

# An urgent MDG message: **Inadequate funding places MDGs at risk**

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## Introduction

**I**n five years time (2010-2015), the Millennium Development Goals (MDGs) will be due. These are the eight development goals which the international community of nations has committed to attain within 15 years. The deadline will occur during the fifth year of President Benigno S. (Noynoy) Aquino's administration.

In 2015, all the 191 country signatories to the MDGs will meet at the United Nations and report on the success or failure of the MDGs. Even now, the sense of urgency is palpable. Countries are busy assessing each of the 8 goals to determine which are likely to be attained and those which are at risk. They are working out strategies to speed up the attainment of goals which have lesser chances of being reached.



The latest official report on the status of the MDGs in the Philippines<sup>1</sup> reveals that, among others, indicators for education are going down, attainment of the goals for reduction of maternal mortality may not be achieved, and the targets for nutrition may not be reached.

### **Financing the MDGs: a major roadblock**

Social Watch Philippines has been advocating for adequate funding for social development since its organization in 1995 as part of the international network of Social Watch. This was in the wake of the Copenhagen Summit of the same year, when the international community committed itself to the attainment of social development goals, e.g. reduction of poverty, attainment of stable employment levels, enhancement of the status of women, and sustainable development.

When the MDGs were adapted by the international community in 2000, Social Watch Philippines immediately called for estimates of the costs of the MDGs. Even at that time, it was clear that financial resources as allocated in the budget were inadequate. This was also true in other countries.

In 2002, Dr. Rosario Manasan of the Philippine Institute of Development Studies came out with annual estimates of additional resources required for selected MDGs. These estimates were used by Social Watch to gauge the adequacy of budgetary allocations for the MDGs. In 2006, graduate students of the National College of Public Administration and Governance examined the budget allocations in terms of the Manasan estimates. As expected, these were woefully inadequate.<sup>2</sup>

Spending for education and health as a percentage of the total budget has been declining over the years. While it is expected that spending for social development will increase in the light of population increases, with the emergence of epidemics and the need to catch up with accumulated shortfalls, the opposite has been happening.

### **Chronic shortfalls in revenue**

The continuing inability of collection agencies to generate targeted revenues remains a major problem in financing the MDGs. Collection efficiency remains low. Problems in revenue administration are exacerbated by what is politely referred to as “deviant or negative bureaucratic behavior.”

At the same time, increases in tax collections from the Value Added Tax are mitigated by increased levels of foregone revenue. These are huge amounts of revenue lost due to unnecessary tax incentives, tax breaks, perks and exemptions. What is taken on the one hand by increased VAT rates is given away by the other hand through incentives.

In 2009, the Secretary of Finance Gary Teves wrote Sen. Edgardo Angara, who was then Chair of the Finance Committee of the Senate, that an additional Php 75 billion was expected to be collected due to the increase in VAT rates. However, he noted that foregone revenues due to laws passed by Congress which granted more tax incentives would total Php 90 billion!

### **Problems in the budget process**

Social Watch has pointed out time and again that our budget system is driven and dominated by the executive. This is obvious when the budget process is examined. The budget preparation stage is handled by the executive. This is when the magnitudes of the budget are calculated, the deficit figured out and the budget call is issued. The different agencies of government submit budget proposals based on parameters issued by the executive. Technical hearings are conducted by the Department of Budget and Management. Budget estimates are then collated and presented to the legislature.

The budget legislation stage is within the ambit of the legislature. Nonetheless, the executive plays an active role. If the House and Senate are in a deadlock over the budget, the previous year’s budget is reenacted. Once the Bicameral Committee agrees on the budget which is then presented to the president, he or she can veto the budget in part or as a whole.

The budget implementation stage is the arena of the executive. The president can withhold the release of funds even if these are provided for in the appropriations law. He or she can transfer funds from one agency to another, and declare savings if necessary. Thus the functions of resource allocation can be taken over by the executive.

In recent times, this practice has reached grotesque proportions. In 2004, the DBM reported that the president transferred Php140 billion from various agencies to other offices.

<sup>1</sup> The Philippines Fourth Progress Report on the MDGs, Third Draft, 07/12/2010.

<sup>2</sup> Social Watch Philippines. 2006. Moving forward with the Millennium Development Goals: May pera pa ba?

The use of the budget instrument for political vendetta also reached new heights. Pork barrel allocations and budget items sponsored by members of the opposition were withheld under the flimsiest of reasons.

The final stage of the budget process which is budget accountability has not been effective. Last year, the Commission on Audit formally reported to Congress that in 2008, government expenditures exceeded the amounts provided for in the appropriation law. Nothing came out of that report.

### **The Alternative Budget Initiative**

In 2006, Social Watch Philippines went into partnership with progressive legislators from the House of Representatives and the Senate in order to increase available allocations for selected MDGs in what is now known as the Alternative Budget Initiative (ABI). Civil society organizations worked closely with congressmen and senators in formulating alternative budget proposals in four areas: education, health, agriculture and the environment.

As proposed by ABI, a total of Php 5.3 billion was added to the 2007 national budget, while Php 6.3 billion was added to the 2008 budget for education, health, agriculture and the environment. In 2009 and 2010, the national budgets were increased by Php 6.7 billion and Php 5.4 billion respectively for the above four categories.

### **Financing the MDGs under the new administration**

Last August 25, the President submitted the proposed 2011 National Budget to Congress. This cannot be considered completely as his budget since the budget cycle started last May 12 with the budget call. When President Aquino took over the reigns of government last July 1, the budget was practically finished already.

Nonetheless, there are features which augur well for budget reform. The most important of these is the effort to reach out to the public, particularly civil society. In his budget message, the President asked the private sector, civil society and the general public to help monitor the implementation of the budget.

This is a good enough start even as Social Watch Philippines is of the view that Participatory Budgeting is not only about monitoring the implementation of the budget. It is also about effective public participation in the entire budget cycle—starting from the preparation phase to accountability.

On the other hand, revenue collection agencies, particularly the Bureau of Internal Revenue (BIR) have been active in tracing tax evaders and filing cases. It is heartening to note that the focus is on the collection of direct taxes, namely income tax.

It is to be hoped that the practice of indiscriminately granting tax incentives by Congress to the private sector will not only be moderated but stopped.

Along with the rest of the public, Social Watch Philippines is still waiting for the much promised imposition of 'sin' taxes to generate additional revenues for the MDGs.

### **An urgent message: inadequate funding places the MDGs at risk!**

The Social Watch Shadow Report has shown that there are problems with each of the MDG goals which goes beyond the numerical targets themselves and can be linked, among others, to inadequate financing.

Poverty remains intractable; education statistics are deteriorating and the goals for maternal mortality are at risk. Still another disturbing fact is that the indigenous peoples are left behind in the MDG race. There are 18 million indigenous people in the Philippines. Many of them live below the poverty line. Their communities are among the poorest in the country. The National Commission on Indigenous Peoples (NCIP) is attached to the Department of Environment and Natural Resources even as their problems and concerns are more complex than the issue of ancestral domain. Out of the total NCIP 2010 budget of Php 621 million, Php 560.847 million is for projects and operations. This is less than the combined pork barrel of three senators.

### **Recommendations for financing the MDGs**

In summary, the following are recommended in order to generate more resources for the MDGs:

- Improve tax collection efficiency;
- Rationalize the incentives system;
- Ensure that government owned and controlled corporations (GOCCs) remit the dividends due to the government and regulate their salaries and other compensation;
- Accelerate the recovery of ill-gotten wealth from different officials; and
- Review 'invisible budget' items and tap the Global Climate Change Fund.

**The 2015 deadline is nearing. We cannot fail.**

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