

OF SCAMS AND LUMPSUMS:

The Need for Greater Participation, Transparency and Accountability in the Department of Agriculture Budget Process



EXECUTIVE SUMMARY

The increasing budget allocation for the Department of Agriculture (DA) is good news for the agriculture sector. However, there is great concern over the proper and effective use of these resources, given the scams and fund irregularities associated with the department in recent years.

The DA budget is highly centralized, with funding concentrated in the Ginintuang Masaganang Ani (GMA) Commodity Programs which are controlled by the Office of the Secretary. DA Bureaus and Regional Field Units (RFUs) are only allocated funds for salaries and the most basic operating expenses in the proposed budget. 75% of the budgets of the DA bureaus are for personal services while it is 85% for RFUs. These operating units of the DA thus have to rely on fund transfers from the central office, mainly through the commodity programs.

The department's budget structure provides an insight into its planning process. Programs are centrally designed without the benefit of effective consultation and feedback mechanisms. Regional Field Units have little flexibility in running locally designed programs given that funding is controlled by the GMA Commodity Programs at the central office. Furthermore, the proliferation of lump-sum budget items and the difficulty of accessing budget information raises transparency issues with the DA Budget. The 2007 COA report also cites weak accountability mechanisms in some of the department's programs.

Such an overly centralized budget structure with weak transparency mechanisms leads to or exacerbates several problems. These include the mismatch of DA assistance with local needs, further delays in program implementation and the use of DA funds for other purposes.

There is thus a great need to improve transparency and participation in the DA Budget process. This policy brief provides several recommendations towards this, in the hope of making the DA Budget more responsive to the needs of the agriculture sector, especially those of small farmers and fishers.

Published by:

Caucus of Development NGO Networks (CODE-NGO)

69 Esteban Abada Street, Loyola Heights, Quezon City Philippines

Telephone Numbers (632) 435-6616, (632) 926-8131 and (632) 920-2595

E-mail: caucus@codengo.org

Website: www.code-ngo.net

Editor: Sixto Donato C. Macasaet

Writer: Patrick O. Lim

Cover Design and Lay-out: Yanee Aguirre

OF SCAMS AND LUMPSUMS: The Need for Greater Participation, Transparency and Accountability in the Department of Agriculture Budget Process

The Macapagal Administration proposed an unprecedented Php39.7 billion¹ budget for the Department of Agriculture (DA) in its National Expenditure Program for the year 2009, a 55% increase from the previous year's budget. While the proposed budget increase is good news for the agriculture sector, there is much concern over the proper and effective use of these resources, given the scams and fund irregularities associated with the department's programs in recent years. This brief provides an analysis of the DA budget and proposes several recommendations to help improve transparency in budget planning and execution.

A Highly Centralized Budget and Planning Structure

The Department of Agriculture is composed of 6 bureaus, 14 regional field units (RFUs) and 10 attached agencies, and several other units like the GMA Commodity Programs which operate under the Office of the Secretary (OSEC). The DA Secretary also has supervisory functions over 12 different Government Owned and Controlled Corporations under the DA such as the National Food Authority and the National Irrigation Administration.

Table 1: Distribution of Proposed 2009 DA Budget across Units and Projects

BUDGET ITEMS	2008 (in 000s)	2009 as proposed in NEP (in 000s)	Percent increase from 2008	Percent of 2009 Budget
Regular OSEC programs	940,284	1,226,432	30.4%	3%
Bureaus	848,579	972,566	14.6%	3%
Regional Field Units (RFUs)	1,076,860	1,168,736	8.5%	3%
Attached Agencies	1,208,990	2,969,198	145.6%	8%
GMA Rice	2,631,874	9,438,862	258.6%	25%
GMA Other Commodities	3,302,108	5,165,846	56.4%	13%
Locally Funded Projects	3,152,783	4,211,743	33.6%	11%
Foreign Assisted Projects	3,649,041	583,943	-84.0%	2%
Irrigation Projects	7,996,528	12,550,468	56.9%	33%
TOTAL	24,807,047	38,287,794	54.3%	100%

The President's budget for 2009 allocates the lion's share of the DA Budget for Irrigation Projects which receives 33%. It is followed by the GMA Rice Program with 25%. The three other GMA commodity programs: high value commercial crops, livestock and fisheries collectively receive 13%. On the other hand, the regular bureaus, regional field units and attached agencies of the DA will receive a significantly smaller share of the DA budget at 3%, 3% and 8% respectively².

DA Bureaus and RFUs are not directly allocated funds to run programs as their budgets are only enough to cover salaries and the most basic operating expenses. 75% of the budgets of the DA bureaus are for personal services while it is 85% for RFUs. These operating units of the DA thus have to rely on fund transfers from the central office, mainly through the commodity programs.³

The budget structure provides an insight into the planning process within the Department of Agriculture. Resources for program implementation are controlled by the OSEC, leading to programs that are designed at the center without the benefit of effective consultation and feedback mechanisms. Regional offices have little flexibility in running their own programs, and are only consulted with regard to the target production areas for the commodity programs.

An overly centralized budgeting and planning structure also leads to or exacerbates several problems. These include:

- a. Mismatch of DA assistance with local needs

In 2007, the uncoordinated acquisition of post-harvest facilities by the National Agribusiness Corporation (NABCOR) resulted in the non-utilization of P95 million worth of post-harvest facilities. This was due to the lack of coordination between the source agency and the implementing agency on the kind of post harvest facilities to be used, and the inadequate feasibility study on determining the real need of farmer beneficiaries.⁴



Boxes of Grow Plus remained on stock at OPA, Pampanga four months upon receipt.



Bags of organic fertilizers stored at OPA, Pampanga.

Source of pictures: COA Report on GMA Rice Program 2007

b. Exacerbating delays in program implementation

The 2007 Commission on Audit (COA) report is replete with cases wherein government resources were wasted due to the late or non-distribution of farm inputs. While the DA assigns blame to the Department of Budget and Management's (DBM) late authorization of expenditures, DBM executives clarify that all departments are authorized to obligate expenditures as soon as the year begins, even before the approval of the GAA. Regardless, the practice of having no regional allocation in the lump sum budget allocations for the commodity programs contributes to the delays in fund releases.

c. Use of funds for other purposes

Php 6.8 million intended for the GMA Hunger Mitigation Program and for post harvest facilities were diverted for the purchase of service vehicles for OSEC officials. Another Php 12 million intended for the construction of a food market center and for the GMA Hunger Mitigation Program was also diverted for repainting and renovation of the DA-OSEC building.⁵

Lump sums and Lack of Transparency

The Department of Agriculture (DA) often makes it to the headlines with the numerous 'scams' associated with their programs and projects, the most recent relating to fund irregularities detailed in the 2007 Audit Report of the COA . Such irregularities can more easily occur under the department's highly centralized budget structure. Furthermore, the DA budget as detailed in the General Appropriations Act contains a proliferation of lump sum budget items amounting to billions of pesos. The top 6 lump sum items in the DA budget comprise about 57% of the department's proposed total budget (see Table 2).

Table 2: Top 6 Lump Sum Items in the DA Budget

GMA Rice	9,438,862,000.00
GMA Corn	817,709,000.00
GMA High Value Commercial Crops	2,154,011,000.00
Market Oriented Programs including Brgy. Food Terminals...	500,000,000.00
Repair/Rehabilitation and Construction of Farm to Market Roads...	3,650,000,000.00
Restoration / Rehabilitation of Existing NIA-assisted Irrigation Systems	6,000,000,000.00
TOTAL	22,560,000,000.00

Transparency takes a back seat under the current budget structure as it makes it difficult to track and monitor the release and utilization of DA funds. This has made it easier for fund irregularities and corruption to take place. There is thus a great need to improve the transparency in the preparation and execution of the DA budget.

Two of the irregularities identified in the COA Audit report have been given coverage in the national broadsheets:

a. Fabricated list of farmer beneficiaries

The first issue concerns the fabrication of the master list of beneficiaries for the distribution of seeds / fertilizers, reminiscent of the Bolante fertilizer scam. In responding to this issue, DA management washed its hands, explaining that local government units were the ones who distributed these farm inputs. This highlights the weak accountability mechanisms in place within the DA as the department does not validate whether or not Local Government Units (LGUs) are making good use of DA resources and implementing the department's programs properly.

b. Use of POs/NGOs for possible malversation of funds

The second issue relates to the transfer of DA and Priority Development Assistance Fund (PDAF) funds to people's organizations (POs) / non-government organizations (NGOs) with questionable existence or capacity. Some of the identified NGOs were not registered with the Securities and Exchange Commission, Cooperative Development Authority or the Department of Labor and Employment as required by COA regulations. Others were involved in overpricing while others seem not to have implemented their contracted projects at all.

POs/NGOs that had adverse findings in past COA reports were not barred from receiving more fund transfers from the DA or from PDAF. Examples of such organizations from Region IV include:

b. Strengthen PO/NGO participation in the DA Budget process

While there are several institutional mechanisms for PO/NGO participation within the DA, they are weak, ineffective, and do not engage the budget process. The department must strengthen its existing participatory mechanisms to be more in tune with the needs of farmers, as well as generate greater civil society support for its programs. Some initial steps that could be taken include:

b1) Strengthen the NAFC and AFCs as a venue for stakeholder consultation on and monitoring of the DA Budget

PO/NGO representatives in the National Agricultural and Fishery Council (NAFC) lament that the council fails to act as an effective mechanism for participation in the department's policy making and budget process. Most of the committee meetings at the national level only serve as sessions for information dissemination. Policy and strategy are not often discussed in these meetings. The NAFC and Agriculture and Fishery Councils (AFCs) at the local level should be used as a venue for meaningful consultation on the DA Budget.

b2) Institutionalize consultation on the DA Budget at the national, regional and local levels

The DA should complement the AFCs by also institutionalizing regular and broad stakeholder consultations on its proposed budget. National and regional/local consultations with POs/NGOs and other stakeholders should be held at least twice a year - one prior to the submission of the agency budget to the DBM, and another one after the budget is approved by Congress.

b3) Strengthen NAFC and AFCs role in monitoring the Agriculture and Fisheries Modernization Program

Part of the mandate of NAFC and the AFCs is to monitor the implementation of the government's Agriculture and Fisheries Modernization Program. However, this mandate is not being fulfilled by NAFC/AFCs. NAFC and the AFCs should take a more active role in monitoring the implementation of the department's programs and the use of their budgets. Information on program implementation, budget allocation and releases should be presented to members of the AFCs so that they can monitor these in their respective localities. This will also allow for timely feedback on the department's programs.

b4) Engage NGOs / POs in third party monitoring and evaluation of select DA projects and programs

The DA together with NGOs and POs should explore the possibility of external project monitoring and evaluation. If successful, this will help the DA improve upon their programs and help plug leakages in program implementation.

c. Decentralize funds to Regional Field Units and LGUs

Decentralizing some of the DA program funds to the RFUs and the LGUs can allow for the creation of more responsive programs through local planning. The DA RFUs should assist the different Provincial Agriculturists in drafting a consolidated provincial agricultural plan with the input of all Municipal Agriculturists within their province. This has previously been implemented in the department and should be institutionalized. Such a practice will not only better identify local needs, but will also help raise the capacity of LGUs to craft and implement their own agricultural development programs.

d. Fast track the review and implementation of the department's reorganization

The academic literature has long criticized the DA for having a complex structure with many units having overlapping functions. Streamlining its structure will help make more efficient use of DA funds. A draft executive order reorganizing the department had already been prepared. However, even if this plan has gained wide approval throughout the department, it has been subjected to further review by Secretary Yap and has not progressed since.

- Samahan ng mga Manininda ng Prutas sa Gabi: had unliquidated balances of Php42.8 million in 2005⁶, was involved in Php4.4 million overpricing of water pumps in 2006⁷ and was cited for questionable legitimacy by COA in 2007⁸
- National Organization for Agricultural Enhancement Productivity Inc: had unliquidated balances of Php81.2 million in 2005⁹, involved in Php1.5 million overpricing of fertilizer in 2006¹⁰, and cited for doubtful implementation of Php10 million project in 2007¹¹

c. Circuitous fund transfers to and from NABCOR

COA also faulted DA Management for its dubious practice of circuitous fund transfers wherein regular DA and PDAF funds were unnecessarily transferred to National Agri-Business Corporation (NABCOR). Funds from the DA-OSEC, BSWM, RFU VII and RFU X were transferred to NABCOR after which it was transferred to NGOs. This practice of transferring funds from one unit to another, and then another seems intent on making it more difficult to trace accountability. It would have been simpler if source agencies transferred the funds directly to the implementing NGOs. As of 2007, NABCOR has accumulated unliquidated funds totaling 1.067 billion.

RECOMMENDATIONS

While the increasing budget allocation provided to the Department of Agriculture is good news to the sector, there is much that needs to be done to make the use of these funds more effective and more responsive to the needs of the sector, especially those of small farmers and fishers. This document outlines several recommendations for the DA and Congress to consider. These recommendations seek to 1) improve transparency; 2) enhance participatory mechanisms; and 3) modify the DA organizational and budgetary structure.

Department of Agriculture

- a. Improve transparency in the DA's budget planning and execution

The following steps can be taken to provide easier access to budgetary information and thus improve transparency:

- a1) Include the regional breakdown or list of projects for the following lump sum budget items in the GAA:
- GMA Commodity Programs
 - Farm to Market Roads
 - Rehabilitation of Existing NIA-assisted Irrigation Systems



Funding for these programs and projects are currently contained in single line lump-sum budget items in the General Appropriations Act. The Department of Agriculture argues that lump-sum budgeting is required to give the DA Secretary the necessary flexibility to meet the demands of the volatile agriculture sector. While it is true that a certain degree of flexibility is needed, this does not mean that the entire Php 9.4 billion budget of the GMA Rice program needs to be reflected entirely as a lump sum appropriation. Identifying regional allocations during budget preparation and soon after the GAA is approved will help promote better transparency as well as reduce delays in the release and transfer of funds to implementing agencies.

- a2) Make the work and financial plans of DA programs/ projects available to POs and NGOs once the budget is approved

To complement the first recommendation, the DA should make the work and financial plans of these programs available to the public.

- a3) Publish quarterly physical and financial accomplishment reports (disaggregated by province) for its commodity programs and infrastructure investments on its website

All government agencies are required to submit quarterly physical and financial accomplishment reports in the form of "Budget Execution Documents" and "Budget Accountability Reports" to the DBM. Easy access to these documents should be provided by publishing them on the agency web sites.

Department of Budget and Management

- a. Improve transparency in the DA budget process and execution:
 - a1) Provide civil society organizations access to agency budget execution documents and budgetary accountability reports which are regularly submitted to the DBM.

Access to timely information is crucial in detecting anomalies and irregularities in the expenditures and program implementation of any agency. In the interest of greater transparency, the DBM should make public the accomplishment reports submitted to them by all government agencies.

- a2) Invite PO/NGO representatives during the DBM's Technical Budget Review of the DA Budget and the Agency Performance Review

PO/NGO stakeholders should also be invited as observers or participants in the Technical Budget Review and the Agency Performance Review conducted by the DBM. This will serve as an additional venue wherein POs/NGOs can provide feedback on the priorities and programs of the Department of Agriculture. This will also strengthen PO/NGO participation in the DA budget process.

Congress

- a. Improve transparency in the DA budget process and execution

a1) Include regional allocation and list of projects for GMA commodity programs, farm to market roads and rehabilitation of irrigation systems in the GAA

Congress should require a more detailed breakdown of these massive lump sum items in the DA budget. However, if this is unattainable, an alternative would be for Congress to require the DA to submit to Congress a line-item breakdown of these lump sum budget items soon after the GAA is approved. These documents should be made available to the public by both the DA and Congress.

- a2) Insert a right to information provision in the General Appropriations Act

In 2007, a Right to Information Provision was included in the General Appropriations Act¹². However, this was removed in the 2008 Budget. Congress should once again include this provision in the GAA. In addition, Congress should require the DA to publish on its website the quarterly physical and financial accomplishment reports it submits to the DBM. Regional field units should also publish their regional reports on their individual websites.

- b. Strengthen NGO / PO participation in the budget process

One step Congress could take to improve public participation in the budget process is to allow civil society organizations to present their feedback on agency proposed budgets during sub-committee hearings. There are several bills with this intent already filed in the House of Representatives.



END NOTES

¹This figure excludes the Php5 billion proposed support for Government Owned and Controlled Corporations (GOCCs), Php4 billion of which is allocated for the National Food Authority (NFA)

²The percentage for attached bureaus is understated since these do not include allocations for the GMA Fisheries program which is controlled by the Bureau of Fisheries and Aquatic Resources. These were included under the GMA Commodity programs.

³The situation is the same for most of the attached agencies, except for Bureau of Fisheries and Aquatic Resources (BFAR) which has control over the funds for the GMA Fisheries Program and the National Agricultural and Fisheries Council (NAFC) which controls funds from the KR2 and PL-480 programs are coursed through NAFC. KR2 and PL-480 are official development assistance programs from Japan and U.S.A. respectively.

⁴COA Annual Audit Report on DA 2007 , Observation No. 2.4 and 2.5

⁵Ibid, observation No. 25

⁶COA Audit Report on DA 2005, Observation No. 26

⁷COA Audit Report on the DA 2006, Observation no. 12.3

⁸COA Audit Report on DA 2007, Observation no. 7

⁹COA Audit Report on DA 2005, Observation no. 26

¹⁰COA Audit Report on the DA 2006, Observation no. 12.3

¹¹COA Audit Report on DA 2007, Observation no. 6.9 and 7

¹²General Provisions, Section 90, FY 2007 General Appropriations Act reads: "The provision in the 2007 GAA reads as "Right to Information. Subject to such limitations as may be provided by law, the right of the people to information on matters of public concern, guaranteed under Section 7, Article III of the Constitution, as well as with the State policy of full disclosure of all its transactions involving public interest, every government agency shall, upon request by any citizen, make available the date under their possession for information, scrutiny, copying or reproduction all records of information, in any form whatsoever, pertaining to the implementation of the appropriations under this Act including but not limited to information on projects, disbursement of funds, reports, contract biddings and awards."



Caucus of Development NGO Networks

This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID) and Management Systems International (MSI). The contents are the responsibility of Caucus of Development NGO Networks and do not necessarily reflect the views of USAID and MSI or the United States Government.

