



NAVAL POSTGRADUATE SCHOOL

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THESIS

**ASSESSING THE MILITARY READINESS
OF THE PHILIPPINE NAVY THROUGH
YEARLY BUDGET ALLOCATION**

by

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June 2023

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**ASSESSING THE MILITARY READINESS OF THE PHILIPPINE NAVY
THROUGH YEARLY BUDGET ALLOCATION**

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ABSTRACT

The Philippines faces a wide spectrum of traditional and non-traditional security threats. As such, the Philippine Navy (PN) is responsible for preparing and sustaining its forces to mitigate different maritime security risks, playing a significant role in achieving the overarching objectives of the Armed Forces of the Philippines (AFP). A key aspect of this responsibility is ensuring the availability of reliable fleet-marine assets for the naval forces. The navy's military readiness relies on a number of crucial factors, including personnel upkeep, training, equipment, and facility maintenance. This thesis examines the effect of budget allocation on the military preparedness of the PN to perform its assigned missions. A combination of qualitative and quantitative analyses was employed, focusing primarily on the yearly government funding provided to the navy. The PN's military readiness has recently been improved by the acquisition of new equipment through partnerships with allied countries and the AFP Modernization Program. However, this thesis shows that the PN requires additional resources to maintain these new assets' operational efficiency. Therefore, an increase in budget allocation is crucial to ensure that the new equipment is in proper working condition, with the end view of enhancing the PN's military readiness.

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LIST OF ACRONYMS AND ABBREVIATIONS

CSAFP	Chief of Staff, Armed Forces of the Philippines
DBM	Department of Budget and Management
DND	Department of National Defense
DOD	Department of Defense
GAA	General Appropriations Act
GDP	Gross Domestic Product
GHQ	General Headquarters
MFO	major final output
MOE	maintenance and operating expenses
MS	major service
PA	Philippine Army
PAF	Philippine Air Force
PN	Philippine Navy
PS	personnel services
SND	Secretary of National Defense
UC	unified command

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I. ASSESSING THE MILITARY READINESS OF THE PHILIPPINE NAVY THROUGH YEARLY BUDGET ALLOCATION

A. MAJOR RESEARCH QUESTION

Every nation is responsible for maintaining peace and order within its jurisdiction to protect sovereignty, freedom, and national interests. According to Smith, nations are legally obligated to defend their territorial boundaries¹ from internal and external threats. The Philippines, as an archipelagic nation with extensive coastal lines, a vast terrain, and diverse natural resources, faces several maritime threats.² Many of these threats pertain to acts of terrorism in maritime settings, disagreements over maritime territories, and criminal activities that involve crossing international borders. As such, the Armed Forces of the Philippines (AFP) is structured with the purpose of safeguarding both the populace and the nation, preserving the sovereignty of the country, and defending its territorial borders.³ In order to perform this mandate, the AFP is organized into three major services (MS), namely, the Philippine Army (PA), Philippine Air Force (PAF), and the Philippine Navy (PN).⁴ In addition, the General Headquarters (GHQ) headed by the Chief of Staff (CSAFP) supervises and manages the three MS, including the five Unified Commands (UC). The AFP designated the UCs as force employers, while the MS were identified as force providers.

Relatedly, the MS and GHQ are designated Program Resource Managers. These PRMs receive annual appropriations directly from the Department of Budget and Management (DBM). The annual appropriations allocated to each PRM are used to support

¹ Ron Smith, *Military Economics: The Interaction of Power and Money* (London: Springer, 2016), 54.

² Department of National Defense, *National Defense Strategy 2018–2022*, 2018, 8, https://www.globalsecurity.org/military/library/report/2018/philippines-national-defense-strategy_2018-2022_201811.pdf.

³ Philippine Congress, “The 1987 Constitution of the Republic of the Philippines,” Official Gazette of the Republic of the Philippines, 1987, <https://www.officialgazette.gov.ph/constitutions/the-1987-constitution-of-the-republic-of-the-philippines/the-1987-constitution-of-the-republic-of-the-philippines-article-ii/>.

⁴ Frances Mangosing, “PH Military Adopting New Titles: Chief of Staff Now Joint Chiefs Chair,” INQUIRER.net, July 13, 2020, 1, <https://newsinfo.inquirer.net/1306237/ph-military-adopting-new-titles-chief-of-staff-now-joint-chiefs-chair>.

the payment of salaries and allowances, maintenance and operating expenses, and capital outlay requirements. The PN appropriations are distributed to the different PN Units. In 2021, the bulk of Php31.552 billion pesos or about \$640 million dollars PN appropriations was intended for personnel services (PS) to support the pay and allowances of PN personnel, which is approximately equivalent to 63% of the total 2021 PN appropriations; 30% was allocated for the maintenance and operating expenses (MOE), and 7% for the capital outlay (CO) requirements intended to support capability development to include infrastructure and equipment acquisition.⁵ The 30% MOE appropriations amounting to more than \$195 million were distributed to the 22 PN units to support their operational tempo and sustainment of operational readiness. With these appropriations, the PN had to manage the redistribution of financial resources to support various projects and activities, such as training, supplies and materials, repair and maintenance, utility, intelligence, communication, and other operational expenses.⁶ In a similar way, according to Smith, allocating financial resources between manpower and equipment can pose a challenge for government authorities, particularly when investing in the military.⁷

The PN Units are composed of two (2) major type commands, the Philippine Fleet and the Philippine Marine Corps, six (6) naval operating forces, and the remaining support service commands and units.⁸ The PN Fleet-Marine Forces conduct naval operations to support the achievement of mission-essential tasks set by the force employer—the UCs. The conduct of naval operations, particularly at sea, is the core function of the PN. To perform their mandated duties, deployed naval forces must always be ready to respond to any circumstances or emergencies, especially when it comes to protecting the maritime interests of the country. The capability readiness of the PN is influenced by several critical

⁵ Department of Budget and Management, “FY2021 General Appropriations Act,” Department of Budget and Management, December 28, 2020, 1, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2021/VolumeI/DND/G3.pdf>. (Average exchange rate in 2021, \$1: Php49.2756, <https://www.exchangerates.org.uk/USD-PHP-spot-exchange-rates-history-2021.html>.)

⁶ Department of Budget and Management, 1419.

⁷ Ron Smith, *Military Economics: The Interaction of Power and Money* (Springer, 2016), 88.

⁸ Development Academy of the Philippines, “Integrity Development Review of the AFP-Philippine Navy,” Ombudsman.gov.ph, October 2007, 3, https://www.ombudsman.gov.ph/docs/statistics/2007_afp-pn.pdf.

factors such as the maintenance of personnel, training, equipment, and facility. It is in this context that this thesis poses the following question: how does the distribution of budget affect the military readiness of the PN to fulfill its assigned missions?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

As a force provider, the PN's mission is "to organize, train, equip, maintain, develop and deploy forces for prompt and sustained naval and maritime operations in support of the Unified Commands in the accomplishment of the AFP mission."⁹ To achieve this mission, it is imperative for the PN to provide reliable and dependable fleet surface assets to the naval operating forces. These surface assets are under the supervision of the force employer—the UCs. The naval component will form part of the joint forces. The joint forces are used to conduct various military operations to accomplish the AFP's mission. At the operational level, it is equally significant that the PN provides the naval component that is always ready to undertake naval operations in support of the force employer's conduct of joint operations. Carlton believes that the probability of succeeding in combat will rise if military resources are prepared and competent.¹⁰ At the tactical level, the readiness of every naval unit provides the opportunity for all members of the organization to be in high morale, to be more confident, to be more proficient, and to be able to handle a wide range of tasks.¹¹ Therefore, increased military readiness of fleet-marine forces improves the likelihood of successful naval operations.

C. LITERATURE REVIEW

To comprehend the relationship between appropriations and readiness, one must understand why the military organization needs appropriations for the readiness of military forces. Military readiness is anchored with military capability. The first section of this literature review examines the views of scholars on the reasons that necessitate the

⁹ Development Academy of the Philippines, 2.

¹⁰ Charles Carlton, *This Seat of Mars: War and the British Isles, 1485–1746* (New Haven: Yale University Press, 2011), 90, <https://ebookcentral.proquest.com/lib/ebook-nps/reader.action?docID=3420758&ppg=75>.

¹¹ Mark F. Cancian and Seamus P. Daniels, "The State of Military Readiness: Is There a Crisis?" April 18, 2018, 1, <https://www.csis.org/analysis/state-military-readiness-there-crisis>.

optimization of military capabilities to accomplish the mandated tasks assigned to them. The second section of this review examines the views of experts on the need to appropriate funds to support the military capability to be more effective in carrying out their tasks and obligations.

1. Military Capability Achieving Military Objectives

Sovereign states are responsible for protecting their nations and societies from internal and external attacks. Smith argues that the military forces are the only ones capable of safeguarding a nation and its society from both internal and external threats.¹² According to Adedeji, in order for the military forces to effectively carry out their assigned tasks, they must enhance their capabilities, which rely on the “quality and accessibility of military forces” including “personnel, weapon system, such as ships and aircraft, and other material resources such as ammunition, fuel,” and “support infrastructures—such as bases, depots, and schools—to recruit personnel, train units for deployment, acquire and maintain equipment, construct facilities, provide health care, facilitate communications, and more.”¹³ In general, Smith suggests that the military incurs significant expenses in fulfilling its obligation of safeguarding the nation and its citizens.¹⁴

An historical example is provided by Carlton, who suggests that maintaining readiness leads to effective mission accomplishment:

In 1633, Captain Anthony Thelwell, a veteran of the Thirty Years War, reported that Lancashire’s forces were ‘reasonably well exercised... and able bodied’, the county having spent £10,000 over fifteen years to produce a fairly proficient militia. Two years later Lieutenant Hammond watched the ‘ready exercised and well disciplined’ Isle of Wight militia skirmishing along the river Medina: ‘A brave show there is, and good service performed,’ he concluded.¹⁵

¹² Smith, *Military Economics*, 2016, 54.

¹³ Adebayo Adedeji, “Trends in Department of Defense Support Costs,” *The Armed Forces Comptroller* 63, no. 1 (Winter 2018): 41, <https://www.proquest.com/docview/2058261285/abstract/2B382AA6DA1544ABPQ/1?parentSessionId=SbnnP0rg6LJ2sEK%2FUNo3wiVpXGpjMwToiMNGVTX7%2Br0%3D>.

¹⁴ Smith, *Military Economics*, 2016, 1.

¹⁵ Carlton, *This Seat of Mars: War and the British Isles, 1485–1746*, 90.

Safeguarding a nation and its people from various threats is a crucial responsibility of sovereign states. By ensuring the security of their citizens, states can promote a conducive environment for growth and development. Hence, it is essential for governments to prioritize the establishment of effective measures to defend against any potential dangers to the nation and its people. Only then does a state fulfil its role as a protector of its citizens and ensure their safety and well-being.

2. Resource Allocation Supporting Military Capabilities

The allocation of more resources is important to support the building-up capability of military forces through the maintenance of military personnel, infrastructure, equipment, modernization, and conducting research and development. This section examines the need to appropriate funds for enhancing military effectiveness in carrying out assigned missions.

Several studies have shown that financial resources contribute to the development of military capabilities. Tilly's argument suggests that during war efforts, there is a correlation with a rise in resource extraction aimed at improving the military.¹⁶ When a state engages in war, it needs to have a strong and well-equipped military to succeed, which demands adequate resources. The term resources pertain to the individuals, finances, and supplies that are essential in creating military capabilities.¹⁷ To obtain these resources, the state must increase its capacity to extract them from its citizens and territories. Tilly states that the act of engaging in the war resulted in the establishment of armed forces, maritime fleets, and auxiliary facilities.¹⁸ By possessing a capable military, the government can safeguard its land and citizens from both domestic and foreign dangers. In support of this claim, Taylor and Botea examine the cause-and-effect connection between war, extraction, repression, and the creation of a state.¹⁹ They explain that when a leader aims to control a

¹⁶ Charles Tilly, "War Making and State Making as Organized Crime," in *Collective Violence, Contentious Politics, and Social Change* (Routledge, 2017), 181, <https://cle.nps.edu/access/content/group/9a0a1a2a-2b81-4e62-a48c-818450a8322e/Tilly85.pdf>.

¹⁷ Tilly, 183.

¹⁸ Tilly, 181.

¹⁹ Brian D. Taylor and Roxana Botea, "Tilly Tally: War-Making and State-Making in the Contemporary Third World," *International Studies Review* 10, no. 1 (2008): 29, <https://www.jstor.org.libproxy.nps.edu:2048/stable/25481929>.

particular area, they encounter opposition from the residents due to the struggle for resources. These resources are necessary for the ruler to be able to use force against both internal and external adversaries. According to the literature, to acquire resources effectively, it may be necessary to diminish or remove the impact of other groups or individuals operating in the same area. This ability to obtain resources and defeat competitors leads to the development of organized systems and structures, leading to the creation of governing entity. Thus, resource extraction serves as the financial foundation for constructing and enhancing military capacities.

a. Maintenance of Military Personnel

Improving military readiness through the maintenance of military personnel requires sufficient resources. According to Kapp, regular military compensation is the sum of various components, including “basic pay, basic allowance for housing, basic allowance for subsistence, and Federal tax advantage accruing to the aforementioned allowances because they are not subject to Federal income tax.”²⁰ According to Asch, military compensation and benefits account for around 33% of the budget of the United States (U.S.) Department of Defense (DOD).²¹ For example, with around 476,000 personnel, the U.S. Army constitutes a significant active-duty force, representing nearly one-third of the entire military active personnel of the U.S.²² The U.S. Army not only maintains a substantial active duty force but also upholds a considerable selected reserve force, which include individuals from the Army National Guard. To maintain these forces, the enlistment of numerous new members is essential, as high attrition rates are often seen during the initial career phases and the force generally consists of individuals with relatively less experience.²³ The U.S. Army provides several forms of compensation and incentives to recruit and retain its personnel. Even minor enhancements in compensation

²⁰ Lawrence Kapp, “Military Pay: Key Questions and Answers,” July 17, 2020, 2, <https://crsreports.congress.gov/product/pdf/RL/RL33446>.

²¹ Beth Asch, *Setting Military Compensation to Support Recruitment, Retention, and Performance* (RAND Corporation, 2019), 1, <https://doi.org/10.7249/RR3197>.

²² Asch, 2.

²³ Asch, 2.

efficiency could yield substantial cost benefits, given the U.S. Army's massive personnel system.²⁴ Thus, the maintenance of personnel requires a huge amount of money which includes recruitment to attain the desired level of military readiness.

b. *Infrastructure and Equipment Maintenance*

Improving military readiness needs investing more money in maintaining infrastructure, equipment, and personnel. Coggins believes that as military assets age, the cost of operating and maintaining them becomes more expensive.²⁵ For instance, between 1996 and 2008, the cost of maintaining the U.S. Air Force's fleet increased by 179%, despite a 9% reduction in fleet size. Therefore, ensuring that over 5,000 aircraft remain in good condition requires more financial resources.²⁶ Coggins points out that the cost of "fuel, spare parts, repairs, and technical support" in 2010 would amount to a "billion dollars per week."²⁷ The older the equipment, the more frequently it requires repairs and maintenance. Furthermore, the more hours the aging equipment is used, the more resources it requires for maintenance. In addition, getting various equipment ready for use also demands additional resources. Similarly, Cunitz argues that extra funds are necessary to avoid the deterioration of training, upkeep, and preparedness initiatives.²⁸ He points out that in 1994, at a U.S. Congress hearing for extra funding, Defense Secretary William J. Perry warned that the absence of these funds would lead to "some tank divisions would have to stop buying spare parts, the Atlantic fleet could do only emergency aircraft repairs, and some temporary civilian workers would have to be dismissed."²⁹ Toliver argues that

²⁴ Curtis L. Gilroy, David K. Horne, and D. A. Smith, "Military Compensation and Personnel Retention. Models and Evidence." (Fort Belvoir, VA: Defense Technical Information Center, February 1, 1991), 1, <https://doi.org/10.21236/ADA363401>.

²⁵ George A. Coggins, "Can America Afford to Modernize the Air Force?" *Air Force Journal of Logistics* 34, no. 3–4 (September 22, 2010): 31, <https://go.gale.com/ps/i.do?p=AONE&sw=w&issn=0270403X&v=2.1&it=r&id=GALE%7CA254825672&sid=googleScholar&linkaccess=abs>.

²⁶ Coggins, 31.

²⁷ Coggins, 31.

²⁸ Ronald R. Cunitz, "Applying Lessons Learned: The U.S. European Command Experience in Funding Operation Support Hope," *The Armed Forces Comptroller* 40, no. 1 (Winter 1995): 15, <https://www.proquest.com/docview/194759736/abstract/7DA98623D88A4CF0PQ/1>.

²⁹ Cunitz, 3.

the combination of deteriorating infrastructure and inadequate funding for maintenance and modernization has led to a higher risk tolerance, which ultimately impacts mission preparedness.³⁰ Therefore, more resources are needed to restore these assets to working order and aid in achieving mission goals. Insufficient readiness decreases the military's effectiveness, and readiness offers the means to effectively accomplish objectives.

c. *Military Modernization*

Modernizing the armed forces requires resource allocation for the development of military capability. Korb and Brady note that upon taking office in January 1981, President Reagan faced the expectation from the American public to rejuvenate the nation's military prowess.³¹ Under the Reagan Administration, an assertive strategy was launched to reequip the U.S. and inspire similar actions by its allies. This plan focused on modernizing American strategic and conventional forces, improving their preparedness and endurance.³² Coggins contends that a modernization program is imperative due to outdated and deteriorating equipment.³³ He highlights the U.S. Air Force's predicament in 2008, where the fleet of air and space vehicles, along with the infrastructure that supports them, had significantly aged due to 17 years of non-stop combat operations in Southwest Asia. Additionally, Coggins maintains that steps must be taken to overturn this pattern to reinvigorate these abilities. He adds that every year, the U.S. Air Force needed a minimum of \$20 billion in extra funding to cover the costs of important updates, such as "tankers, fighter aircraft, long-range strike assets, and space platform."³⁴ One way to replace outdated and old equipment is by implementing a program for modernization.

Acquisition of military equipment enhances and strengthens its capabilities. According to Cabigon, it is necessary for the Philippines to improve its ability to monitor

³⁰ Shamekia N. Toliver, "Supporting Mission Readiness by Mitigating Infrastructure Risk," *Phalanx* 52, no. 3 (2019): 54, <http://www.jstor.org/stable/26796748>.

³¹ Lawrence J. Korb and Linda P. Brady, "Rearming America: The Reagan Administration Defense Program," *International Security* 9, no. 3 (1984): 3, <https://doi.org/10.2307/2538585>.

³² Korb and Brady, 5.

³³ Coggins, "Can America Afford to Modernize the Air Force?," 28.

³⁴ Coggins, 28.

its maritime domain because of certain weaknesses that have been identified, such as outdated surveillance equipment on land and at sea.³⁵ He also states that the only way to address these weaknesses is through the procurement of new equipment as part of the PN's modernization program, but this program will take several years to accomplish. Habulan suggests that to modernize the Philippine military, it is necessary to create a detailed plan for acquiring major defense equipment.³⁶ He believes that the military must implement "formalized and structured education and training programs in the AFP to address the skill requirements for AFP weapon system acquisitions."³⁷ Vera notes that the Philippines depends on security aid from the U.S. to effectively address a range of threats.³⁸ In addition, the availability of training opportunities and access to Foreign Military Financing funds encourage governments to procure items through Foreign Military Sales (FMS) programs. Utilizing FMS can enhance interoperability and strengthen "defense and security relationships between the Philippines and the United States."³⁹ Thus, the AFP Modernization Program improves the readiness level of the AFP in support of accomplishing set objectives.

Upgrading military capability requires a substantial financial investment to perform assigned missions. Glaser et al. claim that, from 2020 to 2021, China's military expenditures increased from 5.1% to 5.4%, respectively.⁴⁰ The leadership of China maintains a continued focus on the modernization of its military forces. China's equipment procurement allocation raised from 33.2% to 41.1% from 2010 to 2017.⁴¹ Allocating more

³⁵ Joel V Cabigon, "Philippine Navy Maritime Situational Awareness System: Current Situation, Gaps and Potential Role of Maritime Special Operations Forces (Master's Thesis, Naval Postgraduate School, 2020)," December 2020, 51, <http://hdl.handle.net/10945/66598>.

³⁶ Antonio Atanacio Habulan, "Acquisition Planning for the Armed Forces of the Philippines Modernization Program (Master's Thesis, Naval Postgraduate School, 2002)," December 2002, 69, <http://hdl.handle.net/10945/3804>.

³⁷ Habulan, 71.

³⁸ De Vera, "Comparative Analysis of the Use of Foreign Military Sales (FMS) and Direct Commercial Sales (DCS) in the Procurement of U.S. Defense Articles by the Philippine Government for the Use of the Armed Forces of the Philippines (Master's Thesis, Naval Postgraduate School, 2004)," n.d., 70.

³⁹ Vera, 70.

⁴⁰ Bonnie S. Glaser et al., "Understanding China's 2021 Defense Budget," March 5, 2021, <http://119.78.100.173/C666/handle/2XK7JSWQ/317061>.

⁴¹ Glaser et al.

funds, especially for purchasing equipment, presents a chance to expand the inventory of military equipment. This procurement will enhance China's current military capabilities by adding more advanced military equipment. Similarly, Adedeji claims that the Reagan administration augmented the allocation of resources in reaction to the Soviet danger.⁴² He points out that the allocation of resources also grew after 9/11 to back up the deployment of military personnel in combat against terrorism.⁴³ Essentially, the purpose of enhancing military capability is to address present and forthcoming threats. According to Lynn, a rise in the budget is crucial to sustain the "the current levels of operational readiness while simultaneously modernizing for the future."⁴⁴ Demchak suggests that even a relatively impoverished nation desires to possess military power.⁴⁵ To illustrate his point, he cites the case of Hungary, which managed to acquire a state-of-the-art "western aircraft recognition system" for its defense arsenal in 1995, despite being unable to pay the utility bills of its military bases for three months in 1991.⁴⁶ Obtaining new equipment, which is a vital aspect of modernization, is aimed at enhancing military capabilities. The maintenance of the new equipment requires logistical and service support, which means that resources are required to ensure military readiness. Even though upgrading to modern equipment will replace outdated and worn-out machinery, the new capability will still need logistical support to maintain its functionality.

d. Research and Development

According to Gist, improving military readiness through research and development necessitates allocating funds toward building capabilities.⁴⁷ He adds "research and development is a critical policy component of the defense budget because decisions about

⁴² Adedeji, "Trends in Department of Defense Support Costs," 41.

⁴³ Adedeji, 42.

⁴⁴ William J. Lynn, "Are We Prepared for the New Millennium?," *The Armed Forces Comptroller* 45, no. 3 (Fall 2000): 10, <http://www.proquest.com/docview/194776349/abstract/29553E6B3F7A46F6PQ/1>.

⁴⁵ Chris C. Demchak, "Modernizing Military Organizations and Political Control in Central Europe," *Journal of Public Policy* 15, no. 2 (1995): 112, <https://www.jstor.org/stable/4007479>.

⁴⁶ Demchak, 112.

⁴⁷ John R. Gist, "The Impact of Annual Authorizations on Military Appropriations in the U. S. Congress," *Legislative Studies Quarterly* 6, no. 3 (1981): 441, <https://doi.org/10.2307/439484>.

weapons systems development, around which the defense program revolves, originate in this budget account.”⁴⁸ Similarly, Korb and Brady suggest that during President Reagan’s administration, between 1982 and 1985, the financial support for “research, development, testing, and evaluation” (RTDE) experienced a growth of about 69 percent.⁴⁹ Additionally, they underscore the significance of RTDE in fostering the long-term enhancement of the U.S. military’s position. Similarly, Middleton et al. contend that by allocating resources toward research and development (R&D), it is possible to enhance the quality of military capability.⁵⁰ They further suggest that investing in R&D for at least a decade can establish the quality of military equipment.⁵¹ The allocation of resources provides support for conducting RTDE to enhance the quality of military capability to deal with present and future threats.

Scholars have varying opinions on the relationship between appropriations and readiness but generally agree that financial resources are crucial for maintaining and strengthening military capabilities to achieve missions. Government funding mostly focuses on buying equipment, maintaining it, and supporting services and facilities. However, there is limited research on how funds are allocated to improve the readiness of the PN. This study will delve deeper into how funds are distributed to enhance the readiness of the PN.

One theory suggests that governments provide financial support to their military forces to achieve their objectives. According to Tilly, “war makes states.”⁵² In other words, the demands of war required states to develop efficient and centralized systems of taxation, conscription, and resource allocation to fund their military efforts. These systems, in turn, help states to establish and maintain control over their territories, as well as to expand and

⁴⁸ Gist, 441.

⁴⁹ Korb and Brady, “Rearming America,” 15.

⁵⁰ Andrew Middleton et al., “The Effect of Defence R&D on Military Equipment Quality,” *Defence and Peace Economics* 17, no. 2 (April 1, 2006): 138, <https://doi.org/10.1080/10242690600636869>.

⁵¹ Middleton et al., 137.

⁵² Tilly, “War Making and State Making as Organized Crime,” 170.

acquire new territories. Tilly points out that it is possible to create strong military forces by utilizing the resources obtained from warfare.⁵³

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

The primary responsibility of the PN is to carry out naval operations to protect the maritime interests of the country, ensuring the safety of vessels navigating within territorial waters, safeguarding territorial integrity, and maritime boundaries, as well as protecting lives and property from diverse maritime threats. To fulfill this duty, it is essential to have trustworthy, dependable, and effective naval forces in the joint operational areas. The PN is accountable for maintaining all surface assets in excellent operational condition so that they are ready to respond to any crisis.

After analyzing various sources, a hypothesis was developed suggesting that the PN's military readiness is greatly affected by the resources it receives. To investigate this matter, it is appropriate to examine the defense appropriations given to the PN by the Philippine government in support of accomplishing its assigned missions. By looking at the yearly appropriations provided to the Navy, the yearly development of PN's appropriations will show how the Philippine government maintains and sustains the Navy's operations. These appropriations consist of three components: PS, MOE, and CO. The expenses related to the compensation, perks, and benefits of Navy personnel fall under the category of personal services. The allocation for this budget is based on the number of personnel that is expected to be maintained for a particular year. The appropriation for the maintenance of military personnel is proportional to the personnel build-up. To sustain PN's various naval operations, the Navy requires more funding as it uses more assets. By providing sufficient appropriations, the Navy can improve its military readiness through personnel build-up, training, and maintenance of equipment and facility. Military readiness allows the PN to deploy and sustain fleet-marine units and naval service support units to the unified command in support of accomplishing the AFP's mission.

⁵³ Tilly, 181.

To test the above hypothesis, this study examined the effect of the appropriations allocated to the PN on its military readiness and the following areas of concern: to determine the current budget level provided to the PN; to determine the number of fleet-marine units and naval service support units provided to the unified command for the conduct of naval operations; to determine the effect of the resources provided to the PN on its military readiness; and to determine and provide measures to address the identified problems.

E. RESEARCH DESIGN

The purpose of this thesis is to evaluate the readiness of the PN through the annual allocation of resources to achieve the mandated mission. The intended methodology for this thesis includes both qualitative and quantitative analysis. The latter essentially focusing on financial data, which will be described and analyzed using the descriptive method. The data analysis focused on the appropriations provided by the Philippine government to the PN to determine the trend of yearly appropriations. The distribution of financial resources was also examined to determine the level of budget allocation to the different priority programs in support of conducting the naval operations. The effect of allocating resources to the PN military readiness was evaluated in terms of achieving the targets at the end of the year for maintaining personnel, training, equipment, and facility readiness. PN military readiness was assessed in terms of deploying and sustaining fleet-marine units and naval service support units for the unified commands in the conduct of joint operations in the operational area. The number of fleet-marine units that were prepared for deployment was also examined. Factors affecting the level of defense appropriations and the implementation of appropriations in support of maintaining military readiness were also discussed. Provided necessary measures to address the identified gaps.

F. THESIS OVERVIEW AND DRAFT CHAPTER OUTLINE

The initial chapter of this thesis consisted of several parts, including the primary research question, the importance of the research question, a review of the literature, possible explanations and hypotheses, the research design, and an outline of the chapter. Additionally, the theory that justifies the government's decision to allocate resources to

enhance military readiness was explained. Chapter II examined two variables: defense appropriations, military readiness, and factors affecting the level of defense appropriations and the execution of PN appropriations to maintain readiness. Chapter III examined the PN's resources, such as yearly budget allocations for PS, MOE, and CO programs. This chapter also outlined PN modernization initiatives under the AFP Modernization Program and military assistance received by the PN through partnerships with allied countries. Chapter IV contained an analysis of the previously discussed material and drew conclusions, as well as suggested possible improvements to the PN's system.

II. PHILIPPINE DEFENSE APPROPRIATIONS

Philippine defense appropriations are an essential component in ensuring the readiness of its military forces to carry out its assigned missions. Military readiness is heavily anchored on defense appropriations. As such, the proper utilization of defense appropriation is a must to attain military readiness. At the core of Southeast Asia lies the Philippines, which is bordered by three significant bodies of water: “the Pacific Ocean on the east, the South China Sea on the north and west, and the Celebes Sea on the south.”⁵⁴ The aggregate land mass, including inland waters, is around 120,000 square miles. The country has an extensive coastline of 22,549 miles. The archipelagic nation of the Philippines consists of roughly 7,107 islands. According to the International Monitoring Board Annual Report, a surge in pirate attacks targeting ships in the Straits of Southeast Asia has been noted. The International Maritime Bureau (IMB) reports indicate a considerable uptick in maritime piracy incidents during the periods 1998–2000 and 2002–2004.⁵⁵ Out of 397 attacks that were reported globally, 257 were reported in Southeast Asia. Indonesia’s waters saw the most attacks with 117 incidents, followed by the Malacca Strait with 75 incidents.⁵⁶ These attacks, which involved hijackings and kidnappings for ransom, posed a significant threat to cargo ships passing through the narrow sea lane, resulting in the loss of property and lives at sea.⁵⁷ The most significant threat in the Malacca Strait was identified as armed robbery at sea, which refers to attacks on ships within the

⁵⁴ Teresa Guia R Monje, “Maritime Enforcement in the Philippines: Issues and Challenges,” 2013, 12, https://www.un.org/oceancapacity/sites/www.un.org.oceancapacity/files/monje_-_un_nippon_paper_apr_9_final.pdf.

⁵⁵ Terence Lee and Kevin McGahan, “Norm Subsidiarity and Institutional Cooperation: Explaining the Straits of Malacca Anti-Piracy Regime,” *The Pacific Review* 28, no. 4 (August 8, 2015): 532, <https://doi.org/10.1080/09512748.2015.1012537>.

⁵⁶ Myron H. Nordquist et al., eds., “1 Combating Piracy and Armed Robbery in Southeast Asia: An Evolution in Cooperation,” in *Freedom of Navigation and Globalization* (Brill | Nijhoff, 2014), 24, https://doi.org/10.1163/9789004284081_004.

⁵⁷ Joshua Ho, “Combating Piracy and Armed Robbery in Asia: The ReCAAP Information Sharing Centre (ISC),” *Marine Policy* 33, no. 2 (March 2009): 432–34, <https://doi.org/10.1016/j.marpol.2008.08.007>.

state's territorial jurisdiction.⁵⁸ Thus, the PN plays a vital role in safeguarding the country's maritime interests by defending its sovereignty and securing its maritime borders. However, the PN requires sufficient funding and resources to effectively carry out its critical missions. The appropriations allocated to the PN have been crucial in enabling the Navy to fulfill its duties, and without such funds, the country's security and stability could be at risk. This chapter examines the Philippine Defense System of Management (DSOM) and the factors affecting the level of defense appropriations and attaining military readiness in accomplishing the AFP's missions.

A. PHILIPPINE BUDGET PROCESS

The Philippine Congress provides appropriations to the defense department to perform its mandated mission. Appropriation refers to a legal mandate or legislative action that allows for the disbursement of government funds to pay for specific goods and services, subject to certain conditions or objectives. This authorization is usually granted through laws or other legislative enactments.⁵⁹ The Philippine Department of National Defense (DND) is committed to upholding the key principle of the 1987 Philippine Constitution, which stresses the fundamental responsibility of the government to safeguard and provide for its citizens.⁶⁰ The process of creating a budget includes the Philippines DBM creating a proposal, which is then reviewed and approved by the President. The proposal is then deliberated by Congress, and once approved, the General Appropriations Act (GAA) is signed into law by the president. The DBM then distributes funds to various government entities based on the GAA. Regular reviews are conducted by the DBM, Congress, and other cognizant offices to guarantee the effective execution of the budget.⁶¹

⁵⁸ Tara Davenport, *Chapter 1 Combating Piracy and Armed Robbery in Southeast Asia* (Brill, 2014), 26, <https://ebookcentral.proquest.com/lib/ebook-nps/reader.action?pq-origsite=primo&ppg=19&docID=1823621>.

⁵⁹ Department of Budget and Management, "Glossary of Terms," Department of Budget and Management, n.d., 702, <https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2015/GLOSSARY.pdf>.

⁶⁰ Department of National Defense, *National Defense Strategy 2018–2022*, 8.

⁶¹ Department of Budget and Management, "The Philippine Budgeting Process," n.d., 1, <https://www.dbm.gov.ph/wp-content/uploads/2012/03/PGB-B2.pdf>.

B. THE PHILIPPINE DEFENSE SYSTEM OF MANAGEMENT

The Philippine Defense System of Management (DSOM) is a crucial tool in establishing a clear, long-term objective for the defense department in the Philippines. As a tool for defense strategic management, DSOM is employed by the DND to facilitate cooperative decision-making, which encompasses systems and processes for devising, implementing, and evaluating decisions that span multiple functions.⁶² DSOM functions as a network of systems, connecting capability development strategy with resource management. DSOM has four parts: Defense Strategic Planning System formulates strategic appraisals that tackle existing and emerging challenges, along with future concerns; the Defense Capability Assessment and Planning System (DCAPS) formulates capacity-building strategies in alignment with the endorsed strategic plans.; Defense Acquisition System (DAS) establishes the structure for the DND's procurement activities, which must be cost-effective, time bound and compliant with the existing Philippine procurement rules, and regulations; and Defense Resource Management System (DRMS) offers a structure for directing defense policy and resource planning by the Philippine Defense Secretary, distributing scarce resources among priority activities, and appraising the outcomes realized. DSOM engages in three categories of planning: long-term; medium-term; and annual planning.⁶³ In addition, the DSOM's aims encompass promoting efficient use of resources, addressing planning requirements, establishing clear lines of authority, and conducting periodic performance assessments. Thus, DSOM provides an essential framework for the Philippines' defense strategy management. By utilizing DSOM, the Philippine defense department can ensure that it can meet the challenges it faces today and, in the future, defend itself against threats to its security and sovereignty.

Factors Affecting Philippine Defense Appropriations

Philippine defense appropriations play a vital role in enhancing the military readiness of the country's military forces to effectively perform their assigned mission.

⁶² Excelsior, "Defense System of Management (DSOM)," Excelsior, July 19, 2015, 1, <https://thirdsrbn.wixsite.com/excelsior/single-post/2015/07/19/defense-system-of-management-dsom>.

⁶³ Excelsior, 1.

Appropriation refers to a legal mandate or legislative action that allows for the disbursement of government funds to pay for specific goods and services, subject to certain conditions or objectives. This authorization is usually granted through laws or other legislative enactments.⁶⁴ Although national security threats may be an important factor in determining the level of defense appropriations, there are several additional factors that could impact the allocation of resources for military spending. These factors comprise national security threats, political will, economic conditions, competing priority programs, administrative and bureaucratic procedures, and collaboration with other allied countries.

a. National Security Threats

The perceived level of national security threats, whether they are domestic or foreign, can have a significant impact on the allocation of funds toward defense spending. If there is an escalation in security risks, the government may choose to increase its defense appropriations to improve its military capabilities and eventually enhance its readiness. In 1996, the finding of Chinese military installations on Mischief Reef caused alarm in the Philippines, as it brought to light apprehensions regarding China's territorial expansion objectives in the South China Sea.⁶⁵ In addition, in 1997, the Philippines raised concerns about regional security by accusing China of being a threat, specifically pointing to Chinese warships at Mischief Reef as tangible proof of the volatile situation in that area. The Philippines is looking to update its military after being underfunded for many years, with the goal of addressing a wide range of challenges.⁶⁶ For instance, during a congressional hearing in September 2017, Defense Secretary Delfin Lorenzana indicated that the AFP may require an additional Php7.5 billion pesos or \$148.87 million dollars (Average exchange rate in 2017, \$1: Php50.3799)⁶⁷ to employ "20,000 soldiers and 10,000 police

⁶⁴ Department of Budget and Management, "Glossary of Terms," 702.

⁶⁵ Renato Cruz De Castro, "Philippine Defense Policy in the 21st Century: Autonomous Defense or Back to the Alliance?," *Pacific Affairs* 78, no. 3 (2005): 413, <http://www.jstor.org/stable/40023723>.

⁶⁶ Prashanth Parameswaran, "Battle for Marawi Deepens Philippines' Military Budget Challenge," 1, accessed March 31, 2023, <https://thediplomat.com/2017/09/battle-for-marawi-deepens-philippine-militarys-budget-challenge/>.

⁶⁷ Exchange Rates, "US Dollar to Philippine Peso Spot Exchange Rates for 2017," Exchange Rates.org.uk, April 19, 2023, 1, <https://www.exchangerates.org.uk/USD-PHP-spot-exchange-rates-history-2017.html>.

personnel,” in addition to the \$69.47 million that has already been spent since the Marawi crisis.⁶⁸ Lorenzana estimated that training and equipping 10,000 soldiers would require at least \$49.62 million. Thus, the apparent national security threats perceived whether they originate from within the country or outside can have a notable effect on the distribution of resources toward military spending.

b. Political Will

The extent of defense funding in the Philippines is largely dependent on the political leadership’s determination to prioritize national defense and modernization efforts. Should the government display a strong commitment to investing in these areas, it may allocate a larger budget toward military expenditures. For example, President Duterte approved a \$5.6 billion modernization plan that includes different projects focused on ensuring the security of the extensive maritime boundaries of the Philippines, which prioritizes on “unmanned aerial vehicles, long-range patrol aircraft, offshore patrol ships and an electric-diesel submarine.”⁶⁹ Thus, to determine the amount of funding allocated toward the Philippine defense, the country’s political will and leadership priorities are essential factors.

c. Economic Condition

The condition of the economy can influence the allocation of funds toward defense spending. The Philippine government has faced economic challenges in recent years, such as the COVID-19 pandemic and subsequent lockdown measures. The Philippines experienced a significant economic downturn in 2020 due to the COVID-19 pandemic.⁷⁰ Senate Minority Leader Franklin Drilon urged “the executive department to increase funding for the social services sector in its proposed 2022 to Congress for the country’s

⁶⁸ Parameswaran, “Battle for Marawi Deepens Philippines’ Military Budget Challenge,” 1.

⁶⁹ Manuel Mogato, “Philippines’ Duterte Approves \$5.6-Bilion Military Upgrade,” *Reuters*, June 20, 2018, sec. Aerospace and Defense, 1, <https://www.reuters.com/article/us-philippines-defence-idUSKBN1JG1IU>.

⁷⁰ Ronald U. Mendoza, “The Philippine Economy under the Pandemic: From Asian Tiger to Sick Man Again?,” *Brookings*, August 2, 2021, 1, <https://www.brookings.edu/blog/order-from-chaos/2021/08/02/the-philippine-economy-under-the-pandemic-from-asian-tiger-to-sick-man-again/>.

pandemic response.”⁷¹ Drilon emphasized “the continuing COVID-19 pandemic, growing budget deficit and skyrocketing national debt should make the government reconsider its defense spending for 2022.”⁷² As such, there may be limitations on defense spending, which could impact the military’s capabilities and preparedness.

An increasing inflation rate may also have an impact on defense appropriations. Philippine Statistics Authority reported in January 2023 that the rise in the average headline inflation rate in the Philippines from 3.9 percent in 2021 to 5.8 percent in 2022 will have significant implications for the country’s defense spending.⁷³ The government may need to allocate more funds to maintain its defense capabilities and keep up with the increasing costs of goods and services, including military equipment and infrastructure.

d. Competing Priority Programs

The Philippine government has limited resources that it needs to allocate among different priority programs, such as defense and infrastructure development. These programs compete for funding and resources, and the allocation of resources to one program may come at the expense of the other. For example, the Philippine government has expanded its list of “flagship infrastructure projects under President Rodrigo Duterte’s ‘Build, Build, Build’ program, expanding it to 100. The program includes the first phase of Metro Manila’s first ever subway the New Manila International Airport, the renovation of the Ninoy Aquino and Davao International Airports and Sangley Airport in Cavite.”⁷⁴ This program requires a significant amount of funding, and as such, it may affect the budget allocated for defense appropriations. Consequently, the Philippine government may need to find a balance between essential needs and priorities. Insufficient funding for military

⁷¹ Christia Marie Ramos, “‘Downsize’ Defense Spending in 2022 in Favor of ‘Ayuda,’ Pandemic Response — Drilon,” *INQUIRER.Net*, August 9, 2021, 1, <https://newsinfo.inquirer.net/1471335/downsize-defense-spending-in-2022-in-favor-of-ayuda-pandemic-response>.

⁷² Ramos, 1.

⁷³ Senate Economic Planning Office, “Inflation in 2022: At A Glance” (Senate of the Philippine, January 2023), 1, <https://legacy.senate.gov.ph/publications/SEPO/AAG%20Inflation25Jan2023.pdf>.

⁷⁴ Warren De Guzman, “LIST: 100 Projects under Revised ‘Build, Build, Build’ | ABS-CBN News,” *ABS-CBN News*, November 14, 2019, 1, <https://web.archive.org/web/20191114074307/https://news.abs-cbn.com/business/11/14/19/list-100-projects-under-revised-build-build-build>.

modernization could undermine the Philippines' defense capabilities, while neglecting infrastructure investments may impede the country's economic growth. Therefore, a careful and strategic approach is necessary to ensure that both programs are adequately funded and implemented.

e. Administrative and Bureaucratic Procedures

The allocation and utilization of Philippine defense appropriations are greatly affected by the efficiency and effectiveness of administrative and bureaucratic procedures. For example, The Frigate Acquisition Program in the Philippines faced delays and controversies during its procurement process. The bidding process was initially delayed in 2013 due to protests and legal challenges from some bidders, and it resumed in 2016 with a South Korean firm being awarded the contract.⁷⁵ However, the implementation of the contract was also delayed due to issues with the supplier's conformance to requirements. The delays and controversies affected the Navy's modernization efforts, posing a threat to the nation's security stability.

Philippine defense appropriations enhance the military capability in support of achieving assigned missions. Military readiness is anchored on the availability of appropriations. The Philippine defense department must ensure that appropriations are available to support priority programs. However, the level of defense appropriations in the Philippines can be influenced by several interrelated factors such as national security threats, political will, economic conditions, competing priority programs, and administrative and bureaucratic procedures.

C. MILITARY READINESS

Military readiness is a vital component to accomplishing assigned missions. Military readiness requires the availability of adequate resources to maintain personnel, equipment, training, and facilities. The allocation and utilization of funds for the Philippine defense department serve a crucial function in enhancing the readiness of the country's

⁷⁵ Jose Reganit, "Navy Frigate Deal: What We Need to Know," Philippine News Agency, 1, accessed April 1, 2023, <https://www.pna.gov.ph/articles/1025561>.

military forces to perform their assigned tasks. This section discusses the definitions and factors affecting military readiness.

1. Meaning of Military Readiness

Military readiness encompasses the capability to ensure that military forces are prepared and maintained to perform a given task. According to Herrera, the term readiness is frequently used to describe the competence of the U.S. to effectively mobilize, deploy, and sustain its military forces for successful combat operations.⁷⁶ Betts defines readiness as “the capacity to perform one’s mission when directed to do so.”⁷⁷ Similarly, Sukman states that readiness “the ability of military forces to fight and meet the demands of assigned missions.”⁷⁸ For example, the U.S. Army provided guidance to improve its readiness which “is based on four pillars of manning, training, equipping, and leader development.”⁷⁹ These pillars are essential to ensuring that the Army has the right personnel, skills, equipment, and leadership to execute its missions. The U.S. DOD’s interpretation of readiness as “the ability of military forces to fight and meet the demands of assigned missions.”⁸⁰ The application of this definition is for military forces to engage and achieve victory in any location and at any moment. Military readiness guarantees that military forces are ready and equipped to perform their obligations.

2. Factors Affecting the Readiness of the PN

The PN’s readiness is significantly influenced by several factors related to the utilization of appropriations allocated to them. The execution of the budget allocation follows the adherence to the current regulations and guidelines concerning the procurement

⁷⁶ James Herrera, “The Fundamentals of Military Readiness,” Congressional Research Service, October 2, 2020, 1, <https://sgp.fas.org/crs/natsec/R46559.pdf>.

⁷⁷ Richard Betts, *Military Readiness : Concepts, Choices, Consequences* (Washington, D.C. : Brookings Institution, 1995), 25, <https://archive.org/details/militaryreadines0000bett>.

⁷⁸ Daniel Sukman, “Military Readiness: Thinking About the Three Big Questions,” Real Clear Defense, July 3, 2019, 1, https://www.realcleardefense.com/articles/2019/07/03/military_readiness_thinking_about_the_three_big_questions-full.html.

⁷⁹ U.S. Army, “STAND-TO!,” www.army.mil, May 19, 2016, 1, <https://www.army.mil/standto/archive/2016/05/19/>.

⁸⁰ Herrera, “The Fundamentals of Military Readiness,” 3.

of services, materials, and supplies. Procurement involves “acquisition of Goods, Consulting Services, and the contracting for Infrastructure Projects by the Procuring Entity.”⁸¹ Republic Act No. 9184, also known as the Government Procurement Reform Act, is the primary legislation governing public procurement in the Philippines.⁸² The act requires organizations to widely disseminate contract bidding opportunities. Utilizing various communication methods, including physical postings, popular publications, digital procurement systems, and organizational websites when possible.⁸³ This section examines the various factors in the implementation of appropriations that affect the readiness of the PN in the performance of its mandated missions.

a. Delayed Ship’s Repair Completion

Delayed ship repairs affect the military readiness of the PN. The PN has declared that the BRP Gregorio Del Pilar, an offshore patrol vessel that ran aground in August 2018 near Hasa-Hasa Shoal, is now prepared for sailing, four years after the incident.⁸⁴ The BRP Gregorio Del Pilar has undergone repairs and is now prepared for deployment after passing her readiness evaluation.⁸⁵ The PN cited challenges in acquiring components and the persistent COVID-19 pandemic as factors contributing to the postponed completion of BRP Gregorio Del Pilar’s repair work.⁸⁶ The inability to complete repairs on time means that the Navy’s ships may not be fully operational and available for deployment when

⁸¹ Philippine Congress, “RA9184: An Act Providing for the Modernization, Standardization, and Regulation of the Procurement Activities of the Government and for Other Purposes,” 2002, 3, https://www.gppb.gov.ph/laws/laws/RA_9184.pdf.

⁸² Philippine Congress, 1.

⁸³ Philippine Congress, 7.

⁸⁴ Priam Nepomuceno, “Fast Missile Boats Seen to Complement PH Navy’s Attack Craft,” September 5, 2021, 1, <https://www.pna.gov.ph/articles/1152608>.

⁸⁵ Kaycee Valmonte, “BRP Gregorio Del Pilar Sails Again After Years of Repairs,” *Philstar.Com*, September 2021, 1, <https://www.philstar.com/headlines/2022/09/19/2210760/brp-gregorio-del-pilar-sails-again-after-years-repairs>.

⁸⁶ Navy Recognition, “BRP Gregorio Del Pilar Offshore Patrol Vessel Completes Repairs at End of the Month,” Navy Recognition, September 6, 2021, 1, <https://www.navyrecognition.com/index.php/naval-news/naval-news-archive/2021/sepember/10664-brp-gregorio-del-pilar-offshore-patrol-vessel-completes-repairs-at-end-of-the-month.html>.

needed. This lack of readiness can compromise the Navy's ability to respond effectively to potential threats, which is a significant concern for national security.

b. Delayed Conduct of Training Activities

The PN's readiness is significantly affected by the delay in the completion of its training activities. The two-week annual joint military exercise between Philippine and U.S. soldiers is set to resume, which was canceled the previous year due to the pandemic commencing on April 12, 2021.⁸⁷ The scaled-down version of this year's "Balikatan" exercises will assess the preparedness of both military forces to tackle challenges such as natural disasters and extremist militant attacks. The delay in training activities of the PN may have diminished its preparedness in dealing with unforeseen circumstances. Moreover, the postponement can result in additional resources needed to reschedule or conduct the training later, which may have cost implications.

c. The Impact of COVID-19

The COVID-19 pandemic has considerably affected the execution of planned activities for the PN. The PN has put one of its ships, the BRP Quezon, under lockdown after 22 sailors on board tested positive for COVID-19. The infected personnel were transferred to quarantine facilities in Manila for better medical attention.⁸⁸ The effect of conducting or performing that mission may be delayed or disrupted due to the lockdown and quarantine measures. The crew members who tested positive for COVID-19 will not be able to participate in the conduct of regular patrol missions, and their absence could impact the ship's operational readiness and effectiveness. Additionally, the need to transfer infected personnel to quarantine facilities and provide them with medical attention could divert resources and personnel from the assigned mission, further affecting its outcome.

⁸⁷ Rappler, "Philippines, U.S. to Begin 2-Week Joint Military Drill on April 12," RAPPLER, April 11, 2021, 1, <https://www.rappler.com/nation/philippines-us-begin-two-week-balikatan-joint-military-drill-april-12-2021/>.

⁸⁸ Baird Maritime, "Philippine Navy Ship Under Lockdown Following Covid-19 Outbreak on Board," *Baird Maritime* (blog), October 5, 2020, 1, <https://www.bairdmaritime.com/work-boat-world/maritime-security-world/naval/ships-naval/philippine-navy-ship-under-lockdown-following-covid-19-outbreak-on-board/>.

Another example of the COVID-19 pandemic effect was the decision of the PN to indefinitely “postponing its hosting of the 17th Western Pacific Symposium (WPNS) and the International Fleet Review (IFR).”⁸⁹ The announcement was expected considering the nation’s high COVID-19 case and the cancellation of other regional defense activities. The PN’s ability to carry out its responsibilities was affected by the pandemic. The COVID-19 pandemic had a great impact on the PN’s programmed activities, as evidenced by the lockdown of the BRP Quezon and the postponement of two key international naval engagements. These disruptions can potentially affect the Navy’s operational readiness, diverting resources and personnel from assigned missions.

d. Projects Held in Abeyance

The readiness of the Philippine Navy is significantly affected by the non-delivery of supplies, materials, and services on time. The Philippine Commission on Audit (COA) has raised concerns about uncompleted modernization initiatives for the AFP within the specified contractual timeframe, costing a total of Php6.8 billion or \$137.99 million dollars (Average exchange rate in 2021,⁹⁰ \$1:Php49.2756).⁹¹ In addition, the COA identified several suspended projects within the AFP, amounting to million dollars, as well as terminated projects worth over two hundred thousand dollars. The AFP has recognized the setbacks and expressed their commitment to enhancing the execution of the postponed projects, while also learning valuable insights to prevent such problems in the future. Additionally, by the end of 2020, the COA revealed that numerous projects and assets, worth millions of dollars, had been obtained by the AFP through the Philippine International Trading Corporation (PITC) but remained unexecuted. The COA recommended that the AFP work closely with PITC to accelerate the procurement process.

⁸⁹ Prashanth Parameswaran, “Philippine Navy’s Coronavirus Challenge in the Headlines With Postponed International Engagements,” *The Diplomat*, April 7, 2020, 1, <https://thediplomat.com/2020/04/philippine-navys-coronavirus-challenge-in-the-headlines-with-postponed-international-engagements/>.

⁹⁰ Exchange Rates, “US Dollar to Philippine Peso Spot Exchange Rates for 2021,” Exchange Rates.org.uk, April 20, 2023, 1, <https://www.exchangerates.org.uk/USD-PHP-spot-exchange-rates-history-2021.html>.

⁹¹ Julia Mari Ornedo, “COA: AFP Projects Worth P6.8B Not Completed Within Contract Period,” GMA News, July 14, 2021, 1, <https://www.gmanetwork.com/naaa/topstories/nation/795296/coa-afp-projects-worth-p6-8b-not-completed-within-contract-period/story/>.

The Philippine COA's recent findings reveal that delays and unfulfilled contracts in the modernization projects of the AFP and procurement of projects through PITC have negatively impacted the readiness of the AFP, which is important to the Philippines' defense and security.

e. Lengthy and Complicated Procurement Procedures in the Philippines

The Philippines' procurement procedure can be complex and time-consuming. One specific example of a lengthy and complicated procurement transaction in the PN is the acquisition of new frigates for the Navy's modernization program. The Frigate Acquisition Project (FAP) of the PN began its bidding process in October 2013 with a budget of P18 billion or \$423.91 million (Average exchange rate in 2013,⁹² \$1:Php42.4616).⁹³ This project "was part of the military's extended 15-year modernization program to boost the country's territorial defense capability."⁹⁴ In June 2016, the bidding procedure came to an end, and by October of the same year, Defense Secretary Lorenzana granted the contract to Hyundai Heavy Industries (HHI) for the construction of two frigates.⁹⁵ In addition, the two ships were delivered to the PN in May 2020 and February 2021, respectively. The procurement of new frigates for the PN highlights the lengthy and complex procurement process in the country. While the regulations aim to ensure transparency and accountability, the process can also be prone to delays and legal challenges, which can affect the timely acquisition of essential equipment for the PN.

Military readiness is anchored on the sufficient availability of appropriation. The maintenance and enhancement of military readiness are affected by the use and implementation of appropriations, which is dependent on adhering to Philippine procurement regulations. The non-completion of projects and non-delivery of necessary

⁹² Exchange Rates, "US Dollar to Philippine Peso Spot Exchange Rates for 2013," Exchange Rates.org.uk, April 25, 2023, 1, <https://www.exchangerates.org.uk/USD-PHP-spot-exchange-rates-history-2013.html>.

⁹³ Vera Files, "Lorenzana's Claim on Purchase of Two New Frigates Under Duterte Administration Needs Context," Vera Files, March 1, 2022, 1, <https://verafiles.org/articles/vera-files-fact-check-lorenzanas-claim-purchase-two-new-frig>.

⁹⁴ Vera Files, 1.

⁹⁵ Vera Files, 1.

supplies and materials affect the military readiness in support of conducting operations, thereby affecting the performance of the DND as a whole.

D. CONCLUSION

Adequate appropriations are important for the successful implementation of government policies and programs. In the context of the Philippines, defense appropriations play a vital role in enhancing the military's capability to achieve assigned missions. However, several interrelated factors can influence the level of defense appropriations, including national security threats, political will, economic conditions, competing priority programs, and administrative and bureaucratic procedures. It is essential for the Philippine defense department to ensure that appropriations are available to support priority programs, which are crucial in ensuring the safety and security of its people, territories, and interests. Military readiness, which guarantees that military forces are ready and equipped to perform their assigned missions, is anchored on the sufficient availability of appropriations. Several factors affect the attainment of military readiness of the PN. These factors include the effective implementation of appropriations which is dependent on adhering to Philippine procurement regulations. Failure to complete projects or deliver necessary supplies and materials can affect the military readiness of the PN, which, in turn, can impact the performance of the AFP. Therefore, it is imperative to ensure that funds are utilized effectively to maintain and enhance military readiness, which is crucial in supporting operations and fulfilling the AFP's mandate.

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III. PHILIPPINE NAVY RESOURCES

The current Philippine President, Ferdinand R. Marcos Jr., has enacted the 2023 GAA into legislation, which “is the government’s comprehensive financial roadmap for sound public financial management focused on the right priorities.”⁹⁶ The budget is Php5.268 trillion or nearly \$96 million dollars which is nearly 5% higher than the previous fiscal year. Relatedly, the PN appropriations support its priority programs to maintain and sustain fleet-marine units in the performance of their assigned missions. The PN acquires its resources from appropriations and military aid from other allied countries to enhance its readiness. Military aid is provided to support a country’s defense efforts or to help a less prosperous nation maintain control over its own territory.⁹⁷ All these resources contribute to the enhancement of PN capabilities in pursuance of achieving the AFP’s mission. This section discusses the appropriations and military aid given to the PN in support of increasing the capability readiness of the country’s navy.

A. PN RESOURCES

The PN’s appropriations are programmed to enhance the readiness of its assets by allocating funds for personnel, logistics, and equipment repair and maintenance. The PN plays a crucial role in the nation’s overall security approach, tasked with defending its maritime interests. As such, it is important that the PN always maintains a state of readiness to respond to any threats that may arise.

⁹⁶ Department of Budget and Management, “President Marcos Jr. Signs Historic 2023 National Budget into Law,” Department of Budget and Management, December 16, 2022, 1, <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2523-president-marcos-jr-signs-historic-2023-national-budget-into-law#>.

⁹⁷ Union of International Associations, “Military Aid,” Union of International Associations, 1, accessed April 6, 2023, <http://encyclopedia.uia.org/en/problem/military-aid>.

1. The AFP Organizational Structure

The PN was established in 1898 initially comprising a small fleet.⁹⁸ Those small fleet played a vital role in transporting weapons and supplies. Despite its short-lived existence, the Off-Shore Patrol (OSP) which began in 1939, earned significant accolades during WWII.⁹⁹ In 1947, the OSP was rebranded as PN Patrol and became a key command within the AFP. Additionally, in 1951, the PN had grown into an organization responsible for securing national waters, enforcing maritime regulations, and partnering with the government for national growth.

The Philippine President has the highest authority over the AFP and has the power to give orders regarding national defense and security matters.¹⁰⁰ The CSAFP is accountable for executing the president's guidance on military matters, including "strategy, tactics, and operations."¹⁰¹ In addition, the CSAFP, acting as the immediate advisor to the SND, is responsible for organizing and directing all military branches, staff, and units while overseeing the creation, progress, and implementation of the national security strategy. The CSAFP supervises the three major services (namely the PA, PAF, and the PN), the Unified Commands, and other AFP-wide service support units.¹⁰² The mission of the PN is "to organize, train, equip, maintain, develop, and maintain forces for prompt and sustained naval and maritime operations in support of the Unified Commands in the accomplishment of the AFP mission."¹⁰³ As such, the PN is organized to provide fleet-marine marine forces

⁹⁸ Development Academy of the Philippines, "Integrity Development Review of the AFP-Philippine Navy," 2.

⁹⁹ Development Academy of the Philippines, 2.

¹⁰⁰ Philippine Congress, "Commonwealth Act No. 1," Official Gazette of the Republic of the Philippines, December 21, 1935, 1, <https://www.officialgazette.gov.ph/1935/12/21/commonwealth-act-no-1/>.

¹⁰¹ President of the Philippines, "Reorganizing the Armed Forces of the Philippines," Officialgazette.gov, December 1950, 1505, <https://www.officialgazette.gov.ph/downloads/1950/12dec/19501223-EO-0389-EQ.pdf>.

¹⁰² John Pike, "Armed Forces of the Philippines," Globalsecurity.org, December 5, 2016, 1, <https://www.globalsecurity.org/military/world/philippines/afp.htm>.

¹⁰³ Development Academy of the Philippines, "Integrity Development Review of the AFP-Philippine Navy," 2.

and naval service support units to the unified commands in support of conducting joint operations to accomplish the AFP's mission.

2. Organization of the PN

The PN is structured in a way that consists of “two types of commands, six operational commands, and twelve support commands and units.”¹⁰⁴ The goal of the Philippine Fleet is to prepare and manage designated military units for naval activities to assist the PN in fulfilling its objectives. The objective of the Philippine Marine Corps is to supply combat units in performing amphibious combat and other activities to support the overall mission of the PN. In addition, the six Naval Operational Commands conduct “territorial defense operations, internal security operations, and such other activities to support naval administration, logistics, service support, and community development in their area of responsibility.”¹⁰⁵

3. PN Appropriations

PN appropriations supported its priority programs. The PN's appropriation consists of PS, MOE, and CO.¹⁰⁶ PS is an expense intended “for the payment of salaries, wages and other compensation (e.g., merit, salary increase, cost-of-living-allowances, honoraria and commutable allowances, etc.) of permanent, temporary, contractual, and casual employees of the government.”¹⁰⁷ The MOE “refers to an expenditure category/expense class for support to the operations of government agencies such as expenses for supplies and materials; transportation and travel; utilities (water, power, etc.) and the repairs, etc.”¹⁰⁸ CO refers “to an expenditure category/expense class for the purchase of goods and services, the benefits of which extend beyond the fiscal year and which add to the assets of the Government, including investments in the capital stock of GOCCs and their

¹⁰⁴ Development Academy of the Philippines, 3.

¹⁰⁵ Development Academy of the Philippines, 3.

¹⁰⁶ Department of Budget and Management, “FY2020 General Appropriations Act,” Department of Budget and Management, January 6, 2020, 1177, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2020/VolumeI/DND/G3.pdf>.

¹⁰⁷ Department of Budget and Management, “Glossary of Terms,” 716.

¹⁰⁸ Department of Budget and Management, 712.

subsidiaries.”¹⁰⁹ Table 1 displays the PN’s yearly assignments for a consecutive period of five fiscal years, from FY2016 until FY2020.

Table 1. PN Appropriations (in Millions of Dollars)

	2016¹¹⁰	2017¹¹¹	2018¹¹²	2019¹¹³	2020¹¹⁴
PS	219.20	250.34	267.11	368.35	393.92
MOE	122.58	132.66	139.56	138.21	153.25
CO	4.97	40.65	20.10	23.87	26.67
Total	346.75	422.24	426.76	530.43	573.85

Over the course of these five years, the PN’s appropriations have increased gradually from \$346.75 million dollars in FY2016¹¹⁵ to \$573.85 million dollars in

¹⁰⁹ Department of Budget and Management, 704.

¹¹⁰ Department of Budget and Management, “FY2016 General Appropriations Act,” Department of Budget and Management, December 29, 2015, 1373, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2016/VOLUME%20II-A/DND/G3.pdf>. (Adapted from 2016 PN GAA).

¹¹¹ Department of Budget and Management, “FY2017 General Appropriations Act,” Department of Budget and Management, December 29, 2016, 1348, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2017/Volumel/DND/DND.pdf>. (Adapted from 2017 PN GAA). Average exchange rate in 2017: Php50.3799.

¹¹² Department of Budget and Management, “FY2018 General Appropriations Act,” Department of Budget and Management, December 29, 2017, 1182, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2018/Volumel/DND/G3.pdf>. (Adapted from 2018 PN GAA). Average exchange rate in 2018: Php52.662.

¹¹³ Department of Budget and Management, “FY2019 General Appropriations Act,” Department of Budget and Management, April 19, 2019, 28, <https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2019/Volumel/DND/G.pdf>. (Adapted from 2019 PN GAA). Average exchange rate in 2019: Php51.7675.

¹¹⁴ Department of Budget and Management, “FY2020 General Appropriations Act,” 1177. (Adapted from 2020 PN GAA).

¹¹⁵ Department of Budget and Management, “FY2016 General Appropriations Act,” 1378. (the foreign exchange rate is based on January 1, 2016, https://www.google.com/search?q=US+Dollar+to+Philippine+Peso+Monthly+Exchange+Rates+in+January+2016&rlz=1C1UEAD_enPH991PH991&oq=US+Dollar+to+Philippine+Peso+Monthly+Exchange+Rates+in+January+2016&aqs=chrome..69i57.3773j0j15&sourceid=chrome&ie=UTF-8)

FY2020.¹¹⁶ The average yearly increase in the PN's appropriations during this five-year period amounts to \$227.1 million. Additionally, the percentage average annual increase in the PN appropriations over the same five-year period is approximately 13%.

a. *Personal Services Component*

PS component of the PN appropriations increases its personnel build-up. Table 1 also shows the PS component of the PN appropriations for the fiscal years FY2016 to FY2020. PS component shows a gradual increase in the PS budget allocations over the years, from \$219.20 million dollars in FY2016¹¹⁷ to \$393.92 million dollars in FY2020,¹¹⁸ with an average yearly increase of \$34.944 million. In the same period, the PS component's average percentage increase per year is approximately 18.77%. The PS component comprised about 63.1% of the total in 2016, while the PS component constituted 68.64% in 2020. (In contrast, in the U.S., approximately one-third of the budget of the U.S. DOD is made up of military compensation and benefits.¹¹⁹)

The PS fund supported salaries and wages, other compensation, personnel benefit contributions, and other personnel benefits. The increase in PS funds was mainly due to the procurement of additional military personnel to fill up the overall troop strength of the PN and increase the number of personnel who were availing of the retirement benefits in 2019.¹²⁰ In 2018, the increase was mainly due to the implementation of salary increase as

¹¹⁶ Department of Budget and Management, "FY2020 General Appropriations Act," 1177. (the foreign exchange rate is based on January 1, 2020, https://www.google.com/search?q=US+Dollar+to+Philippine+Peso+Monthly+Exchange+Rates+in+January+2020&rlz=1C1UEAD_enPH991PH991&oq=US+Dollar+to+Philippine+Peso+Monthly+Exchange+Rates+in+January+2020&aqs=chrome..69i57.4994j0j15&sourceid=chrome&ie=UTF-8)

¹¹⁷ Department of Budget and Management, "FY2016 General Appropriations Act," 1376.

¹¹⁸ Department of Budget and Management, "FY2020 General Appropriations Act," 1179.

¹¹⁹ Asch, *Setting Military Compensation to Support Recruitment, Retention, and Performance*, 1.

¹²⁰ Commission on Audit, "2019 Philippine Navy Consolidated Annual Audit Report," Commission on Audit, August 28, 2020, 1, https://www.coa.gov.ph/wpfd_file/philippine-navy-consolidated-annual-audit-report-2019/.

provided for under the Philippine Congress Joint Resolution Number 1 which took effect on January 1, 2018.¹²¹

PS component supported the recruitment and acquisition of new personnel for the PN. The PN personnel strength is gradually increasing from 23,312 in 2016¹²² to 24,857 in 2020¹²³ with an annual average increase of 309. The decline in personnel numbers from 2019 to 2020 was a result of the effect of pandemic lockdown on personnel recruitment.¹²⁴ The increase of budget allocation in the PS component is geared towards building up the personnel of the PN organization.

b. Maintenance and Operating Expense Component

The MOE component of the PN appropriations helps to sustain the conduct of operations of the PN. Table 1 also shows the MOE component of the PN appropriations for five consecutive fiscal years, from FY2016 to FY2020. The MOE budget allocations have gradually increased over the years from \$122.564 million in FY2016¹²⁵ to \$153.249 million in FY2020.¹²⁶ An annual average increase of \$6.137 million. The MOE component's average percentage increase per year is almost 5%. The MOE component was approximately 35.3% of the total appropriation in FY2016, while it constituted 26.7% in 2020. The MOE fund facilitated the acquisition of various maintenance and operational needs.

¹²¹ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report," Commission on Audit, June 3, 2019, 1, https://www.coa.gov.ph/wpfd_file/philippine-navy-consolidated-annual-audit-report-2018/.

¹²² Commission on Audit, "2016 Philippine Navy Annual Audit Report," Commission on Audit, June 23, 2017, 1, https://www.coa.gov.ph/wpfd_file/philippine-navy-annual-audit-report-2016/.

¹²³ Commission on Audit, "2020 Philippine Navy Annual Audit Report," Commission on Audit, June 24, 2021, 1, https://www.coa.gov.ph/wpfd_file/philippine-navy-annual-audit-report-2020/.

¹²⁴ Aie Balagtas See, "Inside One of the World's Longest COVID-19 Lockdowns," Time, March 15, 2021, 1, <https://time.com/5945616/covid-philippines-pandemic-lockdown/>.

¹²⁵ Department of Budget and Management, "FY2016 General Appropriations Act," 1377.

¹²⁶ Department of Budget and Management, "FY2020 General Appropriations Act," 1180.

Out of the MOE appropriations, the move, shoot, and communication components are programmed to support the operational requirements of the PN. This component includes training, supplies and materials, communications, and repair and maintenance expenses.¹²⁷ Table 2 shows the supply and material expenses including office supplies, medicines, military supplies, and fuel expenses.

Table 2. MOE Component (in Millions of Dollars)

Expenses / Year	2016 ¹²⁸	2017 ¹²⁹	2018 ¹³⁰	2019 ¹³¹	2020 ¹³²
Travel	1.662	1.998	1.863	3.753	3.990
Training	1.534	2.119	2.625	3.086	3.298
Supplies and Materials	67.185	70.030	61.471	56.963	66.245
Utility	7.820	7.810	8.676	9.316	9.935
Communication	1.406	2.038	2.024	2.839	3.022
Intelligence	0.724	0.686	1.082	0.724	0.770
Professional Services	0.575	0.424	0.541	0.610	0.573
General Services	0.277	0.262	0.220	0.362	0.375
Repairs and Maintenance	37.524	39.334	47.125	46.275	49.536
Financial Assistance	0.000	3.572	3.627	3.524	3.772
Taxes and Insurance	0.938	0.848	0.882	1.029	1.086
Other Operating Expense	2.813	3.431	9.297	9.640	15.682
Total	122.458	132.552	139.433	138.121	158.286

Fuel, oil, and lubricants are the bulk of supply and material expenses which is more than 50% of the total supply and material expenses. In 2019, fuel expense constitutes almost 54% of the total supply and material expenses.¹³³ In 2018, almost 63% of the total

¹²⁷ Commission on Audit, “2020 Philippine Navy Annual Audit Report.”

¹²⁸ Department of Budget and Management, “FY2016 General Appropriations Act,” 1377.

¹²⁹ Department of Budget and Management, “FY2017 General Appropriations Act,” 1352.

¹³⁰ Department of Budget and Management, “FY2018 General Appropriations Act,” 1156.

¹³¹ Department of Budget and Management, “FY2019 General Appropriations Act,” 31.

¹³² Department of Budget and Management, “FY2020 General Appropriations Act,” 1180.

¹³³ Commission on Audit, “2019 Philippine Navy Consolidated Annual Audit Report,” 1.

supply and material expenses belonged to fuel requirements.¹³⁴ Fuel expenses supported the operational requirements of the PN floating assets. The increase in budget allocation in 2016,¹³⁵ 2017,¹³⁶ and 2018¹³⁷ for the supply and material expenses was due to the increased participation of the PN's floating assets in international engagements: naval exercises in Malaysia, Thailand, and RIMPAC Multilateral Exercises in Hawaii, USA. In addition, the increased fuel expense was due to the continuous conduct of maritime patrols in the South China Sea (SCS). During the year-end report of the DND in December 2018, it was stated that the PN declared its intention to continue its activities in the West Philippine Sea, despite the aggressive behavior of China in the area.¹³⁸ Defense Secretary Lorenzana confirmed that the Navy will continue to conduct regular patrols and fortify its nine islands in the area. According to Viray, "there have been reports that the Chinese Coast Guard has been harassing Filipino troops conducting resupply missions to Ayungin Shoal."¹³⁹ The increase in MOE appropriations in 2020 was due to the incorporation of the newly acquired PN frigates in the PN inventory.¹⁴⁰ The MOE appropriations allocated to the PN played a vital role in supporting the various naval operations aimed at achieving the mission of the AFP. By providing the necessary supplies and materials, the MOE appropriations enabled the PN to conduct its operations.

It can be noted in Table 2 (MOE Components) that the repair and maintenance expenses were gradually increasing from 2016¹⁴¹ to 2019.¹⁴² The repair and maintenance expenses supported the repair and maintenance of machinery and equipment requirements.

¹³⁴ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report," 1.

¹³⁵ Commission on Audit, "2016 Philippine Navy Annual Audit Report," 1.

¹³⁶ Commission on Audit, "2017 Philippine Navy Consolidated Annual Audit Report," Commission on Audit, June 29, 2018, 1, https://www.coa.gov.ph/wpfd_file/philippine-navy-consolidated-annual-audit-report-2017/.

¹³⁷ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report," 1.

¹³⁸ Patricia Lourdes Viray, "Philippines Ready to Protest China's Actions in West Philippine Sea — Lorenzana," *Philstar.Com*, December 21, 2018, 1, <https://www.philstar.com/headlines/2018/12/21/1878881/philippines-ready-protest-chinas-actions-west-philippine-sea-lorenzana>.

¹³⁹ Viray, 1.

¹⁴⁰ Vera Files, "VERA Files Fact Check," 1.

¹⁴¹ Department of Budget and Management, "FY2016 General Appropriations Act," 1377.

¹⁴² Department of Budget and Management, "FY2019 General Appropriations Act," 31.

This expense includes the funds for the ships' repair and maintenance. The increase in repair and maintenance in 2018 was due to the participation of the PN's international engagement through the conduct of naval exercises outside the territory of the Philippines and the continuous conduct of naval patrol within the Philippine territory.¹⁴³ The training and communication expenses also gradually increased from 2016¹⁴⁴ to 2020.¹⁴⁵

The PN is responsible for safeguarding the territorial waters and maritime interests of the Philippines. Table 3 shows the PN inventory of surface assets, which includes various types of vessels used for patrolling, transport, and other naval operations.

Table 3. PN Surface Assets Inventory¹⁴⁶

Ship Type	Number of Years in the Service					Total
	1-10	11-20	21-30	31-40	41-50	
Frigates	2					2
Corvettes	1					1
Offshore Patrol Vessels	10	2	5	23	2	42
Amphibious Assault	8	1		2	3	14
Total	21	3	5	25	5	59

The PN surface assets inventory has a total of 59 surface assets in the inventory which includes four types of ships: two frigates; one corvette; 42 offshore patrol vessels; and 14 amphibious assaults.¹⁴⁷ PN surface assets with less than ten years in the service comprised almost 36% of the total surface assets, while almost 43% of surface assets for those more than 30 years in the service. Relatedly, the PN is decommissioning those old assets and gradually replacing them with new ones through the AFP Modernization

¹⁴³ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report."

¹⁴⁴ Department of Budget and Management, "FY2016 General Appropriations Act," 1377.

¹⁴⁵ Department of Budget and Management, "FY2020 General Appropriations Act," 1180.

¹⁴⁶ World Directory of Modern Military Warships, "Philippine Navy: Current Active Inventory," World Directory of Modern Military Warships, November 27, 2022, 1, <https://www.wdmmw.org/philippine-navy.php>. Adapted from WDMMW.

¹⁴⁷ World Directory of Modern Military Warships, 1.

Program.¹⁴⁸ The retirement of the outdated vessels that remain in the PN is an important aspect of the force's shift towards a more advanced and contemporary military.

c. Capital Outlay Component

The CO component contributes to the enhancement of PN capabilities. The total CO funds that were allocated to the PN from FY2016¹⁴⁹ to FY2020¹⁵⁰ amounted to \$117.309 million (Table 1). The CO component was approximately 3.53% and 5.88% of the total appropriations of the PN in 2016 and 2020, respectively. These CO funds were special projects given to the PN. In 2016, budgets were allocated for the enhancement of machinery, equipment, and infrastructure program.¹⁵¹ The three-year infrastructure program was continuously supported by the Philippine government starting in 2017.¹⁵² In 2019, the procurement of transportation requirements and continuous enhancement of machinery and equipment requirements were programmed in support of the conduct of day-to-day operations.¹⁵³ Thus, the CO component helps to increase the readiness of the PN through the procurement of equipment and the development of infrastructure.

In summary, the increased appropriations for the PN over the past five years have been instrumental in supporting its priority programs and maintaining its military readiness. The allocation of funds under PS, MOE, and CO has helped to sustain the daily operations of the Navy, keeping its assets in optimal condition, and improving its capabilities. These programs are vital in enabling the PN to fulfill its assigned missions.

¹⁴⁸ Dorian Archus, "Philippine Navy Decommissioned 4 Legacy Ships – Naval Post- Naval News and Information," March 3, 2021, 1, <https://navalpost.com/philippine-navy-decommissioned-4-legacy-ships/>.

¹⁴⁹ Department of Budget and Management, "FY2016 General Appropriations Act," 1378.

¹⁵⁰ Department of Budget and Management, "FY2020 General Appropriations Act," 1181.

¹⁵¹ Department of Budget and Management, "FY2016 General Appropriations Act," 1378.

¹⁵² National Economic and Development Authority, "Three-Year Rolling Infrastructure Program to Ensure Sustainability of Well-Developed Programs, Projects," National Economic and Development Authority, April 13, 2016, 1, <https://neda.gov.ph/three-year-rolling-infrastructure-program-to-ensure-sustainability-of-well-developed-programs-projects/>.

¹⁵³ Department of Budget and Management, "FY2019 General Appropriations Act," 32.

4. AFP Modernization Program

The AFP Modernization Program enhances the capability of the PN. “Modernization is the process of transition from an older archaic episode to the modernized alternative.”¹⁵⁴ The Philippine military’s capability build-up has been substantially financed by the Revised AFP Modernization Program or RA10349, which seeks to enhance the nation’s defense capabilities with the end view of “developing a minimum deterrence.”¹⁵⁵ In addition, the yearly defense budget is responsible for covering expenses for the salaries and benefits of military personnel, as well as the upkeep of defense assets.¹⁵⁶ The Philippines started its military modernization program from a low level during the Aquino administration which included the acquisition of used patrol vessels from the U.S., pre-owned-landing crafts from Australia, and new landing platform dock built in Indonesia.¹⁵⁷ In addition, between 2014 and 2015, the Philippines significantly enhanced its military transport capabilities across the archipelago by procuring various transport aircraft from the U.S., Indonesia, and Spain. Additionally, the AFP strengthened its rotary aircraft fleet “for transport, search and rescue, and attack” and purchased “air search radars” to improve its “maritime domain awareness.”¹⁵⁸ The Revised AFP Modernization Act intends to modernize the Philippine military by allocating funds for acquiring defense equipment.

The AFP Modernization Program contributes to the enhancement of the Philippine military forces. The Philippines initiated a 15-year modernization plan for its armed forces in 2012, set to run until 2027.¹⁵⁹ RA10349 was established to enhance the AFP’s capacity to tackle “counterterrorism and internal threats,” while also safeguarding defense

¹⁵⁴ N., Sam M.S., “Modernization,” *Psychology Dictionary*, April 7, 2013, 1, <https://psychologydictionary.org/modernization/>.

¹⁵⁵ Carlyle A. Thayer, “Military Modernization and Capacity Building in the Philippines and Vietnam,” *In the Wake of Arbitration*, 2017, 102, <http://www.jstor.org/stable/resrep23138.11>.

¹⁵⁶ Thayer, 102.

¹⁵⁷ Thayer, 102.

¹⁵⁸ Thayer, 102.

¹⁵⁹ Thess Sula, “The Philippine Defense Acquisition System,” *International Trade Administration*, January 24, 2022, 1, <https://www.trade.gov/market-intelligence/philippine-defense-acquisition-system>.

modernization initiatives from the nation's political changing environment.¹⁶⁰ The third phase of the program, which spans from 2023 to 2027, forecasts a \$4 billion budget, offering “opportunities for the sale of aircraft, ships, unmanned vehicles, intelligence and surveillance systems, communications, personal protective equipment, and weapon systems.”¹⁶¹ The second phase of the said program, which runs until 2023, includes the purchase of various maritime vessels.¹⁶² The acquisition of these assets will enable the PN to decommission its aging ships, consisting of many vessels obtained from the U.S.¹⁶³ In addition, the third phase of the program, which runs until 2028, will involve purchasing of surface combat vessels.¹⁶⁴ The ongoing modernization plan seeks to improve the preparedness of the AFP. As such, RA10349 serves as the principal funding for the acquisition of defense equipment. Through this law, the Philippine government can allocate the necessary funds to purchase defense equipment to improve the AFP's capabilities.

a. PN Modernization Projects

There are several projects that benefited the PN under the AFP modernization program. For example, on December 28, 2021, it was reported that the Philippines' defense department signed an agreement worth \$554 million with HHI to acquire two warships.¹⁶⁵ The move is part of Philippine's effort to upgrade its naval forces in response to identified challenges stemming from the territorial conflicts in the South China Sea. The purchase will complement the PN's “recent acquisition of two frigates, also built by HHI, as well as a refurbished Pohang class corvette from the South Korean Navy.”¹⁶⁶ In 2012, the Frigate Acquisition Project received approval for execution and the PN launched the project to

¹⁶⁰ Sula, 1.

¹⁶¹ Sula, 1.

¹⁶² John Pike, “Philippine Navy-Modernization,” Global Security, July 7, 2020, 1, <https://www.globalsecurity.org/military/world/philippines/navy-modernization.htm>.

¹⁶³ Pike, 1.

¹⁶⁴ Pike, 1.

¹⁶⁵ Radio Free Asia, “Philippines Signs \$554M Deal for 2 South Korean-Made Warships,” Radio Free Asia, December 28, 2021, 1, <https://www.rfa.org/english/news/china/deal-12282021150235.html>.

¹⁶⁶ Radio Free Asia, 1.

strengthen the nation's naval capabilities and update its aging equipment.¹⁶⁷ In October 2016, "The Philippines and South Korean shipbuilder HHI signed a PHP16-billion contract for two missile-armed frigates with another PHP2 billion set aside for its weapon systems and munition on 24 October 2016."¹⁶⁸ On September 5, 2021, it was reported that the PN announced its plans to acquire "eight units of fast attack interdiction craft-missile (FAIC-M)" in addition to the current inventory of its "multipurpose attack craft (MPAC)" to enhance the protection of country's maritime interests.¹⁶⁹ In addition, the three MPACs are equipped with "surface-to-surface missile systems," and three more are planned to be outfitted with the same system.¹⁷⁰ In addition, in 2019, President Rodrigo Roa Duterte authorized the acquisition of eight FAIC-M units as part of the Revised AFP Modernization Program.

The AFP Modernization Program is a key contributor to the enhancement of the PN's capability. The PN has been continuously upgrading and improving its capabilities through the ongoing implementation of its modernization program. The procurement of new equipment helps to enhance the PN's readiness to respond effectively to security threats.

5. Collaboration with Allied Countries in the Capacity Building of the Philippine Military

Working together with allied nations to strengthen the Philippine military's capabilities is vital for addressing the security issues that the country is facing. For example, the U.S. and the Philippines have an Enhanced Defense Cooperation Agreement which involves U.S. military forces being deployed to the Philippines, as well as various military exercises with the AFP for capacity building.¹⁷¹ Furthermore, the U.S., through its

¹⁶⁷ MaxDefense, "The Hyundai HDF-2600 Jose Rizal-Class Frigate of the Philippine Navy," MaxDefense, June 21, 2019, 1, <http://maxdefense.blogspot.com/p/the-hyundai.html>.

¹⁶⁸ John Pike, "FF-150 BRP Jose Rizal – Frigate Acquisition Project," Global security, June 24, 2021, 1, <https://www.globalsecurity.org/military/world/philippines/brp-rizal-program.htm>.

¹⁶⁹ Nepomuceno, "Fast Missile Boats Seen to Complement PH Navy's Attack Craft," 1.

¹⁷⁰ Nepomuceno, 1.

¹⁷¹ Thayer, "Military Modernization and Capacity Building in the Philippines and Vietnam," 106.

Excess Defense Articles program, opted to give the Philippines a third Hamilton-class vessel. In addition, the Southeast Asia Maritime Security Initiative has been granted \$425 million by the U.S. Congress for a span of five years.¹⁷² This funding will be divided among five countries including the Philippines. In 2016, the Philippines stands as the primary beneficiary, receiving \$41 million, which represents nearly 85% of the \$49.7 million allocation.¹⁷³ Additionally, subsequent disbursements of \$75 million in 2017 and \$100 million each year from 2018 to 2020 have also been approved. The allocated funds are intended for multiple objectives with aim of improving the maritime operational capabilities of the Philippine security forces.¹⁷⁴ In addition, it was reported in March 2023, that CSAFP General Andres Centino engaged in bilateral discussions with the Chief of Staff of the Japan Self-Defense Forces Koji Yamazaki, to discuss the potential implementation of Reciprocal Access Agreement.¹⁷⁵ “The two Chiefs of Defense discussed issues of mutual concern in the areas of maritime cooperation and defense, capability development, and the Proposed Reciprocal Access Agreement.”¹⁷⁶ In ensuring the “rules-based international order in the West Philippine Sea,” Yamazaki’s reassurance affirmed Japan’s commitment to the Philippines.¹⁷⁷ Additionally, on October 25, 2016, the U.S. embassy reported that between 2002 and 2011, the Philippines received military aid from the U.S. amounting to almost \$500 million “for sales, education, training and counter-terrorism.”¹⁷⁸ Furthermore, three U.S. ships as well as approximately 20 American helicopters that date back to the Vietnam War era were given by the U.S. to the Philippines.¹⁷⁹ As a result, the Philippine military benefits from the continued collaboration

¹⁷² Thayer, 106.

¹⁷³ Thayer, 106.

¹⁷⁴ Thayer, 106.

¹⁷⁵ Philstar, “Philippines, Japan Armed Forces Discuss Collaboration, Proposed Defense Pact,” *Philstar.Com*, March 19, 2023, 1, <https://www.philstar.com/headlines/2023/03/19/2252835/philippines-japan-armed-forces-discuss-collaboration-proposed-defense-pact>.

¹⁷⁶ Philstar, 1.

¹⁷⁷ Philstar, 1.

¹⁷⁸ Manuel Mogato, “Philippines Signs Contract with Korean Firm for Two Navy Frigates,” *Reuters*, October 25, 2016, sec. Industries, 1, <https://www.reuters.com/article/philippines-defence-idINL4N1CV1VC>.

¹⁷⁹ Mogato, 1.

with allied countries since it allows for the improvement of its military capabilities. Working with allies can provide the Philippine military with access to advanced training and defense equipment that can significantly boost its combat effectiveness. Furthermore, such collaboration can improve the Philippine military's interoperability with its allies, allowing for combined operations and efficient responses to common security issues.

The gradual increase in financial resources provided to the PN over a period has allowed them to improve their capability readiness, which helps them carry out their assigned tasks and missions. In addition, the Philippine military enhances its capabilities to perform its assigned tasks by receiving military assistance through its partnership with allied countries. With the additional resources such as funding, equipment, and training, preparedness for combat and other military operations will increase. The improved readiness can result in better effectiveness in carrying out mandated duties.

B. PHILIPPINE DEFENSE SPENDING

The Philippine government allocated a slightly higher percentage of its Gross Domestic Product (GDP) to military spending in 2021 compared to the previous year. Figure 1 illustrates the ratio of Philippine military spending to GDP.

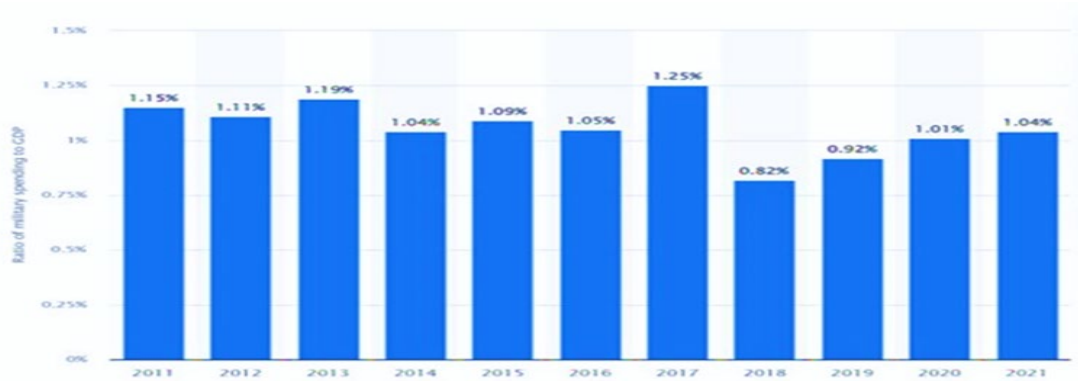


Figure 1. Ratio of Philippine Military Spending to GDP¹⁸⁰

The ratio of the Philippine military expenditure to GDP increased by 0.03 percentage points, which means that 1.04% of the country’s economic output went toward military expenses.¹⁸¹ It is worth noting that the said ratio has fluctuated over the years, indicating that military spending is influenced by various factors. These factors include economic conditions, security threats, and government priorities. This increase is indicative of the government’s commitment to enhancing the country’s defense capabilities.

C. COMPARISON OF PHILIPPINE DEFENSE SPENDING WITH OTHER COUNTRIES IN SOUTHEAST ASIA

The percentage of a nation’s GDP that is dedicated to its defense budget is a significant metric for evaluating its military preparedness and priorities regarding national security. Figure 2 displays the defense expenditures of other Southeast Asian nations in the year 2021.

¹⁸⁰ Aaron O’Neill, “Philippines – Ratio of Military Expenditure to Gross Domestic Product (GDP) 2011–2021,” Statista, 1, accessed April 2, 2023, <https://www.statista.com/statistics/810550/ratio-of-military-expenditure-to-gross-domestic-product-gdp-philippines/>.

¹⁸¹ O’Neill, 1.

Countries	Military spending (percent of GDP, 2021)	Rank
Burma	3.33	1
Brunei	3.26	2
Singapore	2.98	3
India	2.66	4
Cambodia	2.32	5
Thailand	1.32	6
Malaysia	1.06	7
Philippines	1.04	8
Indonesia	0.7	9

Figure 2. 2021 Defense Spending of Other Southeast Asian Nations¹⁸²

The mean percentage share of GDP to defense spending for the year 2021 across nine countries in Southeast Asia was 2.07%. The mean or average percentage share of GDP for defense spending across these countries was 2.07%.¹⁸³ On average, these nations dedicated approximately 2.07% of their GDP to finance their military or other defense-related operations. Among these countries, Burma (Myanmar) allocated the largest proportion, with a share of 3.33% of its GDP being spent on defense. On the other hand, Indonesia had the lowest percentage share, with only 0.7% of its GDP being spent on defense. The Philippines ranks eighth out of the nine countries in terms of the percentage share of GDP allocated to defense spending. The Philippines allocated a relatively lower percentage of its GDP to defense spending compared to the other countries.

D. PHILIPPINE INFLATION RATE

The inflation rate can have a significant impact on the Philippine government budget. Figure 3 shows the inflation rate of other Asian countries in 2021, 2022, and 2023.

¹⁸² Neven Valev, “Military Spending: Percent of GDP in South East Asia,” TheGlobalEconomy.com, 2023, 1, https://www.theglobaleconomy.com/rankings/mil_spend_gdp/South-East-Asia/.

¹⁸³ Valev, 1.

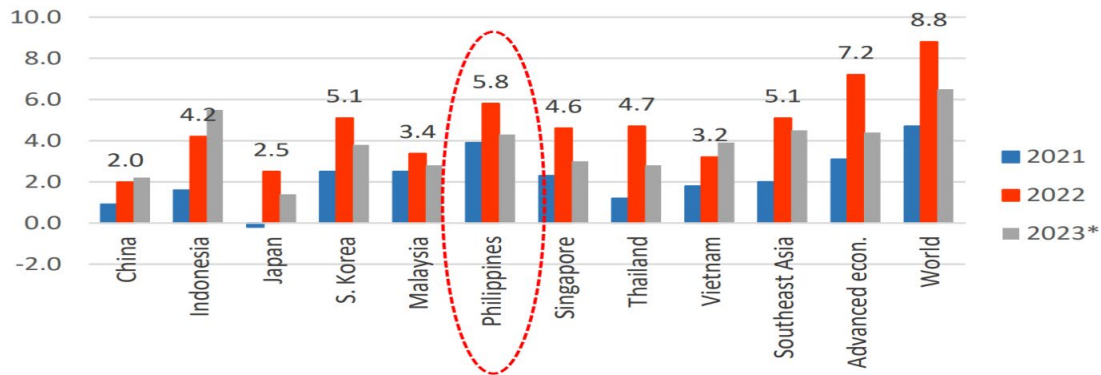


Figure 3. Inflation Rate of Other Asian Countries¹⁸⁴

Inflation refers to “a rise in prices, which can be translated as the decline of purchasing power over time.”¹⁸⁵ When inflation increases, the cost of goods and services also increases, leading to an increase in the price of commodities that the government purchases. The Philippines has the highest inflation rate among the ASEAN economies, although inflation is not a unique issue in the country.¹⁸⁶ In 2022, global inflation reached 8.8 percent due to various factors such as supply chain disruptions, higher prices for energy and food, and tight labor markets as countries emerged from lockdowns (Figure 2). Advanced economies, particularly the U.S., experienced more pronounced inflation due to the large fiscal stimulus package implemented to mitigate the pandemic’s impact. In Southeast Asia, inflation more than doubled to 5.1 percent compared to the 2.0 percent recorded in 2021. Within the ASEAN-6 countries, the Philippines had the highest inflation rate. This inflation means that the Philippine government may need to spend more money to purchase the same amount of goods and services, which can put pressure on the budget.

E. PN MAJOR FINAL OUTPUT

The PN sets a target to achieve by the end of each year. The Major Final Output (MFO) refers to the “goods and services that a department or agency is mandated

¹⁸⁴ Senate Economic Planning Office, “Inflation in 2022: At A Glance,” 3.

¹⁸⁵ Jason Fernando, “Inflation: What It Is, How It Can Be Controlled, and Extreme Examples,” Investopedia, March 14, 2023, 1, <https://www.investopedia.com/terms/i/inflation.asp>.

¹⁸⁶ Senate Economic Planning Office, “Inflation in 2022: At A Glance,” 3.

to deliver to external clients through the implementation of programs, activities and projects.”¹⁸⁷ Table 4 shows the CY2018 and CY2019 Major Final Output of the PN on territorial defense and security.

Table 4. CY2018 and 2019 Major Final Output

Major Final Output	Target		Actual	
Capability Build-Up				
	2018 ¹⁸⁸	2019 ¹⁸⁹	2018	2019
Personnel Readiness	100%	100%	96%	96%
Training Readiness	100%	75%	83%	76%
Equipment Readiness	77%	87%	82%	87%
Maintenance Readiness	95%	92%	89%	83%
Facility Readiness	93%	92%	91%	94
Operational Tempo				
Naval Units Provided to the UC	100%	100%	97%	100%
Number of Units Deployed	184	117	203	144
Number of Units Prepared for Deployment	38	40	25	38
Number of Force Level Support Services Sustained	55	134	46	134

On personnel readiness, the PN maintained readiness in 2019¹⁹⁰ based on 2018¹⁹¹ accomplishments. The PN attained a 96% personnel readiness rating which is fully mission capable under the readiness condition status. The PN annual program for the procurement of personnel addresses the negative variance in personnel readiness to attain the set target in the succeeding years. The PN fell short in the remaining components of the capability build-up such as training, equipment, maintenance, and facility readiness. The non-attainment of set targets was mainly due to the non-completion of the activities and projects for the year which carried and continued in the succeeding year. It can be noted that the

¹⁸⁷ Department of Budget and Management, “Glossary of Terms,” 712.

¹⁸⁸ Commission on Audit, “2018 Philippine Navy Consolidated Annual Audit Report,” 1. Adapted from PN Consolidated Annual Audit Report.

¹⁸⁹ Commission on Audit, “2019 Philippine Navy Consolidated Annual Audit Report,” 1. Adapted from PN Consolidated Annual Audit Report.

¹⁹⁰ Commission on Audit, 1.

¹⁹¹ Commission on Audit, “2018 Philippine Navy Consolidated Annual Audit Report,” 1.

PN adjusted its targets in 2019 in view of the non-attainment of the set objectives in 2018. The non-attainment of the set objectives has a direct relation with the non-utilization of funds at the end of the year in 2018 and 2019. The non-utilization of appropriations for the year was due to the continuing activities which remained unused or unobligated by the end of the year. An obligation is a responsibility taken on by a government agency, resulting from the actions of an authorized official.¹⁹² Similarly, the non-attainment of the set objectives has a relation to the reversal of funds to the Philippine Bureau of Treasury in 2018¹⁹³ and 2019.¹⁹⁴

Even though the PN fell short of its set objectives, the PN provided naval units in support of the operational requirements of the Unified Command by registering 97% and 100% of its targets in 2018¹⁹⁵ and 2019,¹⁹⁶ respectively. The PN deployed and sustained 203 fleet-marine units to the operational area which is more than the set objectives of 184 naval units. Similarly, in 2019, the PN deployed and sustained 144 fleet-marine units which are more than the set target. For the naval support service units provided to the different operational areas, the PN made available 134 naval support service units to assist and facilitate the administrative and operational requirements of deployed fleet-marine units in the operational area. For the number of naval units programmed for repair and training, it can be noted that an increase in programming was undertaken while actual accomplishments registered 66% and 95% in 2018 and 2019, respectively.

F. CONCLUSION

The Philippine government has consistently provided funds to the PN to maintain its capability readiness and fulfill its navy's objectives. In the past five years, from 2016 to 2020, the PN's appropriations have increased gradually, which has resulted in maintaining its readiness. Appropriations provided to the PN are just enough to maintain

¹⁹² Department of Budget and Management, "Glossary of Terms," 714.

¹⁹³ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report," 1.

¹⁹⁴ Commission on Audit, "2019 Philippine Navy Consolidated Annual Audit Report," 1.

¹⁹⁵ Commission on Audit, "2018 Philippine Navy Consolidated Annual Audit Report," 1.

¹⁹⁶ Commission on Audit, "2019 Philippine Navy Consolidated Annual Audit Report," 1.

its current assets. The majority of the PN appropriations are assigned to the PS component, primarily designated for covering the monthly salaries, benefits, and allowances of PN personnel. The PS appropriation comprises more than 60% of the total PN appropriations every year and the rest are mostly distributed to the MOE and CO components. Moreso, the government has been able to allocate additional resources despite economic conditions and political considerations and has even adjusted the budget to account for annual inflation rates to maintain the PN's capabilities and support the AFP's mission. In addition, the AFP modernization program and partnership with allied countries contributed to the enhancement of the PN's capability readiness. Only through the AFP Modernization Program and partnership with allied countries can additional PN equipment be provided in support of performing its assigned missions. Through yearly incremental increase in appropriations for the PN and the support received from allied nations, the PN has managed to maintain its readiness, and made gradual advancement in various aspect of military readiness.

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IV. ANALYSIS AND CONCLUSION

The Philippine government continuously supports the development of its armed forces by allocating funds in the form of appropriations. The continued development of the AFP provides the opportunity to defend the country's territory and its people from internal and external threats. Smith points out that military forces are the only ones capable of safeguarding a nation and its society from both internal and external threats.¹⁹⁷ In a similar manner, the Philippines is besieged by a wide spectrum of challenges and needs to defend itself from traditional and non-traditional security threats, such as "insurgency, secessionism, terrorism, and territorial disputes."¹⁹⁸ Given the volatile, unpredictable, and intricate circumstances, it is crucial for the Philippine defense system to use its limited resources. Relatedly, according to the International Maritime Bureau (IMB), there was a considerable increase in maritime piracy incidents in Southeast Asia from 1998 to 2000, and again between 2002 and 2004.¹⁹⁹ In July 2005, this escalating situation led Lloyd's of London to designate the Straits of Malacca as a "war-risk zone."²⁰⁰ To reinforce maritime law enforcement and fortify the penetrable southern frontiers of the Philippines, the Philippine National Police's Maritime Group (PNP-Maritime Group), the Philippine Coast Guard (PCG) and the PN are collaborating in a partnership primarily focused on the porous Philippine maritime boundaries with Malaysia and Indonesia, which are infamous as conduits for "smuggling and human trafficking."²⁰¹ Historically, the southern maritime border of the Philippines has been a common route for transnational terrorists seeking

¹⁹⁷ Ron Smith, *Military Economics: The Interaction of Power and Money* (London: Springer, 2016), 54.

¹⁹⁸ Department of National Defense, *National Defense Strategy 2018–2022*, 2018, 8, https://www.globalsecurity.org/military/library/report/2018/philippines-national-defense-strategy_2018-2022_201811.pdf.

¹⁹⁹ Terence Lee and Kevin McGahan, "Norm Subsidiarity and Institutional Cooperation: Explaining the Straits of Malacca Anti-Piracy Regime," *The Pacific Review* 28, no. 4 (August 8, 2015): 532, <https://doi.org/10.1080/09512748.2015.1012537>.

²⁰⁰ Lee and McGahan, 532.

²⁰¹ Aaron Recuenco, "PNP to Strengthen Maritime Patrol Alliance with PH Navy, Coast Guard," *Manila Bulletin*, February 27, 2023, 1, <https://mb.com.ph/2023/02/28/pnp-to-strengthen-maritime-patrol-alliance-with-ph-navy-coast-guard/>.

sanctuary in the country and has been a preferred pathway for Abu Sayyaf's kidnapping operations in Malaysia and Indonesia. Beyond the PN's roles in domestic security, the PN is "protecting the Philippines' territorial boundaries and upholding its sovereignty."²⁰² This responsibility not only ensures the navy's dominance within the nation's maritime boundaries, but it can also strengthen the country's position in contentious regions and disputed marine areas. Therefore, the PN is crucial in protecting the nation's maritime interests through the defense of its sovereignty and the security of its maritime boundaries. Nevertheless, to successfully execute its essential duties, the PN needs adequate financial support and resources to prepare and provide ready and capable fleet-marine forces. This chapter provides the analysis, conclusion, and recommendations in relation to the distribution and implementation of PN appropriations and other resources to maintain and sustain PN military readiness.

A. ANALYSIS

The PN is consistently supported by the Philippine government with annual appropriations to support the conduct of naval operations. Over the span of five years, specifically, from 2016 to 2020, the PN experienced an annual increase in their appropriations averaging \$227.1 million per year. The said increase translates to an average annual percentage increase of roughly 13% in PN's appropriations during that period. Tilly's theory of a positive correlation between resource extraction and military development during wartime holds true, as a state's triumph in a war heavily relies on a strong and adequately equipped military that demands ample resources.²⁰³ Despite various factors that could impact the level of defense appropriations in the Philippines, the PN was able to consistently secure an annual increase in its appropriations in support of deterring various maritime security threats.

²⁰² Rommel C. Banlaoi, "Philippine Naval Modernization: Nature, Causes and Consequences," in *Naval Modernisation in South-East Asia* (Routledge, 2013), 156, <https://www.taylorfrancis-com.libproxy.nps.edu/chapters/edit/10.4324/9780203406830-19/philippine-naval-modernization-nature-causes-consequences-rommel-banlaoi>.

²⁰³ Charles Tilly, "War Making and State Making as Organized Crime," in *Collective Violence, Contentious Politics, and Social Change* (Routledge, 2017), 181, <https://cle.nps.edu/access/content/group/9a0a1a2a-2b81-4e62-a48c-818450a8322e/Tilly85.pdf>.

The PS component of the PN appropriations has steadily increased from FY2016 to FY2020, providing the necessary funding for the personnel build-up of the PN. The PS component experienced an average annual increase of \$34.944 million, with an average percentage increase per year of approximately 18.77% over the same period. This increase corresponds to the gradual increase of PN personnel strength by approximately 309 personnel annually. The rise in the PS component is not only due to the increase in personnel strength but also the salary increases of PN personnel. According to Gilroy, Horne, and Smith, minor enhancements in compensation efficiency can yield substantial cost benefits.²⁰⁴ Thus, the PS appropriations have provided sufficient fleet-marine forces to the unified command in support of safeguarding the Philippine maritime environment while maintaining personnel readiness categorized as mission capable.

The MOE budget allocation for the PN has consistently increased over the years, with an average annual increase of approximately \$6.137 million or almost 5%. However, this increase is barely enough to keep up with the annual inflation rate, which was around 4% in 2020. Despite the overall increase, the MOE component's share of the total appropriation has decreased from 35.3% in FY2016 to 26.7% in 2020 due to the rise in military compensation under the PS component. Consequently, while the PS component's share is increasing, the MOE component's share is decreasing concerning the total PN appropriations. The PN's deployment of fleet-marine forces and naval service support units in operational areas to support joint operations by the unified command has led to a gradual increase in the demand for machinery, equipment, and transportation maintenance and repair. This demand is accompanied by increased fuel requirements resulting from the conduct of fleet-marine operations nationwide and the operationalization of newly acquired assets through the AFP Modernization Program. Moreover, the PN's aging surface assets, which are over 30 years old, require more frequent repairs and maintenance, increasing their operating costs. To address these various repair and maintenance requirements, the PN has increased its budget allocation for repair and maintenance, including fuel

²⁰⁴ Curtis L. Gilroy, David K. Horne, and D. A. Smith, "Military Compensation and Personnel Retention. Models and Evidence." (Fort Belvoir, VA: Defense Technical Information Center, February 1, 1991), 1, <https://doi.org/10.21236/ADA363401>.

consumption, and has decommissioned some of its old vessels to reduce repair and maintenance costs. However, the acquisition of new equipment also requires resources for maintenance and operationalization to sustain military readiness and support assigned missions. Despite numerous factors affecting the attainment of military readiness of the PN such as the implementation of appropriations through the Philippine procurement system, the PN provided sufficient fleet-marine forces and naval service support units to the unified command. Thus, the increase in MOE appropriations supports the increasing demand for the repair and maintenance of the deployed PN assets.

The CO component is essential in enhancing the PN's capabilities, and despite representing a small proportion of the total appropriations, the allocated funds from FY2016 to FY2020 amounted to \$117.309 million, which were utilized for special projects aimed at improving the PN's machinery, equipment, and infrastructure program. The CO component's allocation plays a critical role in increasing the PN's readiness by enabling the procurement of essential equipment and the development of infrastructure.

The PN's military readiness has been improved by the acquisition of new equipment through partnerships with allied countries and the AFP Modernization Program. However, to maintain these new assets' operational efficiency, the PN requires additional resources. Therefore, an increase in budget allocation is crucial to ensure that the new equipment is in proper working condition, with the end view of enhancing the PN's military readiness.

B. CONCLUSION

The PN appropriation is steadily increasing to sustain the conduct of naval operations in support of addressing maritime security threats. With those financial resources, the PN was able to provide sufficient fleet-marine forces and deployed naval service support units to the unified command in support of the conduct of joint operations in the different operational areas nationwide. The PS component of the PN appropriations makes up more than 60% of the total, indicating that most of the funds are used for compensation, benefits, and allowances for PN personnel. With an average annual increase of 309 personnel, the PN is on track to attain its 100% personnel readiness objective soon

with a 96% personnel readiness rating in 2019. To optimize the PN budget allocation, it may be necessary to rationalize the organization and make it leaner and more efficient. A leaner organization would require fewer personnel to perform the same tasks, resulting in cost savings. These savings could then be redirected to other components such as the MOE and CO to increase their budget allocation. By doing so, the PN can further enhance its operational capabilities and achieve its objectives more effectively.

Under the MOE component, the supply and materials expenses and repair and maintenance expenses comprised at least 50% and 30%, respectively, of the total MOE appropriations. With the continuous and steady increase of expenses under the said object of expenditures in view of the various taskings given to the PN coupled with the influx of newly acquired PN and equipment surface assets under the AFP Modernization Program and partnerships with allied countries through military aid, there would come a time when such expenditure would exceed the budget allocation and the MOE appropriations would not be enough to support the present requirements. Hence, there is a need to make appropriate measures to increase the budget allocation for MOE appropriations. Toliver claims that insufficient funding for maintenance endangers the military's capability to fulfill its objectives.²⁰⁵ This lack of funding can lead to the neglect of critical maintenance tasks, such as repairing or replacing worn-out equipment and performing routine maintenance.

In addition, the analysis has shown that the MOE component's proportion of the total appropriation for the PN has decreased while the PS component's share has increased. The shift in allocation is primarily due to the increase in military compensation under the PS component. While the overall budget allocation for the PN has increased, the declining MOE component's share has implications for the PN's capability readiness. The MOE component funds essential factors such as equipment, facilities, and maintenance, which are crucial to the PN's military readiness. Thus, the decrease in the MOE component's share could potentially impact the PN's ability to maintain and sustain its forces for naval

²⁰⁵ Shamekia N. Toliver, "Supporting Mission Readiness by Mitigating Infrastructure Risk," *Phalanx* 52, no. 3 (2019): 54, <http://www.jstor.org/stable/26796748>.

and maritime operations. It is recommended that the PN and the government evaluate their budget allocation strategy to ensure that essential areas such as equipment, facilities, and maintenance are adequately funded to maintain the military readiness of the PN to perform its duties effectively.

The implementation of appropriations under the Philippine procurement process affects the military readiness of the PN. The implementation of appropriations to sustain PN military readiness is anchored on the Philippine procurement process. The delayed delivery of the necessary supplies and materials, the non-completion on time of those ship repair activities, and the lengthy and complicated procurement process contributed to the non-attainment of military readiness of the PN. Hence, there is a need to address the issue to sustain the military readiness of the PN.

C. RECOMMENDATIONS

With the continued support from the Philippine government by providing annual appropriations to the Philippine defense department, the PN needs to improve the implementation of appropriations to sustain its military readiness. Likewise, the PN needs to increase its budget allocation to support the necessary maintenance of fleet-marine forces and other naval service support units to accomplish the mission of the AFP. The following measures are recommended to be adopted to properly address the above-mentioned issues.

(1) Collaboration and Coordination with Members of the Philippine Congress

To ensure the preparedness and effectiveness of the fleet-marine units in the PN, it is crucial to allocate more resources for their maintenance and sustainment requirements. Collaboration and coordination with the members of the Philippine Congress can be utilized to emphasize the need and advocate for increased defense appropriations. The Philippine DSOM can be employed to justify the importance of sustaining the fleet-marine forces and operationalizing newly acquired PN assets. The annual defense budget proposal can serve as a platform to provide the necessary justifications and ensure their inclusion in the president's budget request. By implementing these measures, the PN can potentially

secure the resources needed to maintain its assets and ensure the continued readiness of its fleet-marine forces.

(2) Rationalization of the PN Organization

To improve the productivity and performance of the PN, it is recommended to conduct a comprehensive review of the organization's structure and processes. This review should aim to streamline PN's operations and eliminate redundancies, resulting in a leaner and more efficient organization that requires fewer personnel to perform its tasks. The savings generated from this rationalization process can be redirected to the MOE and CO components to increase budget allocation. To achieve these savings, the review should first identify the core functions and services provided by the PN and determine the optimal number of personnel required to perform them effectively. The existing personnel structure should then be assessed to identify areas where staffing can be reduced without compromising the quality of services provided. This evaluation should involve a thorough analysis of each department and function to determine which positions are essential and which can be eliminated.

(3) Simplify the Procurement Regulations

The current regulations and guidelines for the procurement process can be simplified to make it transparent and user-friendly. The simplified procurement process will help reduce confusion and minimize delays caused by misinterpretations of the rules. By making the regulations and guidelines more transparent and user-friendly, procurement professionals can more easily understand and comply with them, which may result in a more efficient and effective procurement process. One method to simplify regulations and guidelines is to consolidate and streamline them while eliminating any repetitive or unnecessary requirements.

(4) Adoption of Procurement Technology

The procurement process is often complex and time-consuming, involving a multitude of steps, documents, and stakeholders. One way to streamline this process is by using procurement technology, such as e-procurement systems and online bidding

platforms. E-procurement systems can automate many procurement activities, which can significantly reduce time and effort, minimize the risk of errors, and help to standardize the procurement process, ensuring that all procurement activities are conducted consistently and in compliance with relevant regulations and guidelines. Online bidding platforms can also help to streamline the procurement process by enabling suppliers to submit bids electronically, which can significantly reduce the time and effort required to manage the bidding process and help to increase competition among suppliers, resulting in better pricing and quality for the goods and services being procured.

(5) Strengthen Procurement Capacity

The procurement process is a complex and multi-step activity that requires significant expertise and resources to manage effectively. Strengthening the procurement capacity of the defense department and other agencies involved in the process can help ensure that procurement activities are conducted efficiently and effectively. Effective procurement can be achieved through the development of a training and capacity-building program to address the identified gaps, which can include courses on procurement regulations, procurement planning, contract management, and financial management, and hiring additional procurement professionals as needed to support the procurement process.

D. AREAS FOR FURTHER RESEARCH

Exploring these research areas can offer crucial understanding to improve the PN's proficiency, operational efficacy, and comprehensive readiness. In-depth investigations into defense budget allocation in countries with similar geopolitical environments to the Philippines could supply strategic perspectives for ideal resource distribution within the Philippine defense sector. Additionally, thorough evaluations of the PN's existing organizational structure might lead to data-driven advice on redundancy elimination, efficiency improvement, and areas needing enhancement. Comprehensive studies aimed at identifying the current and future maintenance and sustainment requirements for the fleet-marine units in the PN also hold significant value. A comparative analysis of various e-procurement systems and online bidding platforms, alongside their feasibility and suitability for adoption within the Philippine context, could drive significant improvements

in procurement processes. Moreover, a thorough capacity assessment of the procurement staff within the defense sector to identify knowledge and skills gaps could provide a roadmap for enhancing procurement effectiveness.

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