

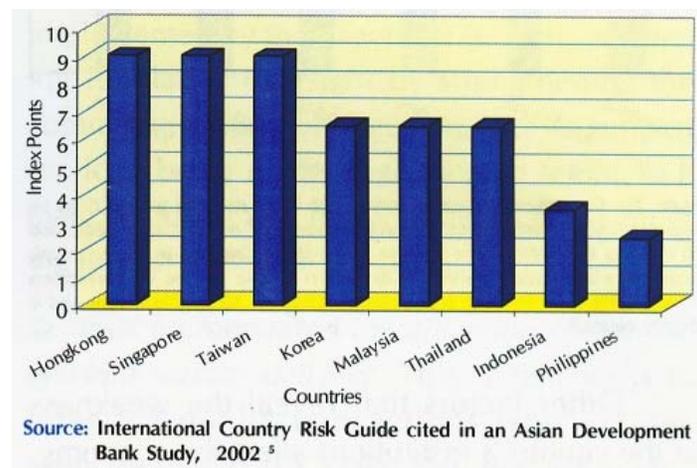
THIRD PILLAR:

Establishing Good Governance and Strong Institutions

The relationship between governance, institutions and economic growth has long been argued. With increased pressure to create efficient markets and attract investments, governments are now compelled to build better institutions and to incorporate good governance in policy and program implementation. However, developing institutions remains a challenge for the Philippines as its growth path is continually hampered by unpredictable policies, vested interests, red tape, corruption and an inefficient bureaucracy. Thus, the Philippines has been perennially labeled as a weak state (McCoy, 1994; Hutchcroft, 1998).

An Asian Development Bank (ADB) study showed that compared to some of its Asian neighbors, the Philippines is tailing behind in terms of economic governance. Based on Figure 11, both Indonesia and the Philippines scored less than 5 points with the former garnering 4 points and the latter having a mere 3 points. Because this index serves as a guide to potential investors, one can say that a very low score for the country translates into foregone investments.

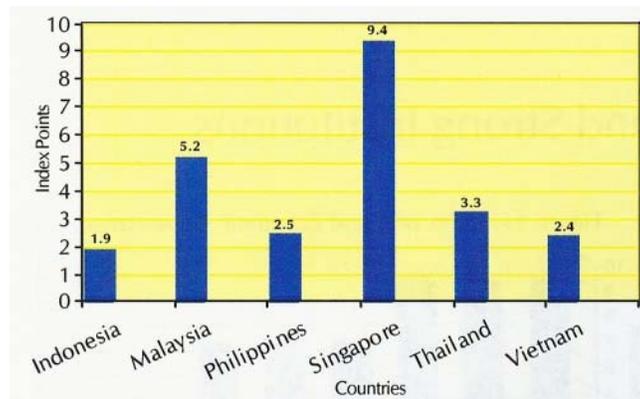
Figure 11. Index of Good Economic Governance



Perhaps the most striking evidence of the nexus between institutions and the economy is the result of recent research demonstrating that corruption leads to lower capital inflows and lower productivity. Specifically, according to a recent

report by Transparency International⁶, corruption may deter foreign investors because it is often associated with a lack of secure property rights as well as bureaucratic red tape and mismanagement. In recent years, the country's corruption record is alarming. In 2000, the Office of the Ombudsman published a report estimating that \$48 billion was lost to corruption in the last 20 years. Likewise, the Philippines, along with Indonesia and Vietnam, ranks low in the 2003 Corruption Perception Index (CPI) compared to some of its ASEAN neighbors. (See Figure 12)

Figure 12. Corruption Perception Index, ASEAN Selected Countries, 2003



Note: The Corruption Perception Index (CPI) is the result of surveys done by Transparency International, a non-governmental organization dedicated to curbing corruption. The surveys relate to perceptions of businessmen, academics and risks analysts with regard to the degree of corruption in a specific country. The index ranges between 10 (highly clean) and 0 (highly corrupt).

Other factors that reveal the weakness of the country's institutions affect the economy. The persistence of extraordinary leadership change (or at least similar plans) in the face of EDSA 2 and the failed EDSA 3 has earned the country the label *mob democracy* as some members of the international media have claimed. Along with this, military adventurism remains a threat in the post-Marcos Philippines. Other political uncertainties brought about by legislative-executive gridlock, perceived high levels of corruption and electoral fraud, and peace and order problems threaten the peso-dollar rate and the stability of the market, thereby making the economy more vulnerable. Some have blamed this malaise in the 1987 Constitution's design which accordingly is not only prone to gridlock but also allows little room for institutionalized leadership change except every six years.

Thus, the overarching thesis of the reform effort is to transform the weak state into a responsive state not only to the market but also to the underprivileged. To be able to achieve this, the four interrelated principles of good governance, namely: transparency, accountability, predictability and participation must be the themes that run through the reform effort. The assumption is that institutions and their concomitant processes and policies that are transparent, accountable,

predictable and participatory produce dual effects. They create an enabling environment for markets to work efficiently and contribute to sustained growth. Also, they empower the vulnerable and transform them into stakeholders of growth. Four key areas of reform are proposed below with the corresponding interventions. Though the list is by no means exhaustive, this is a good take-off point for making Philippine institutions work better for the economy.

Direction for Reforms:

1. Strengthen the Bureaucracy

- *Re-engineer the bureaucracy by rationalizing the functions of agencies.* As of 2001, there are more than 1.5 million government employees. It is interesting to note that still, a huge bulk (1.2 million) of these are national government employees. This despite more than a decade since the Local Government Code of 1991 has devolved the functions of a number of government agencies and years after the country has embarked on liberalization and deregulation efforts. At present the weaknesses in the institutional structure of governance (e.g. overlapping, overstaffing and fragmentation of responsibilities across agencies) have caused rent-seeking and incoherence in government policies and programs. Thus, there is a need for Congress to give the President the mandate to re-engineer the bureaucracy. However, an adequate separation and benefits package must be ensured for the employees that will be displaced by a re-engineering program.
- *Amend the Civil Service Code.* Merit and fitness should be the foundation of a strong bureaucracy. As the bureaucracy's human resource agency, the Civil Service Commission (CSC) is hard put to implement this as it is continually hampered by antiquated issuances and political influence. As such, there is a need to consolidate and update the legal framework pertaining to the CSC to strengthen its mandate. Moreover, this measure seeks to depoliticize the bureaucracy by empowering the CSC to oversee the appointment and discipline of public employees that have ranks below assistant secretary. This also limits the political appointments of civil servants.
- *Review the Salary Standardization Law (SSL).* According to the World Bank, the salaries of senior civil servants are as little as 20 percent of private sector equivalents. Meanwhile senior officials of public enterprises

who managed to be exempted from the SSL receive remunerations that are many times higher than their counterparts in line agencies, causing distortion in the public sector compensation system. As such, a review of the SSL must be geared toward making public sector salary more competitive and performance-based. Performance contracts, for instance, may be explored to rationalize the existence of some agencies and as a basis for a more flexible salary scale. Though a more competitive pay does not automatically reduce corruption, it encourages people to play by the rules and attracts the so-called best and the brightest in the public sector.

2. Improve the Delivery of Basic Services

- *Strengthen the oversight function of Congress.* As a means to ensure that laws are effectively implemented by the Executive Branch, enhancing legislative oversight by strengthening the committee system of Congress and its support services, better equips legislators in seeing to it that corruption and inefficiency do not hamper the provision of basic services.
- *Pass an integrated identification system for efficient service delivery.* This system seeks to integrate public transactions with various agencies (NBI, LTO, GSIS, SSS, BIR, DFA, etc.) into one identification card. Not only will it facilitate and make efficient the delivery of vital services, it will also reduce the probability of so-called "fixers" since faster transactions discourage people from hiring their services.

3. Ensure Enforcement of the Rule of Law

- *Support reforms in the judicial system.* An independent judiciary is a strong pillar of a democratic state. Furthermore, a penal system that sends the signal that criminality must pay and that contracts are consistently enforced ensures the maintenance of the rule of law. This in turn entices foreign investors to bring their businesses and create jobs in the country. Thus, reforms under the Action Plan for Judicial Reform (APJR) that have been initiated should be ensured continued budgetary support by Congress.
- *Consider the recommendations of the Feliciano Commission.* The Feliciano Commission outlines a number of reforms that Congress may consider in both its legislative and appointive functions so as to prevent episodes of military adventurism. In particular, it recommends that a civilian be appointed to the Department of National Defense to institutionalize the supremacy of civilian authority over the military. It also proposes the creation of the AFP Service and Insurance System in place of the AFP Retirement System and Benefits Service (RSBS).

- *Amend the Ombudsman Law (RA 6770).* To strengthen the Ombudsman's mandate in curbing corruption, amendments to RA 6770 should be pursued. It should create an investigation unit that will investigate not only graft cases but also lifestyle checks patterned after the Independent Commission Against Corruption (ICAO) in Hong Kong. To further enhance the capability of the agency, it is necessary to increase the number of investigators and prosecutors, and authorize the agency to hire private lawyers to help them prosecute cases.
- *Enact a whistleblower's protection act.* This measure expands the coverage of the Witness Protection Program by including whistleblowers or those who expose government irregularities. It not only provides that evidence presented be handled with utmost confidentiality but also frees whistleblowers from criminal and civil prosecution in the event of reprisal by the accused.

4. Institute Political and Electoral Reforms

- *Develop genuine political parties.* Political parties must be made viable institutions of democracy as a vital link of the public to the political system. Issue-based platforms rather than personalities must be their hallmark. In the Philippines, the lack of genuine and issue-based political parties has been a perennial concern. To correct this, strengthening political parties must consist of a ban on political turncoats and regulation of party activities. Government support for parties should also be examined as part of efforts to democratize access to the political process.
- *Institute campaign finance reforms.* Money politics is at the root of corruption and patronage. The lack of transparency in campaign donations and expenditures cripples the public trust in electoral contests and institutions. This measure will seek to correct this malaise. Government support to parties will reduce ill effects of money politics.
- *Pursue COMELEC reorganization and review the Omnibus Election Code.* In anticipation of the much delayed automated elections, there is a need to re-organize the COMELEC to strengthen its capability to deal with a modernized electoral process. Likewise, electoral laws that are still designed for manual elections (write-in system, e.g.) must be reviewed to make them consistent with the modernization of the electoral process.
- *Review the 1987 Constitution.* There is a need to objectively study the merits of this proposal to change the present presidential-unitary set-up to a parliamentary-federal system so that legislators and the public would have an informed opinion about it. This must be accompanied by a nationwide civic education campaign on the Constitution and the proposed

revisions in the light of surveys done by Pulse Asia which indicate that eight out of 10 Filipinos have not read the Charter.

⁵ The ADB study, "Growth and Poverty: Lessons from the East Asian Miracle Revisited" by M.G. Quibria cites the 1995 study of S. Knack and P. Keefer which compiled the above index from a set of surveys done by the International Country Risk Guide, a publication of the PRS Group, an international business publisher which provides financial, political and economic risk ratings for 140 countries since 1980.

⁶ Transparency International is a Berlin-based non-governmental organization that seeks to curb corruption all over the world.