



REPUBLIC OF THE PHILIPPINES  
**DEPARTMENT OF BUDGET AND MANAGEMENT**  
BONCODIN HALL, GENERAL SOLANO STREET, SAN MIGUEL, MANILA

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January 19, 2018

**In response to allegations of conflict of interest in my discharge of functions as Budget and Management Secretary**

Dear Bobby:

We've known each other since the early '80s – you as a correspondent of the Far Eastern Economic Review and me, as Associate Professor of Economics at the University of the Philippines (Diliman). In the spirit of fairness, let me thank you for giving me this opportunity to respond to questions you raised in your recent commentary.

Once and for all, I would like to put to rest various allegations that continue to make rounds in the news since I had appeared in Congress on December 11, 2018 for Question Hour.

**First, that I have facilitated the awarding of government projects to a favored contractor.**

This is absolutely false. The Department of Budget and Management (DBM) is not involved in project implementation which include the awarding of contracts. That is the responsibility of the line agencies (DPWH, DepEd, DOH and the like). I do not interact with contractors or suppliers regarding the implementation of projects as it is not within our mandate. Furthermore, it is expected that line agencies will award projects to contractors through open, competitive bidding in accordance with Republic Act 9184 or the Government Procurement Reform Act.

In your opinion column in the Manila Times<sup>1</sup>, you claim that CT Leoncio Construction and Trading “may have started to get huge government contracts in 2012” and citing Majority Leader Andaya, say that “from 2013 to 2017 CT Leoncio Construction got contracts worth PhP 13 billion”.

But what has that got to do with me? Prior to my appointment as DBM Secretary in July 1, 2016, I was in the academe teaching at the UP School of Economics. I certainly

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<sup>1</sup> <https://www.manilatimes.net/questions-budget-secretary-diokno-must-answer/492815/>

have no business awarding contracts to the said firm (or any firm for that matter) prior to joining government July 1, 2016. After I joined the Duterte administration as DBM Secretary, my task is to (a) prepare the national budget – set aggregative level, imposing ceilings on each agency and let the agencies determine their budget, their priorities, their spatial distribution (by region, by province) and (b) release spending authority, about three-fourths of which are ministerial.

Furthermore, Mr. Tiglao asks a question: “CT Leoncio may have started to get huge government contracts in 2012, when the budget secretary then was still Noynoy Aquino’s ideologue Florencio Abad. Did Diokno inherit that “arrangement” from Abad?” My direct answer: NO. I do not know Mrs. Consolacion Leoncio and I understand that in the hearing in Naga, Mrs. Consolacion Leoncio categorically stated that she doesn’t know me. That should settle this issue once and for all. Again, let me reiterate that I do not deal with contractors and do not meddle with project implementation which includes the awarding of contracts or entering into joint ventures of construction firms.

**Second, that I have manipulated the budget to ensure the inclusion of projects in favored districts, particularly flood control structures under DPWH.**

Again, the DBM is only in charge with setting the aggregate budget ceiling and individual budget ceilings for agencies during budget preparation and releasing authorities to spend to line agencies – the bulk of which is ministerial -- during budget execution. Fund distribution by region, provinces and cities and types of projects (roads, bridges, seawalls, etc.) is done by the DPWH. Project implementation is done by the DPWH.

It is also important to note that the budget of the DPWH has increased considerably since Congressman Andaya was Budget Secretary (from 2006 to 2010). There are three reasons: inflation, higher commitment to the provision of public infrastructure, and climate change.

First and foremost, positive annual inflation rates mean steadily rising costs. To maintain or ramp up infrastructure investments, the DPWH budget must also be increased to keep pace with rising prices. With 2006 as a base year, inflation averaged 4% from 2006 to 2018. Hence, prices rose by about 50% from 2006 to 2018<sup>2</sup>.

Second, the expansionary fiscal policy and *Build Build Build* program of the Duterte Administration has led to more funds being channeled to infrastructure projects (see Chart 1 and 2 in the Annex). This is reflected in the budget of the DPWH (see Chart 3). During the term of President Arroyo, the budget of the DPWH averaged PhP 89.5 billion per year. This is not surprising considering that the Arroyo administration only spent an average of 1.6% of GDP for public infrastructure.

Under President Aquino III, the DPWH budget rose to an average of PhP 241.5 billion as his administration spent 3.0% of GDP on public infrastructure.

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<sup>2</sup> [http://www.bsp.gov.ph/statistics/spei\\_pub/Table%2034A.pdf](http://www.bsp.gov.ph/statistics/spei_pub/Table%2034A.pdf)

Now in the first two years of the Duterte Administration, the DPWH budget jumped to an average of PhP 636.4 billion annually. This is expected to increase as the government ramps up infrastructure spending from 5.0% to 7.0% of GDP.

In the case of flood control works, the government deemed it necessary to provide more funds for flood control structures after the onslaught of Typhoon *Yolanda* and climate-change effects.

However, as I have mentioned many times before, the DBM is not involved in the allocation of DPWH projects by region, province or district during budget preparation. The agency budget proposal submitted by the DPWH during this stage will only present their target allocation for the upcoming fiscal year by program (i.e. roads and bridges, flood control works) and total allocation per region. We simply evaluate their targets, by program, based on their budget utilization rate in previous years.

**Finally, our budgeting system now is worlds apart from when Congressman Andaya was budget secretary. The budget system is now more transparent, accountable, and rules-based.**

Budgeting was opaque and transactional during Andaya's term as budget secretary. Budget implementation was micro-managed

By contrast, today's budget system is rules-based, there is less discretion in budget releases during budget implementation since we have adopted the GAA-as-Allotment Order (GAARD) policy. Since 2017, the GAA has served as the official fund release document for regular programs in the budget.

As a result, PhP 2.502 trillion or 74.7% of the PhP 3.350 trillion obligation had been released as early as January 3, 2017. The release rate is even higher for the 2018 GAA as 77.5%, or PhP 2.920 trillion of the PhP 3.767 trillion obligation program was comprehensively released at the start of the year.

Meanwhile, programs to be funded "For Later Release" are automatically uploaded on the DBM website after I sign them.

Looking back, the GAA-as-Allotment Order was already a policy during my time as Budget Secretary during President Estrada's truncated term. It was known then as "WYSWYG" or What-You-See-is-What-You-Get. Unfortunately, the policy was scrapped when former President Arroyo took office. Once again, we went back to an opaque, slow, hard-to-track, and discretionary budgeting regime.

Back then, they would even micromanage by releasing Special Allotment Release Orders (SARO) on discretionary bases (i.e. for political support).

But this is not the case anymore. The Department of Budget and Management, since the launch of Budget and Treasury Management System (BTMS) - Go Live on January 1, 2017, has made important steps to institute an open, accountable, and rules-based

budgeting system. For one, the systems have been digitized and centralized, making budgetary data less and less siloed among various units.

Consider how we are implementing a reenacted budget now and compare it with what had happened during former President Gloria Macapagal-Arroyo's term.

Three budgets (FY 2001, 2004, 2006) passed during former President Arroyo's term were reenacted for the whole year, while four budgets (FY 2003, 2005, 2008 and 2009) were partially-reenacted. In implementing these "reenacted" budgets, the executive had misinterpreted the "reenacted clause" to mean carte blanche authority to re-write the budget. They even reenacted the budget for capital outlays, allowing the Arroyo administration to fund new projects, contrary to the Constitutional provision that no money shall be paid out of the Treasury except in pursuance of an appropriation made by law.

This year, the national budget for Fiscal Year (FY) 2018 was deemed reenacted after Congress failed to pass the General Appropriations Bill by December 31, 2018. .

In response, the Department of Budget and Management has issued Circular Letter No. 2019-1<sup>3</sup> guiding national government agencies and instrumentalities in operating under a reenacted budget for the first quarter of the year.

We expect that by second quarter, the 2019 General Appropriations Act would have already been signed into law. Until then, we are following a clear and strict set of rules in the implementation of this reenacted budget.

Issuances like Circular Letter No. 2019-1 are published regularly on our website, among many other issuances that guide the budget processes overseen by the DBM.

The Department of Budget and Management is rigorous in publishing budget information. It is for this reason that we are ranked first in Asia and 19th in the world for budget transparency. It is also ranked third in public participation.

The DBM has also been recognized as a Freedom of Information (FOI) Champion Department for 2017 and 2018.

Gone are the days notorious for certain individuals' discretion in the handling of public funds.

I hope I have satisfactorily answered all the questions you raised in your recent political commentary. But if you have other questions, don't hesitate to email me.

Best regards,

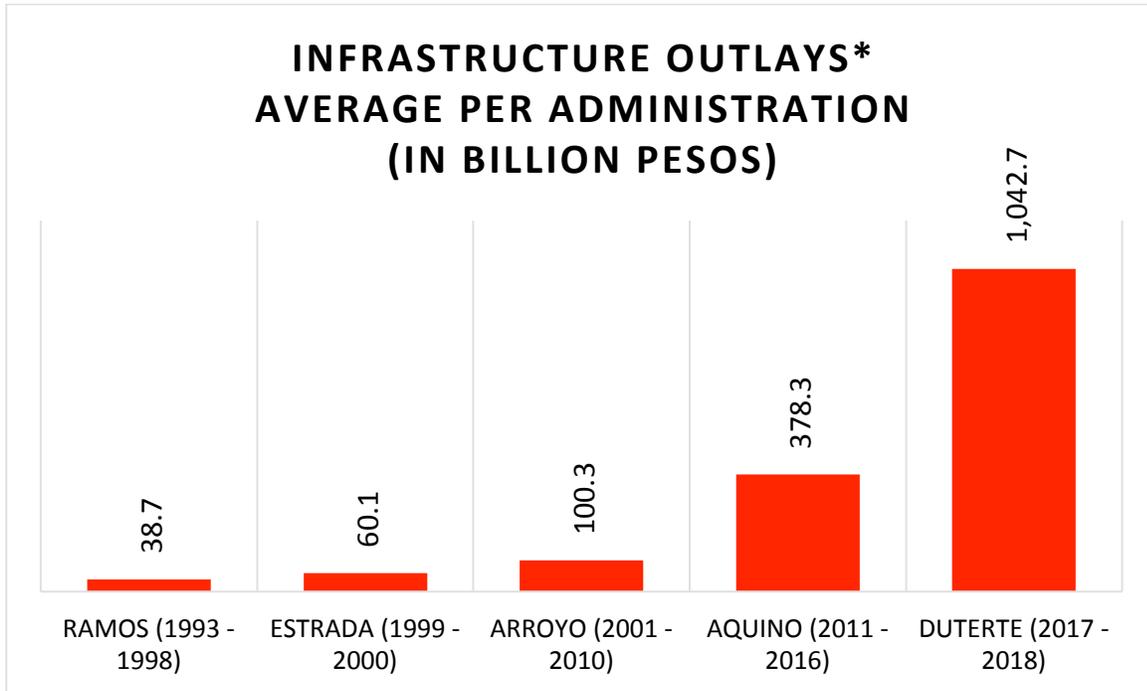
Ben

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<sup>3</sup> <https://www.dbm.gov.ph/index.php/231-latest-issuances/circular-letter/circular-letter-2019/1318-circular-letter-no-2019-1>

**ANNEX: SUPPORTING CHARTS AND TABLES**

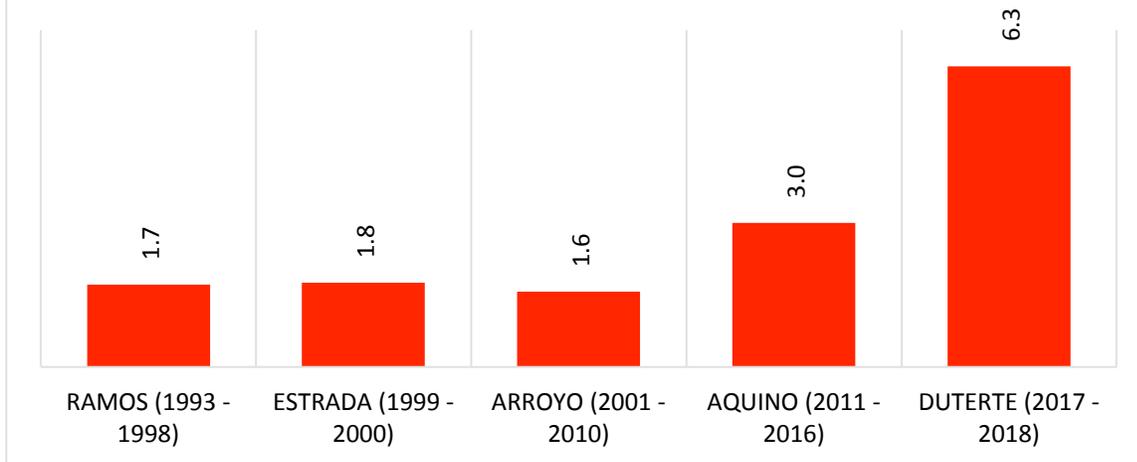
**CHART 1**



*\*Infrastructure Outlays are based on actual obligations from 1993 to 2017, and program obligations in 2018.*

**CHART 2**

**INFRASTRUCTURE OUTLAYS\*  
AVERAGE PER ADMINISTRATION  
(% OF GDP)**



*\*Infrastructure Outlays are based on actual obligations from 1993 to 2017, and program obligations in 2018.*

**CHART 3**

**DPWH BUDGET  
AVERAGE PER ADMINISTRATION  
(IN BILLION PESOS)**

