office
RDP	ARMM Regional Development Plan
REDPB	Regional Economic and Development Planning Board
RG	Regional Government
RLA	Regional Legislative Assembly
RLIP	Retirement and Life Insurance Premiums

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EXECUTIVE SUMMARY

Ratification of the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao, Republic Act No. 11054, (BOL) in January 2019 was a major landmark in the evolution of governance in the region. It is hoped that the law will be the foundation for a more peaceful, prosperous and inclusive stage of development in the region.

This report aims to provide a baseline for assessing the public financial management situation facing the Bangsamoro regional government (BG). It seeks to identify the strengths and provide some pointers to areas where the quality and effectiveness of resource management can be strengthened or need attention so that the goals and objectives of the national and subnational governments can be realized.

The BOL refers to autonomy in its title, but it is important to be clear from the start that autonomy is limited. The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) region remains tightly within the Philippines republic and subject to the control of the national parliament and the President. It is also set within a national and legal framework and may not deviate from the arrangements that also apply to other parts of the country. Its powers are limited to those explicitly delegated under the BOL and the restrictions and directions that the law imposes on many aspects of its authority, such as revenue raising, borrowing, budget allocation, expenditure, audit, administrative procedures, staffing, institutional arrangements and intergovernmental relations. BARMM may have limited influence over local government units (LGUs) within its boundaries due to the application of national laws, codes and funds transfers that provide a high degree of LGU independence from BARMM and a high degree of LGU dependence on the national government.

Within the constraints imposed on BARMM, the BG has many unique powers and privileges not available to other regions within the Philippines. These include the ways in which it will be governed, its sources of revenue and the flexibility with which it can manage and allocate its resources. It also has substantial challenges, not least of which are the transition from ARMM and the public financial management environment that it has inherited.

ARMM was bound by the financial management arrangements that apply to national government agencies (NGAs). Its performance within those arrangements was largely determined by the national parliament, national agencies responsible for allocation, financial and administrative controls and procedures general funding arrangements, budget management and sectoral programs. Deviation from national performance in most aspects was therefore mainly the result of its internal capacity and internal operations, as is the case for NGAs. ARMM exhibited strengths and weaknesses in performance but was not dramatically different to performance in some NGAs, though it was not among the outstanding performers in any aspect covered by this report.

There are high expectations for BARMM to perform better for the people of the region than ARMM. This will require concerted effort to implement the requirements of BOL, which are substantial, and to operate within the fragile social, economic and political context. This report identifies three basic challenges and associated recommendations in relation to public financial management (PFM) in BARMM.

Firstly, the Bangsamoro Transition Authority (BTA) needs to keep government in the region functioning efficiently and effectively while initiating the transformation necessary. In other words, it must continue to do what was done by ARMM and implement major change at the same time. It will be crucial to the credibility of BTA to ensure that existing activities and services are delivered to the people of BARMM efficiently and effectively. Any transformation required should be

considered in the context of its likely impact on the delivery of the BTA's obligations as a government. The need to keep government functioning effectively will have to be a high priority. The transition plan will provide the mechanism for setting out how the BP and BG will achieve both continuation of sound government and the change required.

Secondly, the BTA needs to establish key institutions and agencies to ensure that the basic financial management functions in the governance framework are in place and operating when needed. Important among these institutions and agencies are the transitional Bangsamoro parliament (BP) and core financial agencies responsible for revenue management, budget planning and preparation, treasury, legislation and internal audit. It is essential that those bodies are operating effectively within the first few months of BARMM to prepare and authorize the first budget law by December 31, 2019. The BG will also need to adopt a Bangsamoro Development Plan so that it can access allocations from the Special Development Fund as soon as practicable. This will need to be achieved while the BTA is limited to a large extent by the resources and rules applied to ARMM in relation to budget, including the line item allocation of the budget approved for 2019. At the time this draft report was completed, the re-enacted 2018 budget was in place so the BTA needed to operate within that context.

Thirdly, it is essential that change is managed carefully to make the best use of existing financial resources, skilled and experienced staff, local and national systems while considering the potential to transform them or adopt alternatives in the time available. The BG will need to make trade-offs in the extent to which it would like to achieve major change and the choices available. In that context, a proven approach to adopt in the short term (the first year at least) is to retain existing staff, resources, systems and procedures unless there is an overwhelming net benefit from change. This includes national and local systems, key professional and experienced staff, structures and operating arrangements. This does not preclude plans for change in the medium to long term but it will avoid unnecessary disruption during transition if the inherited resources can be used effectively as the foundation.

More specific observations and recommendations are included in the body of the report. The analysis provides and overview of the framework and foundation of government, including a brief outline of the relevant history and context. It then analyzes the various activities involved in public financial management from planning through budget preparation, budget execution, audit and control, reporting and accountability, and important cross-cutting issues.

01 INTRODUCTION

The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) is in the Mindanao island group of the Philippines. It is the only region that has its own government. Eight of the ten poorest provinces in the country are in Mindanao. The conflict-affected areas of Mindanao are the country's poorest, where violent conflict and fragile institutions continue to be critical constraints to peace and development.

The BARMM succeeded the Autonomous Region in Muslim Mindanao (ARMM) on January 25, 2019 following the ratification of the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao (Republic Act No. 11054) (BOL). ARMM was created under the Republic Act No. 6734 on August 1, 1989. It consisted of five predominantly Muslim provinces: Basilan (except Isabela City), Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi. The original ARMM organic law was amended by Republic Act 9054 on February 7, 2001 seeking to expand the territory and powers of the ARMM. The ARMM had a poverty incidence of 53.7 percent in 2015, more than double the national average. In addition to the areas covered by ARMM, BARMM includes Cotabato City and 63 barangays within six municipalities in North Cotabato.
By virtue of its autonomous status, the BARMM has a different administrative structure from local government units in the country, including for public financial management. In most countries, lower tiers of government face greater challenges than national governments in all areas of budget and financial management. It is also common

for lower tier governments to have difficulty in attracting and retaining adequate qualified personnel which compounds the challenges that they face in managing finances. BARMM is likely to face even more challenges because of its distance from the national government and recent history of conflict and weak economic circumstances. While the processes and procedures around public financial management in local government units have been documented[1], there has not been an analytical assessment of financial management for BARMM[2]. There are few sources of detailed information on the institutions, systems and processes for public financial management in this region, although the ARMM transition portal is a valuable source of data on many aspects of ARMM[3].

As attention turns towards addressing the drivers of conflict and laying the foundation for sustainable development in BARMM, effective financial management arrangements become essential to support public policy and planning. These arrangements should ensure that funds are allocated according to government policy priorities, approved allocations and project requirements. Procurement should be done in an open, fair and timely manner. Funds ought to be provided when required to meet expenses and pay for goods and services when invoices are due. Internal control structures should be set up to identify errors and omissions quickly and efficiently leading to actions to address problems effectively. Documents and records need to be maintained to provide Government and development partners assurance that funds are used for intended purposes with due regard for economy and efficiency.

Rationale and purpose of the report

The World Bank initiated this study, with financial support from the Australian Government through the Australia-World Bank Philippines Development Trust Fund, to assist the Government of the Philippines in its socio-economic agenda in Mindanao area particularly the BARMM. Improving the efficiency and effectiveness of service delivery to citizens is of high priority for the government. The report is intended to be useful to the Bangsamoro Transition Authority (BTA) and other stakeholders in development of the Bangsamoro region. It will be an input for informing the design and content of the World Bank engagement with BARMM and inform the design of government policies and programs for improved public service delivery in BARMM.

The main objective of this report is to document institutions, processes and systems in place for financial management in BARMM, drawing largely on the arrangements in ARMM where there is no clear alternative to be applied in BARMM. This examination is intended to provide a basis to formulate recommendations for improving the efficiency, reliability and timeliness of resource use, financial management, service delivery and results for the region.

The report is intended to identify the strengths, weaknesses and key risks in the financial management processes which are essential for the design of interventions in the BARMM. It seeks to identify where processes and controls are operating effectively and identify areas that require strengthening or additional oversight. It also seeks to ensure timely provision of funds to intended service providers and contractors, analyze whether funds and achievement of results are adequately monitored and managed and the extent to which financial information can be relied on to assist management.

1 Compendium of the Public Financial Management Framework for Local Government Units – Output for P161353, July 2017; Local Government PFM Roadmap developed under technical assistance from the European Union.

2 There was also an examination of ARMM fiscal capacity and flow of funds in 2007. Local Government Support Program in ARMM, Towards strengthening the fiscal capabilities of ARMM, INCITEGov Policy Paper, Pasig City, 2007.

3 The ARMM Transition Portal provides a wealth of information on the ARMM arrangements operating immediately prior to the transition to BARMM as well as data from previous years. See http://www.armmtransition.ph/

Methodology

The core Bank team[4] undertook a desk review of relevant legislation, rules, procedures review and reports. It conducted field surveys and consultations at the ARMM regional government and a sample local government units (LGU) to document the operational arrangements, processes and issues. The sample of local governments included provinces, municipalities and cities within the BARMM region.

The work involved examination of all phases of financial management within ARMM using a sample of departments and local governments including the legal framework, budget planning and preparation, budget approval and allocation, procurement, disbursement of funds and cash management, internal controls on the use of funds, recording of expenditures and associated physical progress, reporting and review of expenditure, exercise of management control and accountability, clarity of roles and responsibilities, and capability of people responsible for financial management across the region. It included consideration of development project funds as well as government funds and identify any significant differences in treatment and management of those resources from the prevalent practices in the rest of the country.

The project involved onsite review of processes and documentation, interviews with key government personnel, development partners and other stakeholders to understand and assess financial management from multiple perspectives.

The project complemented the parallel work by the World Bank on Health sector (Programmatic Advisory Services and Analytics for Health, Nutrition and Population) in ARMM. The health sector programmatic analytical assessment included related goals to assist the regional government of ARMM in improving the efficiency, coverage and equity of health service delivery in some of the lowest-capacity districts of the country.

The project drew lessons and experiences from the Public Expenditure and Institutional Review (PEIR) for ARMM basic education conducted in 2014. That report discussed, inter alia, the public expenditure management in ARMM and highlighted several

4 The team comprised Lewis Hawke (Lead Governance Specialist - Public Sector, Philippines – Team Leader), Tomas Sta. Maria (Senior Governance Specialist - Financial Management), Aisha Lanette de Guzman (Senior Governance Specialist - Financial Management), Maria Liennefer Penaroyo (Governance Specialist - Financial Management) under the management of George Larbi (Practice Manager). The team is supported by Ahsan Ali (Lead Governance Specialist - Procurement) and Dominic Aumentado (Senior Governance Specialist - Procurement). Local PFM expert consultant, Mohammad Zidni Marohombsar, contributed substantially to data collection, consultation, analysis and drafting of the report. Gia Mendoza (Program Assistant) provided logistical support for the team.

key findings: (i) fragmented public expenditure management of ARMM resources; (ii) poor integration of ARMM regional and national budget process; (iii) inconsistency between ARMM regional "devolution" and national decentralization; and (iv) weak stewardship and accountability in handling public funds.

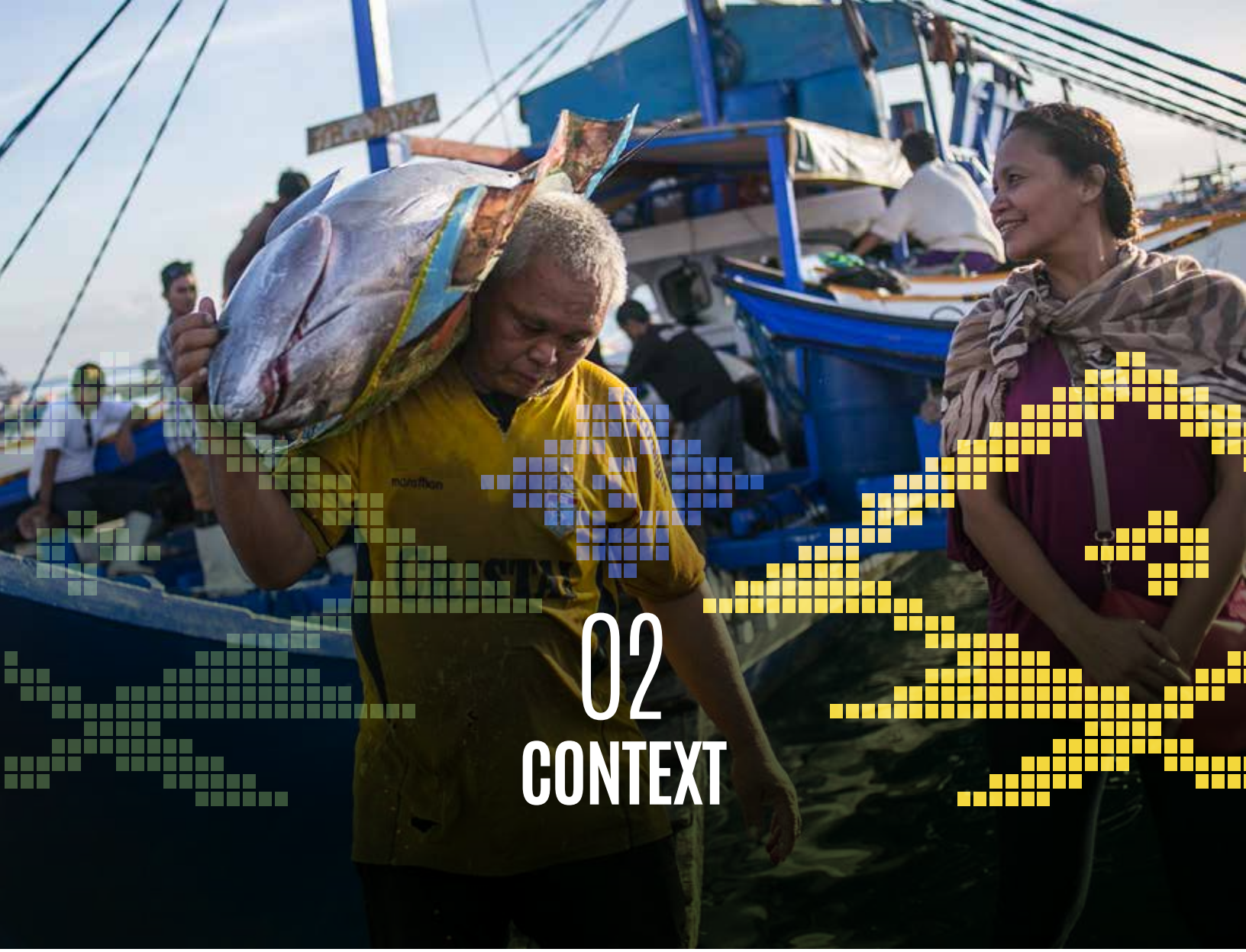
The project also drew on other reports by the World Bank and other organizations relating to Mindanao and the Philippines more broadly. For example, the 2016 PEFA assessment identified weaknesses in budget execution and budget reliability at the national level. The PEFA findings included inability to execute the approved budgets, weaknesses in procurement arrangements and internal controls, limitations in financial reporting — especially timeliness of in-year reporting, and high expenditure arrears. Philippines financial management systems were rated 18 out of 100 in a separate assessment in 2016[5], indicating that systems had considerable room for improvement. Another study by the World Bank in 2017[6] noted that institutional structures around central finance functions in the Philippines were characterized by a high level of fragmentation.

The project examined the links between ARMM, regional and national agencies, and municipalities within the area covered by ARMM. Meetings with COA, DBM, DILG and DPWH, DepEd and DOH were conducted to identify important relationships and contacts in ARMM. The review of ARMM links with local governments examined the span of control for national government and the ARMM governor, for example, in relation to distribution of the regional budget, how funds are coordinated and used. The key stakeholders consulted included the ARMM Governor's office, ARMM administration departments and agencies, MILF and other organizations involved in the BTA, NGAs that administer funding or policy matters delivered in ARMM, ARMM business organizations and other non-government organizations (NGOs), and international development partners supporting governance and PFM reform in Mindanao.

The organizations consulted during the review are shown in Annex 2.

5 *Hashim, Ali; Piatti, Moritz. 2016. A Diagnostic Framework to Assess the Capacity of a Government's Financial Management Information System as a Budget Management Tool. World Bank, Washington, DC. © World Bank.*

6 Fritz, V., Verhoeven, M. and Avenia, A., *Political economy of financial management reforms – reform experiences and implications for dialogue and operational engagement.* World Bank, 2017



02 CONTEXT

Historical and prospective governance

The history of Mindanao and its pursuit of self-determination and self-rule has been noted since the 13th century. The more recent struggles for autonomy can be traced to the 1960s when the Moro National Liberation Front (MNLF) engaged in an armed conflict with the Philippine Armed Forces. On July 7, 1975, President Ferdinand Marcos signed Presidential Decree No. 742 and Letter of Instruction No. 290 creating the Western and Central Mindanao regions and establishing the Office of the Regional Commissioner in both regions.

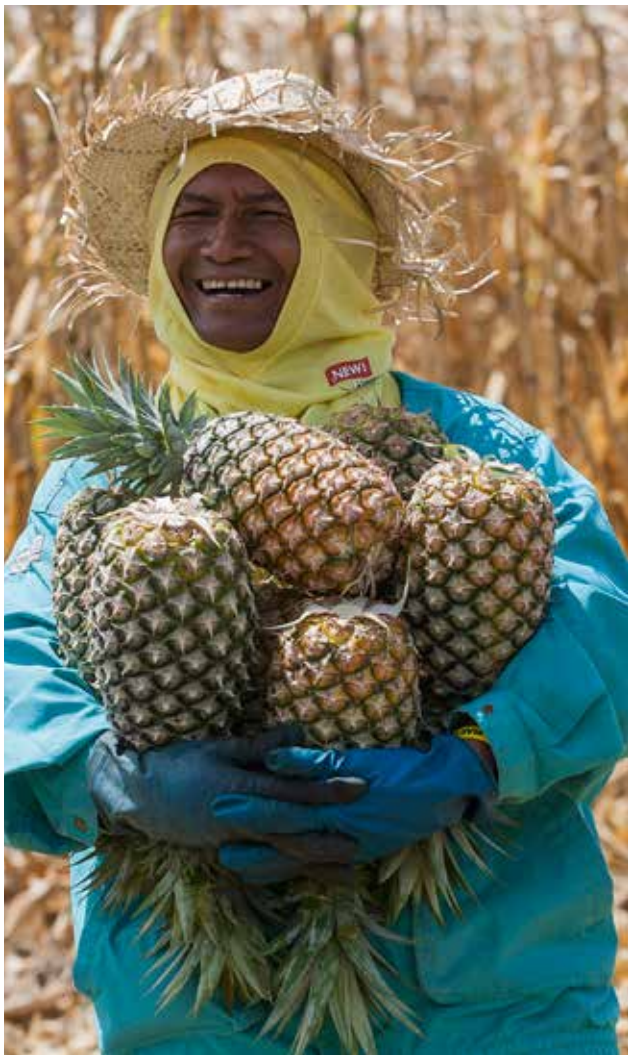
Despite Presidential intervention, hostilities continued until the Organization of Islamic Conference (OIC) intervened and facilitated the signing of the Tripoli Agreement between the Philippine Government and the MNLF in Tripoli, Libya on December 23, 1976. Pursuant to this agreement, President Marcos signed Presidential Proclamation No. 1628 on March 25, 1977 forming an Autonomous Region in Southern Philippines.

The conflict was not resolved, however and further developments culminated in the provision for an Autonomous Region in Muslim Mindanao (ARMM) in the 1987 Philippine Constitution[7] during the term of President Corazon Aquino.

7 Article X, Sections 1, 15-21 of the 1987 Philippine Constitution

The ARMM was created through Republic Act No. 6734, otherwise known as the ARMM Organic Law (AOL) resulting from the work undertaken by the Regional Consultative Council convened by President Aquino. The AOL was signed on August 1, 1989. The plebiscite required for ratification was conducted on November 17, 1989 in the proposed areas of ARMM, in which four provinces voted in favor of inclusion: Maguindanao; Lanao del Sur (except Marawi); Sulu and Tawi-Tawi. The first set of ARMM officials was elected on February 17, 1990.

The ARMM was strengthened and expanded through ratification of Republic Act No. 9054, amending R.A. 6734 in September 2001, which paved the way for the inclusion of the province of Basilan (excluding Isabela City) and the city of Marawi as part of ARMM.



On October 15, 2012, the Moro Islamic Liberation Front (MILF) and the government signed a Framework Agreement for the creation of an autonomous political entity called the "Bangsamoro", replacing the Autonomous Region in Muslim Mindanao. The MILF was involved in crafting the new Bangsamoro law through the 15-member Bangsamoro Transition Commission (BTC) headed by the MILF chief negotiator, Mohagher Iqbal.

On July 26, 2018, President Duterte signed the Bangsamoro Organic Law (BOL) paving the way for the abolition of ARMM which was succeeded by the BARMM on January 25, 2019.

Legal and regulatory arrangements for Public Financial Management

The legal and regulatory framework for ARMM consisted of separate national laws, executive orders, and regional laws. This resulted in unclear and at times contentious assignment of powers, functions and responsibilities among the National Government (NG), ARMM, and the Local Government Units (LGUs). Much of this complex legal framework continues with BARMM.

Article X, Section 20 of the 1987 Constitution enumerates the legislative powers of the autonomous region and requires that these powers be defined through a national law, which is achieved by the BOL. The BOL establishes legislative powers for BARMM over:

- Administrative organization;
- Creation of sources of revenues;
- Ancestral domain and natural resources;
- Personal, family, and property relations;
- Regional urban and rural planning development;
- Economic, social, and tourism development;
- Educational policies;
- Preservation and development of the cultural heritage; and,
- Such other matters as may be authorized by law for the promotion of the general welfare of the people of the region.

The BOL identifies specific powers and responsibilities that will be retained by national authorities and notes that any other powers and responsibilities not provided to BARMM in the BOL will be retained by the national parliament or NG. The autonomy provided to BARMM, while recognized in the Constitution, is dependent on the cooperation of national authorities. The BARMM's powers can be amended through changes to the BOL or other national laws, repealed, or resumed by NG.

The 1991 Local Government Code (LGC) enacted by the Philippine Congress was passed to govern the LGUs without considering the special status of ARMM LGUs. The passage of this national code, which devolved NG powers, functions, and responsibilities to LGUs including those in the autonomous region means that the power of the BARMM over its constituent LGUs is very limited. The BARMM's influence is further weakened by the fact that the BARMM LGUs receive fiscal transfers (i.e. Internal Revenue Allotment or IRA) directly from the NG. The NG continues to have direct dealings with BARMM LGUs about the implementation of NG-funded national programs, which provides a major challenge for development of cohesive regional governance.

In comparison with the AOL, some of the key features of the BOL include:

Form of government: the BARMM will have a parliamentary form of government meaning that, residents will vote directly for their representatives in the Bangsamoro Parliament (BP). The BP will choose a Chief Minister by a majority vote. BARMM executive authority will be exercised by the Cabinet headed by a Chief Minister. The Chief Minister will be elected by a majority vote of all members of the BP. The Chief Minister will nominate two Deputy Chief Ministers elected by members of the Parliament. The two Deputy Chief Ministers shall come from the two sub-regions different from that of the Chief Minister to ensure high level representation of all the Bangsamoro sub-regions.

The BP will appoint the Wali who shall serve as the ceremonial head of the BG from a list of names of eminent residents of the Bangsamoro region submitted by the Council of Leaders.

1. **Powers of the BG:** BOL Article V, Section 2 expressly defines 55 exclusive powers that would be devolved to the Bangsamoro thereby providing more powers to the Bangsamoro region and less intervention from the NG. On the other hand, AOL only defined the 14 powers (Article IV, Section 3) that would remain with the National Government.

2. **Sharing of Taxes Collected by the NG:** Aside from automatic appropriations via a block grant, the BOL also provides for an increased share for the BG of national taxes collected in the Bangsamoro territorial jurisdiction from 70% to 75% inclusive of the shares of the constituent LGUs (BOL Article XII, Section 10). The BP will enact a law detailing the share of the constituent LGUs in the 75% share (BOL Article XII, Section 13), unlike the AOL which itemized the sharing.

3. **Sharing in the Exploration, Development, and Utilization of Natural Resources:** As provided for in the BOL (Article XII, Section 34), all government revenues generated from the exploration, development, and utilization of all natural resources including mines and minerals in the Bangsamoro territorial jurisdiction shall pertain fully to the BG. In the case of uranium and fossil fuels such as petroleum, natural gas, and coal, there will be co-management and equal sharing between the NG and the BG. The BG share will be apportioned as follows: 30% BG; 20% to the provinces; 15% to the cities; 20% to the municipalities; and 15% to the barangays (Article XII, Section 35). Under the AOL, NG accounted for a 30% share in the taxes imposed on natural resources.

The BTA will be the interim government in the Bangsamoro region until a new election in 2022 to coincide with the national election. The 80-member BTA was sworn in by the President in February 2019, including the Interim Chief Minister, who was appointed by the President.

Institutional arrangements for Public Financial Management

The extent of BARMM autonomy and control of public financial management is limited by an ambiguous legal framework, historical deviations of practice from the provisions of the law, and lack of complete fiscal autonomy over the territory it covers, the government functions and services provided within BARMM territory, and jurisdiction over the constituent sub-regional governments.

Under the provisions of the BOL, the BP needs to enact priority legislations that will establish institutions and define their mandate, outline the administrative structure including interrelationships with the National Government and the LGUs, and operationalize the powers and functions including fiscal autonomy over its jurisdiction. This includes:

1. **Bangsamoro Administrative Code**
2. **Bangsamoro Budget** — annual appropriations law allocating the block grant; should be consistent with existing laws, rules and regulations of the National Government
3. **Bangsamoro Tax and Revenue Code** — covers the taxing powers of the Bangsamoro Government
4. **Bangsamoro Local Government Code** — should not diminish the privileges of LGUs under existing laws
5. **Bangsamoro Civil Service Law** — consistent with existing national laws and subject to the Constitutional mandate of the Civil Service Commission
6. **Bangsamoro Electoral Code** — consistent with existing national laws
7. **Legislation on the Share of the Constituent LGUs in Taxes within BARMM** — this will detail the shares of the constituent LGUs in 75% share of the BG in the national taxes, fees and charges collected in the Bangsamoro territorial jurisdiction
8. **Bangsamoro Education Code**

The BOL defines the key institutions that will be established under BARMM which includes:

1. **Bangsamoro Budget Office**
2. **Bangsamoro Revenue Office** — responsible for the assessment and collection of Bangsamoro taxes as well as other collectible taxes in the BARMM
3. **Bangsamoro Regional Office of the Bureau of Local Government Finance** — under the NG's Department of Finance; will have the authority to coordinate, assist and monitor the treasury and assessment operations of constituent LGUs within BARMM
4. **Bangsamoro Treasury Office** — with primary function to receive and safeguard all the revenues generated and collected by the BG
5. **Internal Audit Office** — handle the internal auditing function
6. **Regional Civil Service Field Office** — to be established by the Civil Service Commission
7. **Bangsamoro Economic and Development Council** — will serve as the planning, monitoring, and coordinating mechanism for all development plans, programs, and projects of the Bangsamoro Government
8. **Bangsamoro Economic Zone Authority** — shall have similar powers as those of the Philippine Economic Zone Authority
9. **Bangsamoro Electoral Office** — to be established by the Commission on Elections and under its supervision and control. Yearly budget will be with Comelec.
10. **Bangsamoro Disaster Risk Reduction and Management Council** — headed by the Chief Minister; with powers and functions for disaster preparedness and response and will formulate the Bangsamoro Disaster Risk Reduction and Management Plan which complements that of the NG
11. **Bangsamoro Human Rights Commission** — to cooperate and closely coordinate with the National Commission on Human Rights
12. **Bangsamoro Commission for the Preservation of Cultural Heritage** — to preserve the history, culture, arts, traditions and rich culture heritage of the Bangsamoro people

Until the above institutions are established, their functions will continue to be undertaken by NG. However, the NG will still provide assistance to the BG on tax administration and fiscal management, including capacity-building and training programs.

BARMM is subject to accountability rules set by the Commission on Audit (COA) and DBM. However, it will not be required to justify line item expenditures for release of authorized funds and will not be subject to the same stringent power of the President or the Secretary of Finance that applied to reduce, suspend or cancel the release of un accounted funds from the block grant and other shared revenue.

Mechanisms to facilitate coordination and cohesion with the NG on national policies and ensure BARMM's representation and protection of its interests are also provided for under the BOL which involve the creation of the following intergovernmental relations bodies:

1. **Intergovernmental Relations Body** — to coordinate and resolve issues between the NG and BG. Any unresolved issue will be raised to the President. Consists of NG and BG appointees supported by a joint secretariat
2. **Philippine Congress-Bangsamoro Parliament Forum** — for cooperation and coordination of legislative initiatives
3. **Intergovernmental Fiscal Policy Board** — to address revenue imbalances and fluctuations in regional financial needs and revenue-raising capacity
4. **Joint Body for the Zones of Joint Cooperation** — to formulate policies relating to the Zones of Joint Cooperation in the Sulu Sea and Moro Gulf
5. **Intergovernmental Infrastructure Development Board** – to coordinate and synchronize national and BARMM infrastructure development plans
6. **Intergovernmental Energy Board** — to resolve all matters on energy and power generation
7. **Bangsamoro Sustainable Development Board** — to ensure the integration and harmonization of economic, social and environmental considerations for sustainable development policy and practice in BARMM

Other important features of Public Financial Management and its operating environment

Despite the autonomy granted to ARMM as provided for under the AOL and in the newly-enacted BOL, it remains an integral part of the territory of the Philippines as provided for in the Constitution. The powers, functions and responsibilities of BARMM are limited by national legislation. Anything not specified in the BOL is a NG responsibility. In addition, some powers and responsibilities are outside the BARMM remit due to explicit legislative provisions in the BOL and elsewhere, including:

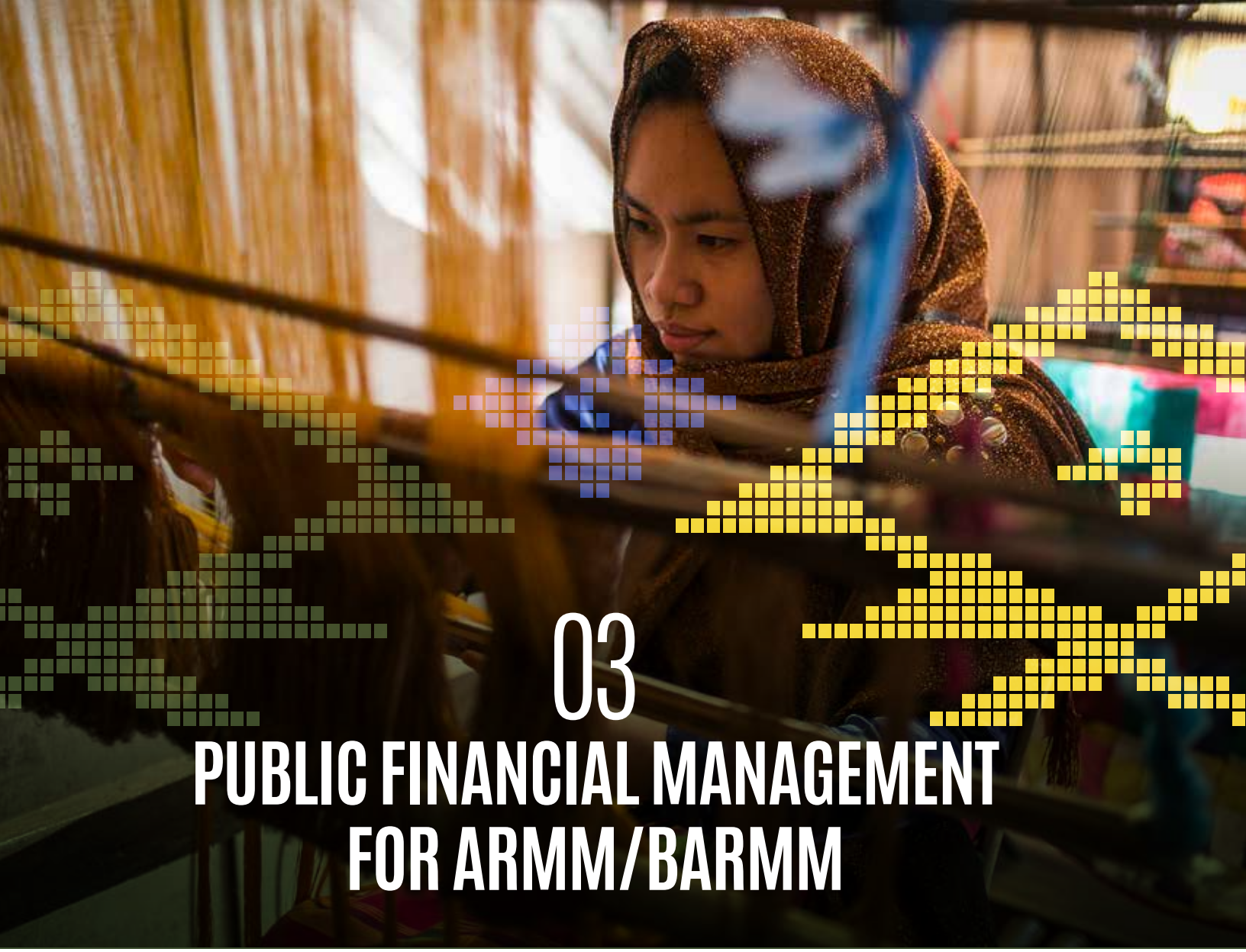
1. National Defense and Security — the Police Regional Office shall be under the direct operational control and supervision of the Philippine National Police (PNP); the military under Armed Forces of the Philippines (AFP); and the Coastguards.

2. External Auditing — the Commission on Audit (COA) remains to be the exclusive external auditor of the BG and its constituent LGUs

3. Local Government Finance — the Bangsamoro Regional Office of the Bureau of Local Government Finance under the Department of Finance (DOF) and shall be guided by the standards set by DOF including the requirements set for the appointment of local treasurers.

4. Official Development Assistance (ODA), Grants and Donations from foreign countries — access shall be subject to the prior clearance and approval by the President or their authorized representative.

5. Public Works and Infrastructure — the NG shall fund and implement the construction and maintenance of national roads, bridges, water supply and services, flood control and irrigation systems and maintenance of existing airports, seaports, and wharves in the Bangsamoro Region.



03 PUBLIC FINANCIAL MANAGEMENT FOR ARMM/BARMM

Fiscal planning, budget preparation and allocation

Fiscal planning and fiscal risks

Ratification of the BOL in February 2019 means that future fiscal planning will be founded on a different basis than previous plans. The ARMM prepared fiscal plans and budgets, including for the 2019 budget, in much the same way as national government departments and agencies. This involved reliance on national fiscal planning and procedural arrangements, taking into account the Philippine Development Plan (PDP) and its own Regional Development Plan (RDP).

The BG will be represented on the national development plan steering committee and participate in NEDA planning activities. It will need to prepare a regional development plan for adoption by the BP, as required under BOL. This is expected to be based on the existing plans for ARMM, the PDP and other plans relevant regional planning documents that have been prepared already by groups within BARMM. There may need to be modifications to existing regional planning and priorities documents within the BTA as they seek to merge existing and new priorities into an updated planning document for the region. The plan to be adopted by the BP will provide the basis for budget preparation and for use of funds provided under the Special Development Fund referred to in the BOL.

ARMM complied with DBM-issued rules, regulations, and guidelines covering budget preparation, execution, and accountability of all agencies receiving NG funds, while the Congress deliberated budget proposals during legislation and ratification of the appropriations bill. The national budget contained in the General Appropriations Act (GAA) is enacted as a whole upon signing by the President. This provided the authority for expenditure for ARMM and it was required to comply with the standard provisions applied to government departments and agencies that received appropriations under the GAA.

The arrangements for appropriation of revenues to BARMM from the year after the BOL comes into force will not be subject to the GAA. The provisions for revenue sharing and the block grant are defined by formulae in the BOL and may not be withheld by the NG or NGAs. It will be crucial for effective planning and budget preparation for BARMM to have clear, reliable and agreed information on the precise amount and timing of funds availability in advance of budget preparation activities.

The BOL provides information on the scope of revenue transfers but is not explicit about the timing of availability. It can be assumed that the entire amount of transfers will be available from the start of the fiscal year, as long as there is a valid balance diet allocation law in place within BARMM. Additional regulations may be required to supplement the law, taking account of issues such as the efficient management of cash at all affected levels of government. These matters should be resolved during 2019 to facilitate smooth and efficient planning, allocation and disbursement from the start of the year. This includes the calculation method and amounts eligible for revenue sharing, which has been disputed by ARMM, as explained in section 3.2. Without reliable and detailed regulations relating to the amount and availability of revenue, BARMM will face higher cash flow risks affecting its ability to commit funds in advance and to manage cash and liabilities.

The legislative branch of the ARMM had no power over fiscal policies affecting the region, other than those relating to ARMM local funds from revenue originating within the region. The ARMM Regional Legislative Assembly (RLA) mainly enacted appropriations of local funds, sourced from internally generated revenue, to cover the financial operating requirements of the locally created offices, agencies, and municipalities not entitled to any Internal Revenue Allotment (IRA) under the GAA.

BARMM will have greater autonomy over fiscal policies due to the flexibility provided by the block grant and other guaranteed revenue sharing arrangements. It will still be subject to some overarching national policies, such as those set out in the Administrative Code. There are also explicit requirements in the BOL for revenues to be spent in a 'programmatic, transparent, performance-based, and phased manner' (Art.XII, Sec,1). However, BG would be able to develop its own policies on matters relating to internal fiscal arrangements, for example on taxes and fees, borrowing, issue of bonds, expenditure allocation and use of funds. The BOL explicitly states that budgetary arrangements should be consistent with NG provisions under a law created by the BP.

All LGUs within the BARMM territorial jurisdiction will continue to receive their annual IRA that is automatically appropriated in the GAA. LGUs are accountable to the NG as the source of their IRA. The ARMM did not have any control on LGU fiscal management and did not receive any separate information on their financial positions or performance than available to NG agencies or the general public. This will make it challenging for the BG to develop holistic fiscal policy for the region because they do not necessarily have access to information on LGU plans, activities and achievements as a basis for developing the BARMM fiscal plans. There is still no obligation for LGUs to provide their plans to BG or discuss the contents in advance of budget preparation. This could result in duplication of activities or unintended gaps in services at LGU level. A more systematic approach is needed to ensure that LGUs are adequately served and resources allocated efficiently to achieve maximum benefit from the perspectives of NG, BG and LGUs.

The creation of the Intergovernmental Fiscal Policy Board which includes the Secretary of Finance and the Minister of the appropriate agency from BARMM (co-chairpersons), the DBM Secretary and the NEDA Director General, will facilitate greater coordination with the fiscal policies of the NG and provide BARMM representation in national fiscal policy formulation.

Budget preparation

ARMM was required to comply with the NG budget requirements and procedures. This involved compiling the annual budget from ARMM departments and agencies and submitting to DBM in accordance with the annual circular(s). The budgets would be subject to the same scrutiny and negotiations as NG departments by DBM, NEDA and Development Budget Coordination Committee (DBCC), like NG agencies. The ARMM budget was included in the consolidated budget proposal usually presented to the President and Cabinet for approval in July or August each year.

The President submitted the consolidated budget to Congress in August or September for deliberations and approval by the Committee on Appropriations of the House of Representatives and then by the Senate Committee on Finance. National lawmakers had the power to question and propose revisions to the ARMM budget without any right of veto by the ARMM Assembly. The ARMM Regional Governor sat in parliamentary budget hearings to explain and defend their budget.

The 2017 budget provides a salutary example of the potential for Congress to intervene in the size and allocation of the ARMM budget. The largest reduction and reallocation of budget in the amended version of the proposed 2017 budget were for ARMM, involving a reduction from PHP 40.6 billion to PHP 32.3 billion. It was reported that congressmen from the ARMM requested the transfer of PHP 8 billion in fund allocations from their respective districts to the DPWH citing concerns over transparency and proper use of funds. By contrast, there was not much deliberation by the Congress on ARMM's proposed budget for 2018 and 2016.

The harmonized or bicameral version of the budget containing ARMM allocations each year was subject to ratification by both Houses before submission to the President for enactment of the GAA. The national budget was approved as one, including ARMM's budget. The President also had power to veto or set conditions for implementation of certain items in the GAA.

Table 1 shows the budgets approved for ARMM in the last three completed fiscal years and the budget proposal for 2019. It shows a steady increase in new appropriations for ARMM over the period.

Table 1. ARMM Proposed and Approved Budget (In Pesos Millions) – Net of RLIP

	2016	2017	2018	2019
Tier 1 Budget Ceiling (per DBM)	25,208	25,803	27,687	32,224
BESF or NEP for Congressional approval (excluding automatic appropriations for retirement and life insurance premiums)	28,492	40,574	32,349	31,117
New appropriations under GAA	28,492	32,262	33,057	31,117

Source: ARMM ORT documents

The 2016 PEFA assessment rated the Philippines national budget preparation process highly. It scored an 'A' for the budget process and 'B+' for legislative scrutiny of budgets. In 2019 the budget preparation process would have remained at the 'A' level but legislative scrutiny score would have been reduced due to the re-enactment of the 2018 budget.

The PEFA performance of the national budget process provides a somewhat deceptive impression of budget preparation in ARMM because there has been no substantive regional budget process or ARMM legislative scrutiny for the majority of the budget. This is understandable considering that the process was controlled by NG and the Congress. However, for BARMM there will have to be a major change because the BP will need to examine, discuss and appropriate budgets. The BG will need to establish the necessary rules and procedures for budgets to be planned, scrutinized and negotiated at administrative and legislative stages. The BOL requires establishment of a Bangsamoro Budget Office (BBO) for preparing a budget[8]. The BOL also imposes some strict parameters within which the budgets will need to be formulated, particularly in respect to allocation of the annual block grant[9]. For example, the highest budget priorities should be given to education, health and social services.

The Regional Budget and Management Office (RBMO) of ARMM was the regional counterpart of the DBM at the national level. It coordinated the regional line agencies' submissions and accountability on national budgetary activities, and with ARMM offices and departments on local budget preparation for RLA appropriations. The RBMO is expected to provide the seed for establishing and growing the BBO. The RBMO function was limited to the management of local funds as the regional line agencies directly interacted with the DBM. The BBO will implement the budgetary laws and procedures to be enacted by the BP on the Bangsamoro Budget and PFM.

LGUs follow a different process for budget planning and preparation from ARMM and BARMM. The DBM issues a local budget memorandum annually that includes the IRA based on the BIR certification of LGUs' internal revenue shares for the 3rd year preceding the current fiscal year. The memorandum also contains guidelines on the preparation of the annual budget for the next fiscal year. The relevant DBM Regional Offices (DBMROs) inform the concerned LGUs of their individual IRA allocation. Annual budgets are prepared in accordance with RA 7160 and the Budget Operations Manual for LGUs for submission to, and budget authorization by, respective Local Sanggunians. This process will not change with the establishment of BARMM. There has been no involvement by ARMM in budget planning and preparation by LGUs and there is no indication that this will change under BARMM without additional legislation or agreement between the BARMM and LGUs.

The 2019 budget approved by the Bicameral committee of Congress included an allocation for ARMM but was not enacted at the time this draft report was completed. BARMM is working with the re-enacted budget of 2018, like NGAs, in the meantime. The implications of this for the operations of BARMM are unclear because the effect on the capital investment program cannot be certain until it is known how long the re-enacted budget will operate and the extent of unprogrammed funds that will be provided to BARMM for capital investment projects. It is also unclear whether the supplemental budget for BTA to support transition will be provided in 2019. The Special Development Fund resources proposed under the BOL are available from ratification of the law at the rate of five billion pesos per year for ten years. Expenditures from the Special Development Fund will be based on the Bangsamoro development plan to be adopted by the BG.

8 BOL, Article VII, Section 28

9 BOL Article XII, Sections 19 and 20

Table 2. GAA Allocations per ARMM Regional Line Agency (In Pesos Millions) – Net of RLIP

Department	Main expenditure / programs	2016 Amount	%	2017 Amount	%	2018 Amount	%	2019 Amount	%
Regional DPWH	Capital outlay for repairs or improvements, and construction of road network and other infrastructure facilities.	10,719	38	10,931	34	10,904	33	10,779	33
Regional DepEd	Personnel and operating costs of implementing basic education programs.	8,066	28	11,553	36	10,258	31	10,894	33
Office of the Regional Governor	Operating expenses and capital outlay for ARMM HELPS, BRIDGE, and PAMANA programs.	5,881	21	5,473	17	7,385	22	4,653	13
Regional DOH	Personnel, and maintenance and operating expenses for regional, provincial and city health offices, and district and municipal hospital services.	1,154	4	1,292	4	1,333	4	1,504	5
Office of the Regional Treasurer	Operating expenses for ARMM revenue generation and fund management.	807	3	809	3	1,009	3	1,008	3
Other 21 ARMM agencies and the RLA	Personnel and operating costs of regional line agencies.	1,866	7	2,205	7	2,161	7	2,279	8
Total new ARMM appropriations per GAA		28,492	100	32,262	100	33,057	100	31,117	100

Source: Budget documents

Budget allocation

Table 2 shows the top allocations to the ARMM regional line agencies, which comprise 93% of the total new appropriations for the period 2016-2019 with corresponding regional priority programs, and allocation by general expense class. The regional DPWH and DepEd consistently received the largest share in allocation among the ARMM line agencies in recent years. The reduction in total allocations in 2019 compared with 2017 and 2018 coincides with the policy change from obligations to annual cash based appropriations.

Table 3 shows the allocation of appropriations amongst expense types. The largest shares of funds are accounted for by personnel services and capital outlays. Personnel services accounted for 45 percent in the budget approved by parliament for 2019 and 43 percent in 2018. The BOL requires that no more that 45 percent of total annual revenue is used for personnel services. This could limit the space for the BTA to implement significant new staffing capacity in 2019. In 2020 and beyond, the revenue base will be significantly larger so the percentage constraint on personnel services expenses should be less confining.

The budget allocation for BG in 2019 will be the 2019 budget for ARMM, which at the time this draft report was completed, was the re-enacted 2018 ARMM budget. The BOL states that the block grant will be calculated for the budget year immediately following the effectivity of the BOL, which would be 2020. This means that the degree of autonomy over the use of funds anticipated under BARMM will not apply in 2019. In particular, the application of NG powers controlling the release of funds and to withhold or cancel unaccounted funds will be an important consideration in whether any funds affected by such arrangements would be able to be retained by BARMM for future use.

Revenue collection and management

ARMM revenues from all sources were being accounted for and reported in accordance with existing national accounting and auditing rules and regulations of the COA. The ORT was mainly responsible for generating and managing financial

Table 3. GAA Allocations by General Expense Class, 2015-2019 (In Pesos Millions) – Gross of RLIP

Particulars	2015		2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
PS	10,868.0	43.1	11,806.2	40.1	15,881.1	47.4	14,661.1	42.9	14,568.4	45.1
MOOE	3,103.4	12.3	4,489.8	15.3	3,994.1	11.8	4,775.0	14.0	4,658.6	14.4
CO	11,258.0	44.6	13117.0	44.6	13,644.7	40.8	14,742.0	43.1	13,058.8	40.4
Fin Ex	-	-	-	-	-	-	-	-	-	-
Total	25,229.3	100.0	29,413.0	100.0	33,469.9	100.0	34,178.1	100.0	32,285.8	100.0

Source: CPBRD ABN2018

resources for the RG. Included in its mandate was to act as custodian of all ARMM funds, and adopt strategies for efficient collections of revenues, taxes, fees, and charges. However, only the share in internal revenue taxes and the collections in regional taxes, fees, and charges were being handled by the ORT.

The Office of the Regional Governor (ORG) managed NG appropriations, while the individual ARMM line agencies and departments managed transfers from the ORG and allocations from NGAs. The ORG consolidated budget and financial accountability reports and submitted them to DBM and to COA for annual audit.

BARMM will continue to apply the same policies, standards and procedures as ARMM, as determined by COA. The role of the BARMM Department of Treasury (BDTr) is likely to expand compared with the ORT because of the larger amount and more complex arrangements required for the new agency and a greater need for coordination with NG counterparts.

The new Bangsamoro Revenue Office required under BOL is likely to take over some of the functions of the ARMM Treasury in relation to collection and management of local revenue, and will have the role of identifying and developing new revenue sources for the region. These new and expanded functions will involve a steep learning curve and a need for additional experienced professional staff, which will be a challenge for the agencies due to limitations in the number of available qualified staff in the region.

The functional arrangements within and between central financial management agencies in BARMM are likely to be different to ARMM due to the expanded responsibilities and resources, but it is not clear how this will be done. The BG could use the arrangement of responsibilities amongst NG central agencies, though there may be opportunities to rationalize and refine them to achieve efficiencies and tailor the structure and functions more to regional needs.

ARMM/BARMM revenue

The ARMM derived revenue[10] mainly from:

a. NG appropriations and budgetary allocations;
b. Funding for NGA activities in the region;
c. Shares in internal revenue (and any taxes imposed on the use of natural resources) collected within its area of autonomy[11]; and
d. Regional taxes, fees and charges.

BARMM will have the same general sources of revenue but there will be substantial differences in the size of NG general transfers and revenue shares under the BOL.

Details of the ARMM's revenue sources between 2016 and 2018 are provided in Table 4.

10 The ARMM Transition report identified 8 types of program and project implementation, Book 1, page 123-4

11 Section 9, Article IX of R.A. No. 9054

Table 4. ARMM Proposed and Approved Budget (In Pesos Millions)

Particulars	Obligation-Based			Cash-Based	
	2015	2016	2017	2018*	2019~
New General Appropriations	24,299.8	28,492.0	32,261.8	33,057.0	31,117.0
Automatic Appropriations (RLIP)*	209.5	220.3	237.3	1,121.1	1,168.8
Continuing Appropriations	389.0	96.6	3,008.9	-	-
Budgetary Adjustments	4,341.5	2,618.7	2,207.7	-	-
Transfers from:	4,866.2	3,148.3	2,854.9	-	-
DA-OSEC	575.9	-	-	-	-
DA-BFAR	92.1	-	-	-	-
DEPED-OSEC	136.5	267.8	193.0	-	-
DPWH-OSEC	1,398.5	-	-	-	-
DSWD-OSEC	376.5	839.1	1,519.6	-	-
Contingent	-	-	100.0	-	-
DEPED-School Building Program	25.1	-	-	-	-
NDRRMF (Calamity Fund)	2.5	-		-	-
MPBF	1,149.7	1,032.0	5.7	-	-
PGF	309.4	244.4	236.5	-	-
Unprogrammed Fund (GFA)	800.0	765.1	800.0	-	-
Transfers to:	(524.7)	(529.7)	(647.2)	-	-
DBM-OSEC	(524.7)	(529.7)	(647.2)	-	
Total Available Appropriations	29,239.8	31,427.5	37,715.8	34,178.1	32,285.8
Less: Unused Appropriations	419.5	4,044.1	2,532.0	-	-
Total Obligations (Expenditure Program)	28,820.3	27,383.5	35,183.7	34,178.1	32,285.8
New Appro-to-Total Available Appro Ratio (%)	83.1	90.7	85.5	96.7	96.4
Obligation-to-Available Appro Ratio (%)	98.6	87.1	93.3	-	-

Source: CPBRD ABN2018
* Transfer data not available for 2018 at the time of the draft report
~ Budget proposal as submitted

a. **NG appropriations and budgetary allocations**
The most significant difference between ARMM and BARMM revenue will be the block grant for five percent of net national revenue collections by the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) from the third fiscal year immediately preceding the current fiscal year (the budget year)[12]. Block grant funding will be included in revenue for 2020 and every subsequent year. The BOL states that it is intended to be "sufficient for the exercise of the powers and responsibilities of the Bangsamoro Government under this Organic Law"[13].

The annual block grant will be the BG's main source of revenue for the foreseeable future. It is estimated to account for around 80 percent of total BG revenue in 2020. It will be automatically appropriated in the GAA and be released directly and comprehensively without any further actions required or conditions. LGUs in BARMM anticipate obtaining significant funding from the block grant in addition to their IRA and seek assurance for transparent and equitable allocation of funds. This will be a matter for the BP to decide.

Another important new source of funds for BARMM regional development under the BOL will be the Special Development Fund. This provides for an allocation of five billion pesos per year for 10 years from the date of the BOL for rebuilding, rehabilitation and development of conflicted affected communities which should be covered by the Bangsamoro Development Plan to be adopted by BP. It will therefore be important for the BP to adopt a development plan as soon as possible to allow the special development funds to be accessed.

b. **Funding for NGA activities in the region**
NGAs such as DOH, DPWH and DepEd also allot funds for use in the BARMM. Other functions that are not fully devolved provide funds for national government actions that required ARMM action but are not controlled by the region, such as national disaster recovery activities. Although these resources are not revenue for BARMM to allocate as it chooses, it needs to be considered in the overall government resources available to the region and used for the benefit of residents. This includes capital outlays and various special purpose funds to implement in relation to programs and projects in areas covered by counterpart agencies in the BG. Many of those funds will continue to be centrally managed and therefore not devolved to their counterpart agencies in the BG.

Fund releases for national programs implemented within ARMM were made mostly through cash advances that required liquidation before another tranche was made available. Releases close to the end of the year resulted in unused funds. NG appropriations for the ARGMM include significant transfers to be used for implementation of identified infrastructure projects in the GAA that were subject to enactment of a Public Works Act (PWA); coordination with the DPWH; strict compliance to national procurement law, rules and regulations, guidelines and applicable general provisions of the GAA; and semi-annual and annual audits by the COA and accountability reporting requirements by the DBM. The PWA that the RLA passes to authorize the ARGMM infrastructure budget is merely a formality since the RLA cannot amend any allocated project in the GAA. Appropriations and other budgetary allocations from the NG will continue to be a source of revenue for the Bangsamoro Government. However, the BOL specified that NG-funded infrastructure projects would now be implemented by the relevant NGAs.

Cash allocations for ARGMM infrastructure budgets in the GAA (2018 – PhP10.242 billion; 2017 – PhP10.333 billion; 2016 – PhP10.104

12 BOL Article XII, Section 16

13 BOL Article XII, Section 15

billion) were being released to the ORG and transferred to the Regional Department of Public Works and Highway (RDPWH) for project implementation but zero allocations for ROW acquisitions, which appears to be a matter of NG policy or discretion.

All of the funds provided by NGAs are part of the resources available for use in BARMM — with each budgeted, appropriated, and executed in different ways and by different agencies. Each source of funding also has its own reporting and accountability obligations. The fragmentation in the institutional arrangements surrounding the budgeting, appropriating and execution of BARMM funds is partly a result of some provisions in the AOL that were not implemented. Specifically, the AOL provided for the passage of a regional budget law (Article VII, Section 21) and the creation of a regional Department of Budget and Management (Article IX, Section 2). Without these, the budgeting process and the utilization of the revenue remained under the existing laws and rules and regulations prescribed by the national government's DBM. Consequently, the majority of the funds remained outside the control of the ARMM government.

The approach will be different under BARMM but details of availability and release arrangements had not been developed at the time this report was prepared.

c. **Shares in internal revenue (and any taxes imposed on the use of natural resources) collected within its area of autonomy**

The regional funds from locally raised taxes and fees and the BARMM's share in the IRA (excluding shares for other LGU tiers) is set at 35% are under the full budgetary control of the BARMM government. The regional funds are programmed by the Regional Economic and Development Planning Board (REDPB), approved by the Regional Legislative Assembly and managed by the RBMO. However, tax collection remains highly centralized through the Bureau of Internal Revenue (BIR) which means that regional funds not automatically available for use after collection.

The release of ARMM revenue shares was governed by Joint Circular No. 2004-1 which required all collections within the ARMM to be centrally remitted for subsequent downloading to the ARMM government by the DBM upon BIR certification of the ARMM share. The absence of BIR regional office in ARMM impeded consolidation and certification as collections are reported in three BIR Regions namely IX, X, and XII.

The ARMM have not received any share in revenues from the utilization and development of strategic minerals or from incremental VAT as provided under AOL in the absence of clear implementing guidelines, based on the study conducted by the IAG[14].

It would be important in terms of equity and incentives for the NG and BARMM to reach agreement on how to address the anomalies in tax sharing to ensure that BARMM and its constituent LGUs benefit from growth and wealth increases within its borders.

The BOL provides for establishment of an Intergovernmental Fiscal Policy Board that can ensure proper procedures, safeguards, and mechanisms in faithfully determining shares in internal revenue taxes. Table 5 sets out the arrangements for sharing and administration of revenues in ARMM and BARMM. The main differences between arrangements under ARMM and BARMM is the increased share of tax revenues collected in BARMM, remittance to LGUs of the shares in that revenue determined by the BP and the role of a Bangsamoro Revenue Office, to be established in accordance with the BOL, in collecting and administering revenue collected within BARMM.

14 Drawing Lessons for the Creation of Regional Governments Under a Federal Setup – Case Study on the Autonomous Region in Muslim Mindanao published by the CPBRD in partnership with the Institute for Autonomy and Governance in 2017.

Table 5. Comparison of ARMM and BARMM shares of national taxes, fees and charges

	ARMM	Bangsamoro Government
Regional Government	35%.of revenues collected within the ARMM region	75% of revenues collected in BARMM, including the shares of constituent LGUs.
Constituent LGUs	35% of revenues collected within the province or city, which is distributed further to PLGU-MLGU-BLGU (40%-35%-20%); and/or to City-BLGU (50%-50%).	BP will enact aa law detailing the shares of the constituent LGUs in the 75% share of the BG.
National Government	30% of NG tax collections for five (5) years to be allotted for the ARMM in the GAA.	25% of NG tax collections will be provided to the Bangsamoro Government for the first 10 years from effectivity of the BOL.
Assessment and Collections	By the BIR but covers only TRA and cash collections of RCOs in the actual sharing.	By the BIR, but only until such time that the Bangsamoro Revenue Office has been established by Parliament law.
Release of regional government shares	NG releases ARGMM shares, which requires appropriations in the GAA.	Lump sum by NG without need of an appropriations law; Bangsamoro Revenue Office, upon its establishment, will remit the share of NG.
	Being charged with the MOOE appropriations to ARMM in the GAA. Balance charged to available NG unprogrammed funds.	Separate and distinct from the appropriated annual block grant.
Payment of taxes	Corporations, partnerships, or firms directly engaged in business, and/or derived income from business operations in the autonomous region are required by the Organic Law to pay corresponding taxes, fees, charges, including income taxes for income realized within the territorial jurisdiction, in the province or city where said business, operations, or activities are located. The large taxpayers and operating branches or units consolidate tax payments at the national level in accordance to BIR regulations.	BIR and BRO will agree on modalities for filing of income tax returns in BARMM through the Intergovernmental Fiscal Policy Board.

Under Section 9 of Article IX of AOL, the ARMM was granted the right to 35% share in collections from national internal revenue taxes, fees and charges, and taxes imposed on natural resources of provinces or cities included in the autonomous region. The province or city should automatically retain 35% as its share and remit to the national government the balance of 30% but only the BIR has authority to collect internal revenue taxes.

Moreover, the ARMM-DOF-DBM Joint Circular No 2004-01 dated February 26, 2004 that has been the government issuance that provided guidelines on the release to ARMM and concerned LGUs their share in the national internal revenue taxes, requires full remittance to the BTr of all internal revenue collections within the ARMM. The guidelines cover only internal revenue collections from Tax Remittance Advice (TRA) of NGAs and from BIR Revenue Collecting Officers (RCO). It excluded internal revenue collections from other modes such as those made to the BIR Revenue District Offices (RDO) covering ARMM territories and/or through their Authorized Agent Banks, and those made through head offices outside ARMM that are required by the BIR to consolidate filing and payment of taxes using the EFPS. This is in contrast with the fact that AOL required all entities doing business within the ARMM and even those with head offices outside ARMM to pay taxes to the concerned LGU corresponding their income realized within the ARMM.

The Bangsamoro Government will be granted its share of revenues generated from the operations of public utilities, and with all government revenues generated from the exploration, development and utilization of all natural resources in the Bangsamoro Autonomous Region. 70% of the revenues will be shared with the constituent LGUs (20% each to PLGUs and MLGUs; 15% each to cities and BLGUs). The Parliament will also enact a law for the sharing mechanism and percentages for indigenous communities on revenues generated from their territories.

Formulation and adoption of implementing rules and regulations, specific procedures and coordination arrangements should be a priority of the NG and the BG on all wealth or revenue sharing provisions of the BOL. An independent appraisal body could be considered to ensure conformity to agreements between the national and the regional governments.

ARMM maintained a long-running dispute with the BLGF regarding the size of its share of revenue collected within its boundaries. The primary issue relates to identification of the origin of national revenue collections. Many entities operate within the BARMM region but tax payments are made through the head offices of those entities, which are generally in Metro Manila or other large cities. Consequently, the tax payments are recognized at the point where the taxes are collected rather than where the obligations are incurred.

The size of the difference between the location where the taxable activities were undertaken and where they were paid is difficult to determine because the entities are not required to identify those details. BLGF and BIR are working with subnational governments on this matter but it has not been resolved. It could involve a significant under-recording of transfers that BARMM and other subnational governments outside metropolitan areas are eligible for, and offsetting reductions in transfers to metropolitan governments. This is not an issue unique to BARMM but affects all other subnational governments.

d. Regional taxes, fees and charges

The Muslim Mindanao Act No. 49 is the Revenue Code of the ARMM and governs the imposition, assessment, and collection of all regional taxes, fees, and charges within ARMM territorial jurisdiction. It provided for 27 types of regional revenue source for which the ORT or his duly authorized deputies are responsible in collecting. Since its enactment by the Regional Legislative Assembly (RLA) in 1995, the implementation of the Revenue Code and the regional revenue source have never been reviewed, assessed, and/or updated.

The BARMM government has powers to raise revenues as provided for in the BOL[15]. The amount of funds collected from regional taxes, fees, charges and other income aside from NG transfers amounted to less than five percent of total annual revenue for ARMM, as shown in Table 4. The largest source of regional revenue has been the contractor's tax.

The range of regional revenue sources available to BARMM has increased compared with ARMM but it will be difficult in the short term to establish new sources of revenue or to increase charges on Bangsamoro businesses and individuals. This is because new taxes will not replace existing taxes, they will only increase the overall burden of taxes. Also, the residents of Bangsamoro are among the poorest in the country so their capacity to pay additional taxes is more limited than elsewhere.

With the expanded revenue source granted to the Bangsamoro Government, it needs to ensure appropriate planning and coordination with the NG to obtain the necessary assistance on tax administration and fiscal management, including capacity building and training programs. The Bangsamoro Tax and Revenue Code to be enacted by the Parliament as mentioned in Section 14 of Article XII of the BOL should be able to comprehensively cover the BG taxing powers drawing lessons from the experiences of the ARMM. The Bangsamoro Revenue Office should be established as provided under the BOL, which will be primarily responsible in the proper assessment and collection of Bangsamoro taxes, and other collectible taxes with the BARMM.

ARMM LGU revenue

The NG, through the Bureau of Treasury (BTr), releases IRA directly to LGUs local treasurers appointed by the Department of Finance (DoF). The LGUs, independently control their respective

15 Article IX, Sections 1, 8

IRA and revenue from all sources. This is not expected to change following the establishment of BARMM.

The provisions of the 1991 Local Government Code (LGC) regarding the use of internal revenue allotment (IRA) for LGUs within the BARMM makes them fiscally independent of BARMM. The IRA accounts for more than 90 percent of annual revenue for many LGUs. As a result, the LGUs are intensely focused on that source of funding and the conditions under which it is provided, regardless of any plans or priorities decided by BARMM.

Tables 6 and 7 show that LGUs are receiving as much IRA as the other non-BARMM Mindanao regions and higher shares from national tax collections arising from their portion of regional government's share in NG internal revenue. In 2016 ARMM LGUs were dependent on IRA for 96 percent of their revenue compared with the national average of 64 percent.

LGUs in ARMM have not received any share in revenue from the utilization and development of strategic minerals since ARMM already has a 70% share in the taxes collected within its area of jurisdiction, for which LGU sharing was provided under Republic Act No.9064, Organic Law of ARMM.

LGUs administer their own local tax and non-tax revenues. Access to locally generated revenues varies in BARMM. It ranks the lowest among the Philippine regions in terms of local income. Discussion with selected LGUs revealed that they need to be capacitated in local tax administration and raising income from public services and economic enterprises as shown on the comparative table below of local revenue for Mindanao regions.

IRA for LGUs does not lapse compared to ARMM budget that needs to be reverted if unutilized. The ARG has no control over LGU spending or utilization of their IRA.

Table 6. 2016 LGU IRA Dependency[16] (In Pesos Millions)

	Region IX	Region X	Region XI	Region XII	Region XIII CARAGA	ARMM	Mindanao Total	Philippines Total
Locally sourced revenue	2,606	5,952	6,380	3,283	2,608	334	21,163	175,610
Internal revenue allotment (IRA)	14,305	19,120	17,346	16,034	14,474	16,019	97,298	343,777
Annual regular income (ARI)	16,946	25,262	23,764	19,332	17,870	16,643	119,817	536,767
IRA Dependency	84%	76%	73%	83%	81%	96%	81%	64%

Table 7. 2016 LGU External Revenue[17] (In Pesos Millions)

	Region IX	Region X	Region XI	Region XII	Region XIII CARAGA	ARMM	Mindanao Total	Philippines Total
EXTERNAL SOURCES	14,585	19,577	17,598	16,216	15,312	16,473	99,762	369,227
Revenue Allotment	14,305	19,120	17,346	16,034	14,474	16,019	97,298	343,777
Other Shares from National Tax Collections	35	190	39	14	787	290	1,356	17,380
Inter-Local Transfer	30	163	98	104	31	12	440	2,057
Extraordinary Receipts/Grants/ Donations/Aids	214	104	115	64	19	152	668	6,013

16 Computed from the Statement of Receipts and Expenditures consolidated by the BLGF-DOF

17 Computed from the Statement of Receipts and Expenditures consolidated by the BLGF-DOF.

Table 8: 2016-2018 Summary of ARMM Releases[18]

Recipients	2016	2017	2018
Regional Line Agencies	1,151,312,001	1,182,078,597	1,305,970,438
Local Government Units	664,901,929	666,675,042	690,261,270
TOTAL	1,816,213,930	1,848,753,639	1,996,231,708

The ORT remits to ARMM-LGUs their corresponding portion in ARMM shares in internal revenue taxes (including any taxes imposed on the use of natural resources) which are effectively additional sources of revenue for LGUs within the jurisdiction. Non-IRA municipalities receive financing assistance from the ARG and/or from their host municipality and provincial LGU. Details for the last three fiscal years are provided in Table 8. The amounts remitted to LGUs exceeded PHP 660 billion in each year.

Locally generated revenue

Table 9 presents a comparison of local source revenue for Mindanao regions. The amounts of local taxes and other revenue are significantly lower in ARMM than other Mindanao regions. For example Region XI obtained almost 20 times the amount of revenue from local taxes and charges as the ARMM LGUs.

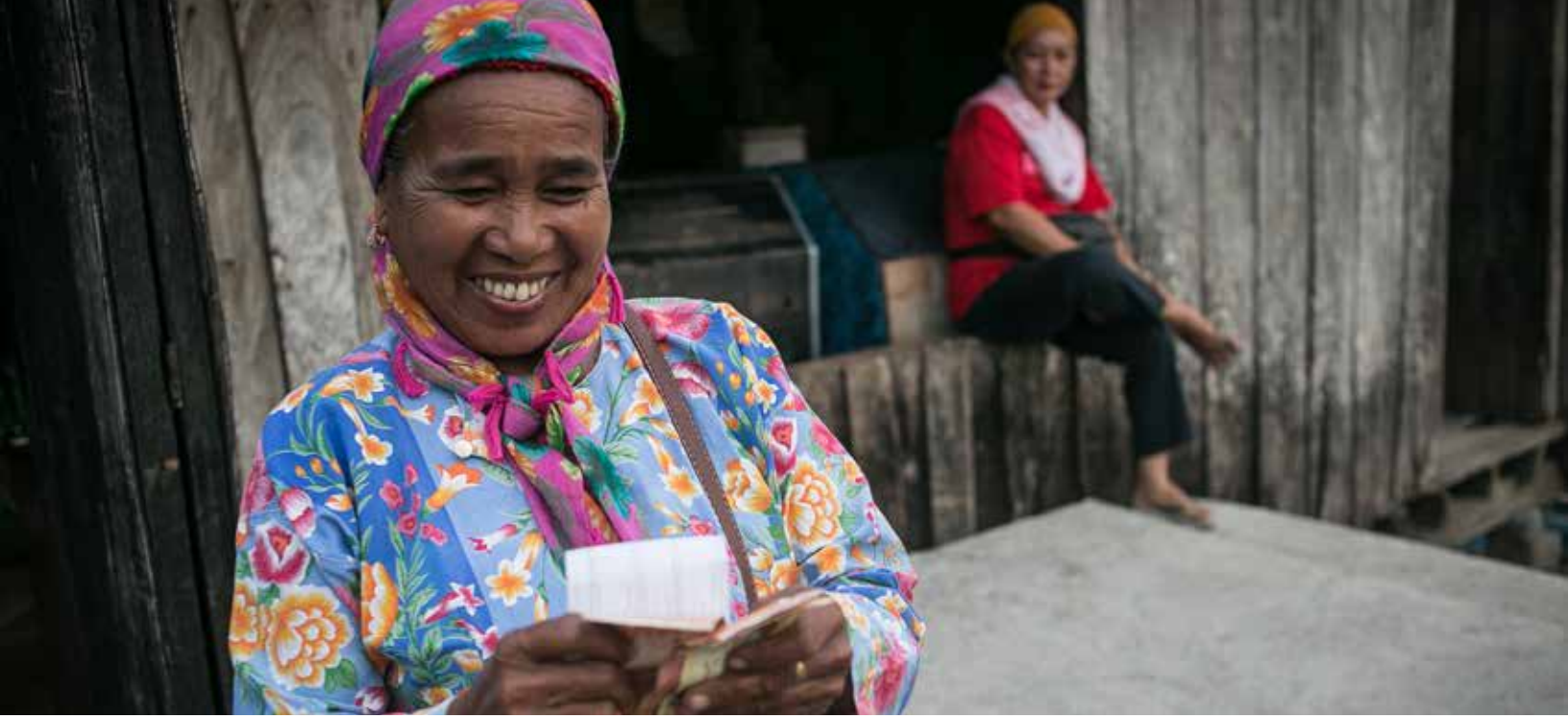
Table 9: 2016 LGU Local Revenue[19] (in Million Pesos)

	Region IX	Region X	Region XI	Region XII	Region XIII CARAGA	ARMM	Mindanao Total	Philippines Total
LOCAL SOURCES	2,710.44	6,027.38	6,499.63	3,425.29	2,660.52	369.02	21,692.28	181,602.93
TAX REVENUE	1,149.73	3,267.17	4,063.04	1,758.61	1,313.95	214.56	11,767.06	128,317.76
Real Property Tax	471.97	1,412.89	1,516.81	809.08	473.38	43.47	4,727.61	50,828.68
Tax on Business	599.70	1,683.45	2,244.64	831.33	751.86	158.63	6,269.61	69,958.38
Other Taxes	78.05	170.83	301.59	118.19	88.70	12.47	769.84	7,530.71
NON-TAX REVENUE	1,560.72	2,760.20	2,436.59	1,666.68	1,346.57	154.46	9,925.22	53,285.17
Regulatory Fees (Permit and Licenses)	148.85	340.54	444.98	232.50	300.22	29.11	1,496.20	11,213.31
Service/User Charges (Service Income)	291.61	414.06	439.61	708.98	360.31	27.38	2,241.95	14,389.23
Income from Economic Enterprises (Business Income)	1,015.65	1,930.35	1,432.08	583.38	633.76	62.62	5,657.84	21,689.76
Other Receipts (Other General Income)	104.61	75.25	119.91	141.82	52.28	35.36	529.23	5,992.87

Source: Statement of Receipts and Expenditures consolidate by the BLGF-DOF

18 Data from ARMM-ORT

19 Statement of Receipt and Expenditures consolidated by the BLGF-DOF



Fiscal and budgetary trends

Appropriations to ARMM between 2015 and 2019 showed a gradually increasing trend. 2019 will be an exception due to the introduction of annual cash-based appropriations, contributing to a reduction in total new appropriations proposed for ARMM in that year.

There has been greater volatility in other categories of appropriations during the period. For example, continuing appropriations displayed a significant drop between 2015 and 2016 from PHP 389 million to PHP 97 million respectively. This was followed by a substantial increase to PHP 3,009 million in 2017 due to a large amount of unused capital and MOOE appropriations from 2016. It is understood that a major reason for the unused appropriations resulted from long delays in approval of capital and maintenance projects within ARMM.

Automatic appropriations for the retirement and life insurance premiums of ARMM employees averaged around PHP 220 million between 2015 and 2017. They increased almost fivefold between 2017 and 2018 to PHP 1,121 million with further increases planned for 2019. In contrast, budgetary adjustments were almost halved between 2015 and 2016 and continued to fall in 2017.

Transfers from NGAs also experienced volatility between 2015 and 2018. Total transfers fell from PHP 4,866 million in 2015 to PHP 2,619 in 2016 and continued to shrink in 2017. Cessation of certain transfers from DA and DPWH were the main reasons for the fall between 2015 and 2016. In contrast, transfers from DSWD increased during the period.

Although new appropriations are by far the largest category of funding, accounting for more than 80 percent of total appropriations, the significant volatility of other appropriations created challenges for ARMM, and will have a similar impact on BARMM. Changes in sectoral transfers can be particularly challenging in both upward and downward directions as the agencies have to adapt to large increases or decreases in workload. These changes are often unpredictable and the ARMM agencies could not plan in preparation for the changes but had to react as quickly as possible. Adjustments in ARMM allocations to affected agencies are difficult when late notice of changes are received because the budget allocations are locked in before the start of each year as part of the national budget process.

ARMM has been unable to obligate all available appropriations during the period. In 2015 they performed very well in being able to obligate 98.6 percent of available appropriations. The following year, however, ARMM was only able to obligate 87.1 percent of available appropriations. The ratio of obligated to available appropriations increased again in 2017 to 93.3 percent. This volatility in

obligation ratios is a signal that there may be problems in reaching timely decisions, difficulties arising in maintaining progress on major capital investments or variations in absorption capacity due to institutional or operational factors. BARMM will need to examine the reasons for volatility in the appropriation utilization rates to determine the underlying causes and address them where possible.

One indicator suggesting that there may be difficulties in meeting administrative capacity requirements in ARMM is the increased number of unfilled positions in ARMM. There were 4,946 unfilled positions in 2015 which increased by 80 percent to 8,942 unfilled positions in 2018. The share of unfilled positions in total authorized positions was 14.3 percent in 2015 and 21.7 percent in 2019. This situation indicates that there may be problems in the administration of new positions or difficulties in recruiting staff to fill them, or both. It will be difficult for BARMM to meet its obligations under the BOL if it is unable to either establish staff positions or successfully recruit and retain qualified people.

Budget execution

Cash management

Responsibility for cash management was shared under ARMM between the ORG and ARMM Treasury. The ORG was responsible for facilitating transfer of appropriations to the relevant ARMM departments and other entities while Treasury handled allocation of locally generated revenues. Cash controls on appropriations were primarily handled nationally through the normal operations of DBM and BTr so the ORG's main role was obtaining and redirecting funds from NGAs within a control framework established and managed by DBM and BTr.

ARMM was part of the Treasury Single Account (TSA) which facilitated electronic transfers between BTr and ARMM for approved allocations and disbursements.

Considering that BARMM shall partake the nature of an LGU, it is not required to maintain a bank account within the Treasury Single Account. However, the management of funds release and cash will be a much bigger responsibility for BARMM than ARMM. There will be substantially more funds available to BARMM than ARMM and the timing of transfer from the BTr to BARMM, and from the BARMM treasury to authorized users will need to be carefully managed by the Treasury. This will require establishment of cash management rules, consistent with laws, national rules and procedures, and rigorous application of those rules by the BARMM treasury. This should be a priority concern for the BG because cash management has been a consistent area for COA audit qualifications and observations in recent years.

One warning sign that cash management arrangements may need tightening is the significant gap between obligation and disbursement rates for ARMM. In 2016 disbursements were 87 percent of obligations while in 2017 the rate fell to 65.7. Obligations are incurred from appropriations at a higher rate than disbursements suggesting that payment for goods and services contracted by ARMM was significantly slower than intended. BARMM will need to examine the reasons for the relatively low disbursement rate in 2017 to address any unavoidable payment delays. This will ensure efficient cash management and avoid a build-up of payment arrears.

It will be important for BARMM to maintain control of all funds coming into and going out of the government. The many sources of funds and the different ways that they enter the region have not been centrally managed in ARMM. Funds provided through appropriations to ARMM and from NGAs have entered the region in a variety of ways in the past, though most have been channeled through either the ARMM treasury or ORG. BARMM should consider having a single agency responsible for managing funds from all sources and disbursement of those funds to agencies as needed. This will facilitate good practices in cash management, financial control, recording and reporting on those funds.

Operational and program expenditure

The BG will have authority over several areas critical to basic service delivery such as budgeting, administration of justice, agriculture, environment, natural resources, civil service, education, disaster risk reduction and management, health, human rights, public works, social services, tourism and trade and industry. This will be different to other SNGs and different to ARMM.

Resources for the region will increase with funding coming from the IRA, locally generated revenue, annual block grants and the ten-year PHP 5 billion annual allocation from the Special Development Fund for conflict-affected communities. This will be weighed against an expanded scope of responsibilities and obligations to establish new and expanded agencies to comply with the BOL and to cope with the increased administration, accountability and service delivery requirements.

ARMM appropriations under the GAA were authorized on a line-item basis but BARMM will receive lump-sum appropriations and will have the flexibility to change the basis for appropriations, subject to alignment with national laws and regulations, to other forms that may be more appropriate such as functional, program or groupings based on development plans. Such changes may provide more focus on development priorities, but would require robust monitoring and accountability arrangements to ensure that funds are properly controlled and used for the purposes intended. This will be a challenge considering the absence of such mechanisms under ARMM, and considering the lack of control over LGUs that may receive funding from BARMM.

ARMM was required to comply with the AOL and other laws which set policies and procedures on budgeting, accounting and auditing to be consistent with national government arrangements established by COA, DBM, DILG and DOF. ARMM Regional Assembly also enacted the Muslim Mindanao Autonomy Act No. 25 on 26 April 1993, providing for a Local Government Code in the ARMM. That law contained a section on local fiscal administration particularly on expenditures, disbursements, accounting and accountability. The BARMM will also need to establish a local government code, as required by the BOL. The BP will establish regional budget management arrangements and approve an appropriation law for allocation of resources within the region. The BOL emphasizes that the budget must be consistent with existing laws, rules and regulations of the NG.[20]

Under the AOL, funds allocated for the ARMM were released directly to the treasurer of the RG. In the same way, the BOL states that annual block grants will be automatically appropriated and will be released directly and comprehensively to the BG without any lien or holdback that may be imposed by the NG for whatever purpose. Funds received from NG through BTr to BARMM will be transferred to the regional agencies based on the approved budget by the BG. National programs and projects shall continue to be funded by the NG, such as the Pantawid Pamilyang Pilipino Program, Health Facility Enhancement Program, School Building Program, retained hospitals at DOH, Philhealth, social pension for senior citizens and Taskforce Marawi.

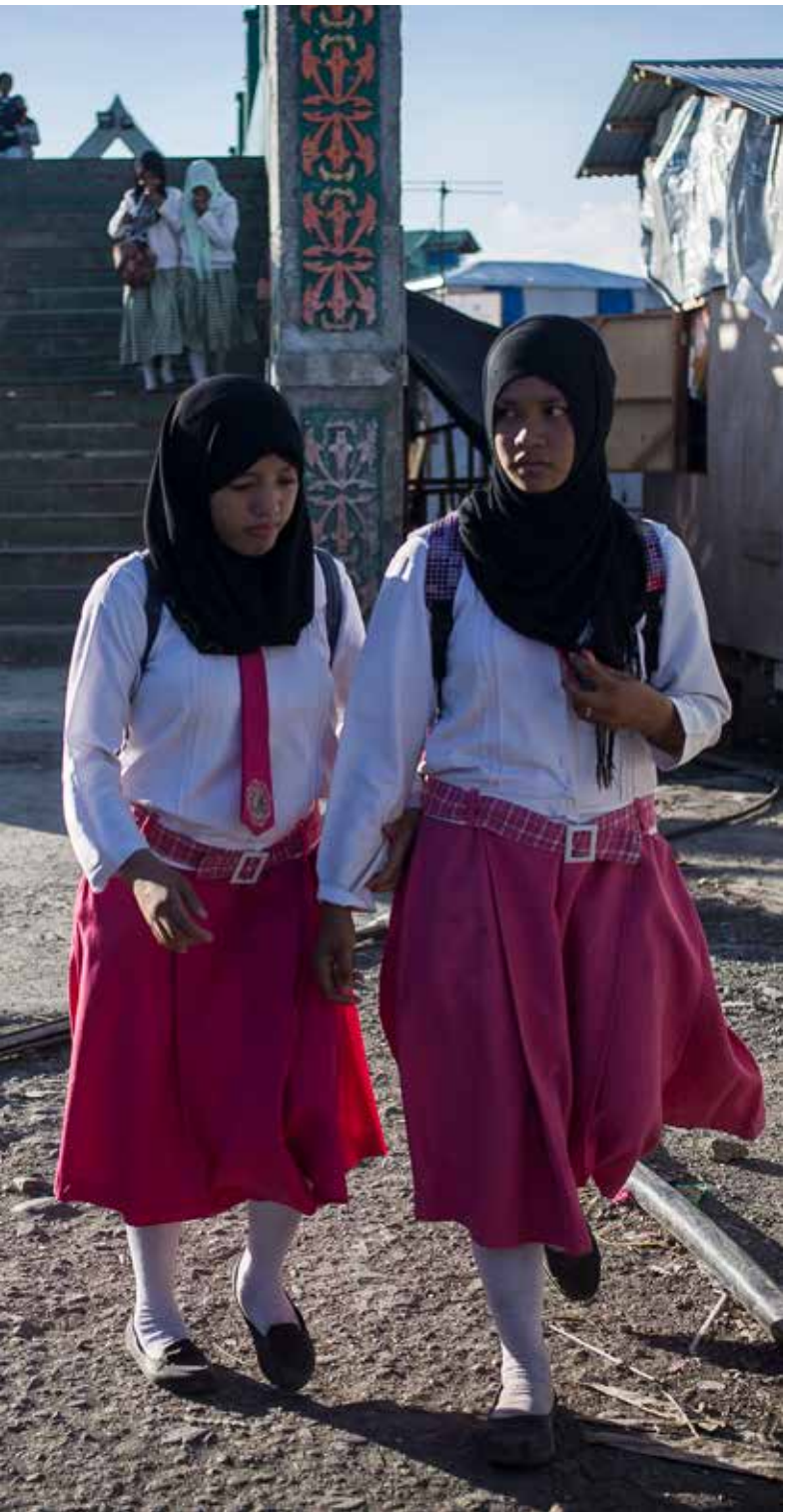
The GAA requires NGAs to prepare regional and provincial allocations for national projects/programs and funds from NGAs in their respective budgets. Upon receipt of such funds, the RG or any LGU concerned should report the utilization of such funds from NGAs. Funds released to the RG for national programs implemented within BARMM are treated as cash advances and require liquidation before another cash advance can be availed.

The involvement of NGAs in BARMM will continue to entail a complex range of approaches and procedures with varying degrees of consultation and engagement with BG as has occurred under ARMM. This will maintain the challenging environment for the region in which the BG will

20 BOL, Article VII, Section 28

need to set its policies, plans and budgets with partial information on the total government activity and investment in each sector. This makes it very difficult for agencies at all levels of government to ensure complementarity and efficient alignment of actions to achieve the policy goals and plans they are working towards.

LGU funding from NG transfers is received in two ways: formula-based block grants or the IRA; and ad-hoc grants. IRA is allocated to the different levels of local government and to specific LGUs within each level according to a pre-determined formula. LGUs have almost full discretion in the utilization of their IRA after considering national guidelines on spending for development plans, debt servicing, gender programs etc. On the other hand, ad hoc grants have specific purposes for which they should be spent. These grants can come from a) lump sum allocations in the GAA, b) allocations from national government agencies from their own budget or c) other sources such as donations, grants, development assistance from congressmen etc.



The remainder of this section illustrates the nature of this complexity as it applies to sectors receiving most funding from the various tiers of government.

- **Education**
  Under the AOL, educational funds for the RG allocated by the national government in the GAA were released directly to the RG treasurer. *Madaris* teachers employed in the public schools were paid from RG funds. The RG also provided scholarships to qualified poor but deserving students in all levels of education. The RG devoted at least fifteen percent (15%) of its regular budget for education to support scholarships.

  The BOL requires the BP to pass an annual appropriation law allocating the block grant to various agencies and programs according to the powers of the Bangsamoro Government. The national program on school buildings will continue to be funded and implemented by NG DepEd, as is the case for all regions within the country. The funds provided under this arrangement are not controlled by ARMM and are subject to change at DepEd's discretion. No funds were provided to ARMM under this program in the last three years. ARMM DepEd also considered that the amount of MOOE provided for schools was insufficient to address the needs. They have drawn this to the attention of DepEd national but the matter was not resolved prior to the transition to BARMM.

LGUs also have the Special Education Fund (SEF) that arises from the additional one percent (1 %) tax on real property and is allotted by the LGUs[21] to the local school boards. This Fund is allocated by the Code for the operation and maintenance of public schools; construction and repair of school buildings, facilities and equipment; educational research; purchase of books and periodicals; and sports development in amounts determined by the local schoolboards themselves.

This shared responsibility of the NG, RG and LGUs creates complex funding and administration arrangements. In the absence of a comprehensive regional plan for education, there is a high risk of funds not being maximized for priority projects in the region. ARMM's role in supporting education at the LGU level tended to focus on filling gaps in services provided by LGUs and adjusting for disparities in services between LGUs. Funding for special education needs was seen as an important area for cooperation between ARMM and LGUs. ARMM also funded schools established in the non-IRA municipalities established in the region.

Teacher hiring was seen as a challenge by ARMM DepEd. The hiring of teachers is supposed to be done centrally but the region relies on many volunteer teachers because the formal hiring process has been problematic. There are significant discrepancies between the number of teachers and the formal teacher records in the data base, according to ARMM DepEd.

ARMM DepEd used to report on NG funding for education through the ORG in an attempt to consolidate regional reporting to NG but this resulted in delays, misdirection of information and difficulties in achieving timely funding. The reporting process has been changed in more recent years so that ARMM DepEd reported directly to DepEd national instead of through the ORG.

- **Public Works and Infrastructure**
  The AOL provided for ARMM infrastructure funds to be allocated by the NG and appropriated through a Regional Assembly Public Works Act. Unless approved by the Regional Assembly, no public works funds allocated by the national government for the Regional Government or allocated by the Regional Government from its own revenues could be disbursed, distributed, realigned, or used in any manner.

  National DPWH distributed funds appropriated for works in ARMM to its offices in the regions overlapping with ARMM (regions IX, XI and XII). It then waited for ARMM regional assembly to approve the works before initiating procurement and commencing work. Not surprisingly, this process resulted in greater delays in commencing and completing works than in other parts of the country where the allocation, approval and procurement of works was less complicated. In some years the process of obtaining regional assembly approval took more than six months from the start of the fiscal year. In 2018, for example, the infrastructure program was not ratified by ARMM until October, leaving very little time until the end of the year to obligate funds, let alone starting the works.

  The BOL provides for most works in BARMM to be undertaken by NGAs[22], so the potential for delays is likely to be less problematic. However, for regional and local infrastructure funded from BARMM resources, it will be important to ensure that preparatory work commence early so that procurement and implementation can commence as soon as possible after the start of the year. BARMM will be expected to align its financial management arrangements with NG so it can be expected that they will

21 Required under Section 272 of RA 7160 or Local Government Code of 1991

22 Article XIII, Section 37

also adopt annual cash appropriations if such arrangements are implemented nationally. This will make it even more urgent than in the past for works to commence as early as possible in the year so that available cash can be spent by year-end. Practices such as automatic appropriation release and advance approval for preparatory work on capital projects that are applied by NG would also be beneficial for BARMM.

DPWH reports on works by standard national region and did not prepare consolidated reports for works in ARMM. This could be done, but has not been required by DPWH or ARMM.

The BOL establishes clearer policies on public works and infrastructure. The NG shall fund and implement the construction and maintenance of national roads, bridges, water supply and services, and flood control and irrigation systems and for the maintenance of existing airports, seaports, and wharves in the BARMM. Water supply and services, flood control, and irrigation systems that connect to or from facilities outside the BARMM shall be delivered through cooperation and coordination between the BG and the appropriate national or local government bodies. The BG will submit proposals to the appropriate NGA for inclusion of the cost of BARMM maintenance in the GAA. Funding for national roads, bridges, and irrigation systems appropriated by the National Parliament will be regularly released to the relevant NGAs. This is likely to require a rationalization of staff and functions within BARMM, as resources and emphasis are shifted to areas that were underserved or not required under ARMM.

One challenge for BARMM will be to identify and prioritize new projects such as power, ports, drainage and roads across all areas, including the islands, to be undertaken by NGAs and to ensure that those priorities are included in national infrastructure plans. The role of BARMM in construction and investment in infrastructure will need to be clarified and made complementary to the national plans. BARMM could focus on social infrastructure, for example.

National Disaster Risk Reduction and Management Council (NDRRMC) calamity funds for the ARMM region were disbursed through LGUs, which will not change under BARMM. The works were undertaken through memoranda of agreement (MOAs) between DPWH and LGUs, subject to LGU capacity to implement.

Coordination of infrastructure planning in ARMM was undertaken through the Regional Development Planning Board, which included representatives from municipalities and cities. This approach is expected to continue under BARMM, with the additional level of coordination provided by BARMM representation on national planning bodies. This should help to ensure that priorities from the more localized tiers of government will be aligned with regional and national investments. Additional coordination will be required on the use of funds from the Special Development Fund for conflict affected areas and other specific projects such as Marawi redevelopment, adding to the challenges of having a consistent and efficient regional approach to development.

- **Health and Social Services**

The national budget places substantial resources with NGAs for the provision of local-level services and investments. Since there are several vertical programs budgeted under NGAs which are implemented at the local government level, this has led to numerous parallel funding flows, resulting in fragmentation of planning, budgeting, service delivery, and accounting leading to diffused lines of accountability. This was the case prior to BARMM and will continue unless a formal mechanism is established to simplify and monitor various funds and in-kind flows and accountability reporting.

DOH and DSWD have been particularly involved with LGUs under the local government code due to activities that have been substantially devolved to LGUs. However, many health and social services programs such as the Pantawid Pamilyang Pilipino Program, Health Facility Enhancement Program, retained hospitals at DOH, Philhealth, social pension for senior citizens, immunization, control of communicable diseases, provision of drugs and medicines to devolved facilities and operation of hospitals in the NCR continue to be funded by the central government under the budget of the DOH and DSWD.

ARMM DOH had a MOA with the national DOH on funding, programs and services. Funds for national health programs were channeled through the ORG to ARMM DOH. Planning is done at the national program level and it appears that there was no involvement by ARMM DOH in planning or decisions on those programs.

One of the many challenges of the complex funding and administration arrangements is the multiple sets of guidelines for eligibility and fund release. Funds flow from the national budget to LGUs through several channels, each with its own set of requirements on eligibility, utilization and reporting. This includes funds under overseas development assistance (ODA) as well as locally funded programs. The parallel fund flows create an extensive compliance burden on the limited capacity of the LGUs by requiring different business processes and administrative arrangements.

Delivery on the ground is complicated by each agency interacting with LGUs in various ways. The NGAs set their own guidelines for LGUs regarding each of the programs they administer. The local governments shared their frustrations on conflicting policies on fund releases during interviews for this project. When the NG releases funds to LGUs, it issues corresponding guidelines such as compliance with RA 9184. However, specific provisions of the guidelines may require LGUs to do otherwise. For example, supplemental feeding for students - LGUs are obliged to procure products of local farmers and not a full competitive process. LGUs noted that the new rules/guidelines are not disseminated to them in a timely manner. NGAs place the responsibility of awareness of applicable rules on LGUs, often placing these on websites. However, some LGUs, especially with internet connectivity challenges, are unable to check the NGAs' websites regularly to be informed of any new rules/guidelines.

Public investment and asset management

Public investment in BARMM is primarily financed at the NG level. Project planning and programming for infrastructure in ARMM was guided by the Regional Development Plan (RDP), developed with inputs from the Infrastructure Convergence Committee (Municipal, City, Provincial Planning representatives, CSOs), consolidated and finalized at the Regional Infrastructure Development Committee, and submitted to the ARMM Regional Economic and Development Planning Board (REDPB) before the ratification of the Regional Legislative Assembly (RLA). The REDPB consists of representatives from the five (5) provinces, two cities, RLA, and one CSO/NGO. The REDPB is assisted by its technical secretariat, the Regional Planning and Development Office (RPDO) that led preparation of development plans, programs, and projects of ARMM such as the recent RDP for 2017-2022. The REDPB functioned as the Regional Development Council[23] for the ARMM that served as the counterpart of the NEDA Board at the subnational level. The ARMM was also granted representation in the formulation of social and economic policies, plans and programs through attendance of the ARMM Regional Governor in meetings of the NEDA Board, the Committee on Social Development and the Committee on Social Infrastructure.

Fund transfers from NGAs such as Department of Agriculture (DA), DepEd, DILG, DSWD, and DPWH would be provided from time to time to fund specific infrastructure programs in ARMM. The ARMM Regional government have locally-funded program for roads and other projects under the PAyapa at MAsaganang PamayaNAn (PAMANA). Foreign-assisted programs also provided funding such as USAID's Alliance for Mindanao Off-Grid Renewable Energy (AMORE) for electrification in off-grid areas, the Growth with Equity in Mindanao

23 Executive Order 207 (May 17, 2003)

(GEM) and the Multi-donor trust fund's ARMM Social Fund Project (ASFP) for port development.

LGUs have locally funded infrastructure projects from their IRA (at least 20%) as mandated by the LGC. In addition, LGUs also benefit from ad hoc non-IRA transfers from NGAs, legislative funds, and foreign donors to support various infrastructure projects. Funding for public investment in ARMM is uncoordinated in terms of scale and distribution, there is no central control in how much gets distributed to where, resulting to inequities across the LGUs, and less transparency and harmonization across different programs.

In terms of execution, various modalities exist in infrastructure delivery. These include: (i) NGA-funded, NGA-executed (e.g. schools, national roads, bridges); (ii) NGA-funded, ARMM-DPWH-executed (e.g. national roads maintenance, local infrastructure); (iii) NGA-funded, LGU-executed (e.g. DILG water supply, DILG local roads); (iv) ARMM government-funded, ARMM-DPWH-executed (e.g. PAMANA); (v) direct fiscal transfer to LGU, LGU-executed through Local Government Support Fund (LGSF) (e.g. water supply, local roads, etc. under BUB, ADM, KALSADA); (vi) LGU-financed, LGU-executed (various investment funded from AIP).

These modalities have different comparative advantages, but they are not applied strategically. Primarily, DPWH oversees the implementation of national roads and bridges projects while the ARMM-DPWH is in-charge of the local infrastructure (e.g. roads and bridges, flood control, water resources and other public works). Maintenance of both national and local roads is handled by ARMM-DPWH, with the maintenance funds for national roads and bridges downloaded to ARMM Engineering District Offices through the DPWH Regional Offices IX and XII. However, there is still unclear delineation of responsibilities on infrastructure project implementation and maintenance among the national DPWH, ARMM-DPWH, and the LGUs. On the other hand, the agencies mandated to oversee and regulate the irrigation and power sectors which are the National Irrigation Administration (NIA) and the National Electrification Administration (NEA) respectively, are not devolved to the ARMM government.

Table 10 shows that capital outlays (CO) accounted for the biggest share in the ARMM government annual expenditure program for the last five years shows that, averaging at 43.6%. For 2019, the Road Network and Other Public Infrastructure Facilities Program is allocated the second biggest share of the budget. This covers the construction, development, upgrading, operation or maintenance of major roads, local roads, bridges, water supply, shore or river wall protection, flood control and drainage facilities.

The 2019 national expenditure program (NEP) specifies several conditions to govern the use of

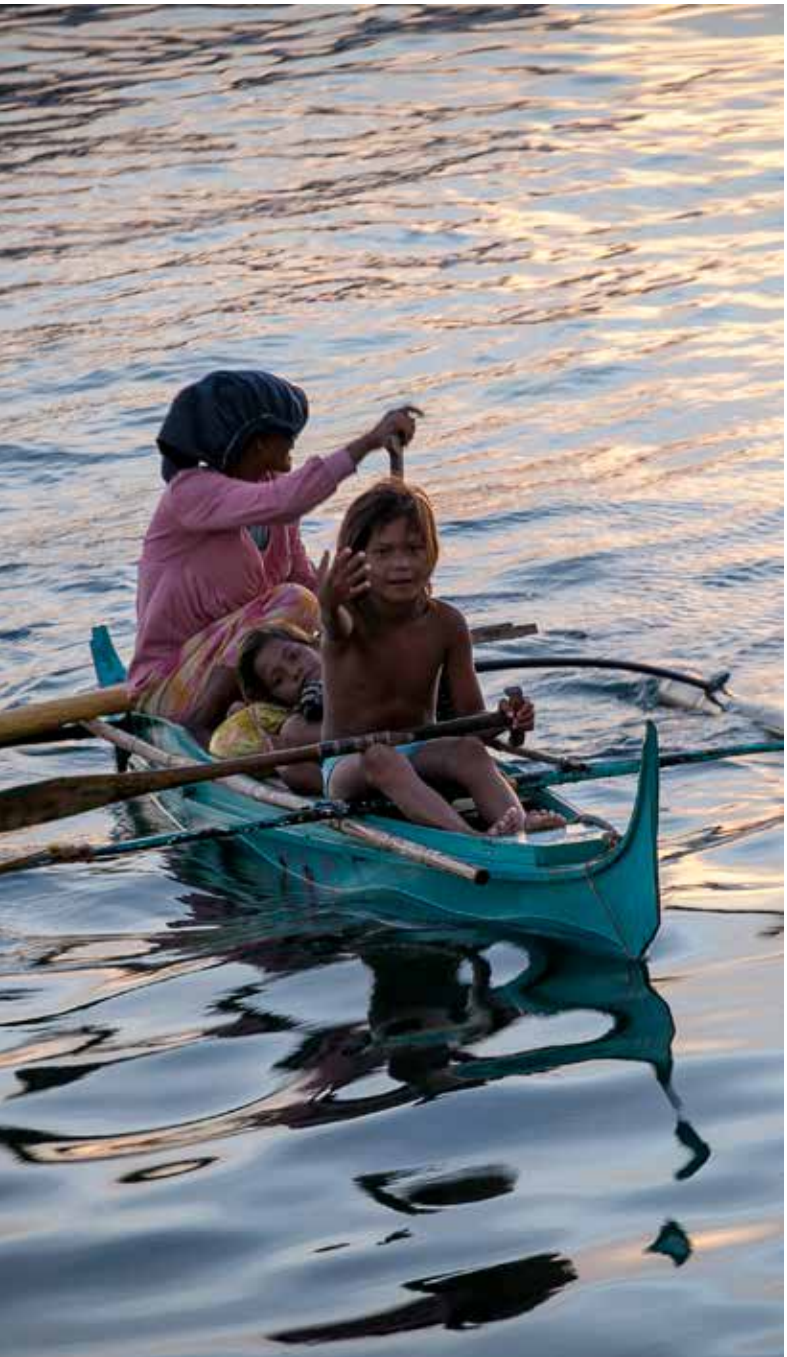
Table 10. Expenditure program by general expenditure class, 2015-2019 (Million pesos)

Particulars	2015		2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
PS	10,692.6	37.1	11,084.8	40.5	12,133.3	34.5	14,661.1	42.9	14,568.4	45.1
MOOE	4,856.3	16.9	5,362.5	19.6	7,297.2	20.7	4,775.0	14.0	4,658.6	14.4
CO	13,271.5	46.0	10,936.2	39.9	15,753.2	44.8	14,742.0	43.1	13,058.8	40.4
Fin Ex	-	-	-	-	-	-	-	-	-	-
Total	28,820.3	100.0	27,383.5	100.0	35,183.7	100.0	34,178.1	100.0	32,285.8	100.0

Source: CBPRD 2018 ABN (The Years 2015-2018 reflect the actual obligations while Year 2019 shows the GAA level)

the ARMM infrastructure budget: (i) enactment of Public Works Act by the RLA; (ii) coordination with the national DPWH in the implementation of national road projects; (iii) conformity and strict compliance with national laws including the Government Procurement Reform Act (RA 9184); and (iv) semi-annual and annual audits by the COA.

Infrastructure projects may also be undertaken by the Armed Forces of the Philippines (AFP) Corps of Engineers. To provide accountability in the use of infrastructure funds, the House of Representatives, Senate of the Philippines, House Committee on Appropriations, Senate Committee on Finance and DBM conduct oversight in the implementation of various infrastructure projects. It requires the ARMM regional government to submit quarterly reports on its financial and physical accomplishments within 30 days after the end of every quarter. After submission of these reports, it further requires the ARMM government to post these reports in its website. Following the ratification of BOL, the 2019 budget of ARMM will be transferred to the BTA as provided for in BOL Article 16, Section 14.



The BOL presents opportunities for BARMM to provide institutional framework, central coordination and efficient service delivery that ensure public investment is fiscally sustainable and effectively coordinated across sectors, levels of government, and between public and private sectors. The creation of an Intergovernmental Infrastructure Development Board as provided for in Article VI, Section 6 enables having a core body who will be responsible for coordinating and synchronizing national and Bangsamoro infrastructure development plans. This body will enhance the linkage of the planning, programming and budgeting process of the BARMM in public investments. An investment program based on an optimal mix of government financing, official development assistance, and private capital need to be undertaken.

The BG is likewise being given participation in national development planning activities of the NEDA under Section 6 of Article XIII of the BOL. A Bangsamoro Economic Development Council (BEDC) will be established also to serve as the planning, monitoring, and coordinating agency for all development plans, programs, and projects of the Bangsamoro Government taking into account the development plans of P/C/M/BLGUs approved by their respective local development councils.

RA 11054 also allows the BG to enact an urban land reform and land use program for the Bangsamoro Autonomous Region (Section 17 of Article XII), which could ensure coherent comprehensive land use plans (CLUPs) among the LGUs within its jurisdiction that generally lack adequate capacity and resources in preparing their respective CLUPs.

Key institutional mechanisms that can be considered include:

- Strategic distribution – both sectorally and spatially – of infrastructure which is essential for inclusive growth and sustainable development. This entails centralizing control (to the extent possible) and coordinating funding for all public investment in BARMM including the constituent LGUs. This will allow greater complementation of different modes of financing for infrastructure projects – locally-funded (e.g. block grants, BARMM revenues), foreign assisted (donors, grants) and private sector

- Agreement on working relationship with the NEDA through the Bangsamoro Government representative (i.e., BEDC)

- Adoption of ARMM RDP 2017-2022 which includes a comprehensive section on accelerating infrastructure development in the region

- Formulation of integrated CLUPs and development plans of LGUs within territorial jurisdiction

- Create a governance structure that would enhance BARMM's oversight in its constituent LGUs that would formulate, coordinate and regulate the implementation of infrastructure projects

- Supplement infrastructure funding in constituent LGUs that complements BARMM-wide investment program, institutionalizing accountability mechanisms for better monitoring and evaluation

- Provide technical capacity training to constituent LGUs that would facilitate delivery of infrastructure in a timely manner

- Clear delineation of responsibilities among national DPWH, ARMM-DPWH and LGUs in infrastructure delivery

- Expand e-ARMM system being maintained by the ARMM-DPWH to be the central repository of all public investments in ARMM including its constituent LGUs

Procurement

All procurement of the national government, its departments, bureaus, offices and agencies, including state universities and colleges, government-owned and/or controlled corporations, government financial institutions and local government units are covered by the procurement law, RA 9184, Government Procurement Reform Act (GPRA), and its implementing rules and regulations (with latest revision as of 2016). ARMM and its instrumentalities, and the LGUs implement their procurement following GPRA. BARMM will also use GPRA in their procurement implementation.

In all cases, the procurement of the government should be governed by the following principles: transparency, competitiveness, efficiency, accountability and public monitoring of the process. The government uses a tool to monitor and focus strengthening measures in the Procurement Entities. The Agency Procurement Compliance and Performance Indicator (APCPI) self-assessment are widely supported in the government for its link in the performance-based incentive mechanism. In the sample APCPI provided by 3 ARMM LGUs, the following areas needs strengthening:

1. competitiveness of the bidding process;
2. procurement planning and implementation;
3. use of PhilGEPS in announcing bidding opportunities and results;
4. efficiency/timeliness of the procurement process;
5. capacity building;
6. internal audit; and
7. procurement complaint system.

All government instrumentalities down to the barangay level will have their respective bids and awards committees (BACs) responsible for the core procurement activities from advertising/posting of bids opportunities to recommendation of contract award to the Head of Procurement Entity (HOPE), among others. The BAC is supported by

the Technical Secretariat. Its functions are mainly providing critical administrative support. From time to time, BAC creates a Technical Working Group who provides the expertise in the subject procurement. A unique feature of the GPRA is the inclusion of independent observers coming from professional and non-government organizations in the procurement activities of the BAC. In addition to the representative of the COA, at least (2) observers sit in BAC proceedings, and are allowed access to documents available to BAC.

Under BARMM, the procurement implementation will be enhanced by the recommended measures which should be implemented in coordination with the overall public financial management activities linked to the following:

- Strengthen collaboration with the private sector/market in determining the appropriate procurement arrangement in the region;
- More transparency in the process including publication of investment priorities/budgets;
- Institute procurement planning linked with the budgetary process;
- Mandatory use of PhilGEPS in announcing bidding opportunities and results including establishing provincial booth and/or shared facilities to allow agencies/LGUs to easy access to PhilGEPS;
- Ensure appropriate use and reference of procurement plan including authorizing jury-duty during bidding process for a more efficient and timely process;
- Build capacity within the agencies/LGUs by professionalization of procurement practitioners, tapping the Government Procurement Policy Board-accredited State Universities and Colleges for training and making them procurement resource for BARMM instrumentalities;
- Establish internal audit system in line with the bigger requirements for the PFM; and
- Together with the national government, enhance the current procurement complaint system making it more independent from the Procuring Entity

Controls on budget execution

The ARMM Government conforms to budgetary rules and regulations of the DBM and of the Regional Budget and Management Office (RBMO) relating to appropriations from the NG and the Local Budget Fund, respectively. Both funds are subject to accounting and auditing rules of the COA. BARMM will need to comply with the same arrangements in 2019 because it will be using the budget appropriated for ARMM by Congress. In 2020 BARMM will have access to the block grant and other revenues according to its own budget management rules, however those rules must comply with the BOL provisions requiring budget preparation and allocation to conform to national laws and budgeting rules and regulations implemented by DBM and DILG for allocations from the block grant[24]. The BOL also imposes additional constraints on the content and prioritization of expenditure within the BARMM budget that are not applied to the national budget. For example, priority is to be given to health, education and social services, no expenditure is permitted for firearms, and annual appropriations for personal services, including salaries and allowances, must be less than 45 percent of annual revenues. The ARMM budget proposed for 2019 included personal services expenditure of around 49 percent of appropriations, which would need to be trimmed to comply with the required limit, not including the additional agencies and institutions that will need to be established and maintained under the BOL. The additional funding available to BARMM from 2020 will reduce the pressure imposed by the ceiling on expenditure types, but this will need to be managed carefully through structures, staffing levels and plantilla approvals to ensure that they remain under the ceilings.

24 BOL Article XII, Section 19

The national rules and regulations applying to budgets are complex and detailed, often requiring reference to sector specific laws or rules for particular activities or purposes. The use of the infrastructure budget, for example, is governed by: (i) the RLA Public Works Act; (ii) coordination with the national DPWH in the implementation of national road projects; (iii) compliance with national laws including the Government Procurement Reform Act (RA 9184); and (iv) semi-annual and annual audits by the COA. In addition, infrastructure projects may be undertaken by the Armed Forces of the Philippines (AFP) Corps of Engineers. To provide accountability in the use of infrastructure funds, the House of Representatives and the Senate Committee on Finance conduct oversight in the implementation of various infrastructure projects.

The ARMM government is required to submit quarterly reports on its financial and physical accomplishments within 30 days after the end of every quarter through the Unified Reporting System (URS) or other electronic means for reports not covered by the URS and in the ARMM's website. A written notice of the submission or posting to website is sent to the DBM, House of Representatives, Senate of the Philippines, House Committee on Appropriations, Senate Committee on Finance and other offices where submission is required in order to document compliance with the requirement. The provision also require that use of appropriation shall be specific for the activities and projects in the indicated amounts and conditions as stated in the approved GAA.

The ARMM budget submitted to Congress is supplemented by performance indicators that measure the quantity, quality or timeliness of outputs and outcomes of the agency's programs, activities and projects. This is in line with the DBM's Performance Informed Budgeting (PIB) where agencies are required to identify measurable targets by which their performance can be measured in terms of economy, efficiency and effectiveness. The performance is assessed in three select areas: (i) education, science and technology; (ii) road network and other public infrastructure facilities; and (iii) health services. The BARMM budget is also required to be performance based and must adhere to national budget preparation rules.

Consistent will all LGUs, the respective Local Chief Executive is responsible in the execution of authorized annual or appropriations ordinance and supplemental budgets of an LGU in BARMM. Any expenditure must be certified by the local budget officer, obligated by the local accountant, and certified that funds are available by the local treasurer. Local budget execution forms are being used for the release of allotment for PS and MOOE. The department/office/unit head is responsible in keeping expenditures within the limits of the amount allotted. LGU disbursements are being made for the specified purpose in accordance with budgetary, accounting, and auditing rules and regulations being issued and promulgated by the National Government through the DBM and the COA. The ARMM Government did not have any control over any LGU expenditure and BARMM will be the same.

Internal audit

There is no Internal audit across most of the ARMM Government and LGUs. COA is relied upon to verify compliance with required procedures and practices. Among the ARMM line agencies, DPWH-ARMM and DOH-ARMM have internal audit units that report to the respective Regional Secretaries. The DBM has been responsible for promulgating issuances regarding internal audit of NGAs and LGUs. There is a recent COA Circular No. 2018-003 that prescribes the use of the Internal Auditing Standards for the Philippine Public Sector (IASPPS) and Internal Control Standards for the Philippine Public Sector (ICSPPS) effective November 21, 2018. The new circular aims to update the existing rules and regulations on the internal control system and keep abreast with the recent developments in the internal auditing profession and in the internal control system.

The BOL requires the BG to establish an auditing body that will have internal auditing responsibility across the regional government. An internal audit charter will need to be enacted by the Parliament in

order to ensure that the internal audit body would be able to function as intended and effectively contribute in implementing transparency and accountability mechanisms as required by the BOL.

LGUs within BARMM must also have internal audit functions coherent with the objectives of the BG. The BARMM internal audit body will need to coordinate with LGU internal audit units to allow for effective assessment of risks and the robustness of arrangements for managing resources across the region. The implementation of internal controls across the BARMM would benefit from central coordination to enable a more systematic review of compliance and a clear process for enforcing sanctions or penalties for instances of deviation.

Accounting and financial reporting

ARMM was required to comply with national accounting and financial reporting requirements in the same way as national government agencies. The BOL makes no mention of accounting policies and standards but states that BG must implement transparency and accountability mechanisms consistent with open government practices and generally accepted financial management principles[25]. This suggests that BARMM will also be expected to follow the Philippine Public Sector Accounting Standards (PPSAS) and financial reporting requirements applying to other levels of government. The PPSAS are broadly consistent with the International Public Sector Accounting Standards (IPSAS) and are set by the Commission on Audit through its Public Sector Accounting Standards Board to harmonize the existing public sector accounting standards to the prevailing international standards.

There are no specific rules or regulations regarding how BARMM financial reports will be treated in the context of national financial reporting. However, since no consolidated financial reports are produced at present there is no urgency in deciding this matter and BARMM financial statements can be included in annual reports by COA in a similar way to ARMM reports in the past. If the national government decides to prepare consolidated financial reports in the future, it can be expected to be guided by PPSAS and related international standards in how to treat BARMM.

All LGUs (province, city/municipality and barangays) are required to comply with the accounting rules and regulations issued by COA. The PPSAS have been applied in the Local Government accounts as of 2015. LGUs are responsible for preparing annual financial statements in accordance with laid down standards and formats and to present the statement for audit by the Commission of Audit.

The LGU Accountant, LGU Treasurer, LGU Budget Officer and LGU Planning and Development Coordinator shall submit the required accountability reports for monitoring purposes as indicated in Table 11.

Table 11. LGU Financial Reporting Requirements

Local Budget Accountability Form	Description	Responsible Official	Date of Submission
No.1	Quarterly Report of Income	Local Accountant	10 Days after the end of the Quarter
No.2	Quarterly Financial Report of Operations	Local Budget Officer	10 Days after the end of the Quarter
No. 3	Quarterly Physical Report of Operations	Department/Office Heads, Planning and Development Coordinator	10 Days after the end of the Quarter
No. 4	Statement of Receipts and Expenditures	Local Treasurer, Local Budget Officer, Local Accountant	Within 30 Days of end of Fiscal Year

25 Article XII, Section 2

Most budget execution and accountability reports in ARMM and LGUs are prepared manually using Microsoft Excel spreadsheets. There are some exceptions in some municipalities like Sultan Kudarat and Sultan Mastura, which keep an in-house developed automated financial accounting system. Reliability of the information may be questionable considering the lack of appropriate control mechanisms to ensure accuracy and validity of financial data. As such, consolidation is entirely manual with supervisory review and authorization that does not fully mitigate the inherent risk of errors and omissions. RG and the oversight agencies lack the information to effectively monitor performance and enforce accountability because there is no systematic technological solution for capturing information on funds flow and the transactions through the budget cycle.

Some LGUs consider that the complex accounting requirements imposed by COA are burdensome. There are several instances of divergence of interpretation of rules and guidelines both among COA auditors as well as between COA auditors and staff of NGAs. This leaves the LGU staff in a difficult situation. The absence of clear guidance is a disincentive to avail of resources for fear of COA findings on ineligible expenditures.

External audit and oversight

COA is the designated auditor for BARMM and its constituent LGUs. There is a Regional COA office based in the ARMM Government compound that has been tasked to oversee the audit of the ARMM government offices including the constituent LGUs. COA assigned auditors to each ARMM agency and resident auditors at province and city levels of ARMM LGUs.

There is no consolidated audit report for the whole of ARMM. Separate audit reports are issued for the ARMM RG, RLA and each LGU. The RG audit report covers the 26 RG agencies funded by the NG, 20 locally-created offices attached to the Office of the Regional Governor (ORG) and other Regional Government Agencies (RGAs) which are funded out of the ARMM local budget.

The audit reports are submitted to the corresponding head of agency (i.e. ORG, RLA and LGUs). In the absence of a legal requirement for submission of audit reports by COA to the legislature (in the case of the ARMM, the RLA), there was no formal scrutiny process. There was no Public Accounts Committee or a similar one created at the RLA to examine and follow-up on the implementation of audit recommendations for

improvement by the ARMM government. Instead, scrutiny and response to audit reports was left to the individual agency/LGU heads being audited.

ARMM produced unqualified reports in only one of the last six years based on COA audits, 2014. In 2013 COA issued a management letter with no opinion and financial statements for all other years have been qualified. In addition to opinions, COA has provided recommendations for matters requiring attention from the authorities. All government agencies are required to comply with the status of implementation of COA recommendations on their audits. ARMM received 216 COA recommendations in 2017 and fully implemented 111 and partially implemented 84. The number of recommendations and the number of recommendations not implemented increased between 2015 and 2017, the latest year for which audit reports are available. The main reasons for COA recommendations were unliquidated cash advances, inaccurate and unreliable accounts, weak compliance with COA regulations, non-settlement of obligations, late submission of financial documents, weak financial controls, failure to impose obligations on defaulting contractors and improper program beneficiaries for scholarships.

It is of some concern that the number of partially implemented and unimplemented recommendations has increased in recent years. The frequency of qualified audit opinions on financial statements is also a concern. This indicates that financial reporting and internal control needs to be strengthened in the region and requires sustained attention. Strengthening the internal control framework and financial reporting is essential to ensure that BG and BP have reliable financial reports to use for decision-making and provide a strong foundation for accountability in the use of resources.

There is no specific provision in the BOL for parliamentary oversight of financial reporting or audit reports. However, there is a general requirement on transparency and accountability in Article XII, Section 2.

With the increased fiscal autonomy given to BARMM (e.g. block grants), strengthening accountability and oversight is paramount. Within the context of the provision under Article XII, Section 2 of BOL cited above, some institutional mechanisms could be put in place to meet the BOL requirement for adherence to good transparency and accountability practices:

- Institute a formal role for the Bangsamoro Parliament to scrutinize the audit reports of BARMM agencies and constituent LGUs through regular parliament hearings to discuss findings in the COA audit reports during the respective review periods. Aside from strengthening accountability, this will be the venue to hold open discussions with the concerned agencies for all aspects of budget outcomes especially fiscal discipline. It will also consider the reasons for any difficulties in meeting financial obligations to provide a basis for improvement.

- Address the fragmented reporting system and prepare a set of audited, consolidated financial statements

- Expedite the creation of the Internal Audit body that will perform central oversight of internal audit activities. The implementation of internal controls across the BARMM needs central coordination to enable a more systematic review of compliance and a clear process for encouraging improvement and adoption of best practices.

Cross-cutting issues

Overview of the Internal control framework

COA circular 2018-003 on November 21, 2018 sets out the arrangements prescribed for the use of Internal Auditing Standards for the Philippine Public Sector (IASPPS) and Internal Control Standards for the Philippine Public Sector (ICSPPS). In addition, the BOL contains a specific requirement to establish an internal audit office.

The internal control standards issued by COA adhere to the INTOSAI (COSO) Framework and focuses on the five components namely: control environment; risk assessment; control activities; information and communication and monitoring. Most of the financial reports in ARMM and LGUs are compiled through manual spreadsheets without necessary controls that would ensure data integrity. These requirements entail a major challenge for the BARMM, considering the low base on internal audit and control left by ARMM as its starting point. It will be important for COA, DBM and others to provide substantial advice and support to the BTA to help it achieve an acceptable standard for its internal audit and internal control arrangements, particularly in relation to:

1. The implementation capacity at all levels of BARMM structure to adopt the Internal Control Standards for Philippine Public Sector issued by COA;
2. The structural and reporting responsibility of the internal auditing body to be established under the BARMM; and
3. The implementation capacity of the internal auditing body to comply with the Internal Auditing Standards for the Philippine Public Sector issued by COA.

Cohesion and integration within and across tiers of government

The BG will be under the President's general supervision in its exercise of its powers, as was the case for ARMM. This includes authority over budgeting, creation of sources of revenues, grants and donations, and Islamic banking and finance[26].

Intergovernmental relations mechanisms were lacking under the AOL. This contributed to prolonged unsettled issues in the exercise ARMM's powers and functions particularly matters related to fiscal autonomy as discussed in separate sections of this report. This was highlighted in a recent case study on the ARMM by the Congressional Policy and Budget Research Department (CPBRD)[27] which presented key issues on intergovernmental relations pertaining to fragmented national-regional, and regional-local government relations, and weak representation in national policymaking.

Under the BOL, a NG-BG Intergovernmental Relations Body will be created as a means by which overlapping concerns can be raised and addressed by the national and regional government through regular and continuing consultation or negotiation. Any unresolved issues can be elevated to the President. CPBRD has emphasized the need for a structure where the Bangsamoro Government will be able to implement and operationalize the provisions of the BOL, some of which were carried over from the AOL. The creation of an Intergovernmental Fiscal Policy Board is a crucial improvement in the BOL to promulgate implementing rules and address any disputes related to fiscal autonomy with concerned NG counterparts. However, the approach for the mechanisms still needs to be developed and detailed appropriately to ensure the intergovernmental bodies meet the needs of BARMM and other government institutions.

The ARMM had no control over LGUs within its territorial jurisdiction especially in the latter's use of its financial resources in performing devolved functions or programs. LGUs are accountable to the NG as the source of their IRA and other available government funding. It was noted by the Regional Secretary of Interior and Local Government (DILG-ARMM) that IRA utilization has been mostly on infrastructure, which should have been entrusted to the ARMM, but very little on health, education, and other basic services. Nonetheless, the ARMM reached out to LGUs on matters of compliance and audit. Results of ARMM's initiatives include the 75 LGUs that passed the DILG's Seal of Good Financial Housekeeping standards in 2018 from zero in 2015, and the recent linkage with the Bureau of Local Government Finance (BLGF) to obtain data on IRA utilization of LGUs.

26 BOL Article V, Section 2

27 Congressional Policy and Budget Research Department in partnership with the Institute for Autonomy and Governance, *Drawing lessons for the creation of regional governments under a federal setup: Case study on the Autonomous Region in Muslim Mindanao*, 2017

ARMM legislation suffered from the absence of authority to regulate the affairs of LGUs within its territorial jurisdiction that is now provided for the BG to a limited extent in the BOL through the requirement for a Bangsamoro Local Government Code. The Code is expected to be a priority to be enacted by the BP but it needs to be constructed without diminishing the privileges of LGUs as provided for in the Local Government Code of 1991 and other existing laws. There may also be scope within the intergovernmental agencies to be established for BARMM relationships with LGUs to be addressed.

Capacity and capability

The BOL provides greater autonomy for BG in managing resources available to it but there are also many additional obligations, controls, limitations and requirements for establishing specific institutions within BARMM to deal with fiscal and financial management matters. This will require the acquisition of new skills, staff, systems, laws and regulations as soon as practicable by the BTA to create the arrangements and meet its obligations under the BOL. This would be a major task for any government but will be particularly difficult for the BTA because of the limits on available professionally qualified and experienced staff in the region and the previous reliance by ARMM on national agencies and their systems. In 2019 these limits will be further constrained by the limits of the ARMM line-item budget approved for the year or re-enacted from the previous year. This will preclude major structural changes until at least 2020.

Fiscal management capacity and framework is a critical area that will need to be addressed by BG immediately. Prior to the block grants, ARMM government functioned like a national government agency and did not produce its own macro-fiscal estimates for revenue or expenditure over the medium-term, and it had limited opportunity to make strategic cross-sectoral allocation decisions within its boundaries. With the increase in the amount and flexibility of revenue under BARMM control, these functions will become much more important. Hence, the institutionalization of regional macro-fiscal and cross-sectoral strategic planning capacity will be a key priority.

Under the BOL, BARMM will have greater fiscal autonomy in generating and budgeting its revenues. However, exercising fiscal autonomy and organizational capacity in revenue collection will remain a challenge. Addressing the current constraints in the organization capacity will be critical with the creation of the Bangsamoro Revenue Office (Article XII, Section 11 of BOL).

The enactment of a civil service law for the BARMM as provided for in Article VII, Section 39 of BOL will facilitate the hiring of civil servants in the BARMM government based on merit-based system and protect civil service eligible in various government positions. This will need to be established early in the life of BARMM because hiring of appropriate staff will be crucial. The staff of ARMM will provide a valuable source of experienced and qualified people but this will not be sufficient to meet the needs of BARMM for new and expanded functions. Moreover, the provisions for redundancy and severance available to ARMM staff may provide an attractive alternative and could limit the numbers of people who will be available to stay on under the new administration.

The Bangsamoro government will be challenged with hiring the right number of qualified technical staff to handle the increase in resources. Prior assessments of LGUs showed that local governments do not have adequate technical capacity e.g. engineering, finance and procurement, to fulfill their responsibilities. As noted earlier, each LGU is required to prepare a multitude of plans for different purposes. Even though the NGA-mandated and prescribed sectoral and thematic plans are made available, preparing these individual plans is still time-consuming and requires various sectoral expertise. In addition, there are many cases in which the staff occupying a position is either under- or over-qualified for that position because of the difficulty in hiring qualified staff due lower compensation.

Information systems

The electronic new government accounting system (eNGAS) is an accounting software developed by the COA to promote correctness, reliability, completeness and timeliness in recording government financial transactions and to generate financial reports in accordance with the policies and procedures in the Government Accounting Manual (GAM). The ORG adopted the e-NGAS in June 2015. However, other departments and LGUs under the RG have not yet adopted eNGAS. Accounting records are maintained manually through Microsoft Excel spreadsheets so the accounts cannot be integrated with the systems of other departments e.g. systems for local tax collections, roads network monitoring and remittances to NGAs like the payroll GSIS.

A new central Budget and Treasury Management System (BTMS) was commissioned in 2017 by DBM intended to cover budget execution and accountability. In January 2019 the DBM Secretary issued Circular 2019-4 requiring all NGAs to adopt the BTMS for budget utilization and financial reporting. All transactions will need to be carried out under the BTMS by July 1, 2019. Although BARMM is not an NGA there would be significant advantages for financial control, accounting and reporting if it is able to adopt the BTMS for all transactions. Adoption of the BTMS will require new equipment, reliable, fast internet and properly trained staff however it would provide a sound foundation for financial management to replace the weak and fragmented system.

The need for an integrated financial management information system has been raised several times in the Philippines. Manual maintenance of records does not provide the speed and flexibility in financial reporting that is required in the current age. This is especially so in the Philippines where the financial management is decentralized, and so data on budget utilization is present in manual records across hundreds of offices. Without digitization, analysis of this vital information which is the foundation of for budget decision-making is simply not possible.

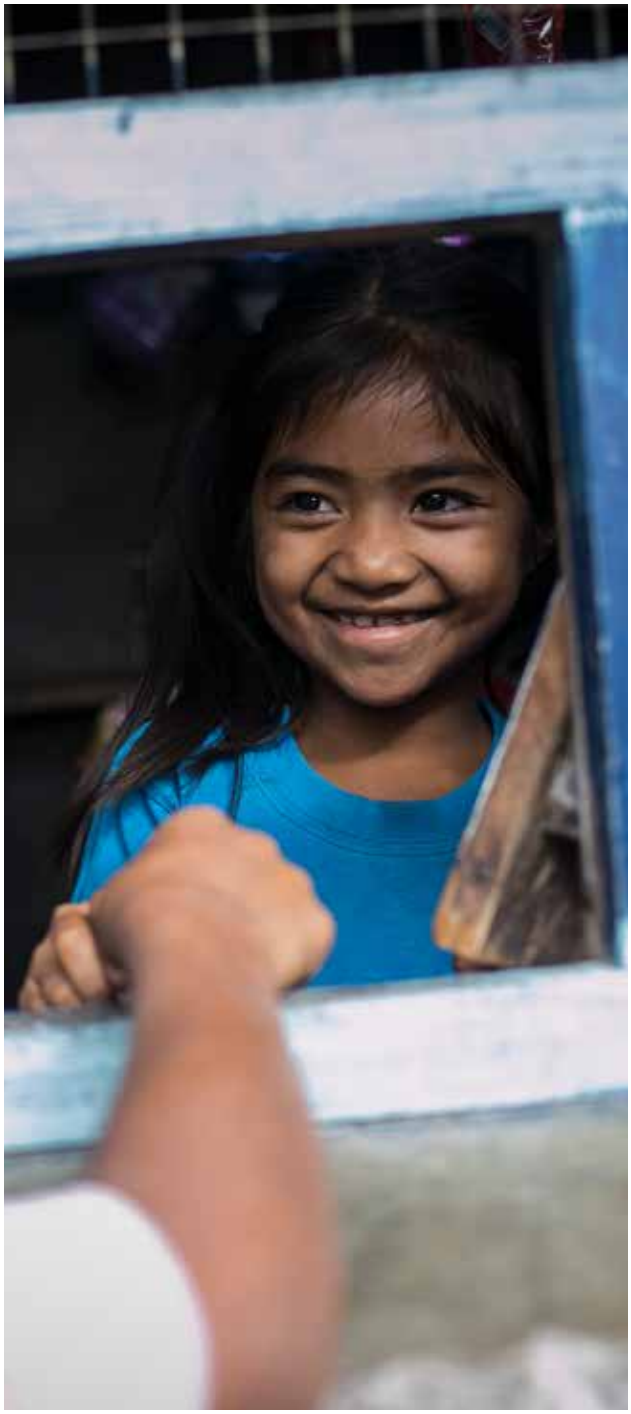
Transparency

ARMM and its constituent LGUs were bound by the national laws and regulations on financial reporting and community engagement. The Philippines has performed well on international measures of fiscal transparency. In the 2016 PEFA assessment it scored A or B on most of the transparency related indicators, with the notable exception of parliamentary scrutiny of audit reports. The Philippines has consistently improved its performance on the Open Budget Index since 2012 and now ranks above other countries in South East Asia. It also scores well above the global average on budget participation.

BARMM can be expected to continue to achieve a high level of transparency on its financial information because it will be subject to the same general requirements as ARMM in addition to broad transparency requirements under Article XII, Section 40 of BOL, which states, “The BG adopts a policy of full disclosure of its budget finances, bids and public offerings, and shall provide protocols for the guidance of local authorities in the implementation of said policy which shall include, among others, the posting of the Summary of Income and Expenditures, and the participation of representatives from civil society in the budget process. The same policy shall apply to its constituent LGUs..”. Other provisions of BOL include requirements for transparency, reporting and engagement in relation to intergovernmental matters, inclusion of women and minorities and sustainable development.

One area where transparency has been a challenge for ARMM and will continue to be for BARMM is to obtain, consolidate and report information on all public activities within the region. The multiplicity of sources of funding, delivery of programs and support services by a variety of Philippine and international agencies and tiers of government is not reported. This is made more difficult for information on national activities because BARMM spreads across three regions and would require separation and recalculation, which is not always done. Local government information is not always available to BARMM and even when it is available,

it may not be timely for decision-making on budgetary planning, allocation and review. This is not solely the problem of BARMM, although it would be the main beneficiary of such information. It would be a useful initiative for intergovernmental bodies that have been established to consider options for developing a consolidated data base and reporting framework for BARMM.



Autonomy and accountability

Autonomy within a unitary government system is a challenging concept because the powers of any unit of government will always be subordinate to the national parliament and head of state. Article X of the Philippines the 1987 Constitution makes it very clear that the President shall exercise general supervision over autonomous regions (S.16) and all powers, functions, and responsibilities not granted to the autonomous regions shall be vested in the National Government (S.17). The powers are also limited by subservience to other provisions in the Constitution, the BOL, other laws, codes and regulations. The policies and actions of the autonomous region are further constrained by specific obligations and controls, including the establishment of institutions, the adoption of national rules and procedures.

In the context of the extensive constraints on BARMM, the extent of autonomy is quite limited compared with an independent provincial government within a federal system such as the United States or Australia. This is not to suggest that the level of autonomy in BARMM is unimportant, because many of the provisions within the BOL permit BARMM to act in ways that are not available to other Philippine regions, recognizing the characteristics and preferences of citizens of BARMM. However, the constraints on BARMM through the Constitution and other means should be recognized when accountability for outcomes in the region are assessed.

BARMM should not be held accountable for actions and results that are outside its control or substantive influence. For example, if resources are insufficient to reasonably achieve the obligations set for BG, they share responsibility with NG to the extent that they have done as best they could with the resources available or potentially available. The NG cannot simply wash its hands of BARMM and argue that it is now autonomous and is not the responsibility of NG. On the contrary, NG has an ongoing responsibility to ensure that BARMM is supported in meeting the obligations imposed on it as well as the exercise of its privileges.

If LGUs within the BARMM underperform there is little that BARMM can do to address that underperformance. If the administrative and institutional controls on BARMM are difficult to implement and manage, the BG would only be partly responsible because they have no control over the obligations placed on them by national laws, regulations and procedures. These constraints need to be recognized in any assessment of BARMM performance because of the limits of their autonomy.

Even within the autonomy available to BARMM, the flexibility and opportunity to govern in ways that are more appropriate for the BARMM citizens will not by itself guarantee better governance and public services. A clear strategy will have to be put in place, drawing lessons from the past to avoid the pitfalls of the ARMM experience and address the dimensions that still exist under BARMM, including:

1. **Planning and budgeting needs to be better structured and unified** to reflect the plans and priorities of the new administration. It also needs to reflect alignment and integration with national goals and goals of other areas within Mindanao. Without that alignment and integration there will be a risk that development will diverge significantly between regions and create or exacerbate disadvantages and increase tension within and outside BARMM.

2. **Effectively connecting regional budget processes with national systems**. The prior dependence of the region on national processes and systems and their ongoing obligations to adopt national laws and procedures means that it would not make economic or administrative sense for new systems to be created in BARMM when satisfactory systems already exist at national level. BARMM should be included in those systems wherever it is to their advantage to do so.

3. **Clearer framework of responsibilities, accountabilities and reporting** of constituent LGUs with the BARMM government. Better interaction between BARMM and LGUs is needed through the proposed BARMM Local Government Code and other mechanisms to ensure that BARMM complements the activities of LGUs, avoids duplication and requires LGUs to meet their share of responsibilities for citizens and does not unduly rely on the regional or national governments to supplement their funding or fill gaps in services.

4. **Improving revenue-generation capability of the region.** The limits placed on BARMM revenue generation options and the political sensitivity of imposing additional charges on residents that are not faced by other regions will be a challenge, but necessary if the region is to be able to support new activities that are not undertaken elsewhere in the country.

5. **Strengthening monitoring and accountability mechanisms over public funds.** ARMM relied on national agencies to perform much of the oversight and accountability for funds but BARMM will have a much higher level of autonomy over its resources and will therefore need effective measures to ensure that those funds are being put to the best use.

The provisions in the BOL, specifically with regards to fiscal autonomy, need to be fully implemented for the BARMM to obtain the most effective benefit from their special status. The limited success of ARMM was not just the result of insufficient autonomy or unclear governance, it was also a result of the incomplete implementation of the AOL such as the establishment of effective regional budget and management institutions. BARMM should learn from the results of those limitations and ensure that the new administration is able to exercise its powers to the full.

Development of a regional performance budgeting framework that works for the region and is acceptable to the national government is needed in order to work effectively with the national systems. Performance accountability needs to be balanced with BARMM's fiscal control and adapted to the BARMM's unique conditions.

The relationship between the BARMM government and its constituent LGUs needs to be elaborated, with a clear framework of responsibilities, accountability and reporting established. As it is, LGUs receive direct fiscal transfers from the NG and few responsibilities or accountability to ARMM. LGUs should be given a role in planning and budgeting and made more accountable to the BARMM in the stewardship of public funds.

General policy objectives

Article VI, Section 2 of BOL provides for the creation of intergovernmental relations mechanisms between the NG and the BARMM Government to coordinate and resolve issues on intergovernmental relations. The establishment of these mechanisms will allow for a more coordinated and synchronized NG and BARMM development plans and policies on infrastructure, fiscal policies, legislative initiatives, energy issues, Sulu Sea and Moro Gulf Joint Cooperation and sustainable development policy and practice in BARMM. The intergovernmental relations bodies to be created include:

- Intergovernmental Relations Body
- Philippine Congress-Bangsamoro Parliament Forum
- Intergovernmental Fiscal Policy Board
- Joint Body for the Zones of Joint Cooperation
- Intergovernmental Infrastructure Development Board
- Intergovernmental Energy Board
- Bangsamoro Sustainable Development Board

The Bangsamoro Economic and Development Council (BEDC) will be created by the Parliament (Article XIII, Section 4 of BOL). BEDC will serve as the planning, monitoring, and coordinating agency for all development plans, programs and projects of the BARMM government. BEDC will have a critical role in ensuring that the development plans of the provinces, cities, municipalities, and barangays as approved by their respective local development councils are taken into account in the BARMM development plans, programs and projects.

The enactment of the Bangsamoro local government code by the Bangsamoro Parliament as provided for in BOL will hopefully address the seemingly "disconnect" between BARMM and its constituent LGUs. This will facilitate the creation and formulation of a more cohesive regional plan and governance for BARMM.

Beyond policies that apply to the BARMM region, it will be important for BARMM policies to be consistent with other developments in the wider region of Mindanao. Most of the focus on policy consistency in the BOL relates to consistency with national laws and regulations, and for LGUs in BARMM to have a common framework but little has been discussed on the need for alignment of development and social policies across Mindanao. The intergovernmental bodies will need to consider the implications of any actions relating to BARMM in the light of policies and actions affecting Mindanao and the adjacent islands as a whole.

Service delivery impact

Mindanao and BARMM in particular are among the poorest and least well served areas of the country in most respects including economic activity, education, health, social services and environmental management. This adds an extra layer of difficulty for the BG and constituent LGUs because they are starting this new phase of development from a low base, both individually and relative to the rest of the country. The national government has recognized this with the establishment of the Special Development Fund for BARMM which will provide an additional PHP 5 billion over ten years to address particular areas of need. BARMM is required to focus on education, infrastructure and health as three of its main budget priorities under the BOL. This section discussed the challenges it faces in these areas.

Accelerating infrastructure development is one of the foundations for inclusive growth and sustainable development as outlined in the Philippine Development Plan (PDP) 2017-2022. In terms of quantity and quality of infrastructure development, the ARMM still lags behind other regions as illustrated in Table 12.

ARMM has been well below average on every indicator in Table 10 except the percentage of

Table 12. Infrastructure development indicators by region

Region	Unpaved provincial roads[1] %	Access to water supply source for drinking and/or cooking[2] %	Access to toilet facilities[3] %	Energy connections[4] (2016) %	Irrigation development (2016) %	Number of hospitals (2015)	Number of Barangay health stations (2015)	Teledensity[5] (2014)
NCR	-	63	95	-	-	160	477	30.68
CAR	71.3	56	74	90	86	23	639	3.76
I	27.0	65	85	96	71	86	1,160	1.89
II	56.8	65	77	93	64	59	1,240	0.90
III	27.3	71	90	97	65	168	1,969	2.79
IV-A	19.4	64	90	96	71	208	2,248	3.80
IV-B	81.2	64	66	84	64	23	836	3.80
V	38.4	69	68	91	58	51	1,158	1.75
VI	74.8	57	69	96	64	62	2,059	1.50
VII	49.7	53	72	97	91	57	1,877	2.47
VIII	74.8	74	69	90	78	43	831	0.65
IX	89.4	64	62	74	54	44	702	1.11
X	90.3	72	73	86	58	65	1,085	3.69
XI	64.0	69	78	80	39	54	1,023	4.44
XII	88.4	69	63	68	42	56	1,115	1.98
XIII	87.6	70	78	96	43	17	782	4.65
ARMM	82.7	45	26	38	30	19	421	0.44

1 Data lifted from CPBRD 2017, drawing lessons for the creation of regional government under a federal setup, Case study on ARMM, p.8

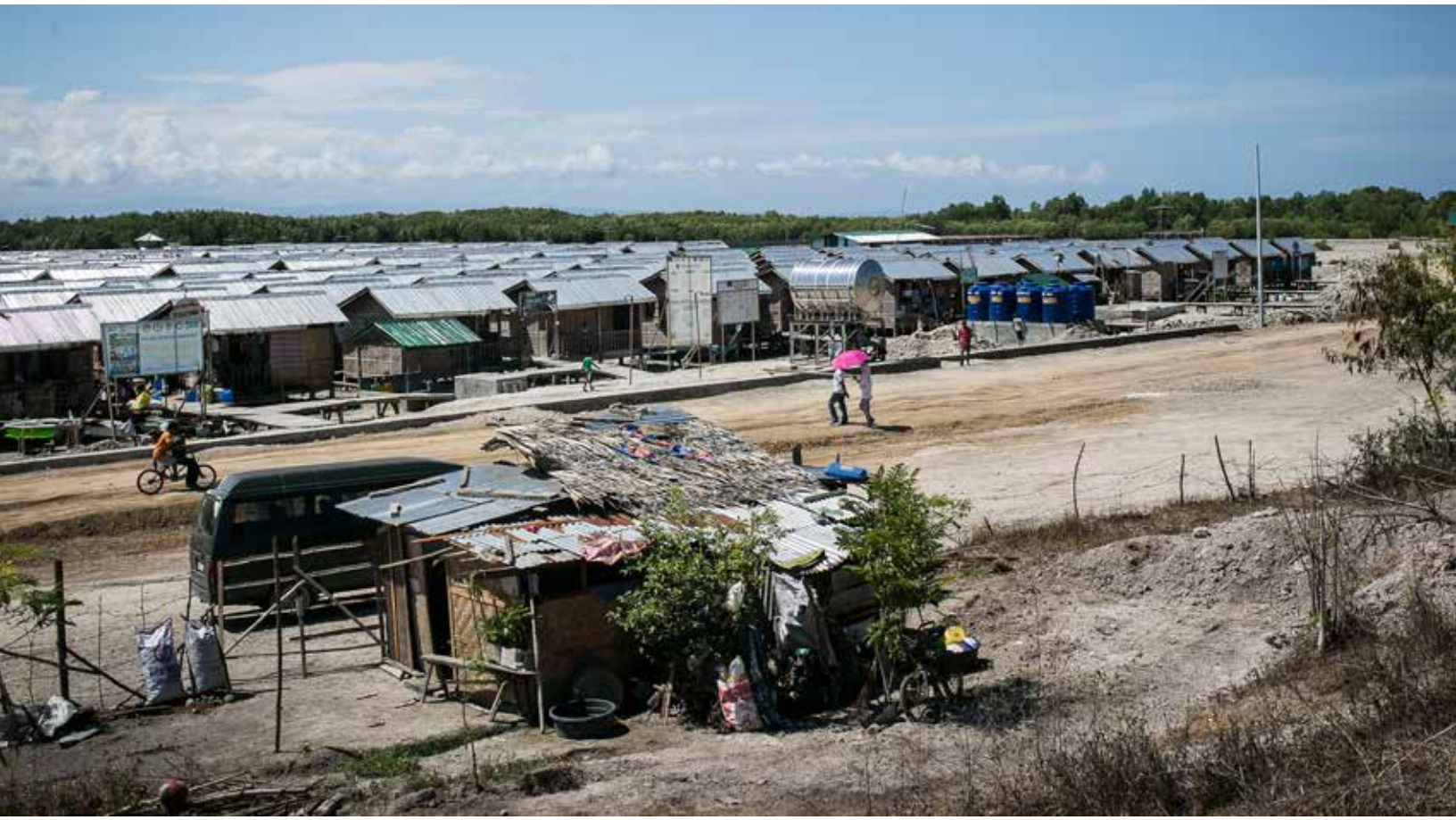
2 Stated in terms of percentage of households by source of water supply for drinking and/or cooking (use of faucet or shared faucet), community water system, own use tubed/piped deep well, shared tubed/piped deep well (table 1.23, page 1-39)

3 Stated in terms of percentage of households by kind of toilet facility they use (water-sealed sewer septic tank either used exclusively or shared with other households, water-sealed other depository used exclusively by household) Table 1.27, page 1-40.

4 Date includes on the electric cooperative areas (Table 14.17, page 14-15).

5 Teledensity per 100 population (Table 13, 15, pages 13-25).

Source: 2017 Philippines Statistical Yearbook, CPBRD 2017, Drawing lessons for the creation of regional government under a federal setup.



unpaved roads. The distribution and provision of electricity has been hampered by factors such as high costs of fuel and logistical support for diesel plants, low technical and absorptive capacities of some electrical cooperatives, increasing service demands, more funds needed for electrification in marginalized communities in off-grid areas, few private sector participants, various institutional bottlenecks such as compliance requirements of LGUs, right-of-way, and peace and order. It is not surprising, therefore, that energy connection is 38 percent compared with the average for all regions of 86 percent.

Less than half of households have access to water supply source for drinking and/or cooking in ARMM. Many small water districts and utilities operated by LGUs have difficulty sustaining operations and generating capital for expansion due to low tariffs and consumers' low willingness to pay. The number of health facilities is also low compared with other regions. LGUs are unable to provide adequate financial support, human resources and equipment necessary for the operation and maintenance of local health infrastructure facilities thus rendering them non-functional or underutilized.

The low level of public infrastructure adds an extra layer of challenges for the BARMM because it makes efficient service delivery difficult, amplifies the problems faced by citizens and consequently increases pressure on resources to achieve comparable levels of service to other parts of Mindanao and other regions.

The BARMM region has some of the lowest achievements in education. It was at the bottom of the country's regions in terms of the National Achievement Test (NAT) for grade 10 students in 2015 and among the bottom three regions for grade 6 students.

Table 13. Selected education and health statistics by region

Region	Vaccinations for children 12-23 months %	Live births delivered in a health facility %	NAT Grade 6 (SY 2014-2015)	NAT Grade 10 (SY 2014-2015)	Malnutrition among children 0-60 Months (2015) %	
					Under weight	Stunting
NCR	72.7	91.9	58.1	49.3	15.2	25.2
CAR	72.4	85.5	69.8	49.7	16.8	36.8
I	69.5	87.2	70.1	43.3	19.4	31.5
II	62.9	83.3	72.7	49.4	19.9	28.8
III	64.0	84.9	73.4	48.9	16.7	22.9
IV-A	63.1	77.1	57.9	44.5	19.0	27.7
IV-B	48.3	65.9	75.9	52.1	31.6	40.7
V	56.1	72.6	68.0	46.9	28.5	40.2
VI	61.0	78.0	73.8	53.0	26.5	39.9
VII	60.8	85.0	72.2	52.8	22.8	37.7
VIII	68.2	84.6	77.1	53.1	30.0	42.1
IX	60.0	72.3	74.8	54.3	21.5	38.1
X	61.1	76.0	72.2	51.5	20.8	37.0
XI	78.0	74.1	73.7	51.6	20.8	31.6
XII	42.1	63.5	76.1	52.4	26.0	40.2
XIII	58.6	77.2	79.6	61.4	23.9	36.3
ARMM	8.9	28.4	59.6	41.1	25.0	45.0

Source: Philippines Statistical Authority, Philippines Statistical Yearbook 2017 and Philippines National Demographic and Health Survey, 2017

The performance of ARMM in achieving improvements in the three key budget areas for BARMM can provide an indication of the potential for BARMM to strengthen results. Performance information included in the NEP reports offers some guidance in respect to achievements for major final outputs (MFOs).

The results achieved by ARMM against its performance targets, and against realistic and reasonable targets considering its starting point, have been mixed in all three expenditure priority areas. In 2016 and 2017 ARMM achieved most of its targets for infrastructure repairs and maintenance but missed most targets for construction, rehabilitation and improvement by wide margins.

Although ARMM achieved most of the health targets it set for 2016 and 2017, many of the targets are below national averages and have not increased over time. Also, it is questionable whether the targets set are the most important areas of focus. Most are activity or output targets relating to the number of services provided for hospitals and health services but not relating to health outcomes. Many of the important health indicators from a

national perspective are worse in BARMM than other regions in the Philippines, and substantially below that of many low-income countries.

Health programmatic and surveillance data are weak and unreliable, meaning that these inequities are likely to be more persistent and intractable than is apparent. In addition to dealing with issues such infectious diseases and maternal child health, BARMM now needs to face the challenges of more developed parts of the country and other economies – chronic non-communicable conditions such as heart disease, diabetes and cancer contribute increasingly to disease burden.

A coherent health strategy and significant investments are needed for the health system to adapt and improve outcomes. It will be important for BARMM to consider refocusing its efforts in health on improving outcomes and setting challenging targets in relevant indicators that are needed to close the gap between BARMM and other regions.

Education performance information suffers from similar issues as health in that most of the indicators relate to enrolments. Even so, the achievements tended to fall below the targets, suggesting that either there was excess capacity or the targets were overly ambitious. Where outcome targets were set, for example NAT results and employment of graduates, the targets were low by national standards and results were often below target. It is not surprising therefore that outcome targets have not been increased over time but this should be a concern when such modest targets by national standards have not been achieved.

This overview suggests that BARMM will face considerable challenges in achieving improvements in service delivery outcomes in the areas identified as priorities for its budget. This is complicated by the multiple sources of activity from all tiers of government that contribute to outcomes, making it difficult to establish a unified strategy and to ensure complementarity and effective accountability for results.

Fiscal impact

The ARMM exercised very little fiscal autonomy granted under the AOL. It has always been subject to the country's fiscal policies and placed under the supervision of NG oversight agencies. The ARGMM's main responsibility, through the ORG, was to ensure the region's full compliance with national fiscal pronouncements or regulations. Its RLA did not exercise legislative power on fiscal and monetary policies, although it enacted the revenue code and annual appropriations of regional funds sourced from local revenues and share in internal revenue taxes.

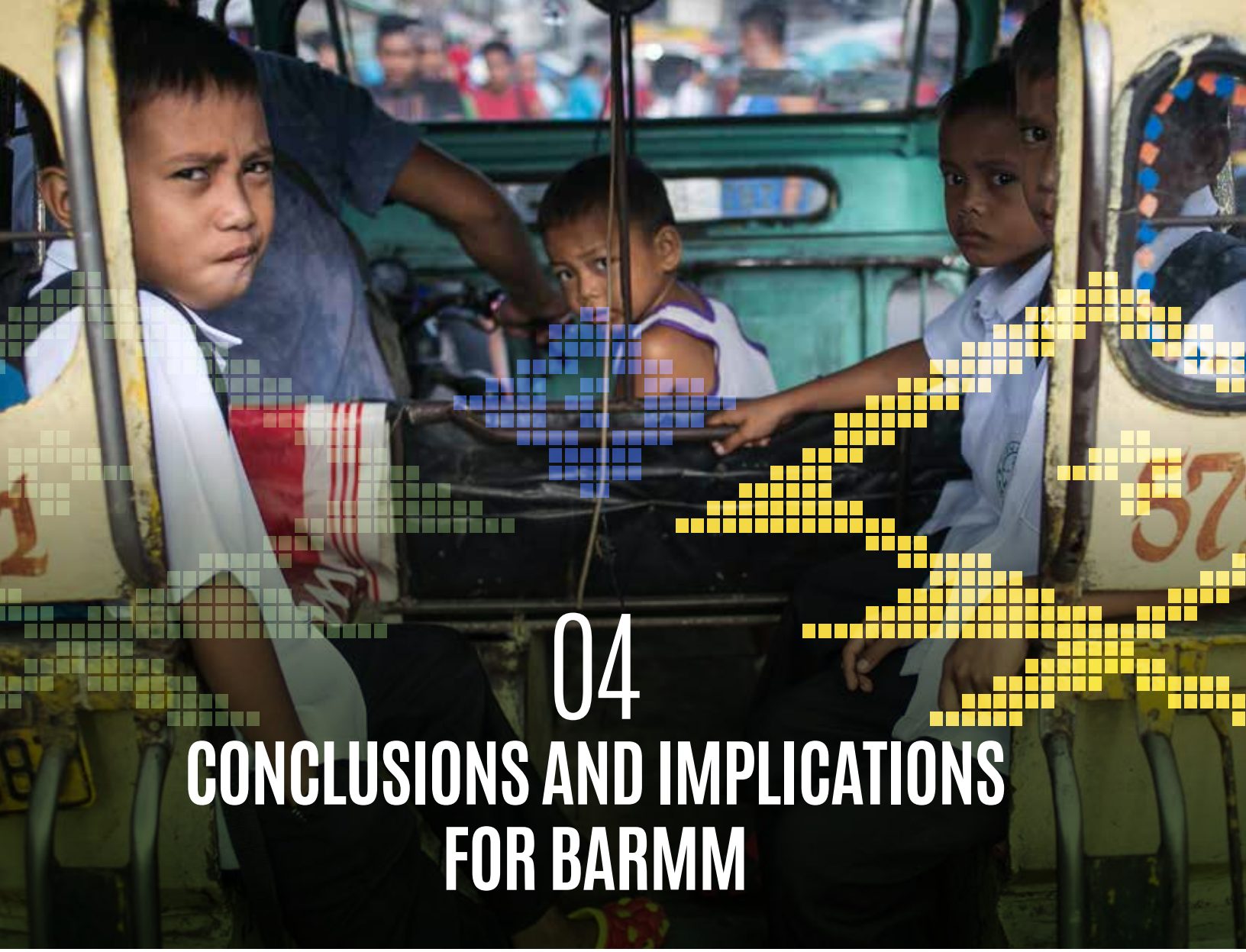
The BG has more extensive powers than ARMM with the objective of attaining self-sufficiency. It is obliged to implement transparency and accountability mechanisms, and promote the effective use of economic resources to sustain genuine development. The extent of BARMM's fiscal impact is limited by the significance of its reliance on NG transfers to its budget. It has limited scope for expanding revenue sources so it is unlikely that BARMM will have a substantial impact on the national fiscal outcomes.

There are potential risks that might result in adverse fiscal results if the BARMM is not managed prudently and efficiently, through accumulation of contingent liabilities and debts. There are wide-ranging national controls and limitations on its activities that will mitigate those risks but it will be important for the BARMM to maintain strong control on budget sustainability and effective use of resources. The Bangsamoro Government needs to ensure high functioning and adequately resourced regional agencies that are to be created with important fiscal responsibilities as shown in Table 14.

The BG needs to closely coordinate with the NG to ensure that the latter will maintain adequate provisions for all appropriations to the BG under the BOL in a timely and predictable way. If cash is limited or delayed in transfer to the BARMM, this could have a substantial impact on the ability of the BG to deliver on its budgets.

Table 14. Fiscal authority under the ARMM and the Bangsamoro Autonomous Region

Authority or Function	ARMM	BARMM
Planning, monitoring, and coordinating agency to evaluate and recommend comprehensive development plans, programs, and projects for the autonomous region.	REDPB	Bangsamoro Economic and Development Council
Enact annual appropriations law, and tax and revenue code.	Philippine Congress for NG appropriations / Regional Legislative Assembly for the Local Budget Fund	Bangsamoro Parliament
Promulgate budgetary laws, rules, and regulations.	NG - Department of Budget and Management for NG funds / ARMM - Regional Budget and Management Office for the Local Budget Fund	Bangsamoro Budget Office
Periodic reviews of taxing powers, wealth sharing arrangements and sources of revenues, and recommend necessary fiscal policy adjustments and grant of additional fiscal powers.	ARMM - Office of the Regional Treasury	Intergovernmental Fiscal Policy Board
Assessment and collection of regional taxes, as well as all other collectible taxes within territorial jurisdiction.	NG - Bureau of Internal Revenue for national internal revenue taxes; and ARMM - Office of the Regional Treasury for regional taxes	Bangsamoro Revenue Office
Receive and safeguard all the revenues generated and collected by the regional government.	ARMM - Office of the Regional Treasury	Bangsamoro Treasury Office
Internal audit functions.	Internal audit units in regional line agencies and LGUs, if any	Internal Audit Body under the Bangsamoro Government
Coordinate, assist, and monitor the treasury and assessment operations of the constituent LGUs.	NG - Department of Finance - Bureau of Local Government Finance	Bangsamoro Regional Office of NG - Department of Finance - Bureau of Local Government Finance



04 CONCLUSIONS AND IMPLICATIONS FOR BARMM

Overall assessment of public financial management

This report has examined the financial management circumstances that applied in ARMM and the changes that are established in the BOL. The situation that ARMM operated under involved complexity of responsibilities and interactions with other tiers of government, fragmentation of functions and services delivered in the region, lack of coherent and consolidated information and management from within ARMM and from other national and local government entities operating in the region, and the lack of coordinated and clear planning, strategy and accountability.

The BOL seeks to address some areas of complexity, lack of flexibility and control and management of functions and services in the BARMM region. The introduction of the block grant, the Special Development Fund and expanded revenue sharing will provide a much larger basis for BARMM to influence development and policy in the region. The BOL also provides a basis for more structured representation in the BP for all parts of the region and important sections of the population, particularly women. The freedom and control over a larger source of revenue is provided within a framework of limited autonomy, in which the NG and the President will have ultimate authority.

The basic financial management framework for BARMM is couched within a system of national laws and procedures which are generally sound. The 2016 PEFA assessment indicated that well over half of the institutions and functions of PFM in the Philippines are performing satisfactorily, or better,

based on international standards of good practice. ARMM functioned within that framework like a NGA and faced significant challenges, especially in the areas of financial controls, internal audit, execution of capital projects and service delivery outcomes.

The main difference between the AOL and the BOL is the greater amount of resources that will be within the control of the BP and the flexibility with which it can make policies for the use of funds and allocate according to its own rules and preferences. This also means that the BP will needs to strengthen its institutions, controls and management to ensure that resources are used as intended and in the most efficient and effective ways. The lack of administrative experience amongst members of the BTA has been highlighted elsewhere as a challenge for the BP. There are also limitations on professional skills and knowledge within the BARMM's continuing administration, partly due to the additional responsibilities that they will need to perform that were previously performed by NGAs such as DBM and DOF.

Implications for establishment of BARMM and transition

There are two crucial basic requirements for the BTA from a PFM perspective: (1) it needs to comply with and implement the requirements of the BOL and other legislation and regulations applying to the region; and (2) it needs to deliver the services and meet the responsibilities of government efficiently and effectively to a standard acceptable to its citizens, the President and the national parliament. In other words, it needs to continue what was being done by ARMM while achieving radical transformation of the form and functions of government in the region. There are significant risks and trade-offs in this process to ensure that both requirements are achieved.

BP will need to establish new or stronger financial management arrangements, some of which are tightly prescribed in the BOL, and many of which it will need to create early in the BTA's tenure. Table 15 summarized the actions required by the BP and BG under the BOL. It involves the establishment or activation of 29 specific institutions, create and adopt around 20 major new laws and regulations, undertake a range of reviews and deliver major reports on a variety of topics. This will require considerable effort, resources and commitment from the BTA and BARMM citizens and needs to be achieved within a short time if it is to be effective in establishing a firm foundation for the future. Table 15 includes and indicative timeframe for the priority actions required under the BOL, suggesting that most of these should be completed within 6 months to a year after the establishment of the BTA.

The list of actions required in Table 15 offers a daunting prospect for the BARMM administration. It will be crucial for the BTA to establish a well-considered transition plan, taking into consideration the context in which it is being implemented and the skills and resources at its disposal. The plan should include clear timelines, prioritization, identification of roles and responsibilities and risk analysis to ensure that the results are achieved as effectively as possible, taking account or what is reasonably likely, what could go wrong and how to deal with likely challenges and impediments along the way.

At the same time, the BTA needs to establish a sound basis for implementation of the functions and services of government. In 2019, the BARMM will apply the budget approved by the national parliament. It will not have access to the block grant until 2020 and the availability of other new resource identified in the BOL until key actions are performed, for example, adoption of the Bangsamoro Development Plan and identification of needs for funding of transitional measures such as staff separations and reorganization. The details of how such fund may be obtained are unclear and may be limited in 2019 due to the inflexibilities in the national budget law and procedures.

Table 15. Actions required under BOL

Action required	Indicative Timeframe	Responsibility
HIGH PRIORITY		
(a) Institutional requirements		
Activate Intergovernmental Relations Body	Within 6 months after BTA appointed	NG, BTA
Activate Intergovernmental Fiscal Policy Board	Within 6 months after BTA appointed	NG, BTA
Activate Philippine Congress-Bangsamoro Parliament Forum	Within 6 months after BTA appointed	NG, BTA
Activate Joint Body for Zones of Joint Cooperation	Within 6 months after BTA appointed	NG, BTA
Activate Intergovernmental Infrastructure Development Board	Within 6 months after BTA appointed	NG, BTA, BG agencies
Activate Intergovernmental Energy Board	Within 6 months after BTA appointed	NG, BTA, BG agency
Create Bangsamoro Sustainable Development Board	Within 6 months after BTA appointed	NG, BTA
Establish Bangsamoro Budget Office	Within 6 months after BTA appointed	BTA
Bangsamoro Electoral Office	Within 6 months after BTA appointed	COMELECOM
Activate the Bangsamoro Human Rights Commission	Within 6 months after BTA appointed	President, CM
Create a Regional Police Office	Within 6 months after BTA appointed	Philippine National Police
Create a Philippine Coast Guard Regional Office	Within 6 months after BTA appointed	Philippine Coast Guard
Create a Bangsamoro Internal Audit Authority	Within 6 months after BTA appointed	BTA
Activate a Bangsamoro Regional Office of the Bureau of Local Government Finance	Within 6 months after BTA appointed	BLGF
Activate the Bangsamoro Treasury Office	Within 6 months after BTA appointed	BTA, CM
Establish the Bangsamoro Revenue Office	Within 6 months after BTA appointed	BTA, BG
Establish the Bangsamoro Economic and Development Council	Within 6 months after BTA appointed	BTA
Activate the Bangsamoro Disaster Risk Reduction and Management Council	Within 6 months after BTA appointed	CM, BG
Create the Attorney General's Office under the Office of the Chief Minister	Within 6 months after BTA appointed	BTA
(b) Legal and administrative actions		
Prepare and approve a transition plan	Within 60 days after BTA appointed	CM, BTA
Transfer of personnel to BG for offices and agencies transferred to BARMM from national government bodies	3 months after BTA appointed	NG, BTA
Establish, organize and staff BARMM administration to meet essential requirements	Within 6 months after BTA appointed	BTA
Implement an independent hiring process for all BG offices, agencies and institutions	Within 6 months after BTA appointed	BTA
Conduct a human resources audit	12 Months after BTA appointed	BTA
Inventory of ARMM liabilities and obligations	Within 6 months after BTA appointed	DBM, COA, CSC, OP, ORG, BTA
Adopt the Bangsamoro Development Plan	Within 6 months after BTA appointed	BTA
Pass an annual appropriations law	By Dec. 31, 2019	BTA

Action required	Indicative Timeframe	Responsibility
Develop and implement a health reform strategy and policy for sustainable health financing	Within 12 months after BTA is appointed	BTA
Enact Bangsamoro Administrative Code	12 months after BTA appointed	BTA
Enact Bangsamoro Revenue Code	12 months after BTA appointed	BTA
Enact Bangsamoro Electoral Code	12 months after BTA appointed	BTA
Enact Bangsamoro Local Government Code	12 months after BTA appointed	BTA
Enact Bangsamoro Education Code	12 months after BTA appointed	BTA
Enact Bangsamoro Civil Service Code	12 months after BTA appointed	BTA
Enact Law on the rights of indigenous peoples	12 months after BTA appointed	BTA
Determine parliamentary districts for the first regular election of BP members	12 months after BTA appointed	BTA
Final report and recommendation on the status of government during transition	Within 60 days of the assumption of BP into office	BTA
MEDIUM PRIORITY		
(a) Institutional requirements		
Create Ministry for Indigenous Peoples	12 months after BTA ends	BP
Create a Commission on Women	12 months after BTA ends	BP
Create a Commission on Youth Affairs	12 months after BTA ends	BP
Create an Office for Settler Communities	12 months after BTA ends	BP
Create a Bangsamoro Sports Commission	12 months after BTA ends	BP
Create an agency for persons with special needs	12 months after BTA ends	BP
Create the Bangsamoro Commission for the Preservation of Cultural Heritage	12 months after BTA ends	BP
Create a Bangsamoro Authority for Inland Waters	First 12 months after ends	BP
Establish a Bangsamoro Economic Zone Authority	First 12 months after ends	BP, BG
Establish a Shari'ah Supervisory Board	12 months after BTA ends	BG
(b) Legal and administrative actions		
Determine participation of the BG in the Al-Amanah Islamic Investment Bank and the Southern Philippines Development Authority	6 months after BTA appointed	IFPB
Enact a law on indigenous rights to natural resources	12 months after BTA ends	BP
Enact Bangsamoro Cooperative Code on Trade and Industry	6 months after BTA appointed	BG

The changes requiring additional resources or budget reallocations and realignment will most likely need to be deferred until 2020, unless the BTA can demonstrate the urgency of changes to justify a supplementary budget in 2019. In view of the difficulties in passage of the 2019 national budget, it is possible that the national government will consider a supplementary budget later in the year and this could provide an opportunity for the BTA to put forward some early proposals for readjustment of its budget. This should not be the main priority of the BTA, however, and it should focus on what is achievable within the existing operating environment before considering changes.

International experience with major structural change of the kind experienced in BARMM suggests that the BP and BG should take a cautious approach to reform. Rather than early radical change, it is likely that emphasis should be placed on urgent and essential changes at first, moving incrementally to more substantial change in the medium to long term as capacity, knowledge and opportunities permit. The BOL and this report provide a foundation for identifying the urgent and essential priorities, which are set out in the recommendations below. These are intended as a guide for the BARMM and other stakeholders to discuss and formulate an action plan that takes account of the full range of perspectives.

Some major PFM changes are urgent and essential for BARMM in 2019. A crucial first priority is the establishment of the financial management and related institutions needed to plan, prepare and design the first budget for adoption by December 31, 2019 at the latest. This will involve drawing on the previous ARMM agencies and institutions that contributed to budget planning and management, but they will need to be expanded and strengthened substantially. The new BRO, BBO, Attorney General's office and internal audit body will be needed to undertake the new functions of undertaking forecasts, drawing on existing planning documents, drafting budget procedures and instructions, proposing initial budget policies and priorities, managing a budget process and preparing a draft budget law. The BDTr will need to be strengthened in preparation for taking on a larger role in managing and disbursing and much larger volume of funds and the management of cash and commitments, which will occur from the start of 2020, if not sooner.

Procedural rules and practices will need to be established for the BP, including how it will deal with legislation and related matters regarding finances. Many governments establish special standing committees to deal with financial matters, such as a public accounts committee. If this is considered a useful approach, the BP will need to establish the rules and procedures around how the committee will operate and what will be the implications of its deliberations for the wider parliament.

The intergovernmental institutions will need to be established or activated as soon as possible to ensure that a clear and appropriate set of policies, procedures and actions are in place as soon as possible to address the weakness in current intergovernmental communications and interactions. The most pressing need from the PFM perspective would be for the Intergovernmental Relations Board, the Intergovernmental Fiscal Policy Board and the Intergovernmental Infrastructure Development Board and the Intergovernmental Energy Board. Representation on national coordination committees for budget planning and infrastructure will also be a priority to ensure that the BARMM has a voice and influence on major development and budgeting decisions that will affect the region.

The BOL requires a transition plan to be submitted by BTA within the first 60 days of existence. There is also a high degree of urgency to establish and adopt a Bangsamoro Development Plan to contribute to general budget planning and to meet the pre-requisite for access to the Special Development Fund. An important element of this activity will be the establishment of the Bangsamoro Economic Development Council.

05 RECOMMENDATIONS

Recommendations from this study are summarised in Table 16. The table arranges recommendations according to the stages of the financial management cycle, similar to the sequencing of Chapter 3. It identifies the issue being addressed and the action proposed. The recommendations are intended to be forward looking, rather than backward looking and focus on specific actions proposed for the first year of BARMM. Actions beyond the first year of implementation could be considered in a subsequent report, subject to discussions with key stakeholders.

Table 16. Observations and recommendations on BARMM PFM

Observations	Recommendation	Indicative Timeframe
(a) Fiscal planning, budget preparation and allocation		
ARMM strategic plans, national development plan and LGU plans and budget proposals are not fully linked	Review of national, regional and LGU plans to achieve alignment and adopt a Bangsamoro Development Plan	Within 6 months after BTA appointed
Intergovernmental relations will need to be strengthened to address disconnection between national, regional and LGU resource management	Activate the Intergovernmental Relations Body, the Intergovernmental Fiscal Policy Board, the Intergovernmental Infrastructure Development Board and the Intergovernmental Energy Board	Within 6 months after BTA appointed
Budget preparation will change from being managed by NGAs to BARMM in 2020. BP needs to approve a regional budget by December 31, 2019.	BARMM financial management agencies will need to be established and staffed. Budget rules and procedures will need to be developed and implemented.	Within 6 months after BTA appointed
(b) Revenue management and budget execution		
Revenue sharing methodology used does not accurately reflect revenue collections	BLGF, BIR and subnational governments develop an agreed, revised methodology	Within 6 months after BTA appointed
Different management and accountability arrangements apply depending on the source of funds for the region	Review and rationalize reporting and accountability requirements to streamline and combine requirements where possible	Within 12 months after BTA appointed
Long delays in obligation and under-utilization of budget were common under ARMM	BARMM will need to establish rules and procedures for capital budgets that allow rapid release and utilization while maintaining effective control and accountability	Within 6 months after BTA appointed
Cash planning and cash release experienced delays under ARMM. BARMM will have responsibility for cash management of substantial amounts of cash, possibly from the start of each fiscal year (starting in 2020).	BDTr will need to develop capacity and procedures to design and manage cash for BARMM.	Within 12 months after BTA appointed
(c) Accounting and reporting		
Complex and fragmented financial reporting and accountability arrangements across the BARMM region. Limited access to LGU reports and plans in ARMM.	BARMM should work with other tiers of government and intergovernmental bodies to agree on ways to streamline and consolidate financial reporting across the region.	Within 12 months after BTA appointed
(d) Evaluation, audit and oversight		
No evaluation, internal audit or oversight of revenue and expenditure at the regional level. COA is the only accountability agency in the region.	Establish BARMM internal audit body as a priority, working with LGUs to ensure that they have adequate internal audit arrangements. COA and DBM should be consulted on the structure, functions and responsibilities of the BARMM internal audit body.	Within 6 months after BTA appointed

ANNEXES

Annex 1: Terms of reference

Background and context

The Philippines has improved public financial management at the national level over the last decade significantly and continues to be a strong performer within the region. Nonetheless, there are areas where persistent weaknesses are evident, and these include matters of importance to project implementation, budget management, transparency and accountability. For example, the 2016 PEFA assessment identified weaknesses in budget execution and budget reliability. This included inability to execute the approved budgets, weaknesses in procurement arrangements and internal controls, limitations in financial reporting – especially timeliness of in-year reporting, and high expenditure arrears. Philippines financial management systems were rated 18 out of 100 in a separate assessment in 2016[28], indicating that systems had considerable room for improvement. Another study by the World Bank in 2017[29] noted that institutional structures around central finance functions in the Philippines were characterized by a high level of fragmentation.

The Autonomous Region of Muslim Mindanao (ARMM) located in the Mindanao island group of the Philippines is the only region that has its own government. ARMM consists of five predominantly Muslim provinces: Basilan (except Isabela City), Lanao del Sur, Maguindanao, Sulu and Tawi-Tawi. The ARMM had a poverty incidence of 53.7 percent in 2015, more than double the national average. Eight of the ten poorest provinces in the country are in Mindanao. The conflict-affected areas of Mindanao are the country's poorest, where violent conflict and fragile institutions continue to be critical constraints to peace and development.

The ARMM was created under the Republic Act No. 6734 on August 1, 1989. By virtue of its independent status, the ARMM has a different administrative structure from local government units in the country, including for public financial management. In most countries lower tiers of government face greater challenges than national governments in all areas of budget and financial management. It is also common for lower tier governments to have difficulty in attracting and retaining adequate qualified personnel which compounds the challenges that they face in managing finances. ARMM is likely to face even more challenges because of its distance from the national government and recent history of conflict and weak economic circumstances. While the processes and procedures around public financial management in local government units have been documented[30], there has not been an analytical support on financial management for ARMM.

The Philippines President signed Republic Law 11054, the Organic Law for the Bangsamoro Autonomous Region (OLBAR) on July 28, 2018. This set in train processes for the establishing a Bangsamoro autonomous region to succeed ARMM, subject to the outcome of a plebiscite on January 21, 2019 and transitional arrangements until July 2019. There will be crucial differences between ARMM and the Bangsamoro autonomous region (BARMM) but the fundamental question of how to provide effective public financial management for the region will remain equally important. The BARMM will not be established out of a vacuum but will build on existing arrangements, some of which will not change as a result of the OLBAR.

As attention turns towards establishment of BARMM, effective financial management arrangements become essential to support public

28 *Hashim, Ali; Piatti, Moritz. 2016. A Diagnostic Framework to Assess the Capacity of a Government's Financial Management Information System as a Budget Management Tool. World Bank, Washington, DC. © World Bank.*

29 Fritz, V., Verhoeven, M. and Avenia, A., *Political economy of financial management reforms – reform experiences and implications for dialogue and operational engagement*. World Bank, 2017

30 Compendium of the Public Financial Management Framework for Local Government Units – Output for P161353, July 2017; Local Government PFM Roadmap developed under technical assistance from the European Union.

policy and planning. These arrangements should ensure that funds are allocated according to policy priorities at all levels of government within each area of responsibility, approved allocations and project requirements. Goods and services must be procured in an open, fair and timely manner. Funds ought to be provided when required to meet expenses and pay for goods and services when invoices due. Internal control structures should be set up to identify errors and omissions quickly and efficiently leading to actions to address problems effectively. Documents and records need to be maintained to provide Government and development partners assurance that funds are used for intended purposes with due regard for economy and efficiency.

The Team is cognizant of the fact that the situation with ARMM is fluid and will need flexibility in design. The team will make contact with key stakeholders at local, regional and national levels early in project preparation to ensure that there is support for the proposal and to fine tune the scope and approach to achieve the best outcomes. Regardless of any change in government structure, the analytical support will need to be timely and useful in highlighting the strengths and weaknesses in financial controls and flaws in financial reporting that can inform the government in developing an action plan on how to address priority areas for strengthening.

Project development objective

The main objective is to document institutions, processes and systems in place for financial management for the ARMM/BARMM at all levels as a basis to formulate recommendations for improving the efficiency, reliability and timeliness of resource use, project management and project results. Additionally, the project will consider the implications of the OLBAR for public financial management and, to the extent possible, identify risks, opportunities and potential areas for strengthening relevant aspects of existing arrangements which are likely to be retained after BARMM is established.

The study aims to assist the governments of the Philippines in its socio-economic agenda in relation to the Bangsamoro autonomous region. Improving the efficiency and effectiveness of service delivery to citizens is of high priority for the governments. The report intends to serve as an input for informing the design and content of the World Bank engagement with BARMM and as applicable, to serve as input in informing the design of government policies and programs for improved public service delivery in the BARMM.

Proposed activities and expected results

The activity is Bank executed analytical work in support of both: (a) operations identified under the World Bank's Comprehensive Program for Regional Development in Mindanao and (b) other priority reform areas with high potential for collaboration among WB, DFAT and the Philippine Government. The output will particularly contribute towards the Program's component (3) i.e. addressing drivers of conflict and fragility while building up institutions in ARMM and other conflict-affected areas.

This analytical work would constitute the first time that regional financial management institutions and processes have been comprehensively supported for ARMM beyond fiduciary monitoring of individual projects. It will build on work already done at the sectoral level[31] and complement other analyses at the regional level[32]. The analysis would apply methodology consistent with that used at national and regional level by the World Bank for more than a decade, but adapted to the circumstances of ARMM and constituent local governments.

The work will involve examination of all phases of financial management within ARMM using a

31 World Bank, *Making Education Count for Children of the Autonomous Region in Muslim Mindanao*, August 2014

32 Congressional Policy and Budget Research Department, Drawing Lessons for the Creation of Regional Governments Under a Federal Setup, case study on the Autonomous Region in Muslim Mindanao, November 2017.

sample of departments and local government units (LGUs). The sample of LGUs will be chosen in consultation with ARMM and potential LGUs. The examination will include the legal framework, budget planning and preparation, budget approval and allocation, disbursement of funds and cash management, internal controls on the use of funds, recording of expenditures and associated physical progress, reporting and review of expenditure, exercise of management control and accountability, clarity of roles and responsibilities, and capability of people responsible for financial management across the region. It will include consideration of development project funds as well as government funds and identify any significant differences in treatment and management of those resources from the prevalent practices in the rest of the country.

The project will involve onsite review of processes and documentation, interviews with key government personnel, development partners and other stakeholders to understand and assess financial management from multiple perspectives. A draft report will be discussed with government officials and development partners and comments taken into consideration before a final report is published. The report will include key findings and recommendations for strengthening. If funds are available after the report has been finalized and discussed, the team will work with officials to develop an action plan on how to address priority areas for strengthening.

The project will complement the on-going work by the Bank, including on Health Sector (Programmatic Advisory Services and Analytics for Health, Nutrition and Population) in ARMM. The Team will work closely with Bank colleagues working in Mindanao. For example, the health sector programmatic ASA includes related goals to assist the regional government of ARMM in improving the efficiency, coverage and equity of Health Service Delivery in some of the lowest-performing districts of the country. It will be crucial to maintain a close dialogue between teams as both activities proceed. The team will brief other Manila office staff with an interest in ARMM financial management on the proposal. We will meet regularly with those who are currently working in Mindanao or planning to work there on our progress. We will share knowledge and lessons throughout the project.

The project will also draw lessons and experiences from the Public Expenditure and Institutional Review for ARMM Basic Education conducted in 2014. The published report discussed, among others, the public expenditure management in ARMM and have shown several findings as follows: (i) fragmented public expenditure management of ARMM resources; (ii) poor integration of ARMM Regional and National budget process; (iii) inconsistency between ARMM regional “devolution” and national decentralization; and (iv) weak stewardship and accountability in handling public funds.

The project and its results will provide an understanding of the strengths, weaknesses and key risks in the financial management processes which are essential for the design of interventions in the BARMM. It will help to identify where processes and controls are operating effectively and identify areas that require strengthening or additional oversight to ensure timely provision of funds to intended service providers and contractors, analyze whether funds and achievement of results are adequately monitored and managed and the extent to which financial information can be relied on to assist management.

Scope and coverage

The project will examine ARMM and its links to regional and national agencies, and to LGUs within the area covered by ARMM. Preliminary meetings with CoA, DBM, DILG and DSWD, DepEd and Health are planned to identify important relationships and contacts in ARMM. The review will include funding sources from within and outside the region, including projects (eg from DOF funds) managed by PMO in Mindanao that are independent from the ARMM administration, eg Mindanao trust fund implemented by NGO for Bangsomoro Development agency. LGUs are receiving their own allocation from DILG and under supervision of ARMM. It will be important

for the project to consider ARMM links with local governments, span of control for national government and the ARMM governor eg in relation to distribution of the regional budget, how are funds coordinated and used.

The key stakeholders to be consulted throughout the project include the ARMM Governor's office, ARMM administration departments and agencies, MILF and other organizations involved in the Bangsomoro Transitional Authority, Institute of Autonomy and Governance (IAG), Congressional Policy and Budget Research Department, national government agencies that administer funding or policy matters delivered in ARMM, ARMM business organizations and NGOs, and international development partners supporting governance and PFM reform in Mindanao.

The project will focus on the current year, the budget year 2019, the last completed fiscal year and, data permitting, the last three completed fiscal years. Topic areas proposed for the review are listed in table 1.

Management of the review

The World Bank will perform the review with funds provided by the Australian Department of Foreign Affairs and Trade. The review team includes Lewis Hawke, Lead Governance Specialist - Public Sector (Team Leader), Tomas Sta. Maria, Senior Governance Specialist – Financial Management, Aisha de Guzman, Senior Governance Specialist – Financial Management, Maria Liennefer Penaroyo, Governance Specialist – Financial Management, Ahsan Ali, Lead Procurement Specialist, Dominic Aumentado, Senior Procurement Specialist, Gia Mendoza, Program Assistant, and Mohammad Zidni Marohombsar, Consultant.

The timetable of activities planned for the review are presented in Table 2. The main outputs are highlighted in the table, including the concept note and inception report, the draft report, the final report and a PFM action plan – all prepared in consultation with key stakeholders.

Table 1. Areas to be covered by the review

Topic	Implications for ARMM/BRMM administrations			
	National government	Regional government	Provincial government	Municipality/City government
Fiscal & budget strategy, planning and preparation Revenue management Expenditure management Accounting and reporting External audit & oversight Cross-cutting issues: • Legal & institutional framework • Intergovernmental cooperation & coordination • Capacity and capability • Management of gender impact • Systems • Service delivery • Fiscal impact & risks • Transparency & accountability	Congress, President, COA, DBM, BTr, BIR, BLGF, DILG, DepEd DOH, DPWH, NEDA	ARMM ORG, ARMM agencies, COA, BOL, transitional arrangements, possible BARMM arrangements	Case studies: • Maguindanao • Basilan	Case studies: • Upi • Sultan Kudarat • Sultan Mastura • Lamitan

Table 2. Project implementation plan

Task	Deliverable	Date(s)
Preparatory work		
• Preliminary TOR and launch meetings	Meetings at national and ARMM levels	October 2018
• Revise TOR	TOR for consultation	October 2018
• Preliminary meetings, Manila and ARMM	Refined concept note	October 2018
• Initial data request	Data request issued to responsible units	Mid-October 2018
Field work		
• Official commencement meetings	LGU initial discussions	November 2018
• Onsite data collection and follow up	Data collection, all necessary data	November - December 2018
• Preparation of draft report by assessment	Draft report	January - February 2019
• Presentation of draft report and initial findings to authorities	Presentation of initial findings	End March 2019
Post-field work		
• Review of comments and further drafting of report	Comments recorded and considered, draft report revised	April 2019
• Presentation of revised report to authorities	Revised draft consultations	May 2019
• Publication of final report	Publication	May 2019 (post-election)
Planned post-assessment activity		
• PFM reform dialogue based on PEFA assessment findings	Briefing on the relevance to Bangsomoro and national PFM policies and procedures	May 2019
• Development of a PFM action plan or reform program	Draft PFM action plan	June 2019

Annex 2: Organizations consulted

1. Commission on Audit (COA)
2. Congressional Policy and Budget Research Department (CPBRD), House of Representatives
3. Bureau of Local Government Finance (BLGF)
4. Bureau of Internal Revenue (BIR)
5. Department of Budget and Management (DBM)
6. Department of Education (DepEd)
7. Department of Interior and Local Government (DILG)
8. Department of Health (DOH)
9. Department of Public Works and Highways (DPWH)
10. Bangsamoro Development Agency (BDA)
11. Office of the Regional Governor, ARMM
12. Regional Government Agencies
    - Department of Education-ARMM
    - Department of Interior and Local Government-ARMM
    - Office of the Regional Treasurer-ARMM
    - Regional Bureau of Investments-ARMM
    - Regional Planning and Development Office-ARMM
    - Department of Health-ARMM
    - Department of Public Works and Highways-ARMM
13. Commission on Audit (COA)-ARMM
14. Institute for Autonomy and Governance (IAG)
15. Australian Embassy – Department of Foreign Affairs and Trade (DFAT)
16. Local Governments
    - Basilan Province
    - Lamitan City
    - Municipality of Upi, Maguindanao
    - Municipality of Sultan Kudarat, Maguindanao
    - Maguindanao Province
    - Municipality of Sultan Mastura, Maguindanao
17. Bangsamoro Transition Commission (BTC)
18. Office of the Chief Minister, Bangsamoro Transition Authority (BTA)

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