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Combating Corruption in the Philippines: An Update

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FISCAL YEAR

January 1 – December 31

GLOSSARY OF ACRONYMS

ADB	Asian Development Bank	ICT	Information and Communications Technology
AusAID	Australian Agency for International Development	LGU	Local government unit
BIR	Bureau of Internal Revenue	MBC	Makati Business Club
BSP	Bangko Sentral ng Pilipinas	MTPDP	Medium-Term Philippine Development Plan
BWRC	Best World Resources Corporation	NBI	National Bureau of Investigation
CG	Consultative Group	NEDA	National Economic and Development Authority
CIDA	Canadian International Development Agency	NGO	Non-governmental Organization
COA	Commission on Audit	OECD	Organization for Economic Cooperation and Development
CPI	Corruption Perception Index	P	Philippine peso
CSC	Civil Service Commission	PAGC	Presidential Anti-Graft Commission
DAP	Development Academy of the Philippines	PCAGC	Presidential Commission Against Graft and Corruption
DBM	Department of Budget and Management	PCEG	Presidential Committee on Effective Governance
DECS	Department of Education, Culture and Sports	PCGG	Presidential Commission on Good Governance
DENR	Department of Environment and Natural Resources	PCIJ	Philippine Center for Investigative Journalism
DILG	Department of Interior and Local Government	PW	Procurement Watch
DOH	Department of Health	SEC	Securities and Exchange Commission
DOJ	Department of Justice	SWS	Social Weather Stations
DPWH	Department of Public Works and Highway	TAG	Transparent Accountable Governance
GOP	Government of the Philippines	UNDP	United Nations Development Programme
IAAGCC	Inter-Agency Anti-Graft Coordinating Council	USAID	United States Agency for International Development
ICD	Institute of Corporate Directors		

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COMBATING CORRUPTION IN THE PHILIPPINES: AN UPDATE

EXECUTIVE SUMMARY

i. *This report on Combating Corruption in the Philippines (late-1999 to mid-2001) provides an update of the earlier report on the same issue which was published by the World Bank in May 2000.¹ The earlier report documented the prevalence of corruption in the Philippines and examined the key institutions engaged in combating this corruption. It also provided information on the government's anticorruption strategy and plans and recommended a nine-point approach to fighting corruption. The government's plans and the World Bank's recommendations were, by and large, not implemented despite promises to do so. Instead, the atmosphere deteriorated and there were mounting allegations of corruption against the then President Estrada which led to his impeachment trial.*

ii. *The new administration, which took office on January 20, 2001, under the leadership of President Gloria Macapagal-Arroyo, has declared combating corruption one of its top priorities. Public expectations for faster and stronger actions than previous administrations are high. Several initiatives have been announced. However, a detailed plan of action with implementation arrangements for combating corruption has yet to emerge. Against this background, this report reviews negative and positive developments related to the fight against corruption in the Philippines since the last report was issued. It then presents a set of updated recommendations for consideration by the government and other anticorruption champions in the Philippines. However, the limited objective of this report should be stressed. It is not an analytical piece that *assesses* progress on anticorruption activities but rather a *review* of such activities in the Philippines during 2000–2001.*

iii. *The year 2000 is widely perceived to be a period of widening governance deficit in the Philippines. Data from national and international surveys reveal a significant rise in the perception of corruption, which contributed to undermining investor confidence and reducing the public's faith in government's sincerity in combating graft and corruption. Our earlier report had revealed that "corruption in the public and private sectors in the Philippines is pervasive and deep-rooted, touching even the judiciary and the media." This unfortunate situation worsened in 2000, judging from the following survey data:*

- In a December 2000 survey, 72 percent of the Filipinos called the amount of *corruption in the government* to be very large or somewhat large. The proportion of Filipinos who considered *government to be very/somewhat sincere in fighting*

¹ World Bank, *Combating Corruption in the Philippines* (Pasig City, Philippines: World Bank, 2000).

corruption declined 20 points to 44 percent in December 2000 from 64 percent the previous July.²

- The proportion of Filipinos who view *corruption as primarily harmful to national development* instead of primarily immoral has *steadily grown* from 54 percent in October 1999 to 81 percent in December 2000.³ Several high-profile cases of allegedly corrupt behavior and other governance weaknesses⁴ appeared to have shaped these perceptions. For a decade and a half, corruption has been Filipinos' second most common source of dissatisfaction with their government (after inflation).
- *Judiciary*. While the proportion of Filipinos who believe that most or many judges can be bribed remained unchanged at 57 percent from April 1997 to December 1999, the corresponding percentage for lawyers increased from 60 percent to 65 percent during the same period.⁵
- Most Filipinos continued to regard corruption in the *private sector* as also serious but not as extensive as in government. More than half the respondents to a Social Weather Stations (SWS) survey in December 2000 perceived corruption in the private sector to be "a great deal" or "some." Of those who said there is corruption in the private sector, 14 percent said that they have personally experienced or witnessed it. This is a *significant increase* from 3 percent of respondents in the September 2000 survey.⁶ This view was confirmed by business. As part of an October 2000 Enterprises Survey sponsored by the Transparent and Accountable Governance project, 53 percent of the enterprises surveyed responded that there is a "great deal" or "some" corruption in the private sector. Corruption in *print media* was perceived to be lower than in the government, private sector, or judiciary. Newspaper writers were bribed to say false things "very often" or "somewhat often," according to 39 percent of survey respondents.⁷
- *Filipino business* executives were even more critical of corruption than average citizens who replied in an October 2000 survey. Public sector corruption is "very large" or "somewhat large," said 88 percent of the business executives but 70 percent of the citizens.⁸ In the most recent 2000 Corporate Performance Survey by the Economist Intelligence Unit, *multinational companies operating in the Philippines* identified corruption/cronyism/ethics/transparency/governance as the

² Social Weather Stations (SWS) National Surveys, Manila, Second and Fourth Quarters, 2000.

³ SWS National Surveys, Third Quarter 1999 and Fourth Quarter 2000.

⁴ For instance, allegations of stock manipulation and insider trading in the BW Resources Corporation stock market case, lack of transparency in transfer of control of the Philippine National Bank from the government to a private sector group, allegations of mismanagement and eventual bankruptcy of the Urban Bank, the impeachment trial of Mr. Estrada, inclusion of the Philippines by the Financial Action Task Force of the Organization for Economic Cooperation and Development (OECD) in a 15-country list of countries considered non-cooperative for anti-money laundering measures.

⁵ SWS National Surveys, First Quarter 1997 and Fourth Quarter 1999.

⁶ SWS National Surveys, Third and Fourth Quarters 2000.

⁷ SWS National Survey, Third Quarter 2000.

⁸ SWS, National and Enterprises Survey, Third Quarter 2000.

most glaring weakness in the Philippines. This is a significant indicator of the rising governance deficit, since, in the previous two surveys (1998 and 1999), poor infrastructure was identified as the main disadvantage of operating in the Philippines and corruption as the fourth most important factor.

- In the *Transparency International* survey of perceptions of corruption, the Philippines' ranking slipped from 55 in 1998 (out of 85 countries surveyed) to 65 in 2001 (out of 91 countries surveyed). On a scale of 1 to 10 on a Corruption Perception Index (where a higher value means lower perceptions of corruption, 10 being perceived to be least corrupt), the Philippines' scores deteriorated from 3.6 in 1999 to 2.8 in 2000, and then improved slightly to 2.9 in 2001. This is significant because prior to 2000 the Philippines had steadily improved its Corruption Perception Index from an average low of 1.04 between 1980 and 1985 to 3.6 in 1999.⁹
- In another international comparison (International Credit Risk Group), on a scale of 0 (bad) to 6 (good) the Philippines was downgraded to 2 in March 2001 from 3 in February 2000.¹⁰

iv. Despite the real and disappointing deterioration in the Philippines' governance environment in 2000, based on above indicators, significant useful progress was made on several fronts. These positive developments—combined with the all-time high public outrage with corruption in the Philippines—provide hope and a foundation for concrete progress. The key positive developments since late-1999 were as follows:

- *Public procurement reforms.* Under the leadership of the Department of Budget and Management, key reforms included: passing of executive orders to facilitate increased competition and reduce delays in bidding; launching of the electronic procurement system; and establishment of a civil society-based monitor, the Procurement Watch.
- *Financial management reforms.* Spearheaded by the Commission on Audit, key measures included: simplification and computerization of the government accounting system; implementation of the Audit Team Approach as an alternative to residency auditing; and adoption of a participatory audit with civil society organizations.
- *Judicial sector reforms.* Under the widely praised leadership of the Chief Justice, the Supreme Court: adopted the Action Program for Judicial Reform, a comprehensive and holistic approach to judicial reforms; agreed with a nongovernmental organization, Bantay Katarungan, to monitor court proceedings and screening of applicants to the positions in the Regional Trial Courts and Courts of Appeals; and stepped up disciplinary actions against corrupt judges. Between November 30, 1998, and April 2, 2001, the Supreme Court took

⁹ Transparency International www.transparency.org.

¹⁰ *PREM/DEC Indicators* (Washington: World Bank, March 2001 and February 2000).

disciplinary action against 230 judges by either dismissal or administrative sanctions on graft and corruption charges.¹¹

- *Corporate governance reforms.* The new Securities Regulation Code was approved, and a major program to improve corporate governance was launched by the Institute of Corporate Directors (ICD). ICD is involved in director training and in advocacy of improved corporate governance. In this regard, it has conducted several conferences and other events to publicize key issues.
- *Increased engagement of civil society.* Civil society, the private sector, and the media became noticeably more active in demanding transparency and accountability in government. Respect for investigative journalism increased, and new information technologies (mobile phones and the internet) increased corrupt officials' risk of detection. Several conferences and studies made recommendations on what can be done to combat corruption. Critical alliances were formed between the private sector and civil society (Transparent Accountable Governance Project), between government and civil society (Government and Budget Watch Projects), and between civil society, the private sector, and academe (Transparency and Accountability Network).
- *Anticorruption strategy.* In response to the World Bank report on Combating Corruption, the Development Academy of the Philippines formulated a Comprehensive Framework and Program Strategy to fight corruption in the Philippines. The Development Academy of the Philippines came up with an anticorruption blueprint in consultation with civil society organizations, the private sector, anticorruption agencies, cabinet members, the media, and academe. This National Anticorruption Plan features a long-term sequencing of anticorruption actions and a centerpiece 10-point jumpstart program for immediate execution.
- *Increased donor support for anticorruption programs.* Corruption and governance issues gained prominence during discussions at the Consultative Group of Donors for the Philippines meeting held in the Philippines in June 2000 and in subsequent government-donor dialogues. Several donors used their ongoing assistance programs to intensify support for anticorruption efforts and in some cases scaled up their assistance for anticorruption programs in the government as well as nongovernmental sectors.¹² In April 2001, the same group of donors submitted their joint recommendations to the new government proposing steps to fast track implementation of an anticorruption action program.

¹¹ Francis Initorio, "Policing the Judiciary," *Benchmark*, Centennial Issue, vol. 2, no. 3 (May–June 2001). (*Benchmark* is published by the Public Information Office of the Supreme Court.) The 230 judges were from the entire judiciary comprising the Metropolitan Trial Courts, Regional Trial Courts, Shari'ah District Courts, Sandigabayan, Court of Appeals, and the Supreme Court.

¹² These donors included the World Bank, the Asian Development Bank (ADB), the United Nations Development Programme (UNDP), the Australian Agency for International Development (AusAid), the U.S. Agency for International Development (USAID), and the Canadian International Development Agency (CIDA).

- *Office of the Ombudsman.* The Ombudsman's Office continued to implement earlier programs and took several new initiatives to combat corruption. Noteworthy among them are: installation of resident ombudsmen in key government agencies, an action credited with a dramatic decrease in corruption detection in 19 out of 25 government agencies using the number of cases filed as an indicator; accreditation of 384 nongovernmental organizations as Corruption Prevention Units and 1,204 Junior Graftwatch Units with an assigned role to educate and monitor activities in the government and society; and filing of corruption cases against President Estrada.
- *Inter-Agency Coordination.* Executive Order No. 79 of August 1999 formalized an Inter-Agency Anti-Graft Coordinating Council, composed of representatives from the Commission on Audit, the Ombudsman's Office, Civil Service Commission, National Bureau of Investigation, and the Department of Justice. In April 2001, the council adopted Guidelines for Cooperation to strengthen these agencies' working relationship and joint activities for detecting and prosecuting graft and corruption cases.

v. *The sense of optimism that anticorruption reforms can and will be implemented has been renewed since early 2001.* This is best illustrated by the survey data showing a rise in the proportion of Filipinos who said *that government can be run without corruption.* A proportion of Filipinos said this increased to 66 percent in March 2001 from 59 percent in September 1998 and 50 percent in July 2000.¹³ However, a historical perspective on such optimism is revealing. In a July 2001 report prepared for the World Bank, Mahar Mangahas, President of Social Weather Stations, pointed out that his organization's surveys:

Reveal the existence of a political cycle, led by a brief initial period of public satisfaction, followed by prolonged public dissatisfaction, with national government performance in fighting corruption. The honeymoon period occurs at the start of an administration, obviously due to the public's renewed hope for good governance under the incoming officials. The honeymoons regarding anticorruption performance lasted for the first two years of the 6.3 year Aquino period, the first 3 months of the 6 year Ramos period, and the first year of the 2.6 year Estrada period.¹⁴

vi. *Since taking office in January 2001, the new Government has announced several preliminary measures to combat corruption and improve governance but has yet to make public a sequenced and detailed action program and concrete organizational arrangements for formulating and implementing such a program and for monitoring and reporting on its progress.* So far, the Government has taken the following initiatives:¹⁵

- President Macapagal-Arroyo, in her inauguration speech in January 2001, proclaimed good governance as one of the pillars of her administration.

¹³ SWS National Surveys, Third Quarter 1998, Second Quarter 2000, and First Quarter 2001.

¹⁴ Mahar Mangahas, "Update on Surveys Concerning Corruption" (Manila: SWS, July 17, 2001).

¹⁵ Through end-September 2001.

- The first Administrative Order of the new Government prohibited government agencies from entering into any business contracts with the president's relatives or those of her husband.
- The Presidential Anti-Graft Commission (PAGC) has been reestablished to investigate allegations of corruption involving presidential appointees and recommend appropriate actions to the President.
- The Presidential Committee on Effective Governance (PCEG) has been created to oversee formulation and implementation of an agenda for strengthening and streamlining the public sector. At this point, PCEG is the highest level anticorruption body in the government since it is headed by the Executive Secretary, with the Secretary of the Department of Budget and Management as its Vice Chairman.
- A privately funded Governance Advisory Council has been created to complement PCEG's work, serve as a watchdog against corruption, and promote good governance.
- The revised Medium-Term Philippine Development Plan (MTPDP) has designated improving governance as one of the objectives and has outlined the key measures the government plans to take in this area over the next three years.
- Full computerization of elections.
- Within 12 months of the new administration being in place, all government agencies will implement measures to cut in half the number of signatures required for their service.
- Cabinet secretaries will have to deliver tangible results of progress in fighting graft by July 2002.
- The Bureau of Internal Revenue and the Bureau of Customs will have to show cases in the fight against graft and corruption.
- An E-procurement program has been initiated to save billions and minimize anomalies.

vii. *The way forward.* Corruption issues dominated the public's attention throughout late-1999 to end-2000 and were a major factor in the change of Government in January 2001. As a result, public awareness and interest in combating corruption are at an all time high. The new Government therefore has a huge challenge ahead of it to fulfill the public's expectations and faith that the government can be run without corruption. The Philippines' history suggests that this optimism can be short-lived and cynicism can quickly return. It is therefore imperative that the new administration seize the opportunity to articulate a detailed, realistic, and bold anticorruption program and to build a track record of success. It is recommended that the government keep the following considerations in view as it moves forward.¹⁶

¹⁶ For details, see Annex C of this report.

viii. Corruption in the Philippines is systemic and deep-rooted. It will take many years to overcome it. However, the experience of last 15 years has shown that progress can be made by *reducing the discretion in government decision making and increasing competition, transparency, and civil society monitoring* of public and private sector governance. This report highlights many positive recent initiatives that should be nurtured.

- Global experience suggests that efforts to combat systemic corruption have to go beyond consciousness raising and prevention measures. The effort has to be focused on *determining the points of vulnerability and corruption within the Philippines' government and markets*. Then the systems most susceptible to corruption (e.g., tax administration, public works) should be analyzed to find out exactly how corrupt buyers and sellers find each other. How do they make and enforce their implicit contracts? What footprints do they leave? To break up whatever pattern that is disclosed, countermeasures should be designed.¹⁷
- For maximum results, the government is advised *to seek and build a partnership (coalition)* with several citizen, business, professional associations, and donor alliances that have coalesced to fight corrupt practices in the Philippines. To empower these groups to monitor government performance, they must be provided with highly disaggregated information on planned and actual public expenditures and capital projects—as a matter of legal right. This reform is crucial.
- Most citizens and enterprise managers emphasize punishment as the best way to fight corruption. More than half the Social Weather Station survey respondents considered punishing wrong-doers one of the most effective measures suggested for reducing government corruption.¹⁸ Therefore, *increasing the success rate in prosecuting corrupt officials at every level* should be made a goal and performance indicator in any effective anticorruption program in the Philippines.

ix. *A strong and broad-based national coalition is essential to design, implement, and monitor a successful anticorruption program, one that draws on global experience but which is firmly grounded in the realities of the Philippine governance environment.* Donors are willing to support such a country-led program with policy advice, technical assistance, and financial resources. During a dialogue with the government in April 2001, a subgroup of six donors presented a list of *eight priority action areas* where, in their view, faster paced and results-oriented implementation will greatly strengthen the anticorruption program and help improve investor confidence at home and abroad.¹⁹ The eight comments and suggestions were to:

¹⁷ Robert Klitgaard, "Subverting Corruption," *Finance and Development*, vol. 37, no. 2 (June).

¹⁸ SWS National and Enterprises Surveys, Third Quarter, 2000.

¹⁹ The subgroup consists of ADB, AusAid, CIDA, USAID, UNDP, and the World Bank. These suggestions were presented by the subgroup at a meeting of the government's economic team with the Philippine-based consultative group representatives on April 3, 2001.

- Increase civil society involvement in the oversight of government activities through such activities as “Procurement Watch,” a participatory audit program with the Commission on Audit, and through access to public information and civil society involvement in budget monitoring and implementation.
 - Accelerate budgetary, financial management, and procurement reforms, including introducing a medium-term budget framework and performance budgeting for government agencies and local government units.
 - Strengthen mechanisms for disclosing public officials’ assets and liabilities and initiate reforms in the structure of public employees’ remuneration.
 - Implement reforms in the judiciary, as outlined in the Supreme Court’s Judicial Reform Action Program, including measures to unclog the courts and shorten decision periods.
 - Amend bank secrecy laws, pass and implement an anti-money laundering bill, and improve the quality and transparency of bank supervision.
 - Introduce electoral campaign finance reforms.
 - Implement corruption-prevention programs for the most corruption-prone government agencies.
 - Create a strong management structure with a full-time manager of cabinet rank, preferably under the President or Vice President’s leadership, to push implementation of agency-specific anticorruption programs and communicate progress to the public, and form a multi-sectoral advisory council to provide guidance on the anticorruption plans and their implementation.
- x. The government has already passed an Anti-Money Laundering Bill, formed a Governance Advisory Council, and extended its support for a judicial reform program. But much more has to be done. We hope to see concrete progress this year.

1. 1999: NINE-POINT APPROACH TO COMBAT CORRUPTION

“Good governance rests on three pillars. First, a sound moral foundation to guide our leadership at all levels. Second, a philosophy of transparency in all government actions. Third, an ethic of effective implementation throughout the bureaucracy. These are high standards to be held up to, but the people deserve no less.”—President Macapagal-Arroyo¹

1.1 At the request of the administration of President Joseph Estrada, the World Bank submitted its findings and recommendations on Combating Corruption in the Philippines to the government in November 1999. In this report, the Bank proposed a nine-point approach to fighting corruption in the Philippines (Box 1-1).

Box 1-1: Nine-Point Approach to Fighting Corruption in the Philippines

- Reduce opportunities for corruption by policy reforms and deregulation
- Reform campaign finance
- Increase public oversight
- Reform budget process
- Improve meritocracy in civil services
- Target selected departments and agencies
- Enhance sanctions against corruption
- Develop partnerships with private sector
- Support judicial reform

Source: World Bank, *Combating Corruption in the Philippines* (Pasig City, Philippines: World Bank, 2000) p. 22.

1.2 The thrust of this approach was on reducing opportunities for corruption and making corruption a high-risk, low-reward activity. To implement this approach, it also recommended seven key actions (Box 1-2).

¹ President Gloria Macapagal-Arroyo, Keynote address to the International Conference on Institutionalizing Strategies to Combat Corruption: Lessons from East Asia, Manila, August 12-13, 2000.

Box 1-2: Seven Recommendations for Implementing an Anticorruption Program

- Appoint strong leadership and management
- Set up multisectoral advisory group
- Develop a sequenced action program of priorities chosen from the nine-point anticorruption strategy
- Launch programs immediately in priority agencies
- Upgrade capacity in anticorruption institutions
- Launch joint intergovernmental and inter-institutional efforts
- Seek donor assistance for the government's anticorruption program

Source: Combating Corruption in the Philippines, p. 27

1.3 Governance was one of the issues addressed at the Consultative Group meetings with the donor community in June 2000, where the government presented its plans for combating corruption.² All donors urged the government to take some decisive actions to lower perceptions of corruption in the country that was seen to be hurting much needed investments. However, by and large, neither the government's plan nor the World Bank and Consultative Group meeting recommendations were implemented in 2000, given the allegations of corruption against President Estrada and, after his resignation, his impeachment trial.

1.4 The war against corruption in the Philippines has taken a fresh turn with the inauguration of President Gloria Macapagal-Arroyo on January 20, 2001, and the subsequent installation of the new Government. Addressing corruption was one of the new administration's announced priorities, but a detailed anticorruption strategy and detailed action plan have yet to emerge. As this report notes, the deterioration of governance environment in 2000 seems to have taken a heavy toll on investor confidence. The report also notes that several new initiatives were born during 2000–01 as the need for combating corruption was felt more widely and urgently. This need for concrete and visible actions to combat corruption still exists, maybe even to a greater degree now than in the past. The events since late 1999 have made corruption a household concern, and people in both government and business are more aware and less tolerant of a corrupt environment. This heightened sensitivity to corruption means that it has become even more critical for the government to move quickly on this agenda. With a new president and new administration in place, the Philippines has a major opportunity to tackle this issue head-on.

1.5 Chapter 2 will discuss the widening governance deficit in the Philippines since late-1999 and the events that shaped this change. Chapter 3 will highlight the areas where progress was made during this time and will focus on the emergence of new initiatives. Finally, the new Government's commitment to combating corruption will be addressed in Chapter 4.

² Benjamin Diokno, "The Challenges of Embracing Good Governance in the Philippine Public Sector," speech delivered at the Pre-Consultative Group Workshop on Economic and Corporate Governance, Manila, June 5, 2000.

2. 2000: A YEAR OF WIDENING GOVERNANCE DEFICIT

2.1 The year 2000 is widely perceived as a period of rising governance deficit in the Philippines. Data from national and international surveys reveal a significant rise in the perception of corruption that undermined investor confidence and reduced the public's faith in government's sincerity in combating graft and corruption. Our earlier report revealed that "corruption in the public and private sectors in the Philippines is pervasive and deep-rooted, touching even the judiciary and the media." This bad situation worsened in 2000, judging from the corruption-related survey data outlined below. This deterioration is also supported by the economic figures. During 2000, the Philippine peso (P) lost almost 18 percent of its value against the dollar, and the stock market index dropped by 40 percent. Both, foreign direct investment and foreign portfolio investments shrank, and unemployment increased. While the Filipino people succeeded in deposing an allegedly corrupt president in early 2001, none the above indicators has recovered to the early-2000 levels.

2.2 Graft and corruption continue to be pervasive in the Philippines. According to the Office of the Ombudsman, the government has lost an estimated \$48 billion to corrupt practices over the last twenty years.¹

2.3 According to an estimate by the Commission on Audit (COA), about P2 billion are lost to governmental corruption every year. The events of late 1999/early 2000 have propelled corruption and good governance to the forefront of national concerns. Perceptions and allegations of corruption were a leading factor in the change of government in January 2001.

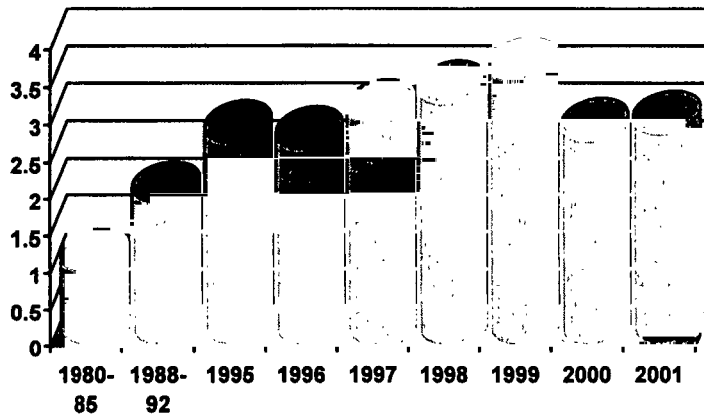
2.4 Many surveys and other analysis over the last year reveal that perception of corruption in the Philippines has deteriorated. Transparency International annually updates its Corruption Perception Index (CPI) by aggregating corruption ratings produced by experts from surveys. Although it is not practical to compare annual CPIs, they are useful indicators of the overall trend in the perception of corruption in the country. For the Philippines, the steady improvement observed over the decade was reversed in 2000 (Figure 2-1). In 2001, the Philippines was rated sixty-fifth (out of 91 countries surveyed) with a score of 2.9, slightly better than its score of 2.8 in 2000, but much worse than in 1999 with a score of 3.6.² For the Philippines, the 2001 CPI was based on 11 independent surveys during 1999 and 2001. A score of 10 implies clean government while 0 means a government that is perceived to be totally corrupt. The 2001

¹ Office of the Ombudsman, "A Snapshot of Philippine Governance: Status Programs and Guidelines," (Manila: Ombudsman's Office, June 2000).

² The 2001 CPI is a three-year rolling average (1999-2001) and is therefore not strictly comparable to earlier years. The year-to-year change in sample and methodology also renders annual comparisons impractical.

CPI assigns the Philippines the same rank as Guatemala and Zimbabwe—the sixty-fifth least corrupt out of the 91 surveyed.

**Figure 2-1: Transparency International Corruption Perception Index
1980–2001
(percent of respondents)³**



Note: A lower score equals a higher perception of corruption, 0 being perceived as most corrupt, and 10 being least corrupt.

Source: Transparency International, reports for several years, www.transparency.org.

2.5 The Transparency International finding is also supported by the most recent corruption rating assigned to the Philippines by the International Credit Risk Group. On a scale of 0 (bad) to 6 (good), the country was downgraded to 2 in March 2001 from 3 in February 2000. (Neighboring Thailand showed a similar deterioration in rating, and Indonesia fared worse at 1, down from 2 in February 2000.)

2.6 The Economist Intelligence Unit Philippines conducts an annual corporate survey to identify multinational companies' critical problems in their Philippine operations and their perceptions of the Philippines as an investment site. In the most recent survey (2000), respondents identified corruption/cronyism/ethics/ transparency/governance as the most glaring weaknesses in the Philippines.⁴ In the previous two surveys (1998 and 1999), poor infrastructure was identified as the main disadvantage and corruption the fourth most important factor.

³ On Scale of 1 to 10 with higher score meaning lower perception of corruption. Transparency International Website, Reports for several years.

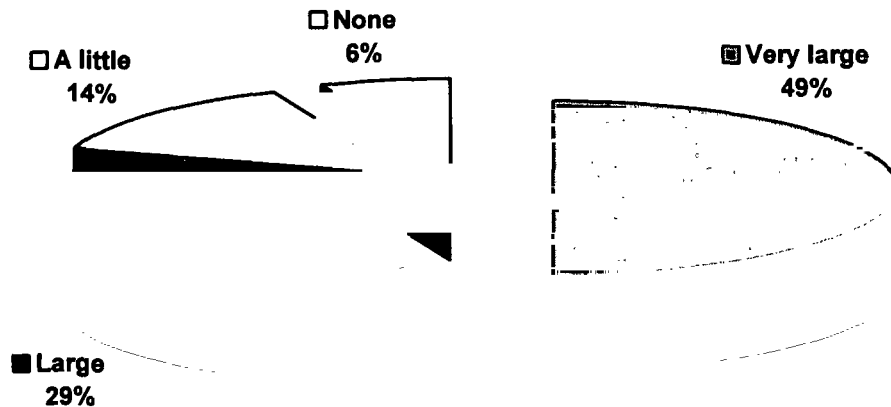
⁴ Economist Intelligence Unit, "Corporate Performance Survey" (Manila: EIU, October 2000).

Public Sector Corruption

2.7 Corruption in the public sector is still perceived as high. Although the Philippines is rated better than Indonesia and Vietnam in terms of perception of corruption in government,⁵ about 49 percent of surveyed Filipinos think that there is “a great deal” of corruption in the public sector.⁶ In addition, almost 72 percent could not identify a government agency that was less corrupt now than five years ago.⁷ In the most recent Social Weather Station (SWS) Survey, in March 2001, respondents showed increased dissatisfaction regarding government’s performance in eradicating graft and corruption. Even after the new administration came to power in January 2001 on a good-governance platform, perception of corruption in the government increased, from 36 percent (very large) in a December 2000 survey to 49 percent (very large) in the March 2001 survey (Figure 2-2). However, more people now think that the government is sincere in its efforts to eradicate corruption—only about 19 percent of Filipinos responded that the government was “not sincere” in eradicating corruption, down from 30 percent in December 2000 (Figure 2-3). At the same time, more Filipinos (75 percent) now think that corruption is bad because “it hurts national development” rather than “due to its immorality” (25 percent). This is a significant shift from two years ago when only 54 percent of the respondents answered that it hurt national development.⁸

Figure 2-2: Corruption Perceptions in Philippines Government
(percent of respondents)

Question: How much corruption do you think there is in the government?



Source: SWS National Survey, March 2001.

⁵ World Bank *PREM/DEC Indicators* (Washington: World Bank, March 2001 and February 2000).

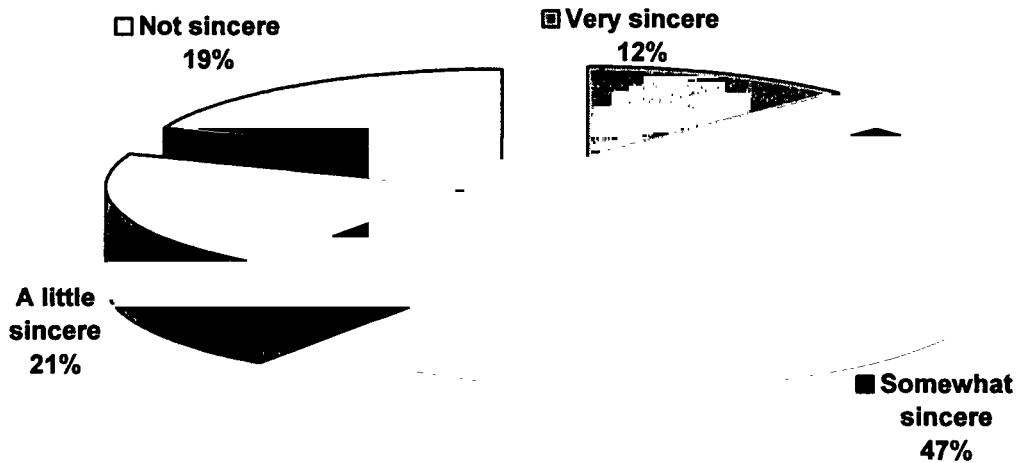
⁶ Social Weather Stations (SWS) Survey (Manila, Philippines: SWS, March 2001).

⁷ SWS Survey, December 2000.

⁸ SWS National Survey, September–October 1999.

Figure 2-3: Perceived Government Sincerity about Eradicating Corruption
(percent of respondents)⁹

Question: How sincere is the government about eradicating corruption?



Source: SWS National Survey, March 2001.

2.8 Between August and October 2000, SWS also surveyed enterprises about their opinions on public sector corruption.¹⁰ A key finding of this survey was that “far from being complacent about it, business executives are even more critical of corruption than average citizens are.” In this context, a large proportion of executives (63 percent) think that public sector corruption is very large and 25 percent saying somewhat large. They blame corruption on bad implementation of the government’s regulations rather than on the regulations themselves (Table 2-1). They would like the government to be more committed to reducing corruption and are also willing to pay about 1 percent of their companies’ net income to fund an Anticorruption Program.

⁹ Of the total who said there is corruption in the government. March 2001 National Survey, SWS.

¹⁰ SWS Business Opinion Survey, August–October 2000.

Table 2-1: Areas of Public Sector Corruption
(percent of respondents)

<i>Do you think public sector corruption is.....</i>	
Due more to bad regulations	1
Due more to bad implementation	45
Equally due to bad regulations and bad implementation	47
Due neither to bad regulations nor bad implementation	7
<i>Do you think public sector corruption is.....</i>	
More prevalent in government revenue-raising	3
More prevalent in government spending	27
Equally prevalent in government revenue-raising and	67
Found neither in government revenue-raising nor spending	3

Source: SWS Enterprise Survey, August–October 2000.

2.9 On identifying the extent of corruption at different levels of government, respondents from the SWS National Survey in the Third Quarter of 2000 replied that the closer government was to the local level, the less corruption there seems to be. Of the respondents who saw corruption in the government, 84 percent identified it at the national level, while only 38 percent did so at the barangay level. Among the branches, The executive branch was considered the most corrupt (54 percent), the legislature the next most corrupt (30 percent), and the judiciary the least corrupt (17 percent).

2.10 Few respondents could name any government agencies free from corruption. The Department of Education, Culture and Sports (DECS) was identified as the most corrupt agency in the most recent survey that included the module related to government agencies (Table 2-2). However, based on the number of cases filed with the Office of the Ombudsman in 1999–2000, the Department of Interior and Local Government (DILG), with 3007 cases, tops the list of most graft-prone government agencies. With reference to DECS, latest available estimates show that up to 65 percent of textbook funds might be reserved for bribes instead of books.¹¹ An investigative report by the Philippine Center for Investigative Journalism (PCIJ) alleged systemic corruption in the Department of Agriculture.¹² The report points out that corruption is deep-rooted in the regional Department of Agriculture offices, which have power and resources but little monitoring or accountability. For instance, in the highly fertile province of Sultan Kudarat in Mindanao, farmers often complain that Department of Agriculture has been delivering low-quality planting materials and unhealthy farm animals and has not been delivering farm equipment under its assistance program.

¹¹ Yvonne Chua, *Robbed* (Manila: PCIJ, 1999).

¹² Prime Sarmiento, "The Burdens of Agriculture," *Business World*, January 24–25, 2000.

Table 2-2: “Perceived to be Most Corrupt” Government Agencies
(percent of respondents)

<i>Agencies</i>	<i>Oct. 1999</i>	<i>Dec. 1999</i>	<i>March 2000</i>	<i>Sept. 2000</i>
Dept. of Education, Culture & Sports	7	8	8	13
Dept. of Public Works and Highways	13	15	20	12
Bureau of Internal Revenue	8	11	11	6
Bureau of Customs	7	15	8	5
Philippine National Police	10	11	9	4
Department of Health	2	3	6	2
Dept. of Labor and	1	1	2	1
Congress	2	5	4	1
Municipal Government	-	3	4	1
Land Transportation Office	3	5	4	1
Dept. of Social Welfare and Development	1	-	1	1
Dept. of Interior and Local Government	2	2	2	1
Don't know	47	48	45	47

Source. SWS National Surveys, October 1999 to September 2000.

2.11 In the June 2000 SWS survey, respondents were asked how much government funds they believed were wasted through corrupt practices connected to specific activities. Fifty-three percent of the respondents said that more than half the funding for building roads was wasted (Table 2-3). Over 40 percent identified tax collection as another area prone to waste of funds.

Table 2-3: Perceived Portion of Government Funds Wasted due to Corrupt Practices
(percent of respondents)

<i>Amount of leakage</i>	<i>Building roads</i>	<i>Tax collection</i>	<i>Purchase of vehicles and equipment for government offices</i>	<i>Provision of free textbooks in public schools</i>
More than 50	53	43	36	34
30 to 50	30	35	41	41

Source: SWS National Survey, June 2000.

2.12 Filipinos are aware that both government officials and businessmen are to be blamed equally for corruption. However, people seem to believe that government officials should be held more closely accountable for wrongdoing than their private counterparts because government activities affect their lives directly.

Private Sector Corruption

2.13 The private sector in the Philippines is not innocent of corrupt practices. In the December 2000 SWS National Survey, respondents were asked about their perceptions of the extent of corruption in the private sector. About 24 percent responded “a great deal” while another third responded “some.” Of those who said there is corruption in the private sector, 14 percent said that they have personally experienced or witnessed it. This is a significant increase from the 3 percent response in the September 2000 survey. On the question of where corruption is more common, more than half the respondents said that it is just the same in government and in the private sector. This implies that the private sector and government should be equally targeted for combating corruption, but that the private sector should, at the same time, be an important ally of government in the fight against graft and corruption.

2.14 Business enterprises are also aware of corruption in the private sector. In an SWS Enterprises Survey in August–October 2000, 14 percent of all the responding enterprises said there is “a great deal” of corruption in the private sector, and another 39 percent saw “some” corruption (see Box 2-1 for key findings). Results also show that small and medium enterprises perceive more corruption (16 percent) than the top 1,500 corporations (9 percent). A dismal finding from this survey is that 23 percent believe that almost every company uses bribery to win government contracts but only 6 percent use bribery to win private contracts.

Box 2-1: Private Sector Perception of Corruption: Key Findings

- Business sector is even more critical of corruption than average citizens.
- Emphasize punishment as the best way to fight corruption.
- Rates very few government agencies as sincerely involved in fighting corruption.
- Blames government implementation of regulations more than the regulations themselves.
- See corruption as equally prevalent in government spending and revenue collection.
- Report bribes ranging from 15 to 20 percent of bids to win government contracts and around 10 to 15 percent to win private sector contracts.
- Believe that corruption is mostly initiated by the public sector.
- Say they are willing to pay 1 percent (median) of net company income to fund a program to cut public sector corruption.

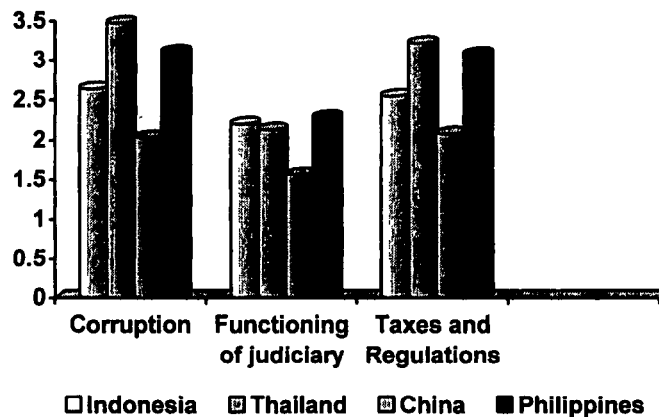
Source: SWS Business Opinion Survey, August–October 2000.

2.15 A World Business Environment Survey by the World Bank¹³ also revealed the grim fact that a mere 13 percent of the businesses in the Philippines are untouched by corruption. Eight percent responded spending more than 10 percent of their turnover on bribes. In addition, about 60 percent of companies surveyed mentioned tax evasion as a normal practice and one of the most serious obstacles to business. Compared to other neighboring countries in the sample, business environment in the Philippines seems worse than that in China or Indonesia but, in some respects, slightly better than that in Thailand (Figure 2-4). The survey also revealed that sensitivity to corruption is higher in the Philippines and Thailand than in any of other countries included in the survey, both within and outside the East Asia and Pacific region.

Figure 2-4: Impediments to Business

Question: How problematic are the following factors for the operation and growth of your business?

1 = no obstacle; 2 = minor obstacle; 3 = moderate obstacle; 4 = major obstacle

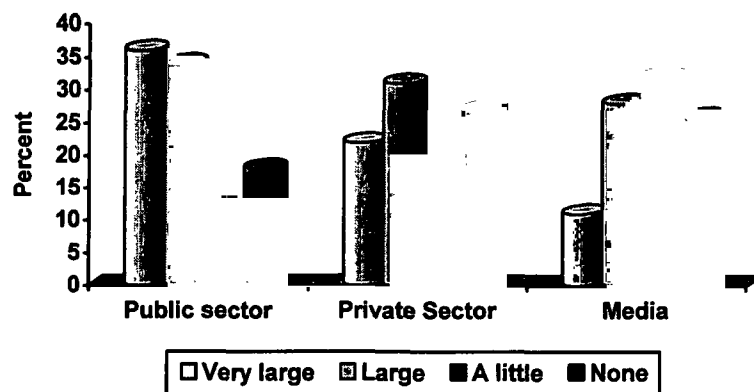


Source: World Business Environment Survey, 2001.

2.16 The media, too, has fallen prey to corrupt practices. In the SWS National Survey, Fourth Quarter of 2000, 11 percent of the respondents said newspaper writers were bribed to say false things “very often.” Another 28 percent responded “somewhat often.” However, compared to the corruption in public and private sector, the public views corruption in media to be much lower (Figure 2-5).

¹³ The World Business Environment Survey in April 2000 (unpublished) was designed to improve understanding of impediments to private sector development. The small sample size for the Philippines does not allow any systematic correlations. However, it is useful for benchmarking the country vis-à-vis five other countries in the East Asia region included in the survey (China, Indonesia, Malaysia, Singapore, and Thailand).

Figure 2-5: Corruption in Public Sector, Private Sector, and Media^{a/}



Source: SWS National Survey, September–October 2000.

a/ Corruption in media is based on the question regarding the frequency of cases where newspaper writers were bribed to say false things.

Key Defining Events Since Mid-1999

2.17 Many factors combined to widen the “governance deficit.”

- Few high-profile cases involving allegations of corrupt practices and weaknesses in corporate governance and the regulatory environment revealed by the case involving BW Resources Corporation in late 1999 and the bankruptcy of the Urban Bank in early 2000.
- Weaknesses in tax administration suggested by continuing shortfalls in government revenue.
- Growing concern about the lack of transparency and accountability prompted by corruption allegations against President Estrada in late 2000.
- In addition, the inclusion of the Philippines by the Financial Action Task Force of the Organization for Economic Cooperation and Development (OECD) on a list of 15 countries considered non-cooperative to anti-money laundering measures adversely affected the perception of the international investment community.

2.18 BW case refers to the highly questionable trading activity of the Best World Resources Corporation (BWRC), commonly referred to as BW Resources. Data from the Philippine Stock Exchange show that between early 1999 and October 1999, the BWRC share price rose from about 80 centavos per share to a high of P145 per share on October

12, 1999—an increase of about 18,000 percent!¹⁴ After October 12, 1999, the share prices started to plunge, reaching P43.50 on October 14, 1999. The next day, the stock exchange suspended trading in BWRC shares. The stock exchange and the Philippine Securities and Exchange Commission (SEC) said in their own independent investigative reports that there had been heavy trading of the company's shares from one broker to another without an actual change of ownership. The SEC report further alleged that “the phenomenal rise and fall of BWRC shares, which were wanting of fundamental bases, was a result of stock manipulation.”¹⁵ The SEC filed a report with the Department of Justice in July 2000 recommending filing of criminal charges against 39 individuals, eight brokerages, and two investment houses for various violations of the Revised Securities Act. In January 2001, 3 of the charged individuals were arraigned in the Regional Trial Court for the offenses charged against them.

2.19 In another incident, on April 26, 2000, Urban Bank, a small but high-profile, heavy lender to real estate projects, was closed down by Bangko Sentral ng Pilipinas. In January 2000, Urban Bank had a deficiency of P215 million as against the capital requirement of P2.4 billion for a commercial bank.¹⁶ When all efforts to gain liquidity support failed, Urban Bank was compelled to declare a voluntary bank holiday at close of business on April 25, 2000. The Philippines Deposit Insurance Corporation took over the running of the bank as a receiver under Section 30 of the Bangko Sentral Charter. According to the government regulator however, Urban Bank's cash flow problems were really caused by its top officials' decision to buy more than P4 billion in “junk receivables” from its investment affiliate Urbancorp Investments Inc. A government audit revealed that after the bank closed, it had only P125 million in cash left and less than P1 billion in quick assets against deposit liabilities of P8.6 billion.¹⁷ Among other charges, estafa charges were filed in September 2000 against 10 officers of the Urban Bank and its affiliate Urbancorp Investments, Inc. In April 2001, the Department of Justice filed two more estafa cases of P1.8 billion against 11 officials of the Urban Bank for misappropriating Urban Bank depositors' money to bail out its financially unviable investment unit.

2.20 The continuing shortfalls in government revenue in 2000 was attributed by many analysts to poor governance and other weaknesses in tax administration, especially within the Bureau of Internal Revenues (BIR), the Philippines' primary tax collection agency. Between 1990 to 2000, BIR's tax effort ratio ranged from a low of 9.3 percent in 1991 to a high of 13 percent in 1997.¹⁸ The introduction of the Comprehensive Tax Reform Program has not led to expected improvements in tax collections. In fact, the tax effort ratio declined from 12.6 percent in 1998 to 10.8 percent in 2000.

¹⁴ Securities and Exchange Commission, *Fact Finding Report* (Manila: SEC, Special Operations Group, February 23, 2001). The Special Operations Group was created by SEC Special Order.

¹⁵ SEC *Fact Finding Report*.

¹⁶ Juan De Zuniga, Jr., General Counsel, BSP, Statement read during the Hearing conducted by the House Committee of Good Government, at the Bangko Sentral ng Pilipinas, Manila, December 5, 2000.

¹⁷ “Urban Bank to Reopen Branches in January.” *Philippine Daily Inquirer*, November 27, 2000.

¹⁸ World Bank, “Philippines: Progress Note on Public Sector Reform” (Washington: World Bank, June 2001; unpublished).

2.21 In 2000, the OECD's Financial Action Task Force included Philippines in a 15-country list of jurisdictions that are considered non-cooperative to anti-money laundering measures. The task force raised five issues in the case of the Philippines: money laundering was not a crime; banking laws were excessively secretive; and there were no suspicious transactions reporting program, implementing agency or no formal arrangement for cooperating with other countries to prevent money laundering. The task force threatened to impose sanctions on the Philippines if it failed to enact appropriate legislation by end-September 2001. In response, an Anti-Money Laundering Act (Republic Act 9160) was approved in September 2001 (see Box 3-1 for details). The new law means sanctions were averted, but the task force was to formally assess the law and its implementing regulations in February 2002.

2.22 The final defining event of 2000 was the corruption trial of President Estrada. In October 2000, the governor of Ilocos Sur, Luis Singson, accused President Estrada of having taken P523 million in payoffs from illegal gambling (jueteng) and P70 million for tobacco taxes. Later that month, opposition groups filed an impeachment complaint against President Estrada with the House of Representatives where he was accused bribery, graft, and corruption, betrayal of public trust, and culpable violation of the constitution. The impeachment trial began in early December 2000 during which witnesses testified of illegal payoffs to him. However, in mid-January 2001, senators voted to keep key bank documents secret. This led to the resignation of the entire prosecuting team and the indefinite suspension of the trial. Public protests escalated and spilled into the streets. A coalition of leaders from civil society, the political opposition, the church, and the private sector then took the lead to mobilize support to oust President Estrada. Subsequently, the military and top government officials withdrew their support for President Estrada, and on January 20, Vice President Macapagal-Arroyo was sworn in as the new president. In April 2001, the Office of the Ombudsman filed cases with the Sandigabayan (the local anti-graft court for government employees) against President Estrada for economic plunder (for about P4 billion), misconduct in public office "malversation," and falsification against officials, and indirect bribery.¹⁹ Later that month, President Estrada was arrested after Sandigabayan issued a warrant for the non-bailable offense of economic plunder. In late-June 2001, President Estrada was arraigned on the perjury charges. The plunder case arraignment took place in July 2001 where the court entered a plea of "not guilty."

¹⁹ Information provided by the Office of the Ombudsman via press releases. Jose T. De Jesus, Jr., Press Liaison.

3. NEW INITIATIVES AND ALLIANCES IN THE SHADOW OF WIDENING GOVERNANCE DEFICIT

3.1 Despite the real and disappointing deterioration in the Philippines' governance environment in 2000, significant useful progress was made on several fronts. The widening of governance deficit (documented earlier) generated an intensification of anticorruption debate and some concrete actions in every sector of the economy. The positive developments are grouped into two broad categories (Table 3-1). The first group includes progress made in improving specific instruments and programs of anticorruption activities (Appendix A). Second group includes formation of stronger alliances within government, private sector, civil society and donor community that created a new enthusiasm to fast-track this agenda. The specific actions/progress in each of these areas is described below.

Table 3-1: Key Areas of Anticorruption Progress in 2000

<i>Anticorruption interventions</i>	<i>Anticorruption alliances</i>
<ul style="list-style-type: none"> • Legislative and administrative reforms • Strengthening of anticorruption agencies • Procurement reforms • Financial management reforms • Public sector reforms • Judicial sector reforms • Anticorruption strategy • Inter-agency coordination • Corporate governance • Information and communications technology • Investigative journalism 	<ul style="list-style-type: none"> • Transparent accountable governance project • Transparency and accountability network • Philippines governance forum • Corruption vulnerability assessment • Donor alliance

Administrative and Legislative Reforms

3.2 Spurred to action by the Best World Resources Corporation (BWRC) stock market case (paragraph 2.18), the Philippines passed the long-awaited Securities Regulation Code in August 2000. The code significantly strengthens the regulatory powers and independence of the Security and Exchange Commission (SEC), rationalizes its objectives, strengthens antifraud provisions, facilitates organizational self-regulation, and promotes modern trading technologies. The SEC has undertaken a massive institutional transformation and has issued implementing rules under the new law.

3.3 To respond to the Financial Action Task Force's concern about the designation of the Philippines as one of the countries not cooperating in anti-money laundering activities, the government passed the Anti-Money Laundering Act in September 2001 (Box 3-1). The law created the implementing agency—the Anti-Money Laundering Council—composed of the governor of Bangko Sentral ng Pilipinas (chairman), the commissioner of the Insurance Commission, and the SEC chairman. The council has the power to freeze accounts, institute forfeiture proceedings, file criminal complaints, and cooperate with other countries in going after money launderers. The passage of the law sends a strong governance signal to the global community on the business environment as well as the government's determination to enforce it and is a major step forward in curbing illegal activities.

Box 3-1: Highlights of the Anti-Money Laundering Act

- Declares as a statement of policy the preservation of the integrity and confidentiality of bank accounts and the determination to ensure that the Philippines shall not be used as a money laundering site for the proceeds of any unlawful activity.
- Commits the Philippines to extending cooperation in transnational investigations and prosecution of persons involved in money laundering anywhere in the world.
- Covers 14 unlawful activities, including: kidnapping for ransom, drug trafficking, graft and corruption, smuggling, hijacking, and even local gambling games such as jueteng and masiao.
- Covers institutions from banks and other central bank-regulated institutions to insurance companies and investment houses.
- Sets a benchmark figure of P4 million (or its foreign-currency equivalent) for suspicious transactions.
- Amends the Bank Secrecy Law in effect.
- Continues to protect the confidentiality of deposits. Violators, including the media, can be held criminally liable for publication of such confidential information.
- Prohibits the use of anonymous accounts under fictitious names.
- Sets stiff penalties for violations, from fines to prison terms for money launderers and anyone who facilitates the illegal transaction or fails to report a suspicious transaction.

Office of the Ombudsman

3.4 The Office of the Ombudsman is the constitutionally mandated lead agency for combating corruption. It has the power to investigate and prosecute violators of anti-graft laws. Since installing resident ombudsmen to monitor agencies' official performance and transactions, the ombudsman's office claims to have saved the government billions of pesos.¹ In no fewer than 19 of the 25 agencies, corruption and inefficiency decreased dramatically in 2000, judging from the decrease in the number of cases filed in 1999.² According to the statistical report on criminal and administrative cases, about half the workload of the ombudsman's office between 1991 and 1999 came from the previous

¹ Luzon, Visayas, and Mindanao. In addition, there is one deputy ombudsman for the military.

² Data provided by the Office of the Ombudsman.

year's carryover cases. However, the carryover fell to 45 percent in 2000 (Table 3-2).³ In addition, the office has almost doubled the number of cases closed—from about 35 percent of total cases in 1994 to 68 percent in 2000.

Table 3-2: Office of the Ombudsman: Criminal and Administrative Cases

<i>Item</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Number of cases received	8,551	9,824	9,739
Number of cases remanded	18	66	623
Number of cases carried over	9,159	6,912	7,567
<i>Total cases</i>	<i>17,728</i>	<i>16,802</i>	<i>17,929</i>
Number of cases closed	10,816	9,235	12,184
Number of cases closed as percentage of cases handled	61	55	68

Source: Office of the Ombudsman, "A Snapshot of Philippine Governance," 2000, and data provided by that office.

3.5 The ombudsman's office has also enlisted citizens' support in its fight against graft and corruption. By December 2000, it had accredited 384 nongovernmental organizations (NGOs) as Corruption Prevention Units and 1,204 school and community-based organizations as Junior Graftwatch Units in an attempt to educate people and monitor governmental activities. The office is also actively participating in the affairs of the Asian Ombudsmen's Associations and the World Ombudsmen's Institute. In July 2000, the office acted as host to the fifth conference of the Asian Ombudsman's Association and took an aggressive role in addressing the problem of money laundering to further the cause of corruption prevention. In April 2001, it filed corruption cases against President Estrada in the Sandigabayan.

Procurement Reforms

3.6 Procurement of goods and services in the public sector is one of the areas viewed as most vulnerable to corrupt activities. To make the procurement process more transparent and efficient, the Department of Budget and Management (DBM), supported by the AGILE project under the U.S. Agency for International Development (USAID), initiated procurement improvement reforms in early 1999 to streamline the procurement system and minimize opportunities for corruption. A diagnostic study of the procurement system was completed and the results were used by an inter-agency working group to develop the principles for the procurement reform program. The primary objectives of this program are to simplify procurement procedures, enhance information flows and promote transparency, minimize discretion among agencies, and promote competition.

³ Office of the Ombudsman, "A Snapshot of Philippine Governance: Status, Programs and Guidelines" (Manila: Ombudsman's Office, June 2000).

The overall reforms are based on the principles of fairness and impartiality, transparency, efficiency, and accountability.⁴

3.7 A first step in this direction was to change the administrative rules and implementing regulations. In July 2000, Executive Order No. 262 was approved, amending an earlier Executive Order governing the basic regulation related to government procurements of goods and services. These changes will increase competition, reduce delays, and limit the discretion of bids and awards committees, which in turn are expected to reduce opportunities for corrupt practices.

3.8 The government has also approved Executive Order No. 322 mandating all national government agencies to use the electronic procurement system. Initial results of this system, launched in December 2000, have shown declining procurement costs,⁵ faster supplier verification (from 3 weeks to an average of 1 hour), and faster processing of expressions of interest (from 7 months to 30 minutes by e-mail).⁶

3.9 To undertake more far reaching reforms in this area, DBM drafted an omnibus bill—the Government Procurement Reform Act of 2000—which was approved by the lower House in December 2000, and has reached its first reading in the Senate. This effort expired with the end of the term of Congress and will have to be revived in the new Congress which convened in July 2001.

3.10 DBM has also taken the lead in involving civil society in monitoring procurements. The main activities of this venture, “Procurement Watch,” include conducting diagnostic assessments for DBM of procurement of goods, supplies and materials, and infrastructure projects by the Department of Education, Culture and Sports (DECS), the Department of Public Works and Highways (DPWH), and the Department of Health (DOH), advocating for procurement reforms (such as the Procurement Reform Act), analyzing public procurement by local government units, and providing case study-based training to strengthen government capacity. This is expected to promote transparency and accountability within the government’s procurement system. Procurement Watch will contract NGOs to monitor selected bidding contracts, and eventually is expected to become involved in other civil society-based activities that address graft and corruption. The organization’s board of trustees is composed of people known for their advocacy of good governance.⁷

⁴ These four principles are outlined in the *Transparency International Sourcebook*.

⁵ Textbook costs have declined by an estimated 40 percent, and drug costs by an estimated 27 percent, but competitive bidding has also contributed to these cost reductions.

⁶ World Bank, “Philippines: Progress Note on Public Sector Reform” (Washington: World Bank, June 2001; unpublished).

⁷ Officers include, the president of the Development Academy of the Philippines, a senior economist from the Asian Development Bank, a former vice president of the Civil Service Commission, and the president of the Asian Institute of Management.

Financial Management Reforms

3.11 The government, through the Commission On Audit (COA), is also pursuing accounting and auditing reforms. In this context COA is focusing on value-for-money audits and has also initiated measures to eliminate corrupt practices in the auditing process. Three technical assistance projects support COA's efforts: participating with civil society organizations in audits; enhancing public accountability by adopting government-wide and sectoral performance audits and an audit team approach, and promoting government-integrated financial management information system. The audit team approach will give COA a more streamlined audit structure, maximizing manpower and allowing an increase in the number of audits. This approach is expected to promote objectivity and ensure efficiency and independence in the conduct of audits.

3.12 COA is also revising the government's accounting system by shifting public sector accounting toward a simplified, computerized accounting system consistent with international accounting standards. To support this, it is developing its own software. The first phase of the reform program will pilot a simplified and computerized accounting system in COA. In the second phase, this system will be rolled out to national government agencies and then to regional governments. A final phase will introduce the government integrated financial management information system, which will integrate financial oversight agencies (COA, DBM, the Department of Finance) and provide uniform data bases and reporting. The entire reform program is expected to last about five years. While we support the overall financial management reform agenda in principle, in terms of the implementation process, a number of organizational, policy, and procedural issues related to venture need clarification.

Public Sector Reforms

3.13 DBM, in coordination with the National Economic Development Authority (NEDA), is implementing a comprehensive public expenditure management improvement program. The program is intended to restore fiscal discipline and increase transparency and accountability in the budget process. In this context, three key activities deserve mention.

3.14 First, the short-term view of budgeting created weak linkages between budgeting and planning. The adoption of the Medium-Term Expenditure Framework, which develops a multiyear budgeting, is seen to strengthen these linkages. This three-year rolling budget, first introduced during the 2001 budget process, is expected to enhance the sustainability of the government's economic plan and expenditure program over the medium-term. It will also improve the transparency in expenditure allocations in terms of planning priorities.

3.15 A second important DBM activity is the introduction of the Sector Effectiveness and Efficiency Reviews. This is expected to sharpen priorities, help assess the effectiveness of agency programs, and strengthen evaluation within agencies.

3.16 Finally, a third key DBM initiative with regard to improving expenditure management is the development of an Organizational Performance Indicator Framework - intended to focus the budget process on outputs and outcomes instead of inputs. Since agencies will be held accountable for their performance, the framework will provide them with incentives to focus on delivering high-priority, good-quality, and cost-effective programs. A Filipino Report Card Survey, completed in 2001, will provide inputs for this framework. DBM plans to continue these surveys to evaluate service delivery and allocative efficiency of public expenditure.

3.17 In addition to expenditure management, revenue enhancement is another major concern. BIR is riddled with problems that should be solved soon. As noted earlier, BIR has been identified as one of the most corrupt agencies in the Philippines where corruption by the majority of people wastes more than 50 percent of government funds. The introduction of the Comprehensive Tax Reform Program in 1998 did not lead to the expected improvement in tax collections; the tax effort ratio declined from 12.8 percent in 1998 to 10.8 percent in 2000. The administration knows about this and is paying close attention to strengthening the Bureau of Internal Revenue (BIR) and improving tax compliance. In the short run, BIR plans to focus on revenue generation measures and tax administration reforms. In the medium to long run, it expects to reform the tax system, restructure the tax collecting agency, and undertake human resource reforms.

Judicial Sector Reforms

3.18 In a survey by the Social Weather Stations (SWS), respondents were asked to rate the extent of their trust in specific institutions. About 50 percent of the respondents said they trusted the Supreme Court vis-à-vis judges (47 percent), local courts (45 percent), and the police (45 percent).⁸ However when asked how much corruption there was in the judiciary, 26 percent responded "very big," 36 percent responded "somewhat big," and the most common form of corruption was identified as being bribery. Under the widely praised leadership of the Chief Justice, the Supreme Court is taking the lead in initiating reforms in the judicial sector, which will partly address these issues. It adopted the Action Program for Judicial Reform, 2001-06 in December 2000. The program outlines a comprehensive and holistic approach that is crucial to judicial reform and identifies a number of steps such as streamlining the administration of both the Supreme Court and the lower courts. The main cross-cutting areas of the action program focus on strengthening the management of the judiciary, enhancing human resource quality, strengthening the efficiency and access to justice, improving participation and transparency in the administration of justice, and coordinating judicial institutions. The Supreme Court has also agreed with the NGO "Bantay Katarungan" to monitor court proceedings and applicant screening for positions in the regional trial courts and courts of appeals. Finally, it has intensified disciplinary action against corrupt judges. Between November 30, 1998, and April 2, 2001, the Supreme Court disciplined 230 judges by either dismissal or administrative sanctions on graft and corruption charges.⁹ The 230

⁸ SWS National Survey, (Manila, Philippines: SWS, December 1999).

⁹ Francis Initorio, "Policing the Judiciary," *Benchmark*, Centennial Issue, vol. 2, no. 3 (May-June 2001).

judges were from the entire judiciary comprising of the metropolitan trial courts, regional trial courts, Shari'ah district courts, Sandigabayan, the Court of Appeals, and the Supreme Court. The most common reasons cited for these disciplinary actions were: graft and corrupt practices; gross ignorance of the law; and acts of misdemeanor or impropriety or both.

3.19 A revised version of the Action Plan for Judicial Reforms has strengthened its anticorruption plans. However, the real test will be implementation. Some new rules, including tighter guidelines on adjournments, have been issued and existing regulations are being more strictly enforced. And, as noted, disciplinary action has been taken against 230 judges. For this program to be successful, a very broad array of participants and stakeholders must become involved in its implementation (including judges at all levels, court administrators, clerks, technical experts, building experts, and users). It is also important that a stakeholder advisory group assist in monitoring progress in the plan's implementation.

Anticorruption Strategy

3.20 Following the World Bank report on Combating Corruption, President Estrada asked the Development Academy of the Philippines to devise a National Anticorruption Framework and coordinate all the government's anti-graft activities. The academy came up with a blueprint in consultation with civil society organizations, the private sector, anticorruption agencies, cabinet members, the media, and academe. A draft of a National Anticorruption Plan was prepared and submitted to the donors' Consultative Group meeting in June 2000. It was revised when the new Government came to power in January 2001.

3.21 Two key features of the plan are the deliberate focus on civil society engagement through a broad coalition of NGOs as partners in the fight against corruption and on the prevention of corrupt activities through aggressive prosecution. The plan presents a set of comprehensive measures consisting of five strategic objectives, 14 key result packages, and at least 45 project concepts on anticorruption promotion and prevention and prosecution of corruption. As its centerpiece, the plan presents a 10-point jumpstart program for immediate execution. It also lays out a sequence of anticorruption activities for the long term.

3.22 Recognizing that the fight against corruption will take many years to achieve major success, the plan advocates a three-staged campaign:

- *Jumpstart program.* The plan acknowledges that strong building blocks are needed in the short run to support the longer term programs. To accomplish such "quick wins," a 10-point Jumpstart Program with 10 key components is proposed (Box 3-2). Civil society is conspicuously involved in the prevention and monitoring of corrupt practices. During this initial stage, it is critical that full government commitment is achieved and clear demarcation of responsibilities is agreed among the various anticorruption agencies.

- *Expansion and identification.* Progress made during the jumpstart phase will determine effectiveness of this stage. If the building blocks are weak, the expansion and identification programs envisioned in this second stage will crumble, jeopardizing the entire anticorruption campaign. Strengthening of the anticorruption agencies and full implementation of programs in the five key results areas is proposed under this stage.¹⁰
- *Consolidation and institutionalization.* Visible results in the areas outlined are the target of the third and final stage. With full adherence to anticorruption programs, the indicators should signal a perception of reduced corruption. Civil society and government will have to continue to work as partners to maintain momentum through this final stage and beyond.

Box 3-2: Anticorruption Plan: Ten-Point Jumpstart Action Program

1. Civil society watchdogs
2. Report card survey
3. Open public documents
4. Transaction reengineering
5. Corruption vulnerability assessment
6. Fast tracking high-profile cases
7. Lifestyle checks
8. Anticorruption vanguards
9. Whistle blowers' incentives and protection scheme
10. Public ethics

Source: Development Academy of the Philippines, National Anticorruption Plan for the Philippines (Manila: DAC, February 2001).

3.23 The Office of the Ombudsman is also implementing its own eight-point strategy, based on the twin approaches of prosecution and prevention. The punitive approach includes detection of wrongdoing, investigation, and prosecution. It also includes imposition of administrative sanctions. The preventive approach encompasses a public assistance program, intensive graftwatch, people empowerment, education, coordination with other anti-graft agencies, and systems improvement (Box 3-3).

Inter-Agency Coordination

3.24 To improve coordination among the several agencies involved in gathering evidence against graft and corruption cases, COA took the lead in creating an Inter-Agency Anti-Graft Coordinating Council. This group is composed of representatives of COA, the ombudsman's office, the Civil Service Commission, NBIR, and the

¹⁰ The five key results areas as outlined in the academy's plan are: streamlining government transactions; enforcing anticorruption policies and laws; promoting integrity in civil service; mobilizing citizens against corruption; and detecting corruption and prosecuting corrupt officials and employees.

Department of Justice. The council, created by Executive Order No. 79 in August 1999, is responsible for sharing information and resources to enhance the coordination among member agencies. In April 2001, the council adopted Guidelines of Cooperation for strengthening the working relationship among its members. At the same time, the council established operating criteria to create an Inter-Agency Task Force to investigate collective cases, provide training programs for their respective staff, and establish a communication and coordination center to facilitate information sharing. These guidelines also outline each member agency's role in the detection, investigation, and prosecution of graft and corruption cases.

Box 3-3: Ombudsman's Office: Eight-Point National Anticorruption Strategy

PUNITIVE APPROACH

- Graft detection, evidence build-up, investigation and administrative action (either prosecution or sanctions).

PREVENTIVE APPROACH

- Investigation and prosecution to deter wrongdoers and make corruption a high-risk business.
- Public assistance program to respond to requests for assistance in enforcing appropriate codes of conduct in government offices.
- Graftwatch over the government agencies to monitor official performance and transactions, address incidents of inefficiency, and conduct systems and procedures studies.
- People empowerment by organizing and accrediting Corruption Prevention Units and Junior Graftwatch Units to monitor the efficient delivery of basic services.
- Education and values orientation seminars to enhance the integrity among public officials.
- Coordination with other government institutions and international corruption fighters.
- Systems and procedures improvement to eliminate weaknesses and loopholes in these systems which are conducive to corruption.

Source: Office of the Ombudsman, "8-Point Comprehensive National Anticorruption Strategy" (Manila: Ombudsman's Office, 1996)

3.25 The Philippines also has a vast network of government institutions that have a mandate to tackle corruption (Appendix B). However, sometimes overlapping responsibilities act as disincentives to progress. A comprehensive review of these concurrent jurisdictions might be undertaken to ensure that the demarcation of jurisdiction is clear and to revamp and revitalize the various agencies to ensure their effectiveness to address corruption issues. For instance, the Inter-Agency Anti-Graft Coordinating Council needs a secretariat, and the Office of the Ombudsman need more resources. As of February 2001, Office of the Ombudsman had a total of 803 employees, fewer than 400 of them lawyers. Its budget is a mere 0.6 percent of the national budget. Experience elsewhere has shown that an ombudsman's effectiveness rests on: political support, adequate resources, public perception, functional competence, and regulatory

value.¹¹ It is difficult for the main anticorruption agency in the country to function effectively on limited resources.

Corporate Governance

3.26 The private sector can assist in the fight against corruption only if the sector itself recognizes that businesses also have to be free from corruption and that complying with corporate governance reforms is in their interest. The Philippines has laid good building blocks to improve corporate governance. However, as in public governance, the enforcement structure is weak, and monitoring mechanisms among businesses is inadequate. In this context, the Institute of Corporate Directors has been instrumental in moving the agenda forward by working to create a comprehensive national plan for improving corporate governance. Soon after its foundation in 1999, the institute focused on advocating improved governance through conferences and seminars. In early 2000, the institute, in collaboration with the World Bank and ADB, made a presentation to the Bangko Sentral's Monetary Board promoting improved governance in the banking system. This led to a request from the Estrada government that the institute spearhead the preparation of a national corporate governance plan. The plan was developed and discussed with several agencies but did not receive the endorsement expected, in the press of political events during the later part of 2000. Nevertheless, the institute used the plan as a basis for further advocacy work in conferences and seminars.¹² The institute has also drafted guidelines on the role and responsibilities of corporate boards, on a code of proper practice for directors, and a corporate code of governance for enterprises. The institute is seeking to introduce this plan under the Macapagal-Arroyo administration.

3.27 All these activities may contribute to short-term improvements in investor sentiment, but the Philippines needs to address many long—term structural measures to improve governance and strengthen investor confidence. Maintaining the momentum on corporate governance reform is crucial for the Philippines, for neighboring countries are also working on corporate reforms of their own to provide a welcoming environment for international investors. The agenda for improving corporate governance and legal and judicial infrastructure is therefore significant. NGOs are also urging government to implement corporate governance reforms that include granting the SEC oversight functions.¹³ Under a proposal the Institute of Corporate Directors submitted to the government, the SEC will be tasked with the following to improve governance systems: (i) rafting a Code of Ethics and Code of Corporate Governance; (ii) requirements of independent directors and for minimum qualifications and training of directors to ensure effectiveness; and (iii) monitoring by independent institutions of the quality of corporate governance.

¹¹ World Bank, "Using an Ombudsman to Oversee Public Officials," PREM Note 19 (Washington: April 1999).

¹² These included the investor's seminar staged in Cebu in November 2000 and a subsequent series of seminars staged in connections with the World Bank's distance learning program.

¹³ "NGOs Want Government to Push Corporate Governance Reforms," *Business World*, April 6, 2001.

Information and Communication Technology

3.28 Information and communications technology has started to play a catalytic role in the fight against corruption and will remain important in the future. For instance, the traditional role of radio and television in disseminating information and creating awareness and support within the citizens has been replaced by cell phones, as was apparent during EDSA II demonstrations. Forwarding text messages on cell phones helped anti-Estrada supporters gather a large crowd in just hours. According to cell phone service providers, a record 160 million cell phone text messages were sent daily during the four-day revolt period—triple the normal daily average.¹⁴ This show of support finally led to a peaceful changeover in the government. The internet also offers vast potential for mobilizing civil society organizations. For instance, groups like the Kongreso ng Mamamayang Pilipino (KOMPIL II) and the Erap Resign Network, used email 24 hours a day to keep its coalition partners informed about the latest activities.

3.29 Information and communications technology can play a more important role, a preventive one, by reducing opportunities for corruption in the Philippines. Initiatives such as the projects to support the introduction of an electronic bidding system, vehicle registration and licensing computerization, customs computerization, and tax computerization will all help make these transactions transparent. In this way, loopholes that invite corrupt behaviors can be closed.

Investigative Journalism

3.30 During President Estrada's impeachment trial, the Philippine Center for Investigative Journalism (PCIJ) played an important role in investigating the charges against him and mobilizing support from credible private organizations such as the Makati Business Club. Other investigative reports by PCIJ have enriched public debate and enhanced respect for investigative journalism.¹⁵

3.31 PCIJ began investigating President Estrada, particularly sources of his wealth, in the first quarter of 2000.¹⁶ The final research uncovered purchases of property and formation of corporations but not the funding sources. A report released by PCIJ in July 2000 listed several of President Estrada's holdings and showed inconsistencies between his official statement of assets, his income tax returns, and the SEC records. Other research, on his real estate, revealed that he and family members had acquired 17 pieces of real estate, worth an estimated P2 billion, in Metro Manila, Tagaytay, and Baguio. By the time the first story on President Estrada's mansions was ready for publication,

¹⁴ Alecks P. Pabico, "Hypertext Revolution," *Youth Power*, vol. 7, no. 1 (January–March, 2001). Filipinos account for an estimated 10 percent to 15 percent of the world's short message service (texting) traffic, according to Sofia McFarland, "To Catch a Cyber Thief," *Far Eastern Economic Review* (June 14, 2001).

¹⁵ Some of these include: Prime Sarmiento, "The Burdens of Agriculture," *Business World*, January 24–25; Yvonne Chua, "The Plunder of Textbook Funds," March 1999; and Luz Rimban, "The Water Thieves," March 2000. Many of the investigative reports done by Philippine Center for Investigative Journalism, (PCIJ) between 1990 and 2000 have been consolidated in the book edited by Sheila S. Coronel, *Betrayals of the Public Trust: Investigative Reports on Corruption* (Manila: PCIJ, 2000).

¹⁶ Sheila S. Coronel, ed., *Investigating Estrada: Millions, Mansions, and Mistresses*, (Manila: PCIJ, 2000).

Governor Singson came forward with the corruption allegations. With the change in environment and the initial interest created by the ongoing PCIJ research, the public showed increased receptiveness to acknowledging the merits of investigative journalism. This facilitated not only the publication of more reports by the PCIJ but also stirred public awareness of and discussions on governance and anticorruption. Three of the PCIJ reports were used during the impeachment complaint the House of Representatives filed against President Estrada. Finally, three PCIJ reports on President Estrada shared the top prize in 2000 Jaime V. Ongpin Awards for Investigative Journalism.¹⁷

Collaborative Efforts between the Government, Private Sector, and Civil Society

3.32 Another positive development during this period was the formation of critical alliances between different stakeholders that had previously operated in isolation. These collaborative efforts are the key to addressing the challenges of reducing graft and corruption. The alliances highlighted below deserve special attention.

Transparent Accountable Governance Project

3.33 Financed by USAID, the Asia Foundation, in partnership with the Makati Business Club, SWS, the Philippine Center for Policy Studies (PCPS), and the PCIJ, have developed the innovative Transparent Accountable Governance (TAG) Project. Its mission is to promote transparency and accountability in government and push forward a collaborative action-oriented agenda to combat corruption. Raising awareness of corruption issues and keeping track of legislation that affects the economy are among TAG objectives. The project is innovative in that it encourages private sector participation in civil society activities. Working closely with the above organizations, TAG: documents business and civilian viewpoints on corruption as related to doing business in the Philippines (via survey research); identifies and analyzes key areas of corruption and quantifies their economic costs (via case studies); and focuses business and public attention on the ways particular types of corruption affect the conduct of business and economic growth in the Philippines and builds consensus on a concrete agenda for counter-corruption reform (via public debate).

3.34 TAG's integrated approach has progressed well since its launch in 2000. Its main achievements include: disseminating information on the Estrada trial and mobilizing public support (Makati Business Club); completing and disseminating three economic research studies on corruption to identify key areas of corruption and analyze their dynamics and cost on the political economy (PCPS); undertaking public and business opinion surveys (SWS); investigative reporting (PCIJ); and keeping public up to date on the new administration's progress in the first few days of government changeover (via the website www.tag.org.ph).

¹⁷ These were: "The State of the President's Finances: Can Estrada Explain his Finances?" by Yvonne T. Chua, Sheila S. Coronel and Vinia M. Datinguino; (ii) "Erap and Families" by Sheila S. Coronel; and (iii) "The Estradas' Three Dozen Houses: First Family's Firm Flouts the Law" by Ma. Lourdes Mangahas and Luz Rimban. (Manila: PCIJ).

Transparency and Accountability Network

3.35 Transparency and Accountability Network with 19 participants, including representatives from the private sector, universities, and local and international NGOs, was established in November 2000 amid concerns over lack of transparency and accountability in governance.¹⁸ The network has so far had three regional workshops to discuss an anticorruption strategy draft and a national consultation took place in July 2001. Soon the network proposes to convene a Summit with the government where it can submit the strategy to the administration. However, the network is still getting organized and has not yet found a champion within the government with whom it can have a constructive dialogue.

The Philippine Governance Forum

3.36 The Philippine Governance Forum is taking the lead in promoting transparency and accountability in government services delivery and in the budget formulation process.¹⁹ Two projects have been launched to support these objectives; the Government Watch project and the Budget Advocacy project.

3.37 Close monitoring of government performance is widely believed to discourage corruption and inefficiency in the delivery of government services. In this context, the forum developed the Government Watch project in 2000 to monitor the performance of high-priority government projects. The innovative feature of this project is the involvement of government, business, and civil society in design and evaluation. Performance monitoring began in the first phase with the Departments of Education, Culture and Sports, Public Works and Highways, and Health. The review disclosed several key weaknesses in project implementation: failure to deliver promised services; delays and unaccounted funds; and continued payment of government funds after project's completion, when no further work was being done.²⁰ A second round of evaluations is being planned. The Budget Advocacy project with DBM will do independent analysis of the Philippine budget and fiscal issues and attempt to raising public awareness of the budget's impact on national development. Last year it conducted one public briefing, analyzing the 2001 budget. In addition to these two projects, the

¹⁸ Members include: the Philippine Governance Forum, Development Academy of the Philippines, TAPATT Foundation Inc., KILOBAYAN, Bantay Katarungan, Makati Business Club, Bantay Bayan, Konsyensyang Pilipino, De La Salle University, Sulo' ng Karangalan, Evelio B. Javier Foundation Inc., Philippine Center for Policy Studies, Pagbabago, SWS, Caucus of Development NGO Networks, Institute of Politics and Governance, National Institute for Policy Studies, Institute for Popular Democracy, Transparency International--Philippines, and the Asia Foundation.

¹⁹ The Philippine Governance Forum is a collaborative project of the Ateneo School of Government, the Ateneo Center for Social Policy and Public Affairs, and the United Nations Development Programme. It's primary objective is to enhance good governance in the Philippines by developing institutional capacity to promote transparency and accountability.

²⁰ Philippine Governance Forum, "Government Watch Project: Presentation of Findings," *Forum Newsletter*, vol. 1, no.1 (December 2000).

Philippine Governance Forum has commissioned three studies scheduled for completion in late 2001.²¹

Corruption Vulnerability Assessment

3.38 The Development Academy of the Philippines has developed a concept for a corruption vulnerability assessment, where the idea is to understand the inherent weaknesses in a government agency that make it vulnerable to corrupt activities. The conceptual framework is based on the Klitgaard formula, $C = M + D - A$, where C = corruption, M = monopoly, D = discretion and A = accountability. In an assessment, three areas will be targeted: general control environment; inherent risk of corruption; and adequacy of existing safeguards. The assessment will be conducted in three stages: a preliminary stage of agency selection and self diagnosis; a corruption vulnerability assessment stage identifying strengths and weaknesses and making recommendations for improvement; and an anticorruption planning stage outlining strategies to prevent corruption and developing an agency action plan. A pilot assessment was done in the development academy, and subsequent testing is planned in a few agencies. Three agencies that have expressed interest in a pilot assessment are the COA, the DBM, and the Department of Interior and Local Government.

3.39 Some other civil society initiatives are still in infancy, but they are critical building blocks of a participatory effort against graft and corruption. Started in 2000 by SWS with support from the World Bank, the Filipino Report Card on Pro-Poor Services is a nationwide client satisfaction survey on publicly provided basic services. It assesses the performance of government services in health, elementary education, water supply, housing, subsidized rice distribution, and the Lingap Para sa Mahihirap (or Caring for the Poor) Program. A key survey finding regarding the Lingap program is that more local the level of government, the less the perception of corruption among the governed.²² The proportion of households (among those who know their political representatives) who thought that a bribe would be required to get a recommendation from a Congressman/Senator is more than double that for a barangay Captain (20 percent v/s 10 percent).²³ What is of more concern is the finding that a relatively higher degree of corruption is observed by sample households in the National Capital Region, both at the barangay captain and congressman/senator levels. Visayas had the lowest level of perceived corruption. An assessment of the reasons for this, and replication in other regions, might be useful.

3.40 The Development Academy of the Philippines is also pilot testing the Report Card Survey, with support from ADB. Like the Filipino Report Card, the survey allows citizens to provide feedback on specific dimensions of services that a local government unit (LGU) provides its constituents. The principle underlying this approach is the

²¹ The three are a study on political culture, a study on initiatives against corruption in the Philippines, and a review of the literature on transparency and accountability.

²² World Bank, *Filipino Report Card on Pro-poor Services*, (Washington: World Bank, May 2001). This finding was also validated by a SWS Survey, October 2000.

²³ This basically corroborates the finding of the SWS national survey on the same issue

potency of “citizen’s voice” to demand better services and accountability in public services. The survey is being pilot-tested in 10 cities in Metro Manila in cooperation with the city governments²⁴ and is looking into the following LGU services: public safety; garbage collection; permit issuance and licensing; public market management; and traffic control. The primary data gathering has been completed. Next, the academy plans to replicate the survey in other cities and municipalities around the country so as to maximize its potential as a deterrent to street-level corruption and an incentive to greater accountability among local governments.

3.41 The Evelio B. Javier Foundation, established in 1986, has also been active at the local level, one of its goals being to “develop the capabilities of local non-government groups toward a meaningful and effective participation in local governance.” The foundation conducts study tours and workshops on local governance where local executives, citizen leaders, NGOs, and the private sector share their views and experiences regarding good local governance practices. Over the years, the foundation has actively supported civil society through programs such as Enhancing Integrity and Transparency in Local Governance, Transparency and Accountability through Public Journalism, and Governance and Local Democracy Project for the League of Municipalities of the Philippines. In the future, the foundation plans to provide technical assistance to grassroots governance and to train LGUs to use information technology as the main engine to streamline their operations.

3.42 Another initiative only recently taking shape entails increasing the participation of the poor and citizens in making the management of public expenditure more transparent and accountable. A design framework for this has been worked out between the World Bank and the Ateneo School, and work is expected to start as soon as funding becomes available.

Donor Coordination

3.43 During the last year, donor effort in supporting the government and civil society in their drive against corruption has gained momentum, and governance was one of the issues discussed at the June 2000 Consultative Group meeting. A small informal subgroup on anticorruption consisting of six donors²⁵ has been meeting regularly since December 1999 to flesh out and coordinate their own work in this area. This subgroup issued a joint statement at the meeting of the Philippine government and donors in April 2001 on ways of advancing the anticorruption agenda.²⁶ The group has also met with the Presidential Commission on Effective Governance (the highest ranking government anticorruption body), and regular meetings are being planned for the future.

²⁴ The 10 cities are: Quezon, Manila, Marikina, Pasig, Pasay, Paranaque, Mandaluyong, Muntinlupa, Las Pinas, and Makati.

²⁵ Asian Development Bank (ADB), the Australian Agency for International Development (AusAID), the Canadian International Development Agency (CIDA), the United Nations Development Programme (UNDP), USAID, and the World Bank).

²⁶ Joint donor statement made at the meeting of the Philippine government’s economic team with Philippine-based Consultative Group representatives, Manila, April 3, 2001

3.44 AusAid is one of the donors who is active in the governance area, and improving governance is a key element of its country strategy for the Philippines. The agency has identified four strategic areas for promoting effective governance: improving economic and financial management to maximize and equitably distribute the gains from economic growth; strengthening public sector management for improving the delivery and efficiency of government services; promoting an effective and fair judicial system; and fostering civil participation in programs.

3.45 Under this overall strategy, a specific initiative of AusAid in the Philippines is the Philippines-Australia Governance Facility. In a recent noteworthy accomplishment, this facility is supporting the creation of a web-based data base of governance activities by the NEDA, and the six donors that are part of the subgroup on anticorruption.²⁷ On June 19, 2001, 212 activities were distributed among the major governance categories (Table 3-3). Most of these support activities (29) are for technical assistance addressing administrative governance.

Table 3-3: Distribution of Government and Donor Governance Activities

<i>Category</i>	<i>Activities</i>
Political	25
Economic	32
Fiscal	30
Administrative	81
Financial	18
Corporate	12
Judicial	14
Total	212

Source: www.govacts.org.

3.46 In another recent donor initiative, sponsored by the ADB and the Organization for Economic Cooperation and Development for the Asia-Pacific region, experts from eight countries, including the Philippines, have prepared a working draft of an Anticorruption Action Plan. The proposed plan contains nonbinding principles and standards to

²⁷ www.govacts.org

strengthen national and regional anticorruption efforts.²⁸ The eight countries plan to exchange information on their experience and strategies and promote partnerships among key players in their society.

²⁸ The other seven countries are Indonesia, Japan, Korea, Malaysia, Pakistan, People's Republic of China, and Thailand.

4. OPPORTUNITY RENEWED

4.1 The Philippines has undergone a historic exercise in governance that has mobilized the entire society in a public debate on corruption. The installation of its new president, who stressed the need for good governance in her inaugural address, has created a unique opportunity for the Philippines to advance an integrated anticorruption agenda. A decisive move by the government to address structural weaknesses in anticorruption mechanisms would help to reinforce the core beliefs stressed by the President, and to restore investor and public confidence. A partnership between the government, donors, and civil society is essential to ensure that resources are directed toward priority activities and that assistance is coordinated to promote maximum effectiveness.

4.2 Since early 2001, there has been a renewed sense of optimism that anticorruption reforms can and will be implemented. This is best illustrated by the survey data showing a dramatic rise in the proportion of Filipinos who said that government can be run without corruption. The proportion of Filipinos saying this increased to 66 percent in March 2001 compared with 59 percent in September 1998 and 50 percent in July 2000¹ However, a historical perspective on such optimism is revealing. In a July 2001 report prepared for the World Bank,² Mahar Mangahas, President of the Social Weather Stations (SWS) pointed out that his organization's surveys:

Reveal the existence of a political cycle, led by a brief initial period of public satisfaction, followed by prolonged public dissatisfaction, with national government performance in fighting corruption. The honeymoon period occurs at the start of an administration, obviously due to the public's renewed hope for good governance under the incoming officials. The honeymoons regarding anticorruption performance lasted for the first two years of the 6.3 year Aquino period, the first 3 months of the 6 year Ramos period, and the first year of the 2.6 year Estrada period (cycles of public opinion are also evident for the other two critical government performance areas, namely fighting inflation and fighting crime, but these have different lengths of honeymoon periods).³

4.3 Since taking office in January 2001, the new Government has announced several new measures to combat corruption and improve governance, but a sequenced and detailed action program and concrete organizational arrangements for formulating, implementing, monitoring, and reporting progress for such a program have yet to be made public. The government has acknowledged the importance of civil society in anticorruption efforts, and is attempting to enlist its cooperation and involvement, especially in monitoring the implementation of anticorruption activities. These efforts are reflected, for example, by the appointment of well-known civil society leaders to

¹ Social Weather Stations (SWS) National Surveys, Third Quarter 1998, Second Quarter 2000, and First Quarter 2001 (Manila: SWS).

² "Update on Surveys Concerning Corruption," Dr. Mahar Mangahas, SWS, July 17, 2001.

³ Mahar Mangahas, "Update on Surveys Concerning Corruption" (Manila: SWS, July 17, 2001).

government (for instance the secretary of the Department of Social Welfare and Development used to be the head of CODE-NGO, one of the largest nongovernmental organizations (NGOs) in the Philippines). The participatory design and implementation of projects (e.g., Procurement Watch and Government Watch) and the role envisioned for civil society in the Development Academy of the Philippines plan also demonstrate the government's seriousness about involving civil society in the anticorruption battle. Box 4-1 lists government's other key initiatives (through September 2001).

Box 4-1: The New Administration's Key Initiatives, January–September 2001

- President Gloria Macapagal-Arroyo, in her inauguration speech on January 20, 2001 proclaimed good governance as one of the pillars of her administration.
- The first Administrative Order of the new Government prohibited government agencies from entering into any business contracts with the president's or her husband's relatives.
- The Presidential Anti-Graft Commission was created to investigate allegations of corruption involving presidential appointees and to recommend appropriate actions to the president.
- The Presidential Committee on Effective Governance was strengthened. The committee, which oversees formulation and implementation of the public sector strengthening and streamlining agenda, is the highest level anticorruption body in the government. Headed by the Executive Secretary, its vice-chairman is the secretary of the DBM.
- The Presidential Commission on Good Governance (originally formed to recover the ill-gotten wealth of President Marcos) was reactivated.
- The privately funded Governance Advisory Council was created. Serving as a watchdog against corruption and promoting good governance, the council will complement the work of Presidential Anti-Graft Commission.
- The Medium-Term Philippine Development Plan (MTPDP) was revised, with improving governance as one of its specific objectives. The plan outlines key measures the government plans to undertake in this area in 2002–04/05.
- The Philippine Congress passed the Anti-Money Laundering Act in September 2001.

4.4 The new administration's updated MTPDP also gives prominence to activities to improve the governance environment and curb corruption. The draft MTPDP includes a chapter on "Improving the Quality of Life Through Good Governance."⁴ It recognizes the challenges posed by bad governance and outlines targeted areas and strategies for improving service delivery and ethical standards in bureaucracy, creating an enabling environment for sustainable development, and strengthening institutions. It also highlights the importance of forging new partnerships between the government on one hand and business, civil society, and people's organizations on the other. In terms of legislative agenda, the draft MTPDP assigns priority to passage of the Government Procurement Act, Reengineering Bill, Freedom of Information Act, Enactment of Civil Service Code of the Philippines, and Amendments to the Local Government Code.

⁴ Draft MTPDP, NEDA at www.neda.gov.ph

Strengthening Anticorruption Agencies

4.5 The president has reactivated the Presidential Commission on Good Governance (PCGG), formed earlier to recover the ill-gotten wealth of Marcos. Now it will be charged with the same task with respect to President Estrada. In July 2001, President Macapagal-Arroyo named a former elections commissioner, Haydee Yorac, committee chairwoman of PCGG. Ms. Yorac is widely regarded as a person with high integrity.

4.6 The Presidential Anti-Graft Commission is the newest anti-graft agency, created through Executive Order No. 12 in April 2001. This new commission succeeded the anticorruption commission established during the Estrada presidency. The anticorruption commission had succeeded the Presidential Commission against Graft and Corruption (PCAGC), created in January 1994 by President Ramos. Although it was operational for more than six years, the Ramos commission was not considered effective for lack of resources and a strong mandate. Nor did it have the legal standing to impose sanctions or enforce decisions; it could only recommend actions to the Office of the President. From February 1994 to April 2001, the PCAGC registered 823 cases and sent the president recommendations on 452 of them.

4.7 In light of the experience of the PCAGC, two immediate prerequisites are needed if PAGC is to perform more effectively than its predecessors:

- strong and credible leadership, which will drive the interaction and coordination between all the anticorruption agencies.
- strengthening and capacity building, in human resource skills and other resources.

How the PAGC will fit into the Philippines' overall anticorruption efforts is not clear. There is already the constitutionally mandated roles of the Ombudsman and the Commission on Audit. Other agencies also have jurisdiction in the governance area (see Appendix B on existing government anticorruption bodies).

4.8 The Presidential Committee on Effective Governance, created in October 1999 by Executive Order No. 165, is responsible for formulating an agenda for strengthening and streamlining the public sector and is taking the lead in enacting legislative and administrative reforms. Headed by the Executive Secretary and vice-chaired by the secretary of the DBM, this committee is the highest level anticorruption government agency.⁵ The committee advocates passage of Reengineering the Bureaucracy Bill and has approved the Public Sector Institutional Strengthening and Streamlining Agenda. The latter reform is being reviewed by six trilateral subcommittees. The government also plans to pursue a Public Sector Reform Loan, intended primarily to support impact-mitigation measures under the reengineering program.

⁵ Members include: NEDA, CSC, DOF, COA and PMS.

4.9 In July 2001, the president created a privately funded Governance Advisory Council through Executive Order No. 25 to complement the Presidential Anti-Graft Commission and the Presidential Commission on Effective Governance, to serve as a watchdog against corruption, and to promote good governance. Respected leaders from the private sector were appointed to the council for a fixed term and will not receive any emolument from the government.⁶ The council is expected to advise the president on a wide range of governance issues and will recommend reforms for corporate and government behavior. It will be responsible for promoting a Philippine Code of Corporate Governance and a Code of Ethics and for developing a Philippine Corporate Governance Awards Program. Other tasks will include studying the tax reform program and the role of the judicial system in dealing with graft and corruption.

4.10 The current administration has also acknowledged the important role that the civil society can play in supporting governance and anticorruption reforms. Civil society, in particular, the large and active NGO sector, played a key role in mobilizing people against President Estrada after investigating and filing charges against him for alleged bribery and corruption. The business community, donors, and the international community have recognized civil society's pivotal role in Philippine life. The importance of civil society organizations in curbing corruption has been demonstrated in Bangladesh and other countries.⁷

4.11 Private sector, too, can be an important ally in the fight against corruption. In the Philippines, the Makati Business Club represents the progressive elements of the business community who are looking at the larger picture of the economy, not only at their own business interests. This group was instrumental in supporting the movement for accountability and has endorsed the demand for good government. This is the segment of the business community that is plugged into the global economy through exports or international partnerships. The Makati Business Club's members are more closely attuned than other businesses to international standards and corporate governance and more aware of obstacles that rent seeking and corruption create for them individually and for the growth of the Philippine economy.

4.12 Public awareness and interest in combating corruption are at an all time high. The new Government therefore has a huge challenge ahead of it to fulfill the public's expectations and faith that the government can be run without corruption. The Philippines' history suggests that this optimism can be short-lived and cynicism can quickly return. It is therefore imperative that the new administration seize the opportunity to articulate a detailed, realistic, and bold anticorruption program and to build a track record of success. It is recommended that the government keep the following considerations in view as it moves forward.

⁶ Council members include: Dr. Jesus P. Estanislao (chairperson), Dean Ernesto D. Garileo, Ricardo J. Romulo, Juan B. Santos, and Washington Z. SyCip. All members are each appointed to a term of one year, subject to renewal or extension of their respective term by the president.

⁷ For more details, see World Bank, "Mobilizing Civil Society To Fight Corruption In Bangladesh," Number PREM 30 (Washington: World Bank, October 1999).

- Our earlier report on *Combating Corruption in the Philippines* noted that corruption in the Philippines is systemic and deep-rooted. It will take many years to overcome it. However, the experience of the last 15 years has shown that progress can be made by reducing the discretion in government decision making and increasing competition, transparency, and civil society monitoring of public and private sector governance. This update has highlighted many positive initiatives which have recently been launched and need to be nurtured.
- Global experience suggests that efforts to combat systemic corruption have to go beyond consciousness raising and prevention measures. The effort has to be focused on determining the points of vulnerability and corruption within the Philippines' government and markets. Then the systems most susceptible to corruption (e.g., tax administration, public works) should be analyzed to find out exactly how corrupt buyers and sellers find each other. How do they make and enforce their implicit contracts? What footprints do they leave? To break up whatever pattern is disclosed, countermeasures should be designed.⁸
- For maximum results, the government is advised to seek and build a partnership (coalition) with several citizens, business, professional associations and donor alliances that have coalesced to fight corrupt practices in the Philippines. To empower these groups to monitor government performance, they must be provided with highly disaggregated information on planned and actual public expenditures/capital projects—as a matter of legal right. This reform is crucial.
- Most citizens and enterprise managers emphasize punishment as the best way to fight corruption. More than half the SWS survey respondents considered punishing wrongdoers one of the most effective measures suggested for reducing government corruption.⁹ Therefore increasing the success rate in prosecuting corrupt officials at all levels should be made a goal and performance indicator in any effective anticorruption program in the Philippines.

4.13 The government recognizes that graft cannot be eliminated in a single stroke, but requires “patient, constant, steady disinfecting, scraping and cleansing.” A national anticorruption strategy needs to tackle many battle-fronts, and acknowledge that a comprehensive program to combat corruption will take many years to implement. The government’s commitment to fighting corruption and its emerging partnership with civil society is welcomed, but actions are needed now to match the rhetoric and fulfill expectations. There is an opportunity to expand on the progress made and build a coalition of new partners to develop and carry through a detail action-oriented anticorruption plan under a credible leadership. In this context, a subgroup of donors submitted joint recommendations to the government in April 2001 for a faster paced, results-oriented anticorruption program (Appendix C). The subgroup recommends that a national strategy for fighting corruption in the Philippines should focus on reducing opportunities and motivation for corruption through appropriate policy and regulatory reforms. It should make corruption a high-risk and low-reward activity through actions

⁸ Robert Klitgaard, “Subverting Corruption,” *Finance and Development*, vol. 37, no. 2 (June).

⁹ *SWS National and Enterprises Surveys*, Third Quarter 2000.

designed to reduce incentives for corruption and increase the success rate in enforcement of sanctions. A collaborative approach involving government, business, media, and NGOs is recommended.

STATUS OF KEY CORRUPTION-RELATED INTERVENTIONS

<i>Anticorruption instruments/programs</i>	<i>Status/progress</i>
Raising public awareness of corruption through seminars	<ul style="list-style-type: none"> • Several agencies involved (Transparency Accountability Network, Evelio B. Javier Foundation, World Bank—Global Distance Learning Network (GDLN) project, Transparent Accountable Governance project, Office of the Ombudsman, Development Academy of the Philippines [DAP])
Raising awareness of public officials through seminars	<ul style="list-style-type: none"> • Several agencies involved (Evelio B. Javier Foundation, World Bank—GDLN project, Office of Ombudsman, Civil Service Commission, DAP)
Anticorruption agencies/ombudsman	<ul style="list-style-type: none"> • Ombudsman’s office implementing an 8-point comprehensive anticorruption strategy • Presidential Commission on Good Governance recovering ill-gotten wealth from Marcos family • Recently created Presidential Anti-Graft Commission mandated to investigate violations of anti-graft laws by presidential subappointees • Presidential Committee on Effective Governance strengthened; now country’s highest ranking anticorruption body • Governance Advisory Council created • Corruption Vulnerability Assessments done by DAP
Ethics office	<ul style="list-style-type: none"> • Civil Service Commission setting norms and codes of conduct for civil service appointments • Public Ethics Program prepared by DAP for public and private sector • Governance Advisory Council created and made responsible for promoting Code of Ethics
Raising public sector wages	
Reducing wage compression	
Merit-based civil service	<ul style="list-style-type: none"> • Organizational performance indicator framework set up by Department of Budget and Management (DBM)
Public opinion surveys	<ul style="list-style-type: none"> • Being undertaken by civil society, Social Weather Stations • Filipino Report Card issued on pro-poor government services • Report Card Survey being pilot-tested for local government units by DAP
Financial accountability	<ul style="list-style-type: none"> • Commission on Audit spearheading auditing and accounting reforms • DBM leading procurement reforms: civil society-based procurement watch established • Executive Order No. 262 amending procurement guidelines approved in July 2000 • Procurement Reform Act of 2000 submitted to House and Senate Committees • E-procurement system launched in Department of Public Works and Highways and planned in Department of National Defense and Department of Trade and Industry
Parliamentary oversight	
Reducing public employment	

<i>Anticorruption instruments/programs</i>	<i>Status/progress</i>
Decentralization	<ul style="list-style-type: none"> • Capacity building programs for officials of local government units being undertaken by several agencies (Department of Interior and Local Government, Evelio B. Javier Foundation) • Amendments to the 1991 Local Government Code being proposed
Client-based civil service/bureaucratic culture	<ul style="list-style-type: none"> • Presidential Committee on Effective Governance formulating bureaucracy streamlining agenda • Government Watch Project • DAP administering Philippine Quality Award for public sector
Economic policy reform	<ul style="list-style-type: none"> • General Banking Law 2000 approved • Legislative deliberations ongoing on amendments to New Central Banking Act • New Securities Regulation Code passed in August 2000 • Corporate governance reforms through establishment of Institute for Corporate Directors • Anti-Money Laundering Act passed in September 2001
Media and judicial independence, citizen participation	<ul style="list-style-type: none"> • Judicial reform project being prepared • Supreme Court approved Action Program on Judicial Reform
Reducing public sector size	<ul style="list-style-type: none"> • Public sector institutional strengthening and streamlining agenda approved by Presidential Committee on Effective Governance • Plan to pursue public sector reform loan drawn up • Medium Term Expenditure Framework for FY2001 budget process introduced • Sector Effectiveness and Efficiency Reviews instituted by DBM
Rule of law	<ul style="list-style-type: none"> • Judicial reform project being prepared • Supreme Court developing instruments to upgrade judicial skills, improve court efficiency, and enhance transparency and accountability of judicial process • Court proceedings being monitored by nongovernmental organization, Bantay Katarungan

Source: Hunther, Jeff, and Anwar Shah , *Anticorruption Policies and Programs: A Framework for Evaluation*. World Bank Policy Research Working Paper Series, (Washington: World Bank, November 2000). The first column of the table is based on this framework.

PHILIPPINE GOVERNMENT ANTICORRUPTION BODIES (September 2001)

The constitution and laws of the Philippines distributes the responsibilities for preventing and punishing corruption cases among the three branches of the government: the Executive, the Judiciary, and the Congress. Within the Executive Branch, the constitution provides for autonomy and independence of the Office of the Ombudsman, the Commission on Audit, the Commission on Elections, and the Central Bank.

<i>Agency</i>	<i>Mandate</i>
Office of the Ombudsman Legal status: Constitutional Established: 1986	Investigates and prosecutes. Adjudicates administrative cases and takes criminal cases to court (or Sandigabayan depending on government official's rank).
Commission on Audit Legal status: Constitutional Established: 1986	Conducts independent audits of government agencies and refers financial irregularities discovered in audits to ombudsman's office.
Civil Service Commission Legal status: Constitutional Established: 1986	Plays preventive role in setting standards and norms for civil service appointments and punitive role for meting out penalties and punishments for violations.
Sandigabayan Legal status: Constitutional Established: 1986	As main anti-graft court, adjudicates criminal cases brought to it by ombudsman's office. Deals only with cases brought against high-ranking government officials
Judiciary (headed by Supreme Court) Legal status: Constitutional Established: 1901	Adjudicates law in all areas
Department of Justice Legal status: Executive Branch Established: NA	Acts as government's primary criminal prosecution arm.
Department of Budget and Management Legal status: Executive Branch Established: NA	Oversees reforms in the procurement system, tax and expenditure management, streamlining the bureaucracy and civil service reform.
Commission on Elections Legal status: Constitutional Established: 1986	Tasked with promoting free, orderly, honest, peaceful, and credible elections and handling expeditiously every action brought before it.
Presidential Commission on Good Governance Legal status: Executive Order No.1 Established: February 1986	Assigned at its inception with recovering ill-gotten wealth from Marcos family. Now also tasked with similar recovery from Estrada.
Bangko Sentral ng Pilipinas Legal status: Constitutional (New Central Banking Act) Established: 1993	Performs central banking functions. Replaced old central bank created in 1946
Securities and Exchange Commission Legal status: Commonwealth Act # 83 or Securities Act Established: October 1936	Oversees registration of securities, evaluating financial condition and operations of applicants for security issues, and supervising stock and bond brokers, as well as stock exchanges. Tasked with strengthening corporate governance.

<i>Agency</i>	<i>Mandate</i>
<p>Inter-Agency Anti-Graft Coordinating Council Legal status: Executive Order No. 79 Established: August 1999</p>	<p>Shares information and resources to enhance coordination between its members activities (Commission on Audit, Office of the Ombudsman, Civil Service Commission, Presidential Commission Against Graft and Corruption, Department of Justice, and National Bureau of Investigation).</p>
<p>National Bureau of Investigation Legal status: Established:</p>	<p>Gathers evidence for probable cause hearings and files appropriate charges.</p>
<p>Presidential Committee on Effective Governance Legal status: Executive Order No. 165 Established: October 1999</p>	<p>Formulates public sector institutional strengthening and Streamlining Agenda. Chaired by Executive Secretary, vice-chaired by DBM, members include: Heads of Civil Service Commission, Commission on Audit, Department of Finance, National Economic Development Authority, Presidential Management Staff</p>
<p>Presidential Anti-Graft Commission Legal status: Executive Order No. 12 Established: April 2001</p>	<p>Investigates violations of anti-graft laws by presidential subappointees and can recommend suspension of individual to president. (Same mandate as the Ramos administration's Presidential Commission against Graft and Corruption, which it superceded.) Also superseded Estrada administration's National Anticorruption Commission.</p>
<p>Governance Advisory Council Legal status: Executive Order No. 25 Established: July 2001</p>	<p>Advises president in formulating governance reform agenda. Consists of private sector appointees.</p>
<p>Anti-Money Laundering Council Legal status: Created by Anti-Money Laundering Law(Republic Act 9160) Established: September 2001</p>	<p>Consists of governor of central bank, commissioner of Insurance Commission, and chairman of Security and Exchange Commission. Receives reports on covered transactions and can freeze suspicious accounts without recourse to courts for 15 days.</p>

RECOMMENDATIONS ON ANTICORRUPTION ACTIONS

Submitted by the donor sub-group to President Gloria Macapagal-Arroyo in April 2001

A small subgroup of donors¹ (further referred to as donors) which has been supporting anti-corruption efforts by the government, business, media and NGOs embarked on an exercise to develop specific recommendations for government's consideration. The group also undertook a mapping exercise of their own activities in governance and anti-corruption in order to promote greater coordination and increase effectiveness of donor support. Good governance is increasingly being viewed as an enabling mechanism to promote pro-poor economic growth, poverty reduction and sustainable development. The donors' approach to governance reform emphasizes anti-corruption activities through **increasing transparency and accountability within government agencies, strengthening institutions of government and increasing civil society involvement in the oversight of government activities.** These areas coincide to a large extent with the priorities identified by President Macapagal-Arroyo.

Reviews already conducted² have identified core weaknesses in structures and processes of governance, and made recommendations that provide a sound framework for a broad-based national strategy. A number of initiatives, identified by government agencies and civil society organizations, are already being implemented with assistance from the donor community. It is important to build on successes being achieved in these projects, and to use the current environment to provide impetus for further reform. Following is a list of activities that could be incorporated into such a national strategy

I. SETTING PRIORITIES AND GENERATING LOCAL OWNERSHIP

Raising expectations without vigorous concurrent actions to combat corruption would simply reinforce cynicism and make future attempts to curb corruption harder. **We therefore recommend that the government identify a set of high priority, highly visible actions that could be delivered reasonably quickly and that would build support for the unfolding of the full program.** Prioritization may not necessarily mean tackling the worst areas first. It may mean focusing first on doable actions where motivated and reliable champions are evident. This approach would focus on generating demonstrable progress in the near-term.

We recognize that strong national ownership is essential for successfully designing, implementing and enforcing effective reforms. Therefore, an important part of developing the Anti-corruption Action should be the **identification of leaders** (whether

¹ Consisting of the World Bank, the Asian Development Bank (ADB), the United Nations Development Programme (UNDP), the Australian Agency for International Development (AusAid), the U.S. Agency for International Development (USAID), and the Canadian International Development Agency (CIDA).

² Including a report by the Development Academy of the Philippines, a comprehensive report on corruption by the World Bank, and a government report delivered to the Consultative Group meeting.

groups, agencies or individuals) within and outside the government who will launch, sustain and monitor the anti-corruption action program. Such leaders should be involved in the priority setting, timing, and sequencing of actions, and they need to be given the necessary political support and resources to carry out the program. This will go a long way in ensuring their ownership and commitment.

Demonstrable progress in the following list of initiatives would greatly strengthen the national anti-corruption effort and build support for it. **What is needed is faster-paced and results-oriented implementation:**

- a) Increasing civil society involvement in the oversight of government activities, through such activities as “Procurement Watch,” a participatory audit program with the Commission on Audit, and through access to public information and civil society involvement in budget monitoring and implementation;
- b) Accelerating budgetary, financial management and procurement reforms, including introducing a medium term budget framework, and performance budgeting for government agencies and LGUs;
- c) Strengthening mechanisms for the disclosure of assets and liabilities of public officials, and initiating reforms of the remuneration structure for public employees;
- d) Implementing reforms in the judiciary as outlined in the Supreme Court’s Judicial Reform Action Program, including taking measures to unclog the courts and shortening the decision periods;
- e) Amending bank secrecy laws, passing and implementing an anti-money laundering bill, and improving the quality and transparency of bank supervision;
- f) Introducing electoral campaign finance reforms;
- g) Implementing corruption prevention programs for the most corruption-prone Government agencies.

II. STRENGTHENING THE MANAGEMENT OF THE GOVERNMENT'S ANTI-CORRUPTION ACTION PROGRAM AND ENSURING IT IS ADEQUATELY RESOURCED

To be effective **it is essential that the Government’s anti-corruption effort has strong and senior leadership** (to spearhead it and to communicate the goals, plans, and progress, to the public on a continuous basis) and that the institutional arrangements for supporting this leadership be adequately resourced. In this context we welcome Executive Secretary Romulo’s appointment as Chairman of the Presidential Committee

on Effective Governance, DBM's Secretary Boncodin's co-chairmanship of this Committee, DBM's contributions as a secretariat for this Committee, and the leadership role that PCEG is providing. To ensure that these anti-corruption initiatives receive the attention necessary for success, we would like to see a full-time leader-manager for a adequately resourced Secretariat for the PCEG. Ideally, this full-time leader of this Secretariat would be of Cabinet rank, spearhead the anti-corruption action program of the Executive branch of Government and coordinate the efforts of the agencies and groups involved in anti-corruption. The leader would need to be supported by adequate staff and budget and would be responsible for reporting to the PCEG, the multi-sectoral advisory group (see below), media and other parties on the Government's anti-corruption activities. Second, the recent move to establish a **multi-sectoral advisory group** (the Governance Advisory Council) consisting of experts (national and international) involved in anti-corruption efforts, and including Filipino citizens representing civil society efforts to combat corruption is important. The group will serve as a link of civil society to the Government's anti-corruption program. We recommend that this advisory group also have a role in a monitoring progress of anti-corruption efforts.

III. FULLER SET OF RECOMMENDATIONS FOR SUSTAINING/INITIATING SPECIFIC ACTIVITIES AS PART OF A MEDIUM-TERM ANTI-CORRUPTION PROGRAM

1. Involve Public in Oversight of Government Services to improve transparency and quality of public services and decision-making:

- (a) Implement the proposed (by DBM) "Procurement Watch" program in partnership with NGOs (See also Development Academy of the Philippines (DAP) study recommendation regarding civil society watchdogs).
- (b) Implement and expand the Commission on Audit's (COA) Participatory Audit Program with civil society organizations.
- (c) Continue implementation of the program involving an NGO "Bantay Katarungan" in monitoring court proceedings and in screening applicants to positions in the Regional Trial Courts and Courts of Appeals.
- (d) Institutionalize a national citizens perceptions survey of satisfaction with poor government services (Report Card) and link it to a performance evaluation system. (Reference - DAP study and World Bank study on this subject). Proceed with a National Governance Report planned for 2001, based in part on a performance review of government departments. (Reference - the Government Watch project, which is part of the UNDP's Governance Forum Project).
- (e) Sustain the support for training of reporters, journalism teachers and civil society representatives (at both national and local government level) in economic and investigative journalism.
- (f) Establish public access to information programs of the oversight agencies.

- (g) Form a search committee to propose a short list of suitable candidates for the next Ombudsman. The committee to consist of well-respected non-partisan citizens. The citizens' group to later evolve into a citizens oversight role regarding performance of the Ombudsman's Office in producing concrete results in fight against corruption (Reference - DAP study).
- (h) Ensure public disclosure of COA reports without requiring approval of executive branch (DAP study).

2. *Sustain the DBM Led Program for Reform of Government Procurement:*

- (a) Enforce E.O. 262 and IRRs of PD 1594 for procurement and contracting, and arrange independent monitoring of compliance.
- (b) Pursue passage of Procurement Reform Act of 2000, and develop and publicize implementing regulations.
- (c) Expand the program for Electronic Procurement System and assess its effectiveness in reducing opportunities for corruption.

3. *Sustain/Accelerate Reforms in Budgetary and Accounting/Auditing Systems to reduce risk of corruption, increase disbursement controls and to improve fiscal monitoring:*

- (a) Ensure adoption of the Medium-Term Expenditure Framework in the FY2001 budget.
- (b) Adopt the proposed (by DBM) Organizational Performance Indicator Framework and performance-based budgeting.
- (c) Adopt the proposed (by COA) government-wide performance audit system.
- (d) Implement the proposed (by COA) government integrated financial management system.
- (e) Submit legislation for amendment of the government auditing code of the Philippines, and strengthen the oversight capacity of congress for budget and poverty performance analysis.
- (f) Strengthen civil society participation in national government budget preparation, including budget literacy for civil society.

4. *Design and Implement Anti-Corruption Plans in selected Departments and Agencies:*

- (a) Design and implement Corruption Prevention Plans for several priority departments (BIR, DPWH, DECS, DENR).
- (b) Implement Transaction Re-Engineering in selected agencies to simplify issuance of permits, documents, clearances, etc. (DAP study).
- (c) Support the work of the Inter-Agency Anti-Graft Coordinating Council.

- (d) Support the development of "corruption-free" islands of integrity by selected local government units.
- (e) Conduct Public Officials' survey to provide data for design of anti-corruption measures, and provide training on ethics and accountability in government.
- (f) Adopt change management and capacity enhancement measures in the Ombudsman's Office to improve success rate in cases it files.
- (g) Ensure continuous compliance with E.O. No. 317 on Code of Conduct for Relatives and Close Personal Relations of the President, Vice President and Members of the Cabinet.
- (h) Proactively review government officials' annual statement of assets and liabilities to identify inaccurate data and take due action.
- (i) Undertake reforms on the appointment powers and remuneration structure of the Executive branch and conduct financial disclosure within the Executive and Legislative branches.
- (j) Fast track investigation and prosecution of high profile corruption cases.

5. *Support Improvement in Corporate Governance and Competition Policies:*

- (a) Support the Institute of Corporate Directors.
- (b) Implement regulatory and legislative measures to limit lending to related parties, prevent ownership of banks by non-financial companies, and otherwise enforce good corporate governance.
- (c) Build capacity in the judiciary to handle the recently transferred (from the Securities and Exchange Commission) responsibilities for deciding on bankruptcy and corporate restructuring filings.
- (d) Support the Capital Market Development Council (CMDC) to advocate legislative reforms to improve bankruptcy law, strengthen creditors rights and protect minority investors.
- (e) Develop a media-based program to heighten public understanding of corporate governance programs.
- (f) Conduct a survey of private sector companies that will provide more detailed indications of the effect and costs of corruption on the private sector and will help identify priority areas for action.
- (g) Increase transparency and accountability of financial institutions and the stock exchange.
- (h) Review all monopoly situations with a view to increasing competition.
- (i) Ensure that regulatory bodies have authority and capacity to investigate possible cases of abuse of market power and anti-competitive practices, and to ensure competitive behavior.

6. *Support Judicial Reforms to increase the speed and fairness of the court system:*

- (a) Mobilize donor assistance for the judicial reforms based on the Action Plan prepared by the Supreme Court and other branches of the justice system, including support for Alternative Dispute Resolution mechanisms and strengthening the process for the review of the selection, appointment, promotion and training of judges, which includes training relating to commercial law.
- (b) Fast track implementation of judicial reform projects/activities in the pipeline.
- (c) Increase fiscal autonomy of the Supreme Court, and provide the resources needed for the judicial reform program
- (d) . Support the Department of Justice in efforts to strengthen its institutional capacity for prosecution and law enforcement.

7. *Strengthen the anti-corruption content of the legislative agenda and work for early passage/implementation of the following:*

- (a) Amend bank secrecy laws, and improve the quality and transparency of bank supervision.
- (b) Pass and implement an anti-money laundering bill.
- (c) Introduce electoral campaign finance reforms.
- (d) Implement civil service reforms, including strengthening of recruitment, appointment and promotion processes, as well as remuneration packages to make a more transparent and merit-based system.
- (e) Reduce and streamline regulatory controls on investment and business operations, to reduce the cost of doing business and opportunities for corruption.
- (f) Promptly implement the competition-increasing provisions of the Electricity Power Industry Reform Act.

8. *Strengthen anti corruption actions at the local government level:*

- (a) Intensify the capability Building Program of the Department of Interior and Local Government (DILG) for local government units (LGUs).
- (b) Strengthen procurement and financial management in LGUs.
- (c) Strengthen transparency and accountability at the local government level.
- (d) Establish independent rating programs for LGUs.

9. *Recognize and Reward Good Governance Performance:*

- (a) Support the Galing Pook Award program.
- (b) Establish rating programs for banks and corporations (as for LGUs above) using governance report cards/rating systems.
- (c) Reward good governance ratings of LGUs by giving them a rebate on interest charged by Government Financial Institutions.

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