A Monitoring and Evaluation Framework for Tracking Governance Reforms

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Introduction

The latest strand in the literature points to institutions and the rule of law as the primary drivers of economic growth. Easterly and Levine (2003), for instance, find that institution is a significant predictor of growth. In fact, inflation, trade policies, currency overvaluation help explain current levels of economic development, only after controlling for institutions. In a more recent work, Easterly (2006) makes the following observation: "The failure of many grand schemes results from their disregard for the complexity of institutions and incentive systems and their neglect of individual initiative, which must be societally encouraged rather than bureaucratically stifled." Later, we will define governance to cover institutions, incentive systems and encouragement of individual initiative.

The emphasis on human development rather than economic growth ascribes an even more important role to "governance". Kaufmann (2002) finds a significant negative relationship between infant mortality rate and corruption; a positive relationship between per capita income and regulatory burden; literacy and rule of law; per capita income and voice and accountability. We have to clarify at this point that in all the components of governance mentioned (that is, corruption, regulatory burden, rule of law, and voice and accountability) the better state gets the higher score.

That the Philippines consistently ranks poorly on nearly all aspects of governance, when compared to our Asian neighbors, causes one to wonder if, in fact, this is the ONE aspect we are all missing in our efforts to spur economic growth and ultimately achieve the highest levels of human development. This thesis is reinforced by the observation that the Philippines actually has "what it takes" to be among the

developed nations. It has a highly literate workforce. Before the 90s, we used to take pride in having the highest proportion of English speakers in a country where English is not the native language. It may still be true although the proficiency may have declined a bit. We lie in a very strategic location, so much so that the greatest power in the world, that is, the US, has seen fit to locate some of its largest military bases here. Our country has vast natural resources and this was the magnet that attracted foreign powers to our shores, not just for R&R, but as a source of raw materials needed by their industrial world. If the inputs are right but the outputs turn out wrong, then the fault lies in the transformation process. And this is where governance matters.

Why do we need an M&E framework for governance?

UNDP (2004) enumerates about sixty (60) different M&E systems on governance. The question that needs to be answered then is why we need to design our own M&E system.

The first reason that comes to mind is that a monitoring and evaluation system ascribes importance to the subject of the M&E. At the very least, it commits the stakeholders to a set of indicators of success.

The second reason is related to the first. In most governance ratings, the Philippines always comes up with a low score, lagging behind our Asian neighbors. Now, if governance really affects the attainment of human development outcomes like infant mortality rate, literacy etc., surely it requires serious attention. An M&E system informs us what aspect of governance should be improved and, given the interventions, if they are working. As Kaufmann, Kraay and Zoido-Lobaton (1999) observe, "Existing data provides at best tenuous links between perceptions of governance and objective policy interventions that governments interested in improving the quality of governance can undertake."

Perception of bad governance, unfortunately, reinforces itself and gives rise to a vicious circle whereby the bad perception discourages investment, leading to suboptimal conditions for development to be achieved, thereby resulting in perception of even worse governance. The only way to arrest the cycle is to address the root – bad governance.

An M&E system for governance is different from other M&E systems. While it utilizes the same engineering framework of input $\rightarrow$ output $\rightarrow$ outcome $\rightarrow$ impact, there is emphasis given to the transformation process, at least, in between input and output, and in between output and outcome. As in other M&E systems, we choose indicators with the same characteristics of measurability, reliability, etc. In addition, the choice of indicators and the level of disaggregation have to be so chosen as to be able to enforce accountability. Another major difference with other M&E systems is the consideration of factors that drive the process input $\rightarrow$ output $\rightarrow$ outcome $\rightarrow$ impact, in terms of the quantity and quality of each and every component; the interrelationship and the transformation.

Governance Ratings of the Philippines vs. Other Countries

As previously mentioned, there are a number of national and international organizations that rate the quality of governance of countries. Some of these ratings are done on a regular basis and most are published internationally. There are also some that focus on specific dimensions of governance while others consider multiple dimensions. UNDP (2004) presents a fairly comprehensive discussion of these data sources. In this paper, we limit discussion to the more popular ones.

Corruption Perception Index

This index, compiled by Transparency International, is perhaps the most widely publicized data on corruption. Before proceeding, we should emphasize that good governance is not the same as the control of corruption, although this is a common misperception and is listed by Kauffmann (2005) as the first "myth on governance."

The index is taken from numerous sources, mostly perception data obtained from businesspeople and country analysts, both resident and non-resident. It is meant to provide data on "corruption on international business transactions."

Corruption Perception Index
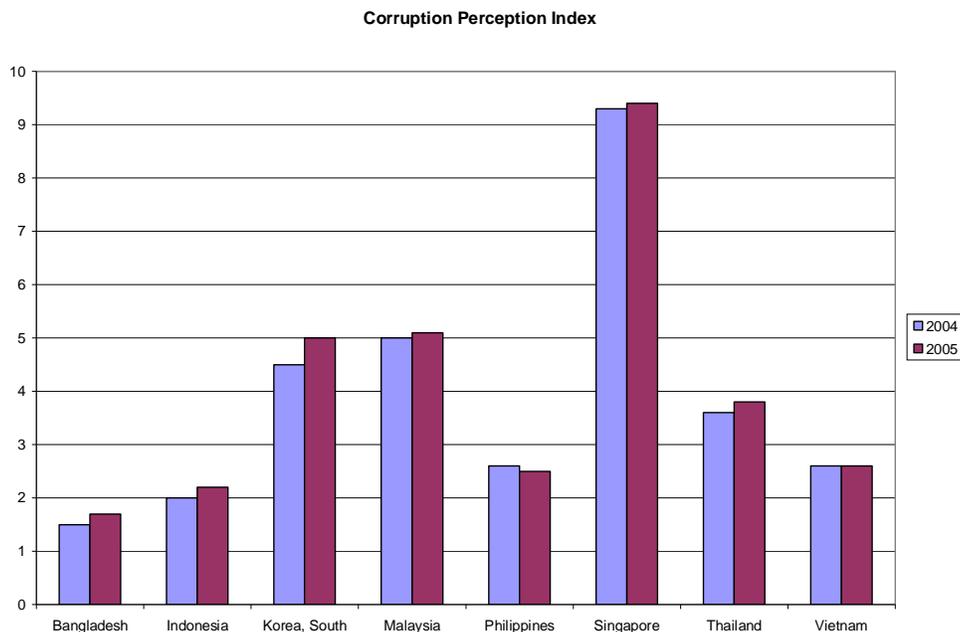
The chart above shows the corruption perception index of eight countries – Bangladesh, Indonesia, South Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam for the years 2004 and 2005. The value 5 appears to be the level that separates the "clean" from the "corrupt." Two points are worth noting. First, the Philippines is considered as among the "corrupt" countries, ranking 117th out of 158 countries in 2005. Second, the Philippines rating turned from worse to "a lot worse" between 2004 and 2005.

Governance Matters by World Bank

The WB follows the governance definition of Kauffmann:

Governance is the process and institutions by which authority in a country is exercised:
- the process by which governments are selected, held accountable, monitored and replaced;
- the capacity of governments to manage resources efficiently, and to formulate, implement, and enforce sound policies and regulations; and
- the respect for the institutions that govern economic and social interactions among them.

There are six dimensions of governance being rated: (1) voice and accountability, (2) political stability and lack of violence and terror, (3) quality regulatory framework, (4) government effectiveness, (5) control of corruption, and (6) rule of law.

WB uses 31 indicators drawn from 13 different sources. (The table of WB references is reproduced in Annex 1). Some of these sources obtain data from a survey of businesspeople and/or residents, while others (more than half) obtain the data from a poll of experts. The next six figures plot the scores of nine countries, including the Philippines, for each of the six dimensions of governance for the years 1996, 1998, 2000, 2002, 2003-2005 (the years when data is available).   In all these, we observe the low ratings of the Philippines and that by 2005, it scored below average in all dimensions. We also need to state that the Philippines has consistently scored below average on the dimensions – political stability, rule of law and control of corruption.
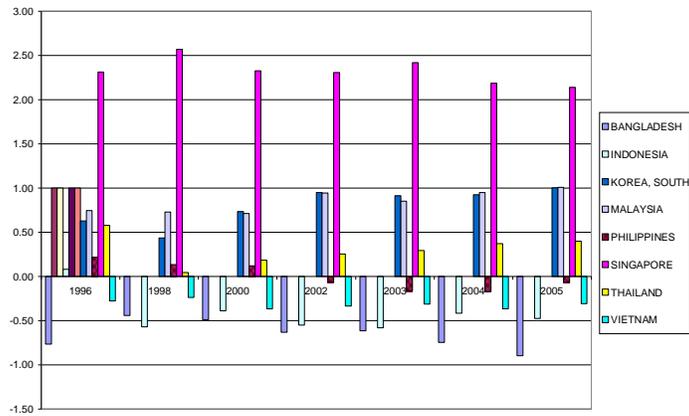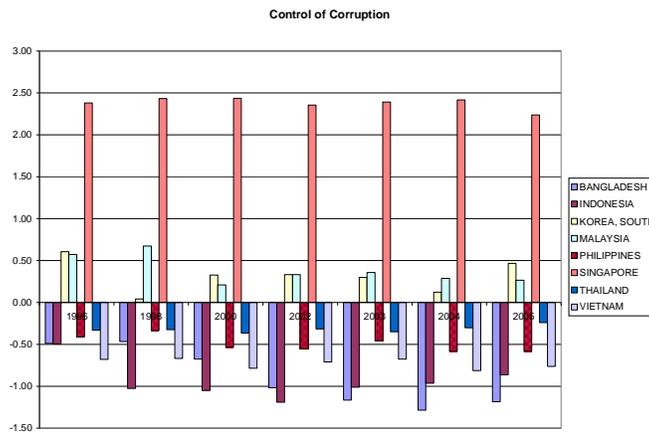
Voice and Accountability
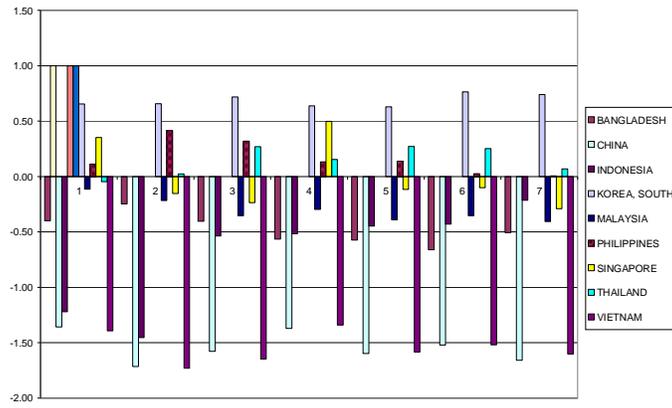
Political Stability

Government Effectiveness

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Regulatory Quality

Rule of Law

Control of Corruption
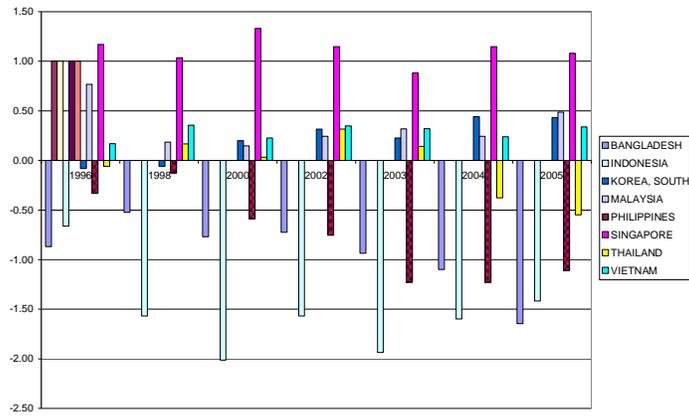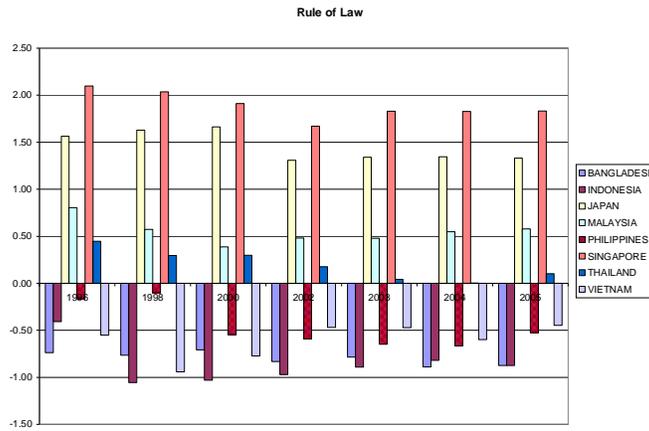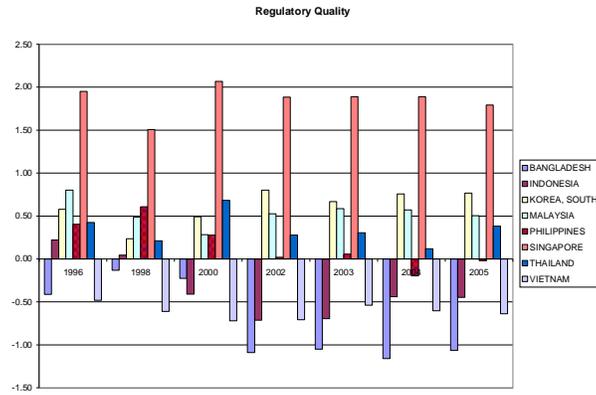

World Governance Assessment

The United Nations University piloted the World Governance Assessment in 2000 with support from UNDP. Respondents, or to be more exact, experts on governance from state, civil society and private sector, were asked to answer a

structured questionnaire pertaining to 2000 and then to 1996. The number of respondents in each country varied between 33 to 41 persons. A Phase II was conducted in 2005 although data is not yet publicly available.

The assessment looks at how the principles of good governance are applied in each of the six "arenas". The principles are: participation, fairness, decency, accountability, transparency and efficiency. The six arenas are:
1. Civil society – where citizens raise and become aware of political issues
2. Political society – where interests are aggregated
3. Government – executive stewardship of the system, as a whole
4. Bureaucracy – policy implementation
5. Economic society – refers to state-market relations
6. Judiciary – where disputes are settled

Below is a chart that shows the aggregate scores for all 16 countries (reproduced from Court, Hyden and Mease 2002).

WGA Governance Scores for all 16 Countires in 1996 and 2000
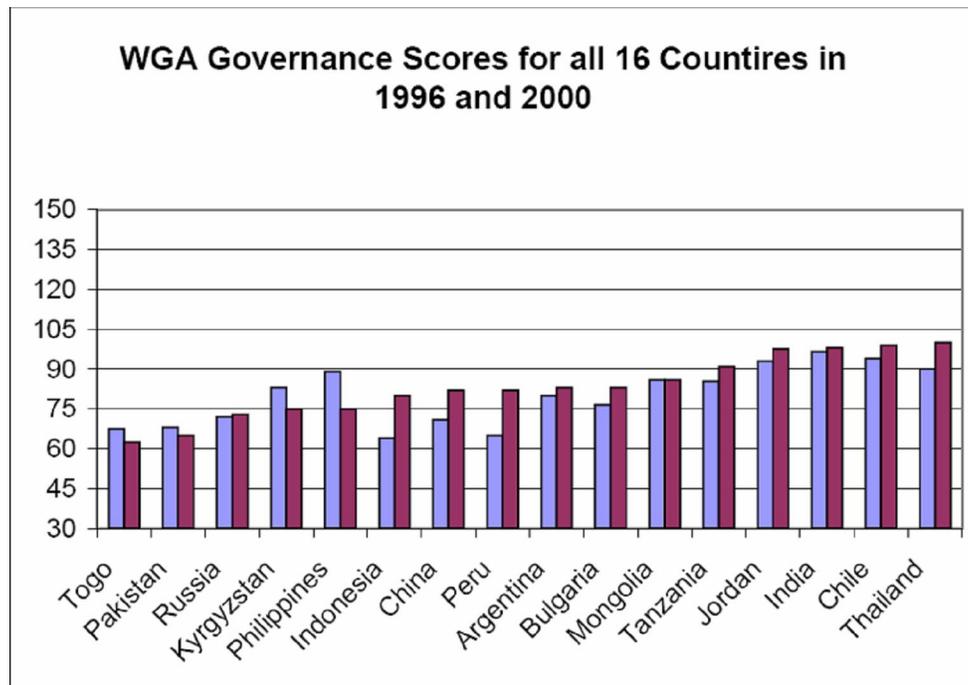
The Philippines was classified as among the "low governance countries" owing to its low scores in 2000. It also exhibited the same trend as with other "low governance countries" which had lower ratings in 2000 than in 1996. But before we draw any conclusion, we need to consider the caveat mentioned by Court, et. al. (2002) about the Philippine rating that may have been influenced by the political scandal at the time. We recall that this scandal culminated in the ouster of President Estrada by "people power." In fact, this caveat provides the basis for the warning by Court, et. al. (2002) about the subjectivity of the ratings to high-profile events, especially political scandals. This warning is likewise extended by Kauffmann, et. al. (1999).

Public Integrity Index

To be fair, there are ratings that show the Philippines to be rather fair in certain aspects of governance. Global Integrity computes for what it calls the "public integrity index" that essentially captures the "the access that citizens and businesses have to a country's government, their ability to monitor its behavior, and their ability to seek redress and advocate for better governance." This 'access and ability' to exact accountability is assessed from six angles (called categories):
1. civil society, public information and media
2. electoral and political processes
3. branches of government
4. administration and civil service
5. oversight and regulatory mechanisms
6. anti-corruption mechanisms and rule of law

Overall, the Philippines' public integrity index is moderate, a rating we share with Argentina, Mexico, Venezuela, Ghana and even Japan. Looking closely, we note that we were given a rating of "strong" in categories 1, 3 and 4. What pulled our rating down is the "weak" assessment of our Category 2 – electoral and political processes. This category has three sub-categories that "focus on: 1) participation of citizens in the political process through national elections, including the right to vote freely and fairly; 2) the existence and effectiveness of the election-monitoring agency; and 3) the existence and effectiveness of regulations governing political party finances, including citizen access to the financial records of political parties." Following are the bar charts that

show the comparative ratings in all six categories. (Reproduced from

www.globalintegrity.org)
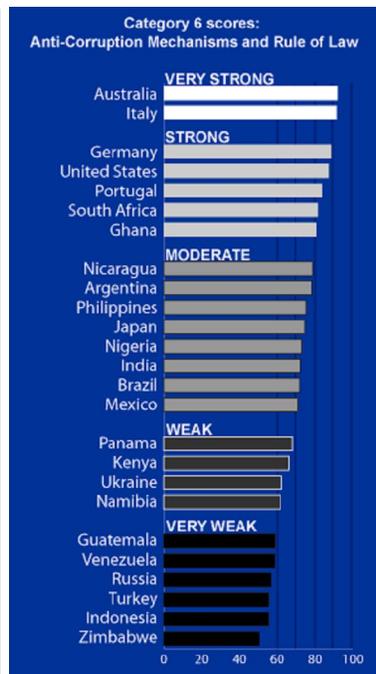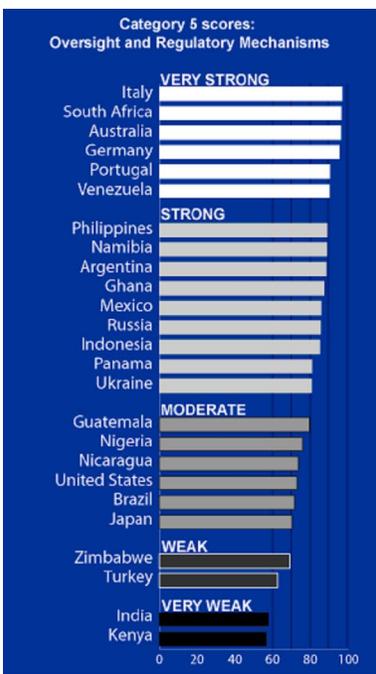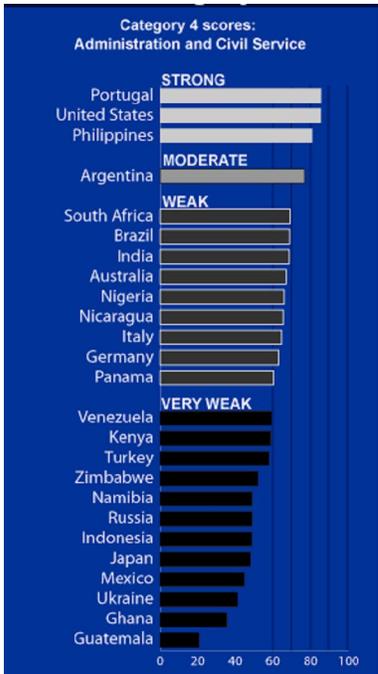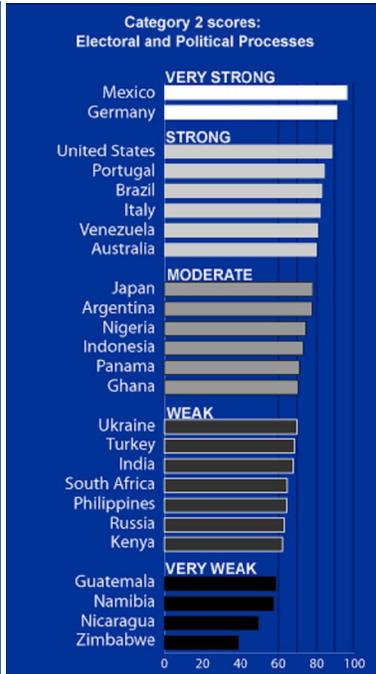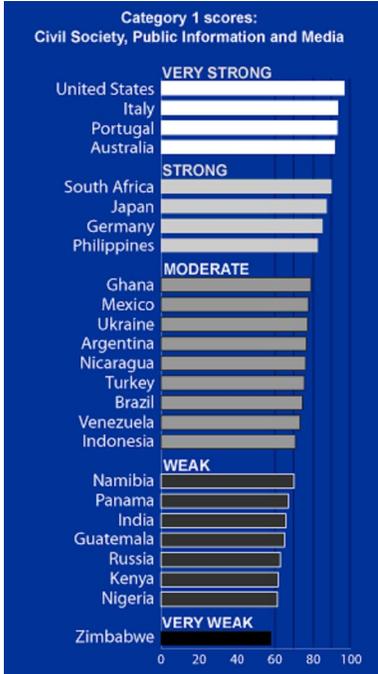
Existing M&E Systems on Governance in the Philippines

In the Philippines, there are also initiatives that amount to a rating of government's performance in governance. The more popular private initiatives are those by the SWS and Pulse Asia. The business sector also conducts polls on expectations. There are also civil society organizations that monitor government performance (or lack thereof). Within government, the Local Government Performance Monitoring System (LGPMS) is by far the most systematic effort to evaluate governance, specifically local governments.

The Social Weather Station (SWS) has been regularly collecting data in the Philippines on self-rated poverty and hunger, quality of life, optimism in the economy, and satisfaction with the President. It also measures Filipinos' opinions on public issues, including political ones.

Pulse Asia is another research outfit with a mission similar to SWS. Its banner project is called Ulat ng Bayan which monitors Filipino's socio-economic and political perceptions on the most critical national concerns like self-rated quality of life, the state of the national economy, political governance, public safety, poverty and other national security issues.

Both SWS and Pulse Asia disseminate their results to as wide an audience as possible. Because of this, government has been galvanized into reacting to the results with concrete programs of action. For instance, the rice ration project was implemented in response to the controversial SWS findings on the incidence of the hungry.

Some private business groups are also active in monitoring governance in government. Makati Business Club conducts regular surveys among its members on their opinion and confidence levels in economic, corporate, and government performance. In addition, it has instituted Congress Watch that monitors the performance of congressmen – their attendance in sessions, their votes concerning critical bills, etc. The Wallace Business Forum is another popular business group that conducts regular polls to forecast investment climate in the Philippines.

The Local Government Performance Monitoring System is a "self-assessment, management and development support tool." It integrates the Local Productivity and Performance Measurement System and the Local Development Watch. In the near future, even the Citizens' Satisfaction Index will be considered as well. The following locates these three monitoring systems in the input → outcome continuum.
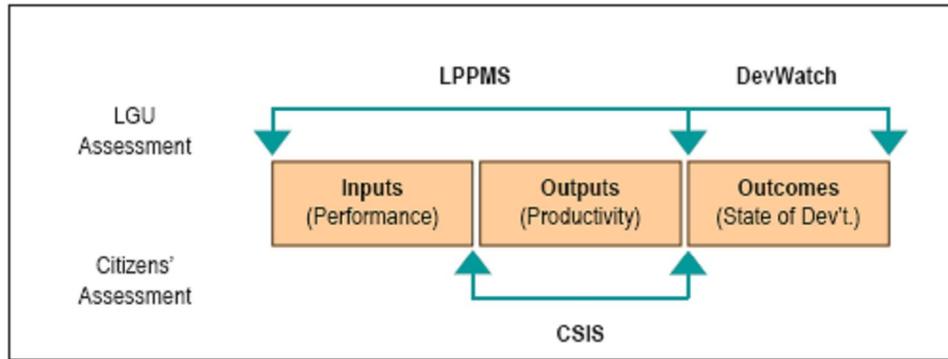
Ref: DILG (2005)

The system is specifically designed for LGUs and assesses their performance in 5 "performance areas" and 17 "service areas. If we go by the labels of the parameters being evaluated, then we note that governance, as a performance area, has been taken to correspond to three "service areas" - local legislation, transparency and participation.

What do we mean by governance?

Governance is taken from the Latin word κυβερνάω kubernao□, and literally means *to steer*, *pilotage*. Its definition, however, has been evolving.

The first usage implies rule and management, where the latter includes re-generation. (excerpt from Genesis 1:28 KJV) "Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion…" Man and woman were meant to help each other in managing the earth. In full context, we say that governance amounts to stewardship – it is authority bestowed to manage the earth and all that is in it, both living and non-living.

There are many ways in which authority is bestowed. What they all amount to is a contest. In the olden days, it was a contest of seniority – who is the firstborn? It soon became a contest of strength or physical might. This evolved to include armies. At present, we still see evidences of this type of contest. In democratic societies, the

contest is about popular votes. That is, each voter makes a choice of who will be bestowed authority and the candidate with the most number of votes becomes the leader.

The system of governance has become sophisticated, in keeping with the complications of modern societies. It used to pertain only to government, or to be more exact, governor. Over time, the definition has accommodated other actors, as well as covered other fields. Kjarer (2004) writes that governance has figured prominently in different fields such as economics, cultural geography and politics. Following are some definitions:

Asian Development Bank (ADB)

> Governance has to do with the institutional environment in which citizens interact among themselves and with government agencies and officials. The capacity of this institutional environment is important for development because it helps determine the impact achieved by the economic policies adopted by the government. This capacity, then, and the governance quality it reflects, is a vital concern for all governments.

Commission on Global Governance (CGG)

> Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and cooperative action may be taken. It includes formal instructions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.

European Bank for Reconstruction and Development (EBRD)

> Governance should be based on support for markets and private enterprise rather than plans and commands. A key to explaining different assessments of governance across the region lies in the extent to which the state is subject to "capture" – or undue influence – by vested interests.

European Union (EU)

> In the context of a political and institutional environment that upholds human rights, democratic principles, and the rule of law, good governance is the transparent and accountable management of human, natural, economic and financial resources for equitable and sustainable development. It entails clear decisionmaking procedures at the level of public authorities, transparent and accountable institutions, the primacy of law in managing and distributing resources, and capacity building for elaborating and implementing measures that aim to prevent and combat corruption.

Inter-American Development Bank (IADB)

The Bank has sought to reinforce the connection between good governance and political stability, which is in turn dependent on domestic socioeconomic conditions, the strength of democratic institutions and citizen input into the public decisionmaking process. Stability also requires an effective, reliable legal system, efficient management of public funds, government accountability and social equity.

OECD

Governance denotes the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development. This broad definition encompasses the role of public authorities in establishing the environment in which economic operators function and in determining the distribution of benefits as well as the relationship between the ruler and the ruled.

UNDP

Governance is the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their legal obligations and mediate their differences.

World Bank, Kaufmann (WB)

Governance is the process and institutions by which authority in a country is exercised:
- the process by which governments are selected, held accountable, monitored and replaced;
- the capacity of governments to manage resources efficiently, and to formulate, implement, and enforce sound policies and regulations; and
- the respect for the institutions that govern economic and social interactions among them.

Rhodes (1997) as cited in Kjarer (2004)

Governance refers to self-organizing, interorganizational networks characterized by interdependence, resource-exchange, rules of the game, and significant autonomy from the state.

Rosenau (1997) as cited in Kjarer (2004)

Global governance is conceived to include systems of rule at all levels of human activity – from the family to the international organization – in which the pursuit of goals through the exercise of control has transnational repercussions.

Hyden (1999) as cited in Kjarer (2004)

Governance is the stewardship of formal and informal political rules of the game. Governance refers to those measures that involve setting the rules for the exercise of power and settling conflicts over such rules.

The differences in definitions above reflect the biases of the agencies. They are mostly concerned with economic affairs. There are also a number of common citations: rules, institutions, management, stewardship, resources, etc. We also note a progression in the description of "people groups" – individuals, family, institutions, inter-organizational networks and international organizations. Our definition of governance will take account of all these commonalities and progression in organization:

> **Governance pertains to the management of all <u>resources</u> available to society including the <u>formation</u> and <u>implementation</u> of <u>rules and incentives</u> that govern <u>interrelationships</u> in order to attain <u>developmental goals</u>.**

In characterizing governance, we will need to describe each and every word that has been underscored. We now explain each one, not necessarily in the order in which they appeared.

Resources. In the most basic forms, these are:
1- land or natural resources
2- people

Interrelationships. "Resources" relate between and among each other. We have people relating with natural resources, people relating with people, etc.

Each and every person can be described in many different ways. A person can be male or female; infant, toddler, pre-teens, teen-ager, young adult, adult or elderly; son, daughter, parent or grandparent; an original settler in Manila or a migrant from the Visayas; a Catholic or Muslim or Evangelical; in the labor force or not in the labor force; unemployed or employed; working in the formal or informal sector; working in the private or government sector; blue collar or white collar worker; rank and file or manager or owner; etc. We can go on and on. The roles that individuals play in a relationship give character to the affair. We consider three broad types of affairs:

1. Economic affairs – In this relationship, people take on their economic roles like being in the labor force or not in the labor force; unemployed or employed;

working in the formal or informal sector; working in the private or government sector; blue collar or white collar worker; rank and file or manager or owner; etc. Meanwhile, natural resources are considered for their economic value – food, raw materials for clothing, shelter and other goods

2. Socio-cultural affairs – In this relationship, people take on their social roles - male or female; infant, toddler, pre-teens, teen-ager, young adult, adult or elderly; son, daughter, parent or grandparent; an original settler in Manila or a migrant from the Visayas; a Catholic or Muslim or Evangelical, etc. Natural resources, meanwhile, are considered for their social and cultural roles - ancestral lands, upland culture, territorial delineation of lands that also reflect cultural identities, etc.

3. Political affairs – In this relationship, people take on the more collective identity of being a Filipino citizen. Still, there is a categorization – natural born or naturalized Filipino or non-Filipino; voter or non-voter; follower or leader; etc. Resources can also be defined in the context of political affairs, that is, if they represent the identity of the Filipino, the so-called national patrimony.

Developmental goals. Pertaining to each affair, each individual aspires to attain a set of goals. These concern the roles or functionings that each individual wants to play in the economic, social and political affairs. To be sure, there can also be a number of combinations of these affairs: socio-economic, politico-economic, socio-political, etc. but for the purpose of the study, we only consider the major affairs.

Cloete and Rabie (2005) observe that developmental goals greatly depend on the level of development of society. At the lowest level of development, the goal of society is simply to satisfy basic needs of food, water, shelter, clothes and personal safety. Over time when a number of the poor will have graduated out of poverty, the middle class becomes a significant sector. The demand will now be for sanitation and health services, "nice" jobs, churches, recreations, schools, shops, life cycle services, etc. At a higher level of development, the aspirations now evolve to personal and abstract needs – specialized individual interest and preferences - travel, music, culture, sports, hobbies, etc. It may also happen that at any point in

time, different groups or communities are on different levels of development and therefore, have different goals.

There is inherent difficulty in measuring the success in attaining goals. Each individual is bound to have many goals. If he succeeds in one but not in the other, do we count that as success? If he succeeds in all except in one, would that count as more success? An even more complicated problem is: how do we aggregate the success or degrees of success of each and every individual?

It is much easier to measure success in economic affairs. In fact, this has been the manner by which nations have been ranked. We assume that every individual is rational, every good (and service for that matter) is good and therefore, more is better. Producers produce according to demand, again because they are assumed to be rational. These axioms ultimately define what we now know as the Gross Domestic Product (GDP) – the sum of all goods and services produced in the country.

In the early 90s, GDP per capita as a measure of "success" of a nation has been challenged, notably by Sen (1994). We note, first of all, that economic affairs is just one of at least three affairs where man seeks fulfillment. In addition, we observe the paradox of seeing poverty in the midst of plenty, the wealthiest nation in the world not being able to live in peace, etc. Thus was born the concept of human development. It presents an individual as having aspirations to be somebody and to do something. Sen labels this as "functionings." It will differ from person to person but what is important is that the opportunities to be whoever and to do whatever are accessible to every individual. Whether or not the individual takes advantage of the opportunities is his own business. In the Philippines, the Human Development Network has taken it a step further and is promoting the goal of "sustainable human development," lest we forget the succeeding generations.

In the beginning of the new millennium, more than a hundred countries committed themselves to the Millennium Development Goals. Targets have been set to indicate progress towards meeting the goal. Some countries have even set more stringent targets for themselves. Recently, the UNDP has been encouraging local

government units (LGUs) to adapt the MDGs as their developmental goals. More than just the revision in reporting system to reflect achievement towards the MDGs, the intention of the localization effort is for these goals to direct the plans, programs and projects of individual countries and donor agencies.

Rules and Incentives– What they are, Formation and Implementation.. Society sets up rules to govern and incentives to direct the interrelationship. To further clarify, we say that rules are meant to discourage individuals or groups from behaving in a certain way while incentives are meant to encourage individuals or groups into behaving in a certain way. A significant part of the rules and incentives has to do with the relationship between people and land (resources). We may also accept the symbolism that this relationship is really between people in the present generation and people in the coming generations.

In democratic societies, the rules and incentives do not mean to dictate what each individual should do or become. Rather, it is to ensure that in the pursuit of these aspirations, basic human rights are observed. Article 29, Section 2 of the Universal Declaration of Human Rights states that these rules are "solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society."

Even before the rules are set, there are already existing norms. We may say that the rules are norms that have been formally agreed upon by the parties concerned. They also involve sanctions in case the rules are violated.

In an ideal world, rules are set and everyone is expected to abide by these rules. However, in the real world, we cannot expect everyone to abide. Thus, we identify a body (part of the bureaucracy) on whom we bestow authority to implement the rules and enforce the sanctions, as necessary.

Logically, the first order of implementation is the dissemination of the rules and corresponding sanctions. In any case, there is always the colatilla stating that "ignorance of the law is not an excuse for disobeying the law." There could, however

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be gray areas where the "unruly" behavior being sanctioned is not in violation of basic human rights. For instance, "no parking" zones where the signs have been almost erased or cannot be readily seen.

There is good and bad implementation of the rules. On one end of the extreme, there can be slack implementation and on the other end, it can border on abuse of authority. Measures should be in place to guard against these extremes.

Incentives, meanwhile, can either be direct or indirect. Tax breaks given to preferred industries or locators are examples of direct incentives. Better infrastructure support and complementary public programs are examples of indirect incentives. With respect to incentives, we are also interested in how they are crafted, disseminated and the extent by which they are being availed.

The rules and incentives evolve in response to changing conditions. The process by which these are formed is very much a political process. There is the provision of venue or opportunity for each individual (who cared) to have his voice (opinion, desire, etc.) heard; there is a procedure for aggregating all these individual voices; there is the decision to be made with consideration for the aggregated voices; and finally, there is the venue or opportunity to update or completely modify the decision as necessary.

A Framework for the Monitoring and Evaluation of Governance

The definition and discussion given in the previous section will guide the development of the M&E framework on governance. We begin with the basic engineering framework:

Input → Output → Outcome → Functioning
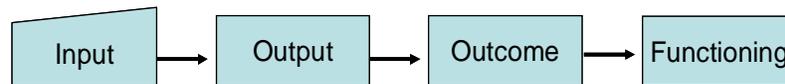
While it is ideal to design a system to monitor and evaluate the success of functionings, it will not be practical. In fact, it is bound to be infeasible. We can take the cue from the M&E framework used for human development. We recall the four major components of the human development index: (1) physical survival and health, (2) level of knowledge, (3) livelihood and income, and (4) political freedom and people's right to participate in social decisions. These components do not evaluate "functionings" but rather the outcomes that are deemed necessary to achieve the "functionings." In fact, the fourth component is not even considered in the current computation of the human development index because of inadequate data support.

It should be recognized that an M&E framework for governance cannot easily be illustrated in a neat diagram, primarily because we need to encompass both the static measures and dynamic processes. The following is a close approximation. Note that we explicitly draw the "upper box" separately from the "lower box." The inclusion of this "lower box" is what differentiates the M&E on governance from the others.
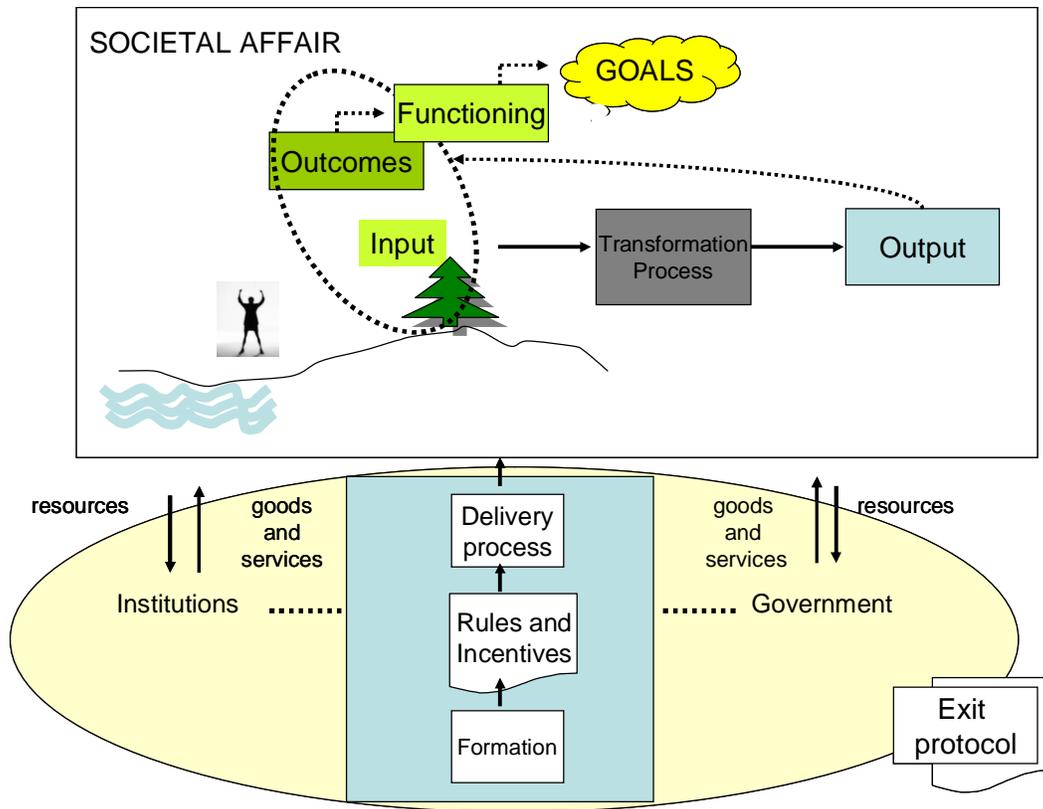
The first part of the cycle is illustrated by the solid arrows while the next part of the cycle is illustrated by the dotted arrows.

For each affair, resources (people and natural resources) become inputs to a production process. This produces output that is then consumed by (or are fed back to) resources. The consumption generates outcome that leads to functionings and ultimately, the attainment of goals. Moreover, the consumption introduces additional characteristics (quality and/or quantity) to the resources that become inputs to the next round of production process. And the cycle goes on. This is illustrated in the "upper box" of the framework.

Governance is about managing these resources so that goals are realized. (This is illustrated in the "lower box".) It is about the rules that ensure that the process by which the goals are realized and the goals themselves do not trample someone else's rights. It is about the incentives to encourage stakeholders to behave favorably. It is also about institutions (and government) that intervene in the utilization of resources, the translation of output into outcomes and ultimately into functioning.

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<u>Describing the "upper box"</u>

The M&E framework describes each and every aspect of governance with respect to certain parameters. The first set of static variables consists of input (resources) and output. For these variables, we are interested in knowing quantity and quality. The next set is the outcome for which we are interested in quality. Most probably, the outcome will have a corresponding ideal value. The quality dimension then has to do with how far the actual value is to the ideal. In other words, we are interested in effectiveness.

The dynamic processes concern the translation of inputs into outputs and outputs into outcomes. Similar to the HDI methodology, we will not venture to measure functioning and goals. It is likewise infeasible to measure each of these processes. At any rate, what we are interested in is the efficiency of these processes.

More importantly, we should be able to describe how the outcomes respond to the desired goals for the societal affair.

<u>Describing the "lower box"</u>

Another set of variables consists of the rules and incentives, and institutions (civil society and government). There are static and dynamic components to each of these variables.

Rules and Incentives

As previously stated, rules and incentives govern and direct the behavior of the major players involved in the affair. The most apparent indicator we can evaluate is the effectiveness of these rules and incentives. That is, the extent to which the behavior of the major players approximates the desired. But a governance M&E seeks to understand the processes that rendered the rules and incentives effective or otherwise.

Transparency. The rules and incentives have to be made known. We are interested in the manner by which these have been disseminated – the coverage and the media involved.

Participatory processes involved. We expect greater acceptability and higher compliance (or availment) to the rules (of the incentives) if there was greater participation among different stakeholders in the formation and even modification of these rules and incentives. We are also interested in the venues provided for democratic participation and inclusion of the marginalized sectors.

Clarity in print and spirit. Ambiguous wording of the rules and incentives allow varied interpretations and arbitrary decisions. For rules, the undesired behavior should be explicit and the sanctions to be enforced in cases of violations. For incentives, the desired behavior should be explicit, as well as the reward for compliance

Implementation. The dynamic component of rules and incentives concern its implementation. We are interested in efficiency of implementation – the costs involved in enforcing the rules and administering the incentives, both on the side of the implementor and the recipient. We can also look at the fairness of implementation (but there is an inherent difficulty in identifying a monotonic indicator for fairness). The lines of responsibility should be clearly drawn, as well as the mechanisms to exact accountability. The mechanisms should be accessible to everyone, both in terms of availability and affordability.

Government

Government deserves special mention in any discussion of governance. It is involved in both the upper and lower boxes of governance. With respect to the upper box, government is involved in the provision of public goods in economic affairs, provision of basic services in sociocultural affairs and the officials in government make up the "ruler" class in political affairs. It is also charged with the oversight of the formation and modification of rules and incentives, implementation of the same, and the enforcement of the sanctions, as necessary.

Within government, we should distinguish between branches and agencies of government that is concerned with each societal affair and those that exercise oversight functions; the delivery of goods, services and the enforcement of rules and incentives. For each subgroup, we need to know their capacity – in terms of manpower and hardware, financial and fiscal resources. Next, we need to measure performance of government which has been greatly facilitated by the Organizational Performance Indicator Framework (OPIF) being espoused by NEDA-DBM. When applied, each agency in government will have identified its major final outputs. We can take the ratio of the quantity of outputs to the amount of resources expended over a given time frame to gauge the efficiency of government performance. We can also take the ratio of the same outputs to the change in outcome that we observe on the side of the beneficiaries. However, we need a more sophisticated methodology to establish attribution and conclude about the effectiveness of government.

Government is the primary body that has been bestowed the authority to initiate the formation of rules and incentives and the delivery of the same. It is actually the constituency that bestows the authority and it is also from the constituency where government derives its resources.

Civil Society

Institutions and government interact with each other in the formation and delivery of incentives. Their constituencies will surely overlap, although government will always have the larger constituency. Both of them serve the interests of their constituency and derive resources from them.[1] For the constituency sector where institutions and government overlap, the advantage is that the sector's interests will most probably rank high in the priority of government, the incentives that will be developed and the delivery of the same. We are therefore interested in the coverage of the responsibility and actual sphere of influence of the institution.

Social capital can be considered an output of civil society. Unfortunately, its measurement is difficult, if not infeasible. The concept is also a bit abstract. Edillon (2003) observes that social capital does not depreciate over time and may even appreciate. It takes a long time to build but may only take a moment to destroy. Still, we

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[1] Note that we define constituency to include even the Rest of the World.

can evaluate civil society in terms of its social capital which can be evaluated in terms of scope, structure and strength of cognitive relations. The scope will include the extent of its network – international, national, local and even the number of its members. The structure pertains to the formal organization, registration with pertinent government and non-government bodies, level of professionalism, etc. The strength of cognitive relations, meanwhile, is the extent to which the members trust the organization enough to influence their choices and even action towards public policies, issues, and other matters.

Exit Protocol

In all these, there is an exit protocol. Ideally, it includes an M&E system and the procedure for changing the rules and even the implementor of the rules, as necessary. A prominent component of the exit protocol is the electoral process. It is through elections that the constituency bestows authority on government and renders legitimacy to the rules (and incentives) formulated. Any change introduced to the system is bound to result in a disequilibrium and hence, instability. The electoral process has to be efficient and perceived to be credible. If it is not, then there will be chaos (in varying degrees) as the system tries to find its new equilibrium. This chaos is manifested in rising criminality, frequent rallies and protests and ultimately, a revolution. As per our framework, however, the electoral process is evaluated within the ambit of political affairs.

Objectives of Rules and Incentives

So far, we have always stated that rules are meant to discourage the major players involved in the affair from behavior unfavorably while incentives are meant to encourage them to behave favorably. What behavior is considered favorable or unfavorable is highly contextual and will depend on demographic profile, constitution, culture, etc. However, there are basic rights that must be observed. Below is a list of these rights as summarized by Häusermann (1998):

Human rights necessary for survival and dignified living include:

- The rights to life and liberty
- The right to a standard of living adequate for health and wellbeing of the individual and his/her family

- The right to social protection in times of need
- The right to the highest attainable standard of physical and mental health
- The right to work and to just and favourable conditions of work
- The rights to food, and housing
- The rights to privacy and to family life

Human rights also cover those rights and freedoms necessary for human dignity, creativity and intellectual and spiritual development, for example:

- The right to education and to access to information
- Freedoms of religion, opinion, speech, and expression
- Freedom of association
- The right to participate in the political process
- The right to participate in cultural life

They also include those rights necessary for liberty and physical security, for example:

- Freedom from slavery or servitude
- The right to security of person (physical integrity)
- The right to be free from arbitrary arrest or imprisonment
- Freedom from torture and from cruel, inhuman or degrading treatment or punishment.

Cross-cutting are the twin principles of the equal rights of women and men, and the prohibition of discrimination of any kind as to race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.

What matters to Filipinos

A survey commissioned by the World Bank to the Social Weather Station assessed the level of satisfaction of Filipinos on the following government services – health care, elementary education, water supply, housing and subsidized rice program. World Bank (2001) reports that Filipinos are more concerned with quality of the service, except in the case of housing where access to the program is the major concern. On water supply services, Filipinos demand convenience of the service (of course, in addition to the access). This information has to be considered in the light of the fact that access to health care, elementary education and level I water supply is already high. In other words, the finding supports the hypothesis of Cloete and Rabie (2005) about the endogeneity of goals and aspirations.

An interesting study by Sycip, Asis and Luna (2000) attempts to arrive at a Filipino concept of well-being. Respondents were asked to rate the importance of each

of 102 components or goods using a 4-point scale. The next table lists the top 20
components in terms of the number of respondents that gave it the highest rating of 4.

Rank	Component	%
1	Faith in God	78.9
2	Prayer and reflection	74.7
3	Long life	68.4
4	Doing good to others	68.2
5	Going to church activities	67.3
6	Good marital relations	66.7
7	Love of spouse	66.1
8	Love of children	65.2
9	Regular food	61.5
10	House ownership	60.9
11	Being with children	60.4
12.5	Respect from family	59.3
12.5	Love of parents and siblings	59.3
14	Being Filipino	59.2
15	Nutritious food	58.5
16	Being with spouse	58.2
17	Freedom from sickness	58.1
18	Having children	58.0
19	Ability to read and write	58.0
20	Security from crime	57.0

The next table lists the 20 components that garnered the least number of ratings
of 4.

Rank	Component	%
20	Learn from other sources	28.5
19	Regular exercise	27.5
18	Leisure with parents, siblings	27.0
17	News from media	25.2
16	High position at work	24.9
15	Time for rest	24.4
14	Being with friends	22.6
13	Length of work time	21.2
12	Household member works abroad	20.1
11	Ownership of vehicle	19.9
10	Join in community organization	19.0
9	Telephone	17.7
8	Time alone	15.3
7	Access to credit	14.2
6	Leisure from media	13.0
5	Leisure with friends	11.8
4	Drug use	10.1

3	Play jueteng/lotto	1.9
2	Smoking	1.7
1	Drinking	0.7

The study also finds significant re-ranking if this is done by area – NCR, Pangasinan, Iloilo and Zamboanga. The mean scores of each of the 102 components also differ significant across areas, except for five components – length of work time, love of friends, news from media, play jeuteng/lotto, and smoking.

The study confirms our hypotheses regarding developmental goals: (1) they go beyond economic affairs (in fact, social affairs can be said to be regarded as most important by Filipinos) and (2) they greatly depend on the level of development currently being experienced which is bound to differ by individual, family and location of residence.

Lest we generalize the finding on endogeneity of goals, we should consider that the context of endogeneity can be limited to only the barangay or town, but it can also stretch to the entire nation and even to the rest of the world. Access to global media is responsible for the widening of this horizon. In a survey covering a sample of the poorest municipalities in the poorest provinces, APPC (2004) asks respondents to enumerate at most three objects of their dissatisfaction. We list the top 5 in the table below along with a description of the present conditions of these objects of dissatisfaction:

Object of Dissatisfaction	Present Condition
Bad roads	65% of them live in barangays where the roads are entirely made of dirt or gravel. If we consider those with at least 50% of roads are made of dirt or gravel, then we would have accounted for more than 90% of the dissatisfied respondents.
Lack of employment opportunities	Labor force participation ranges from about 70 to 85% and employment rate between 97-100%, using the old definition of employment. We also find small-scale enterprises like sari-sari stores (86%) and post-harvest facilities (71%) in these communities.
Water supply	63% of them do not have a waterworks system in their community. Note, however, that these households do have access to water supply systems, from either Level I or II. Moreover, almost all consider their water source safe for drinking.
Health and nutrition	80% of them live in barangays with health centers.

Out-of-school youth	84% of them have elementary schools in their barangays but only 23% have high schools in their area.

In general, we observe the higher level of quality being demanded of the service, even by the poorest of the poor. In terms of roads, what appears to be a minimum requirement is to have concrete or asphalt roads for at least 50% of the road network in the barangay. For employment, the interest is some semblance of formal sector employment. On water supply, they require convenience. For health centers, they demand adequacy of the soft inputs – medicines, medical personnel (doctors, rather than midwives), etc. On schools, they require the presence of secondary schools. (Now, this last point may be met by improving access to secondary schools.)

It is also interesting to find out the parameters by which Filipinos rate government performance. Tabunda (2000) estimates structural equation models using the perception data of SWS for September 1995 and September 1996. She finds the following "constructs of governance" as affecting the overall satisfaction of respondents with respect to performance of government:

1. Transparency and responsiveness
2. Government efficacy or effectiveness, under which:
   - Political stability
   - Integrity
   - Government performance in improving the economy

Moreover, the constructs above appear in lexicographic order, meaning that "those who are not satisfied with government's efficacy or effectiveness would give government the benefit of the doubt or soften their ratings, if it is somehow perceived to be responsive and transparent."

Before proceeding, we need to cite another important finding of the Sycip, et. al. study. This pertains the relatively low level of importance attached to what we may call manifestations of empowerment and political participation like awareness of national events (28.5%) , vote participation (30.9%), freedom to express political idea (26.0%), join in community organization (19.1%), and news from media (25.2%). This is a cause for concern because a basic requirement to improve governance is a constituency that pro-actively demands good governance.

Example from the US: The Government Performance Results Act of 1993

The GPRA is being implemented in the United States. Section 2a discusses the background within which the law was enacted:

(1) *Waste and inefficiency in Federal programs undermine the confidence of the American people in the Government and reduces the Federal Government's ability to address adequately vital public needs;*

(2) *Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance; and*

(3) *Congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.*

Section 2b enumerates the purposes of the GPRA, which are to:

(1) *improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results;*

(2) *initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress;*

(3) *improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction;*

(4) *help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality;*

(5) *improve congressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending; and*

(6) *improve internal management of the Federal Government.*

We observe the following features of the law:

1. It is a law enacted by Congress. It is not just an Executive Order or Administrative Order.

2. It imposes strategic planning over a period of not less than five years, to be updated at least every three years. Given that the presidential term is 4 years, this means that the plan is meant to be beyond politics and is designed to transcend political administrations. This lends stability to the plan.

3. The strategic plan is a comprehensive and carefully thought out document. It contains:

"(1) a comprehensive mission statement covering the major functions and operations of the agency;

"(2) general goals and objectives, including outcome- related goals and objectives, for the major functions and operations of the agency;

"(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;

"(4) a description of how the performance goals included in the plan required by section 1115(a) of title 31 shall be related to the general goals and objectives in the strategic plan;

"(5) an identification of those key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives; and

"(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

4. The development of the strategic plan is participatory. The concerned agency considers inputs from many stakeholders, including Congress.

5. A performance plan is to be developed annually and should be consistent with the strategic plan. The performance plan amounts to no less than a logframe. We state verbatimly the relevant sections of the Act:

"(a) In carrying out the provisions of section 1105(a)(29), the Director of the Office of Management and Budget shall require each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency. Such plan shall-

"(1) establish performance goals to define the level of performance to be achieved by a program activity;

"(2) express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b);

"(3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;

"(4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;

"(5) provide a basis for comparing actual program results with the established performance goals; and

"(6) describe the means to be used to verify and validate measured values.

6. The law requires detailed description of targets and performance. In cases where numerical targets are infeasible, the agency is required to give detailed description of terms such as "minimally effective" or "successful.

7. Beginning 2002, all performance reports shall cover the three preceding fiscal years. This is helpful is establishing a performance trend. At the very least, this imposes uniformity in the standards used to evaluate performance, at least over a period of three years.

Implementing the Framework

We conclude this paper by illustrating how the framework can be implemented. Before proceeding, let us summarize the component and the corresponding parameters that we need to evaluate concerning governance.

Governance Component	Parameter
Input	Quantity Quality Distribution
Output	Quantity Quality Distribution Responsiveness to desired outcomes
Production Process	Efficiency
Outcome	Responsiveness to desired goals
Rules and Incentives– formation and exit protocol	Effectiveness Transparency Participatory Clarity
Rules and Incentives – implementation	Accountability Fairness Efficiency
Institutions including government	Coverage Inclusion of marginalized sector Effectiveness Efficiency

Equally important to the M&E system is the choice of indicators. From the above review of previous studies and examples, we identify the principles that we need to follow in choosing the indicators:

1. The yardstick should be obvious whether they pertain to effectiveness, efficiency or other indicators. If the objective is to establish a trend, then the time series should be presented. If the objective is to compare the performance against a standard or against the performance of other countries (or the top-performing regions), then the comparator should be included as well.

2. The yardstick should be time invariant for even longer than the medium term. If ever they need to be changed, it should be for the better. Even then, government should clearly explain why the yardstick is being changed midway.
3. There should be a clear assignation of responsibilities. The government bureaucracy has several line agencies. But in some cases, say in agriculture, the line of responsibility is discontinuous and the assignment of tasks is too fragmented. Fortunately, the discontinuity occurs by administrative jurisdiction. What is needed, therefore, is to disaggregate the indicators to a level that is consistent with the discontinuity or fragmentation.

To facilitate the analysis, we write down the flow of M&E that is implied by the framework:
1. Describe the outcome. This should correspond to the aspirations that society wants fulfilled concerning the affair.
2. Describe the inputs – human and physical resources in the manner by which these are being utilized for the affair.
3. Describe the outputs – human and physical outputs resulting from the transformation of the raw inputs, and the responsiveness to needs.
4. Describe the transformation process, particularly the efficiency in utilization of resources
5. Describe the institutions – private sector and government agencies that play a role either directly or indirectly in the affair.
6. Describe the major rules and incentives that govern and/or direct how the different stakeholders interrelate to affect the outcome of the affair.
7. Describe the formation and exit protocols.
8. Describe the mechanisms that promote accountability including provisions for monitoring and evaluation (M&E), sanctions imposed for violations, etc.
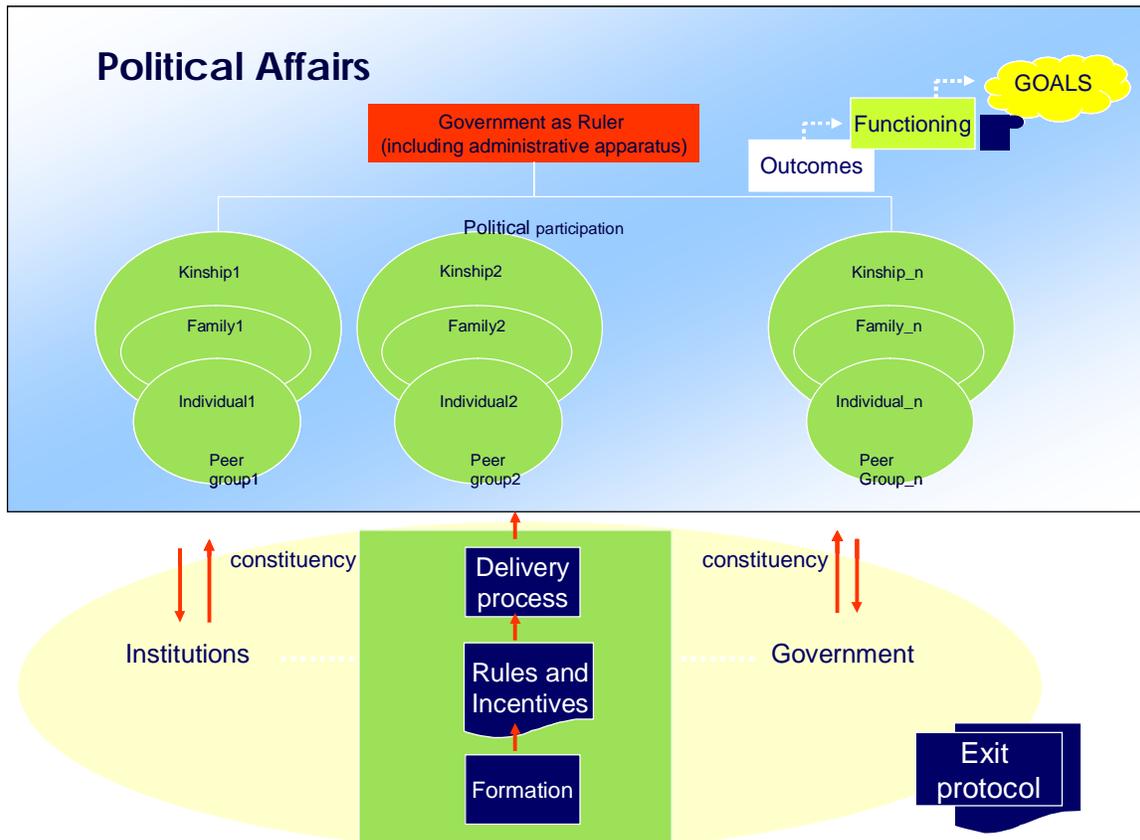
Governance of Economic Affairs
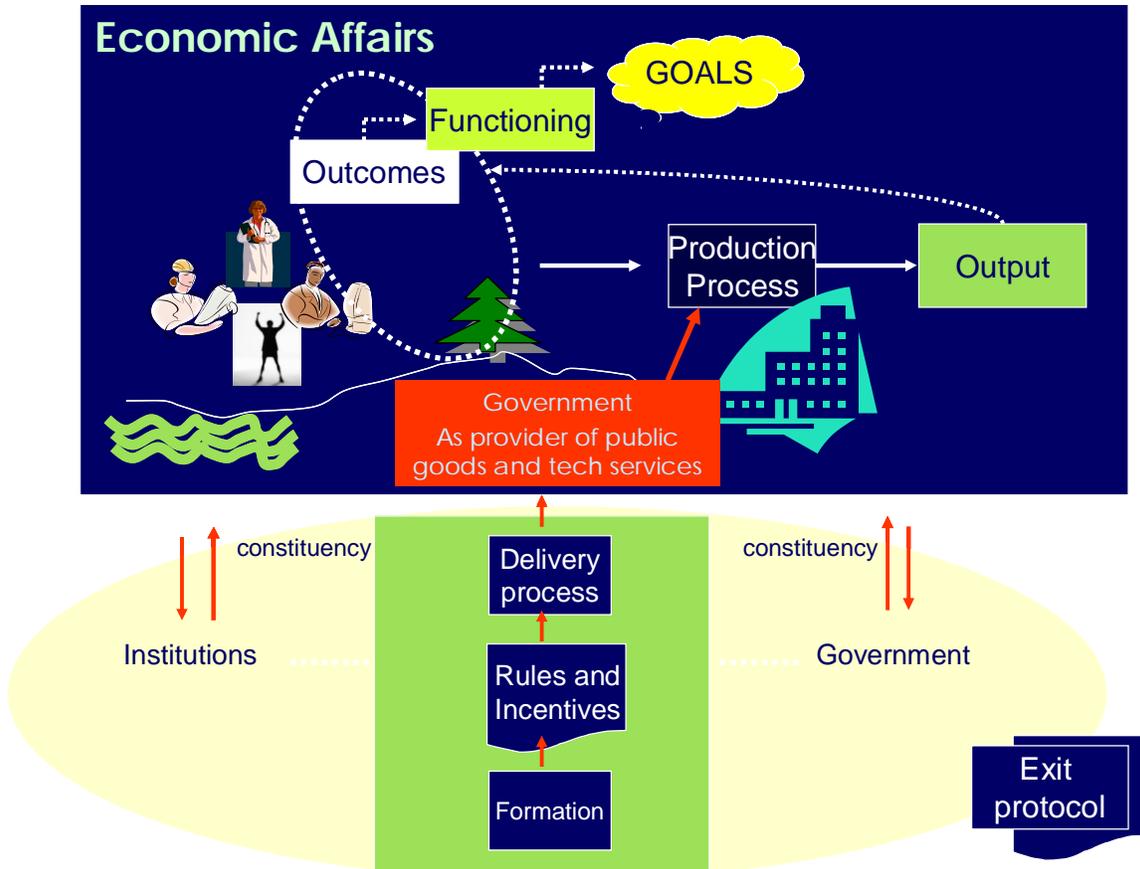
In economic affairs, people take on their economic roles either as source of labor, capital or both. Environment is also considered for its role as input to production. We also single out the function of government in providing public goods and technical services (research, information, etc.) These inputs relate with each other to produce outputs that are then utilized to generate outcomes that will result in functioning towards the attainment of economic goals.

We need to first describe the profile of inputs or stakeholders that figure in this affair. It may not be feasible to know the production process, but we are interested in the amount of outputs. Ultimately, we want to evaluate the efficiency of the production process. We are also interested in the outcomes that the utilization of these outputs generates. Note

that the outcomes may have resulted from the interrelationship itself, say evidences of overwork/fatigue among workers, pollution or environmental degradation, etc.

The next important step is to describe the rules and incentives that govern and direct the relationship, including the profile of institutions (government and civil society) that are involved in the affair, the process of forming and modifying the rules and incentives, the mechanisms to exact accountability in implementation, etc.

In analyzing governance of political affairs, we are interested in central and local institutions, organizations and personnel that have the power to issue directions and rule and the relationship of the ruler to the ruled. The goals that we hope to attain concerning this affair are Filipino sovereignty, national unity and national pride. Some indicators that show that these are not met are the following:

> Incidence of armed conflict (NPA)
>
> Incidence of coups

While some indicators that show that the goals are met are:

> % registered voters
>
> % voters
>
> Absentee voters
>
> #/% who availed of dual citizenship

There are also indicators that reveal breakdown of governance. Unwillingness of the ruled to submit to the authority of the ruler may be manifested in low tax collection efficiency, low participation in public forums, political assassinations, etc. Ineffectiveness of the ruler to exact compliance from the ruled may be manifested in harassment of the opposing people or groups, excessive use of force in dealing with street protests, etc.

As before, we need to describe the profile of the ruler and the ruled. Since the outputs produced are bound to be intangible, we describe instead the outcomes realized. Even more important, we describe and evaluate the rules and incentives that govern and direct the relationship. Note that the electoral process is an important aspect of the rules and incentives that govern and direct how the ruler relates with the ruled.
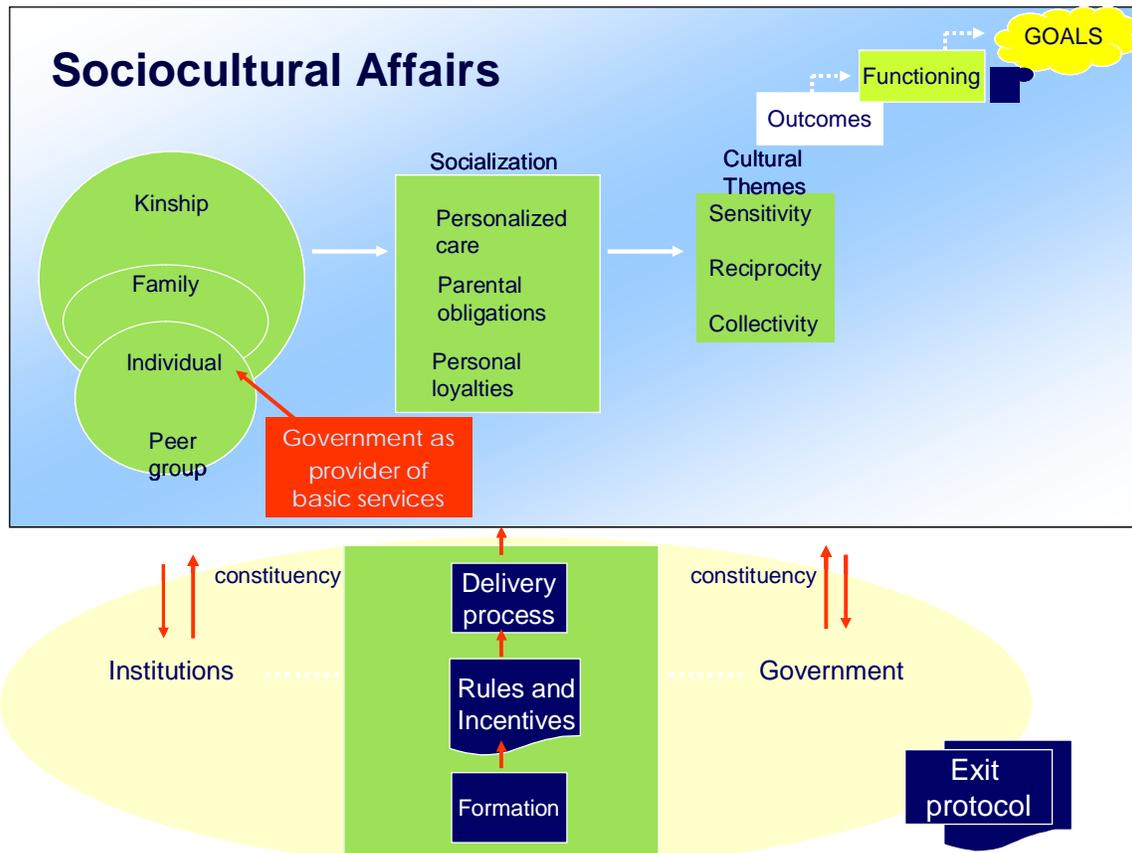
This is perhaps the most important of the affairs, at least judging from the results of Sycip, et. al. (2000). The OFW phenomenon has undoubtedly compromised a major fabric in our country's sociocultural affairs and this makes the conduct of an in-depth study into sociocultural affairs all the more important.

Before a person takes on its (active) economic and political roles, he is first a socio-cultural being. He belongs to a family, a kin and perhaps a peer group. He is also identified by his cultural leanings perhaps equated with his membership in an ethnolinguistic group or place of residence, etc.

Jocano (2000) observes that the values of sensitivity, reciprocity and collectivity are molded into the Filipino from birth - the manner in which Filipino babies are generally

cared for, the observance of parental obligations and loyalties. He also arrives at the following postulates that manifest the sociocultural goals of individuals:

· Sincerity, courage, loyalty, politeness and self-effacement are the highest goals individuals should strive to achieve and maintain.

· Dignity and honor must be maintained at all cost
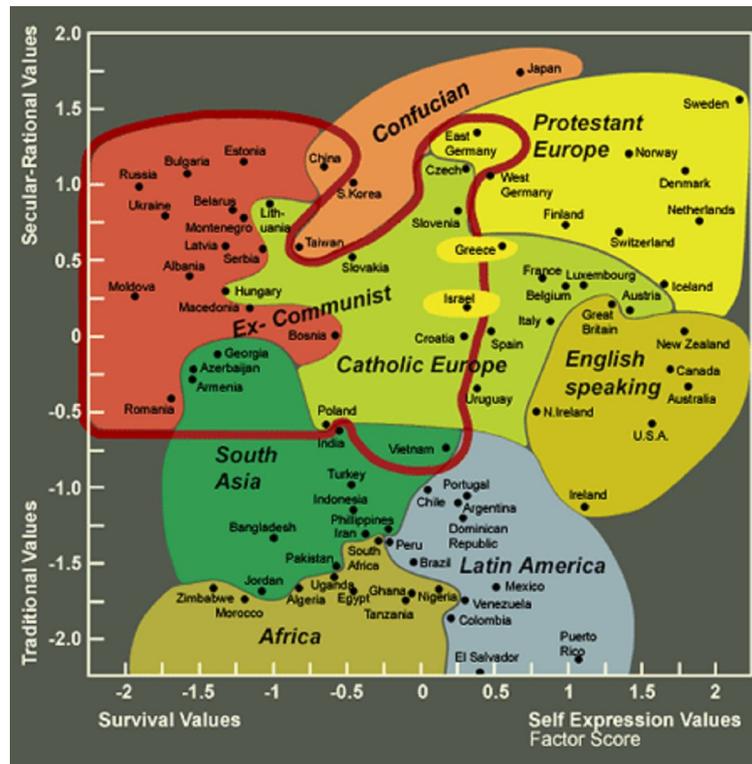
Ref: World Values Survey

The figure above is taken from the World Values Survey. In the Philippines, the survey was done in 2001 by SWS and collected information on what Filipinos value in life, e.g., family, friends, leisure time, religion, etc. Together with data from other countries, the factor analysis revealed two dimensions that drive the average valuation in each country: (1) traditional to secular or rational, and (2) survival to self-expression. The Philippines is situated in the lower sphere of the first dimension and towards the middle of the second dimension. What this means is that we ascribe importance to parent-child ties and deference to authority, along with absolute standards and traditional family values, and we reject divorce, abortion, euthanasia, and suicide. Meanwhile, we are still concerned about economic and physical security, but the fact that the average is somewhere in the middle of the second dimension, we should bear in mind that a substantial proportion of the population puts more value on "subjective well-

being, self-expression and quality of life." Again, this finding reinforces the need to tailor the governance M&E system to our needs.

Admittedly, indicators that measure the attainment of these goals are hard to come by. The alternative is to follow the example set by HDN framework where the variables that go into the computation of the HDI are indicative only of the ability "to be and to do" rather than measures of how people have done or have become what they have set out to be and to do. We can then look at indicators that reveal distribution of opportunities to achieve dignity and honor. We also postulate the following goals with respect to sociocultural affairs:

· Mutual respect of cultures
· Nondiscrimination by gender, ethnic origin, religion, location of residence pertaining to which we can consider outcome indicators such as incidence of Moro insurgency, tribal wars, religious clashes, violence against women, children, the "socially disadvantaged", etc.

The profile should describe the following, at the minimum: (a) distribution of families by type of household (by location) ethnic and religious groups, (b) migration statistics by ethnic and religious groups. Services and facilities, say schools, hospitals, etc., whether private or public should be analyzed according to its availability across people groups characterized by income class, age sex, or even age. Outcomes and final incomes can also be described the same way. The following table is from Boyne, et. al. (2003) and neatly summarizes this analysis.

	Income Class	Age	Sex	Race
Use				
Access				
Outcome				
Final Income				

Concluding Remarks

       Governance is indeed a complex subject but one that we must strive to understand. A partial analysis, or one that looks at limited dimensions, will also provide limited usefulness, if the interest is to improve governance. The chart given below illustrates this shortcoming. This is a plot of empowerment rights vs. human rights, as measured by the UNCHR

Empowerment Rights vs. Human Rights
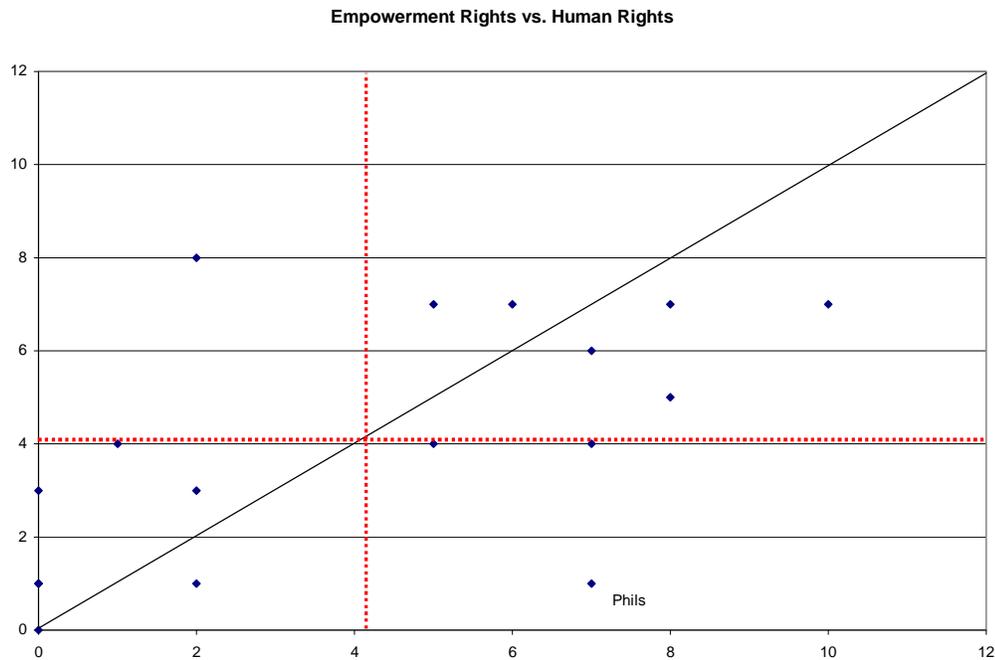
       Intuitively, we expect a positive relationship between the two, the more empowered the people are, the better the observance of human rights. Indeed, we find this to be the general trend. Unfortunately, we also find the Philippines challenging this trend. Why we demonstrate the exception rather than conform to the rule should be carefully examined.

       This paper has developed a framework that can facilitate the conduct of a comprehensive study of governance, in particular, as applied to the Philippines. Statistics collected by official surveys and administrative data can only describe the "upper box" of the framework. A special survey is needed to answer the "lower box" of the framework. Surveys being done by private research firms and business groups can

perhaps be re-configured to subscribe to the framework. What needs to be done is to develop a survey design to cover national government agencies and civil society groups.

The result of the in-depth evaluation will feed into the development of a governance reform agenda for the country. This will probably include consensus building activities to arrive at common goals and short to medium term targets concerning each societal affair. It may also include capacity building programs on governance – what it is, what it is not, the many actors involved, etc.

Evaluation of local governance presents a different case. The LGPMS can provide some of information on the lower box of the framework, but only concerning local government units. A system will need to be developed to cover business, civil society groups and even national government. A bigger challenge, though, is to obtain information on the "upper box" of the framework at local levels given the fact that official surveys permit disaggregation down to provincial levels, only. (In fact, the provincially disaggregated variables cannot be used to compare performance between provinces.) We can probably derive information on the "upper box" in LGUs that have conducted province-wide Community-Based Monitoring System (CBMS). Still, technical issues on noncomparability of data due to differences in time reference and nonsampling errors will need to be resolved.

Ultimately, we want to build a broad-based constituency for good governance. In other words, we should package good governance as a good for which we need to create demand, and demand has to come from within. What's more, the good comes with a price – a commitment to do our share.

Annex 1

Data Sources for WB's Governance Matters

Publisher	Publication	Source	Coverage
Standard and Poor's DRI/McGraw-Hill	Country Risk Review	Poll	106 developed and developing countries
Wall Street Journal	Central European Economic Review	Survey	27 transition economies
EBRD	Transition Report	Poll	26 transition economies
Economic Intelligence Unit	Country Risk Service and Country Forecast	Poll	114 developed and developing
Freedom House	Freedom in the World	poll	172 developed and developing
Freedom House	Nations in Transit	poll	24 transition economies
Political Economic Risk Consultancy	Asia Intelligence	survey	11 Asian countries
Gallup International	50th Anniversary Survey	survey	44 mostly developed countries
World Economic Forum/CID	Global Competitiveness	survey	75 developed and developing
Heritage Foundation/ Wall Street Journal	Economic Freedom Index	poll	154 developed and developing
Political Risk Services	International Country Risk Guide	poll	140 developed and developing
World Bank	World Business Environment	survey	80 developed and developing
World Bank/EBRD	BEEPS	survey	22 transition economies
IMD, Lausanne	World Competitiveness	survey	22 transition economies
CUD	Colombia U, State Failure	poll	100 developed and developing
Price WrhseCoopers	Opacity index	poll	60 developed and developing

Ref: Kauffmann

Annex 2

Illustrating the Framework on Governance of Economic Affairs

Following is an illustration of the steps involved in the analysis of governance of economic affairs.

1. Society aspires for economic development characterized by efficiency, equity and stability. Following are the corresponding outcome indicators:

   Efficiency
   > Gross Domestic Product, Gross National Product (levels and growth rates)
   >> By industry
   >> By region
   > Land productivity
   > Labor productivity
   > Capital build-up

   Equity
   > Income per capita
   > Income distribution
   > Income by sector of employment
   > Income by class of worker
   > Poverty incidence
   > Asset distribution

   Stability
   > Current account balance
   > Capital account balance
   > Trade balance
   > International reserves
   > Debt (private, government, domestic, international)
   > Fiscal balance
   > Inflation rate
   > Interest rate (trends in long term bonds)
   > Saving rate
   > Investment ratio

2. To achieve the economic goals, the following inputs are used:

Primary Input	Quantity	Quality

People
  Sector of employment
  Class of worker
  Domestic
  International
	Number and distribution	Age
		Sex
		Highest educational attainment

Land
  Agricultural
  Built-up areas
  Industrial parks
	Area and distribution	Topography
		Geography

Capital Fixed capital (by sector)		Backward and forward linkage Amount of capitalization

3. The outputs produced are summarized in the following indicators:

Gross Domestic Product

Output by sector

Volume of output by type of good

Employment rate

4. With consideration for the desired outcomes, we need to consider the following indicators to measure responsiveness:

- Consumption per capita
- Proportion of food to total consumption
- Nonfood consumption per capita
- Underemployment rate
- Import and export bills by type of good
- Out-migration vs. in-migration rate
- Number and proportion of OFW, by type

5. Efficiency of the transformation process is measured, in general, as the amount of output per unit input, as follows:

- GDP per hectare of A&D land
- GDP per worker
- GDP per capital or Incremental Capital-Output Ratio (ICOR)

- Total factor productivity

6. The institutions directly or indirectly involved in governing economic affairs are the following:

   Civil society with the following configuration of inputs:

	Quantity	Quality
Input Manpower	Number of officers Number of active members	Age Sex Education
Financial Resources	Amount	Liquid assets Fixed capital
Other resources Network		
Output Membership	Number of members	Sector distribution; Leakage, undercoverage Coverage of underserved
Activities that obtain info on aspirations and existing conditions of clientele		Timeliness of information Scope
Activities that refer above info to relevant bodies		Timeliness of reporting Scope of network
Activities that directly improve the quality of labor supply of clientele		Relevance to clientele Responsive to market

   a. Government sector

      Government is a big player in economic affairs. All three branches of government are involved. The Executive branch formulates the investment and expenditure policy which the Legislative branch reviews and approves accordingly. The Legislative branch also enacts rules and regulations concerning economic affairs. The Executive branch, in turn, implements the investment and expenditure policy and enforces the rules and regulations. The Judiciary branch imposes the sanctions, as deemed necessary. The following illustration may be helpful:

Branch	Executive	Legislative	Judiciary
Objectives	•Encourage efficiency •Promote equity •Promote stability		
Functions	Formulates investment and expenditure policy	Approves investment and expenditure policy	
	Implements investment and expenditure policy	Legislates rules and regulations	
	Enforces rules and regulations		Imposes sanctions

Government utilizes the following inputs:

Input	Quantity	Quality
Fiscal resources	Amount	By source
Manpower	Number by agency Number by position	Age; sex Education
Government capital stock	Number and distribution	By type

Government also produces the following final outputs:

Output	Quantity	Quality
Public goods		Coverage (Undercoverage) Leakage Efficiency
Basic public services		
Other miscellaneous activities		

7. There are a number of rules and regulations enacted by Congress to govern economic affairs. There are also positive incentives. Government policies on trade, monetary and fiscal sectors also significantly affect economic affairs. There are also programs and projects being implemented to steer economic actors towards the desired economic path. Most of these are articulated in documents like the MTPDP, MTPIP, GAA, AIP, etc.

8. For each of the incentives listed below, we are interested in participatory processes, efforts at transparency and mechanisms to exact accountability.

Incentives	Venues for participation	Transparency	Accountability
MTPDP; MTPIP			M&E systems in place Reporting system of accomplishments
AIP; GAA			
Other Administrative Protocol	Consultations conducted	Mode of dissemination	

9. Finally, we need to describe the exit protocol concerning the following:
    a. Members of the bureaucracy
    b. Officials of government
    c. Incentives
    d. Rules and regulations

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