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Policy transfer in the Philippines: Can it pass the localisation test?

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Abstract

Policy innovation may reflect the shaping forces of local circumstance as much, if not more, than stimulants from abroad. The paper works through a case study of the transfer of budgeting processes from Australia to the Philippines. Although the project did elicit "local ideas", it took the idea of Australian budget management as an exemplar, thus achieving mixed results. Patterns of transfer are refracted through the lens of lived political and bureaucratic experiences in the Philippines which in turn are affected by the Philippine political, legal and social context. They hide the actual politicization of the policy process—a postcolonial legacy that protects clientelism. The paper does not suggest abandoning policy transfer. But to accelerate the rate of policy transfer over time, the urgent need is to endow local policy makers the capacity to analyse their own situation and tailor policy to fit the domestic context, rather than simply apply standard models.

Key words: policy – transfer; import; & export, path dependence, clientelism, best practice.

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Introduction

Learning from other countries is not new. The Philippines has a long history of policy import and export. Some policy innovations spread through conquest—legal systems, like civil law from Spain, or the administrative system from the United States. Other innovations spread because the Philippine government faced parallel, transnational pressures (e.g. stock exchange, social insurance, and modern trading systems). They are part of the global market for innovations.

Modern policy transfers[2] have been powerful demand-driven instruments for promoting better practices in the public services. But policy transfers can be sources of uncertainty and instability, if the innovation brought in from abroad is inappropriate, or coercively adapted. In the case discussed below—a planning/budgeting reform program—the transfer was "mimetic" in that the public agencies were disposed to a certain extent to learn from others, which reduces the transaction costs of innovation. However, the circumstances generating the demand for change, following Page (2000), hewed closely along the lines set out by a particular model to be adopted.

The shaping forces of localisation

This paper argues that policy innovation may reflect the shaping forces of local circumstance as much, if not more, than stimulants from abroad. The paper focuses on the crucial question of how local conditions generate acceptance or resistance to the application of the policies or practices to be emulated by the importing country, whether in modified form or not (Page, 2000). Arguably, lessons from other country experiences will be learned in ways that reinforce national practices more than they transform them (Bomberg & Peterson, 2000). Examining the contextual details helps to clarify why particular institutions emerged in a particular historical setting and how they are maintained (Greif, 1993, cited in Helpman, 2004).

Reforming the budget process

The impetus: recurring budget deficit

Fiscal management reform in the Philippines has attracted donors as early as the start of the administration of Joseph Estrada in 1998. The Department of Budget and Management was the implementer of a number of donor programs designed to improve budget execution and monitoring, and the efficiency of public expenditures. The development of a medium-term expenditure framework was among the targeted systems.

The stimulus for these concerns stemmed primarily from the persistence of aggregate fiscal crises, driven primarily by large budget deficits. The stringent budgetary climate provided enough incentive to induce the government to reduce the share of government outlays in the GDP. The use of the budget as instrument for forward expenditure management was meant to address the inadequacy of resources for basic services and arrest the deteriorating fiscal position (Boncodin, 2004).

The fiscal deficit remains a weak link in the Philippine government's macroeconomic performance, even if recent tax measures passed by the legislature have produced modest budget surpluses. For this reason, Australian assistance has gravitated around public expenditure management as a niche area (Commonwealth of Australia, 2004). To this end, the Philippines-

[2] When knowledge about policies in one time and/or place is used in the development of policies in another time and/or place (Dolowitz and Marsh 1996)

Australia Partnership for Economic Governance Reforms (PEGR) was established as a five-year facility intended to support the Philippines in the implementation of fiscal reform. The facility is a partnering arrangement between the DBM, the National Economic and Development Authority, AusAID and the Partner Contractor (Sagric International). A Facility Board, composed of members from the Facility Partners, provides the overall policy direction (www.pegr.org – facility profile).

A multi-year perspective in budget planning

A critical element of budget reform for policy transfer, is building in a medium term expenditure framework (MTEF). This is an accounting framework for linking annual budgeting decisions to medium-term spending constraints. Its most important elements are (1) formal "forward" or "out-year" estimates—the first out-year estimate of expenditure becomes the basis of budget negotiations for the following year; and (2) departments' and agencies' budget appropriations become hard budget constraints.

The centrepiece of Australian aid, within the context of the partnership, was MTEF. The key was to give agencies a greater degree of certainty about resources not only in the budget year ahead but within a 3 to 5 year cycle, so that they could reasonably be held accountable for delivering the outputs and outcomes expected of them (PEGR, 2005b). The one year budgeting framework has come under fire for its incremental tendency to allocate resources for agency programs and its inability to redirect the budget towards priority and desired areas. Unlike in past years, resources under this framework could be projected conservatively (Diokno, 1999).

PEGR itself, in pushing for multi-year budget planning, recommended the use of *rolling forward estimates* for the three 'out-years' of the budget to provide a basis for medium term decision making and a firmer base for agency-level planning to improve service delivery. For DBM, the delivery of the forward estimates was given top billing (www.pegr.org).

Thus, the budgetary restructuring involves an interlocking set of changes associated with the devolution of financial and management decision-making to program agencies. Managers would have discretion in the use of funds exchange for pre-specified outputs (Montero, 2005). DBM would have to give up some of the present high level of control over the pattern of spending within each program agency in return for two key benefits (OECD, 1998): (1) increased control over the medium-term profile of total budget spending, and (2) increased scope for new spending priorities to be funded by re-directions from existing, less cost-effective, activities. In any case, DBM was keen to get out of the detail of spending issues, where it was often bogged down in minor spending bids and disputes with departments (Boncodin, 2004).

In the administrative arena, MTEF calls for greater integration of the planning and budgeting systems involving NEDA, the DBM, and the Department of Finance (Hayashi, 2001). This proposed "integration" has set the stage for PEGR's reform agenda on plan-budget harmonisation involving NEDA and DBM. This reform agenda was supposed to complement indigenous knowledge with up-to-date systems that have worked effectively in other countries (PEGR, 2005a)

The exemplar: Australian budget management

By any measure, according to Schick (2001), Australia leads the international budget reform sweepstakes. Between 1980-2000, it has pioneered forward estimates, running cost arrangements, accrual accounting and budgeting, output–outcome measures, and other reforms. Dozens of countries have copied its innovations, and international institutions have actively promoted the medium-term expenditure framework Australia devised.

Australia embarked on its comprehensive reform program in the early 1980s when its fiscal crises raised serious concerns about the affordability of federal policies. The system of forward estimates, which had previously been a peripheral device, was put at centre stage to guarantee future resource availability for departments (Hofman, undated).

Aggregate fiscal targets

Beginning in 1985, the central government embraced a medium term strategy of not increasing outlays or revenue as a proportion of GDP and of reducing the deficit/GDP ratio. The Australian Government reigned in spending and the budget deficit of around 3½ per cent of GDP in 1983-84 was converted to a surplus of nearly 2 per cent five years later (Gruen & Sayegh, 2005). Campos and Pardhan (1997) confirmed a significant shift away from central to line agencies as the source of savings in order to achieve aggregate fiscal targets.

Forward estimates of the cost of existing policy

The system of rolling three-year financial estimates gained momentum in Australia through the 1980s. After the budget is passed, the first year of the forward estimates becomes the base for next year's budget bid, and another outyear is added to project the level and composition of expenditures for three years, assuming no policy changes (Hofman, undated).

As the system has evolved, the government is required to disclose and justify the costs of policy decisions leading to discretionary changes in expenditures over the three-year forward estimate period. This has served as a transparent and accountable mechanism to show areas of policy change as well as the future demands on resources (Campos & Pardhan, 1997).

The choice of policy components to carry over

PEGR consultants from Australia and the Philippines conducted a diagnostic exercise of the Philippine budgeting process sometime in 2005, and came up with its findings that seem to suggest that the Australian budget management template was on their mind. As recorded in the PEGR website, the findings indicate the gaps that need to be filled for the Philippine system to be more up-to-date.

Some of the more important gaps are as follows:

- Philippine government's exercise of fiscal responsibility was being achieved through suppression of expenditure, particularly on infrastructure.
- Budgets are not framed on conservative forecasts; scrutiny of agency budgets is influenced more often by funding capacity;
- There is a need for a high level budget strategy which addresses resource allocation between sectors, and key risks and pressures.
- Micro-management of cash disbursements at central level tends to undermine agency planning and ability to deliver improved results (PEGRa).

The consultant's key recommendations to develop an MTEF for the Philippines involve two key areas: (1) moving to a strategic link between planning and budget, and (2) establishing a forward estimates framework.

Current PEGR effort is concentrated on the first, although it has achieved a breakthrough of sorts on the second goal when DBM submitted this year a forward estimates framework to Congress for next year's budget cycle. There is an apparent realization that policy transfer can only occur incrementally, in relation to every stage of the MTEF process.

An important requirement of a medium-term budget framework for developing countries is the link between medium-term plans and current budgets. Without the coordination that results from such a link, the usefulness of a multi-year budget framework is limited. For now, the strategy seems focused primarily on harmonisation of inter-departmental planning/budgeting policy, using a number of institutional and organisational tools (governing technologies). As Diokno (1999, p. 136) explained early on, "We consider interdepartmental coordination very important as a way to build support, and avoid inconsistencies and bottlenecks in the implementation process."

But as Diokno admitted, in the Philippines, the different oversight agencies in government are at different stages of their own reform. These "reform silos" may point to common objectives, but in practice their ways extend in different directions. Divergence has costs, and only interdependence in addressing cross-cutting policy problems can yield benefits.

With the harmonisation of NEDA-DBM as objective, PEGR looked into existing management systems and tools of DBM and NEDA with the aim of taking the best of these systems and building from them rationally linked systems that promote performance-based approach in planning and budget management (PEGR, 2005b). As for the forward estimates, initial indications suggest that it does contain only rough approximations of expenditures. This will nonetheless provide a useful starting point for considering medium-term changes in budget policy. As the IMF (undated) argues, *for many developing countries, only an aggregate forecast will be feasible*.

Seemingly, the project has identified what works well in a different context such as the Philippines. Yet there are indications that even inter-agency harmonisation has faced "operational" difficulty, raising important unanswered questions concerning the efficacy of donor-driven policy transfer. As PEGR itself analysed the project risks, some DBM and NEDA staff might be reluctant to accept tasking that arise from the effort. Some officials and staff of DBM and NEDA might not agree to recommendations on coordination, harmonisation and reorganisation, which if mishandled, could degenerate into outright opposition (PEGR, 2005a). Another issue was the low absorptive capacity of government agencies to participate in the reform activities, or possible resistance to reforms in light of instability, perceived or otherwise, in their working conditions (PEGR, 2005b).

What could explain these possible weak spots early in the project's life?

Firstly, a plausible explanation, and an easy way out, is to say that there is a significant gap between policy intent and the realities of implementation. Organisational factors certainly affected execution of the program. Organisation differs markedly between the agencies. DBM is overstretched with its budget monitoring tasks, but well-staffed. In contrast, NEDA is understaffed, and may not have the organisational capacity to match DBM. Inevitably, as PEGR observed, lapses in the synchronization of activities related to budget management persisted

(PEGR, 2005a). A great deal of discussion about "synchronization" took place, among the policy makers of NEDA and DBM within the PEGR Facility Board. Yet as Mulgan (2003, p.4) notes, of a similar situation, "The professions in these fields are often as much part of the problem as the solution." Harmonisation also implies risk taking. Traditionally risk-taking in public sectors has meant that risks are managed by avoiding them (Bhatta, 2001).

Synchronization likewise involves making sure all key players are involved. On the budget side, DBM is not the only major actor, so is the Philippine Congress. Considering that Congress can make or break executive action on the plan-budget, with its "power of the purse," Congress should have been encouraged to sign up for the reform effort early on. Yet as we shall see later, legislators respond to different political incentives.

Secondly, how serious was the lesson-drawing? A supply-side analysis of the reform effort should reveal how the policy component being transferred came about, how it works in practice, under what particular circumstances it succeeded (or failed) in similar settings, and how its sustainability or likely effectiveness in a different context might be assessed (Wyatt & Grimmeisen, 2002). The fundamental problem that has afflicted attempts to import a specific set of policies is that they cannot bring along the entire set of practices, assumptions, attitudes and institutions that support the policies. Individual policies, no matter how attractive, cannot be grafted on markedly different blueprints of state-society relations than those in which they evolved (Wilson, 2003). According to Wyatt and Grimmeisen (2002), the higher the asymmetry, the higher the probability that the lessons learned may provide only a source of policy inspiration but not a basis for policy synthesis.

It may also be asked, as Page (2000) does, if policy makers tend to import lessons which highlight the benefits and downplay the disadvantages of transfer, and if they are less likely to subject to critical evaluation lessons drawn from one set of countries (say, common law countries like US and UK) than others (say, civil law countries like Japan and Korea). Medium-term budget frameworks are administratively and politically demanding, and have been implemented mainly in advanced economies (IMF, undated).

Thirdly, Philippine policy makers should ask to what extent the Philippines differs from Australia in terms of its organisational/institutional setting, socio-economic environment, ideological and cultural setting and financial, human and administrative resources, and how significant any differences are likely to prove (Wyatt & Grimmeisen, 2002).

Institutional reform that ignores the role of local variation is at best inadequate, and at worse harmful (Srivastana, 2004). Perhaps realizing this possibility, PEGR warns its consultants that they must have full appreciation of the peculiarities of the Philippine plan-budget management system. Its risk analysis of a possible plan-budget system failure due to shifts in leadership points to an underlying institutional weakness of leadership-based effort in reform. It rightly proposes initiatives that are less dependent on agency leaders and more focused on engaging middle managers (PEGR, 2005a).

Path-dependence, clientelism and issues of "context"

The concept of policy transfer, when refracted through the lens of lived political and bureaucratic experiences in the Philippines, appears in serious need of revision and refinement.

The budget restructuring in the two countries—Australia and the Philippines—have been path-dependent, reflecting the specific social heritage and historical conditions driving each reform. In the Philippines, following North (1990), two mechanisms can explain why the small but early lead gained by MTEF could hardly gain further ground. The first is that way past in budgeting history, there was *bandwagon* in the bureaucracy in favour of the one-year process. The second was a *network effect*: past politicians and bureaucrats alike observed that the old system of budgeting had played a big role in patronage and stocked up on it; this in turn led other people into a "buy-in" of the process across the years, and so on until there was complete *lock-in* to the practice. The Philippines' long history of clientelism is at the origin of path-dependence. Once this social convention emerged, though, it became permanent because of the huge switching costs involved in modifying it.

The adherence to the one-year budgeting cycle illustrates North's notion of a "self-reinforcing mechanism". Initially, there were *large setup or fixed costs*: start-up costs were appropriated to make the system operational. The second stage had to do with the *learning effects*: government agencies became more adept at practicing the budget process. Then the *coordination effects* kicked in: both the executive and legislative branches adhered to the same budget rules and regulations. Finally, *adaptive expectations* made the change permanent: jurisprudence by the courts led to precedence, which reduced uncertainties about the rules (North, 1990). Once policies are in place, events are more likely to take the form of incremental changes that follow the same trajectory. *Policies create constituencies with an interest in their perpetuation* (italics provided) (Wilson, 2003).

Australia and the Philippines are as different as apples and oranges. The structures are dissimilar: unitary states like the Philippines cannot borrow without great alteration models based on federalism where devolved powers contrast with the strong authority of a central government and are crucial to the successful functioning of the model.

In reality, those in power in developing countries cannot credibly commit to not using discretionary powers in the process for the sake of bringing about new rules and institutions (Bardhan, 2005). The main problem is that patronage bureaucracies are, essentially, run in the interests of those who control them. When these political forces are closely aligned, the very actors which must adopt and implement policies may face weak, or even negative incentives to do so (Fritzen, 2006)—all the more so when the new rules of the game will transfer power away from themselves (Philip, 2003).

Various interpretations of Philippine political economy commonly suggest the likelihood of "capture" of the state and its instrumentalities by vested interests (De Dios & Esfahani, 2001). Public agencies serve as conduits for capture of both policies and public resources. In theory, MTEF would ease the work of Congress, one of the key players. The multi-year budget process could offer political leaders a handle on the efficiency and effectiveness of budget programs, and a focal framework to facilitate congressional review on performance of national government agencies (OECD, 1998). However, political incentives work the other way. Congress would unlikely resist any attempt to dilute its own power to control resource allocation. As suggested by De Dios and Ferrer (2001), these political contests for control of resources are quite intense since the state "disposes over a significant amount of resources and exercises discretion over a wide sphere."

The way forward

Despite the odds, it makes no political and economic sense to suggest abandoning policy transfer. But to accelerate the rate of policy transfer over time, the urgent need is to endow local policy makers the capacity to analyse their own situation and tailor policy to fit the domestic context, rather than simply apply standard models. A few suggestions to make policy transfer more capable of adapting to the particulars of the Philippine situation are in order.

Benchmarking should not be limited to highly developed nations like Australia.

As Mulgan (2003) suggests, many of the best ideas and projects are now coming from smaller countries (such as Singapore and Korea). A particular reason to look for a good benchmarking model in smaller entities is that Philippine decision makers can shape it more than they will be shaped by it, and be less attached to the uncertainties that scale breeds.

MTEF, Philippine-style, showed that divergences in institutions and policy structures have not been identified, yet more nuanced departures, such as political and cultural variables, may have completely evaded the adopters. To “bound” the need for knowledge and analysis, there is a need to pay attention not just to the state-of-the-art models but to “most similar” ones (Mulgan, 2003).

The establishment of a regional policy network could help solve common policy problems.

The Philippines should rely increasingly on networks of technical experts in similarly situated countries, who have distinctive but interdependent interests, and who are striving to solve similar problems (Cliff, Walt, & Nhatave, 2003). As Stone (2001) points out, when there is an aspiration for transfer, networks are the means for agencies and organisations to project their ideas into policy thinking across states and within global or regional for a, build alliances, share discourses and construct consensual knowledge. From this basis, policy entrepreneurs can work to shape innovations, ‘brokering’ their ideas to potential political supporters and patrons.

There is no substitute for the right method of interpreting experience from abroad

On the supply-side, policy makers need to know what questions to ask in order to establish a clear understanding of how the policy came into being in its home place, how it was shaped by its social, economic, political and institutional setting, and how and how well it works in practice. On the demand-side, they need also know the comparable aspects of the policy situation in their own country—a process of reflection and self-examination. The method is intended to spread a net as widely as possible to capture data that might be relevant, and to enable both the simple model and the complex context to be mapped (Wyatt & Grimmeisen, 2002).

It is important to take a long-term perspective

To understand how policies are transferred, it is essential to take a long-term perspective. Policy transfer takes place over extended time periods. The briefer the episode of transfer, the more likely an innovation is likely to be viewed as foreign import. Over time the innovations become “domesticated” as local institutions and policies shape their development (Page, 2000).

Even the Australian MTEF did not come overnight. As Schick (2001, p.119) recounts: “From their genesis as crude, internal projections developed by Treasury for its own use, the forward estimates evolved over two decades into the linchpin of the government’s medium-term expenditure framework. This development was neither smooth nor quick. Its lessons are especially relevant for developing countries where there is a tendency to embrace the most *avant garde* reforms."

In the end, international comparisons is perhaps best viewed not as platforms on which decisions are forged, but more as pressure for a reframing of policy problems and potential solutions (Wyatt & Grimmeisen, 2002). A "confluence" between "best practice" ideas from abroad and local governance arrangements would be the best way to rationalize the planning/budgeting process, ensure the availability of more resources for the poor, and consequently, make policy transfer an effective instrument of human development in the Philippines.

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