

Combating Corruption

Though the Philippines has consistently espoused a commitment to fight corruption as part of its overall effort to reduce poverty, actual progress has been rather slow and the country continues to rank poorly in international perceptions surveys of corruption. Accelerating progress with efforts to curtail corruption could make an important contribution to overall efforts to reduce macroeconomic risks and establish a more rapid pattern of growth and poverty reduction. Suggested areas for focus include revenue collection, public expenditure, and public administration.

Background

The Philippines has long espoused a commendable commitment to fight corruption as part of its efforts to improve government service delivery and reduce poverty. Without success in reducing corruption, there will be a needless waste of resources; public confidence in government will be diminished, weakening efforts toward reform and revenue mobilization; and the effects of corruption frequently hit the poor hardest, further reducing the equity of government programs. Investors' confidence is also linked to how they see corruption in the country compared with elsewhere. Good governance is thus clearly essential to promote pro-poor economic growth, poverty reduction, and sustainable development. Success with actions to reduce corruption will be important for the Philippines to create a virtuous cycle of mutually reinforcing policy reform, faster growth, and better development outcomes.

In 2000, President Estrada announced a nine-point anti-corruption program. On assuming office in January 2001, President Macapagal-Arroyo made improving governance one of the four pillars of her administration. Even before that, Chief Justice Davide and the Supreme Court launched their Action Program for Judicial Reform to achieve a more efficient, accessible, and effective judiciary that is worthy of public trust.

Governance was one of the themes at the June 2000 Consultative Group meeting

between the Government and international development organizations. Following this meeting, the Government organized a working group with donors on governance, led by the Department of Budget and Management. As part of this partnership, and building on work already undertaken by the Development Academy of the Philippines, a subgroup of donors drew on global experience to identify specific recommendations on anti-corruption actions for the Government's consideration. The short list of actions highlighted in dialogue in mid-2001 for immediate action were:

- Increasing civil society involvement in the oversight of government activities;
- Accelerating budgetary, financial management, and procurement reforms;
- Strengthening mechanisms for the disclosure of assets and liabilities of public officials, and initiating reforms of the remuneration structure;
- Implementing reforms in the judiciary as outlined in the Supreme Court's Action Program for Judicial Reform;
- Amending bank secrecy laws and passing an anti-money laundering bill;
- Introducing electoral campaign finance reforms;
- Implementing corruption-prevention programs for the most corruption-prone government agencies; and
- Consolidating and streamlining existing anti-corruption agencies into a

coordination council with a strong leader of Cabinet rank.

Progress has been made on some of these areas over the past three years. For example, the new procurement law enacted in 2003 increases the transparency and efficiency of public expenditures. Procurement reforms in particular agencies produced significant savings, such as a 40 percent saving on the cost of school textbooks. The anti-money laundering bill was approved. The introduction of “lifestyle checks” has increased accountability of public officials in some key departments, and has led to disciplinary actions. An increase has also been seen in disciplinary actions taken against judges. Corporate executives have received substantial training in how to increase transparency and contain corruption. Finally, the backlog of Supreme Court cases has been reduced and the Court of Appeals is being expanded along with the Court of Tax Appeals.

However, the relatively slow progress generally with efforts to combat corruption is reflected in the lack of successful prosecution of high-profile corruption cases, and the falling ranking of the Philippines in terms of perceptions of corruption (table 1). This threatens to reduce the flow of investment funds as evidenced by concerns expressed by the California Public Employees' Retirement System (CALPERS) and the possibility of them ceasing to invest in the Philippines

Much remains to be done to: achieve the improvement that the national leadership aspire to, maximize the efficiency with which public resources are used, ensure service delivery to the poor, and rebuild confidence of both citizens and investors.

Table 1. Corruption ranking

	Corruption ranking ⁽¹⁾ 2003	Corporate governance country score ⁽²⁾
Singapore	5	7.7
Hong Kong	14	7.3
India	83	6.6
Taiwan	30	5.8
Korea, Rep of	50	5.5
Malaysia	37	5.5
Thailand	70	4.6
China	66	4.3
Philippines	92	3.7
Indonesia	122	3.2

⁽¹⁾ Lower rank reflects lower perceived level of corruption ⁽²⁾ Higher score implies a better corporate governance environment.

Sources: Transparency International and Credit Lyonnais Securities Asia

Table 2. Firms' Perspectives on Corruption (%)

Percent of revenues needed for informal payments	1.9
Percentage of firms saying gift/payment required for:	
(a) a mainline telephone connection	2.4
(b) an electrical connection	3.9
(c) a construction permit	16.0
(d) an import license	19.9
(e) an operating license	15.0
Revenue reported by typical establishment for tax purposes	78.2

Source: Investment Climate Survey, ADB & World Bank, preliminary data, 2004.

Issues and Options

Successful anti-corruption programs focus on making corruption a high-risk and low-reward activity through actions designed to reduce opportunities and incentives for corruption and to increase the success rate in enforcement of sanctions. Experience globally indicates that successful anti-corruption efforts focus on increasing transparency and accountability within government agencies and within private corporations, strengthening institutions of government, and increasing involvement of civil society and elected officials in the oversight of government activities. *Strong*

national ownership and commitment are essential for successfully designing and implementing reforms, and for effective enforcement. Therefore, an important part of efforts to combat corruption should be *identifying and supporting leaders* (whether groups, agencies, or individuals) within and outside the government who will launch, sustain, and monitor the anti-corruption action program. Such leaders should be involved in the priority setting, timing, and sequencing of actions, and they need to be given the necessary political support and resources to carry out the program. This process is critical to the success of anti-corruption initiatives.

Raising expectations without vigorous concurrent actions to combat corruption would simply reinforce cynicism and make future attempts to curb corruption more difficult. It is important therefore that the Government *identify a set of high-priority, highly visible actions that could be delivered reasonably quickly and that would build support for the unfolding of a fuller program*. Prioritization may not necessarily mean tackling the worst areas first. It may mean focusing first on doable actions where motivated and reliable champions are evident. This approach would focus on generating demonstrable progress in the near term. *What is clearly needed is faster-paced and results-oriented implementation.*

Reviews already conducted¹ have identified core weaknesses in structures and processes of governance, and have made recommendations that provide a sound framework for a broad-based national strategy. As noted above, several initiatives are already being implemented. It is important to build on successes being achieved in these initiatives, and to use the

¹ Including a report by the Development Academy of the Philippines, a comprehensive report on corruption by the World Bank and a Government report delivered to the June 2000 Consultative Group meeting, and subsequent corruption reports.

current environment to provide impetus for further reform.

The key areas that need to be included in a comprehensive anti-corruption strategy are illustrated in box 1. Though the availability of resources and the presence of champions for reform in individual areas will influence the sequencing and pace of reforms, all of these six areas need to be addressed over time as part of a comprehensive effort to combat corruption

Strengthening the Judiciary. The Supreme Court's Action Program for Judicial Reform has already been designed and implementation begun. This focuses on institutional reforms such as case and court management, supported by investments in information and communications technology, human resources, and infrastructure. It has been designed to unclog the courts, improve access to justice, increase effectiveness and efficiency, and increase public confidence and trust in the judiciary. Moreover, this reform has a real champion in Chief Justice Davide, and has widespread support at all levels of government and civil society. The fundamental challenge is providing sufficient resources and pressing forward rapidly with implementation to achieve results.

Economic Policies. Policy reforms can have a powerful effect by reducing opportunities for corruption. In the Philippines there is a need for aggressive simplification of government transaction procedures in many departments, lessening discretionary powers of administrators of regulations, and increasing transparency and accountability. Apart from reducing opportunities for corruption, this offers a large potential for improvements in efficiency, service delivery, and investor confidence.

Tax simplification is one example. With a simplified tax structure and less discretion for tax officials to reach agreements with taxpayers it is reasonable to expect less

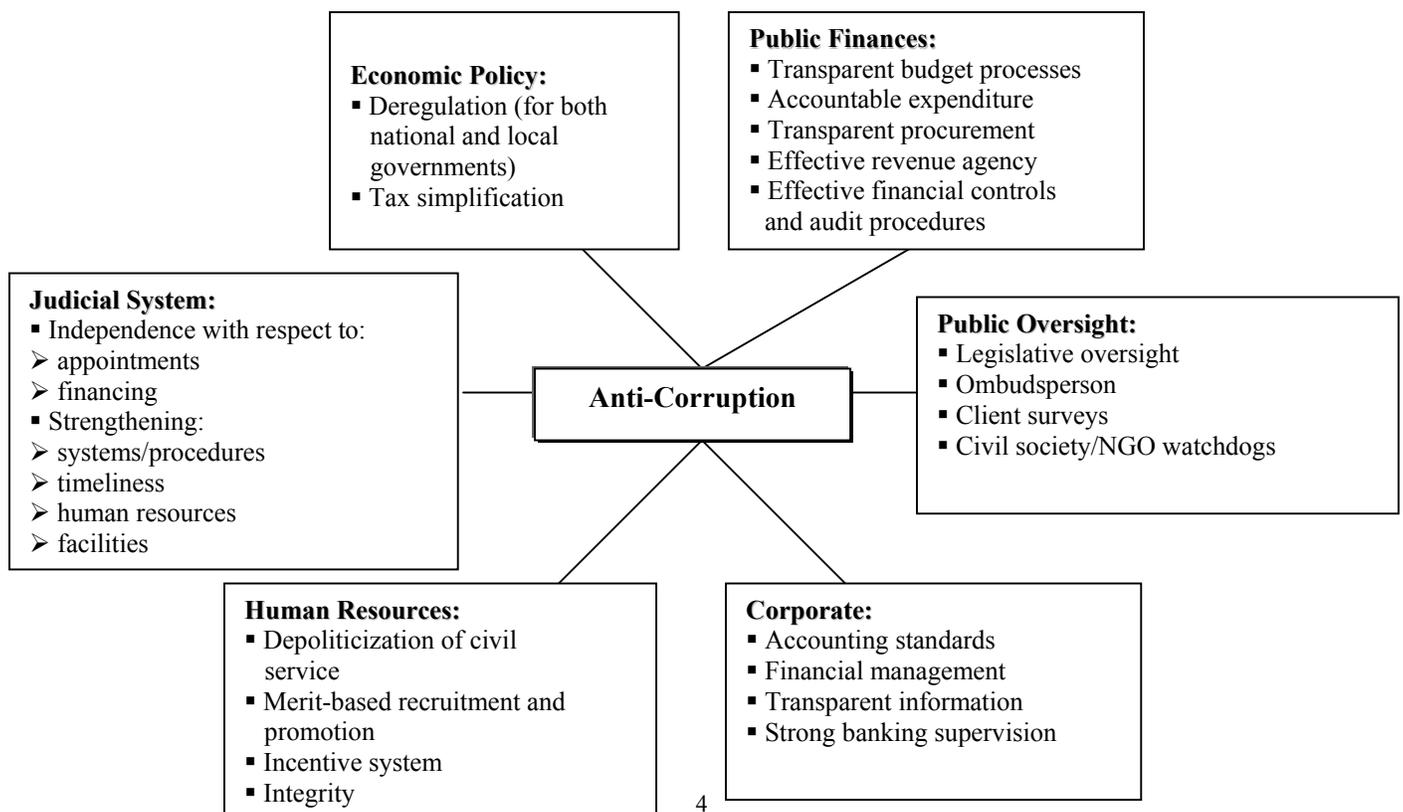
corruption. In addition, replacing the remaining administrative import restrictions with equivalent import tariffs would reduce the scope for administrative “rents” and increase public revenue. Deregulation is also important to gain the efficiency and energy that come from market competition and to minimize the opportunities for corruption that arise with the discretionary administration of regulations. Finally, transparency in policy formulation is important to avoid hidden benefits for selected groups.

Public Finance. There has been a vigorous effort over the past couple of years to improve tax administration, but this needs to be deepened with an integrated program of systems and institutional reforms, coupled with human resource investments and effective use of information and communications technology. More effective tax audit programs are still needed to strengthen the sense of a credible threat of being caught for tax evasion, while computerized tax benchmarking and data cross-checking can also help in this area.

The recently established lifestyle checks on tax officials can help, but care is needed to ensure that they are undertaken objectively. These checks also need to be complemented by administrative reforms, including rotation of staff, to avoid the development of mutually accommodating agreements stemming from too close relationships between officials and taxpayers. In addition, the power of technology needs to be used to monitor the performance of tax officials and taxpayers and to lessen face-to-face contact between the two sides.

On the expenditure side, it is important to build on progress already made with the new Procurement Law, and to accelerate budgetary, procurement, and financial management reforms. This includes introducing a medium-term budget framework, and accelerating efforts to introduce performance budgeting for government agencies and LGUs. It also means strengthening audit arrangements to increase the credible threat of being detected

Box 1: Key areas for inclusion in a multipronged anti-corruption strategy



and punished for misuse or misappropriation of public revenues. Reducing corruption in public expenditures involves a blend of these systems and procedural reforms complemented by the human resource strengthening discussed in the next section. Finally, corruption-prevention programs for the most corruption-prone departments, similar to those for the revenue agencies, should be implemented.

Human Resources. Reforms to professionalize the civil service with merit-based appointment and promotion, and reform of the remuneration structure for public employees are essential to complement the reform of public finances.

In order to find the savings needed to pay key public officials competitive salaries, it will be necessary to review the roles and functions of the public sector to ensure that it is focused on its core business. Transparency should also be further enhanced through strengthened mechanisms for the disclosure of assets and liabilities of public officials, and through electoral campaign finance reforms.

Corporate Governance. The training on corporate governance that has taken place over the past two to three years is good. Now this needs to be complemented by the consistent application of internationally accepted standards for accounting and financial management and improved provision of information in a transparent manner. Amending bank secrecy laws, effectively implementing the anti-money laundering bill, and improving the quality and transparency of bank supervision are important parts of this as they would all reduce the opportunities for corruption and make corruption a more risky business.

Public Oversight. International experience shows that perhaps the most important form of public oversight is that provided by the legislature. This is particularly important as part of budget development and execution. The Congress and Senate need to be

adequately equipped with resources and staff to provide effective oversight on behalf of the electorate. Effective mechanisms are also needed, such as transparent lifestyle checks, for ensuring that congressmen and senators are themselves free from corruption.

More broadly, increasing the level of information transparency and civil society involvement in the oversight of government activities can help check corruption. The new Procurement Law, for example, provides for transparent, web-based information on bid invitations and awards, and civil society monitors in bids and awards committees. NGOs involved in training of civil society observers, participatory audit programs, court monitors, investigative journalists, and community monitoring of local works, need to be supported and promoted. Transparency could also be increased by expanding access to public information and by increasing civil society involvement in budget preparation, monitoring and implementation.

Surveys are also an important tool to strengthen civil society monitoring. “Citizens scorecards” rating the service delivery of different government agencies, and anonymous surveys of business perceptions of corruption provide useful data on comparisons and trends, especially if they are conducted annually and by independent bodies. Service delivery surveys of different departments and government agencies to identify the worst performers and the best performers can help improve services over time.

Suggestions for Priority Actions

The top priority is to focus on a limited number of strategically important doable actions and to secure positive results. Demonstrated progress in reducing corruption and improving service delivery can change behavior and build momentum for further reform. Success will depend on national leadership identifying a limited set

of high-priority, highly visible actions and implementing them to deliver reasonably quick results that would build support for the unfolding of a fuller program.

Natural options for inclusion in this set of high-priority anti corruption actions include:

- ◆ deepening of reforms for tax collection agencies,
- ◆ vigorously implementing the procurement reforms and complementing them with financial management,
- ◆ consistent disclosure of assets by public officials, and
- ◆ the initiation of civil service reform

Once progress is being achieved with such a set of priority actions other options include:

- Closely monitor prosecutions and other administrative actions against those accused of corruption, to minimize procedural delays and bring as many cases as possible to timely closure; regularly report number of cases closed, and their outcomes.
- Undertake follow-up surveys of different government agencies, carried out by independent bodies and repeated on an annual basis, including (i) citizens scorecards of service delivery, and (ii) anonymous surveys of business perceptions of corruption.
- Accelerate the information transparency aspects of procurement reform, including civil society monitoring and timely posting of bid invitation and award results; monitor compliance by different agencies and LGUs with disclosure requirements.
- Initiate an aggressive effort on simplification of government transaction procedures in many departments, so as to reduce the number of steps involved,

reduce discretionary powers, and increase transparency and accountability.

- Strengthen tax reform, including a simplified tax structure, to replace the remaining administrative import restrictions with equivalent import tariffs, computerized tax benchmarking, and data cross-checking, and use technology to monitor performance of tax officials and lessen their face-to-face contact with taxpayers.
- Engage Congress and the Senate in a leading role in corruption monitoring and reform.

As the second major priority, to be effective it is essential that the Government's anti-corruption effort has a strong and senior full-time leader-manager to spearhead the anti-corruption action program of Government and coordinate the efforts of the agencies and groups involved in anti-corruption. Such an office would need to be adequately resourced to launch, sustain, and monitor the anti-corruption action program, and to communicate the program's goals, plans, and progress to the public on a continual basis.

The third priority is to secure the large benefits available from pressing ahead aggressively with key major institutional reform efforts, including the planned judicial reform, and civil service reform, with particular attention to revenue agencies. In each case this calls for adequate funding and support for extensive and integrated institutional reforms, supported by information and communications technology and needed infrastructure. But without sustained institutional strengthening, success in the struggle to combat corruption is unlikely to be sustained.