

COMBATING CORRUPTION IN THE PHILIPPINES

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Early in 1999, the Estrada administration asked the World Bank to make recommendations to help the government strengthen its fight against corruption in the Philippines. Such a request is not unusual. From time to time, member governments ask the Bank to study specific public policy issues, and, with the agreement of the requesting government, such studies are made public.

Because corruption reduces the effectiveness of efforts to reduce poverty and assist growth, the World Bank gladly accepted this request. The Bank submitted its preliminary findings and recommendations (as a draft paper on work in progress) to H.E. President Joseph Ejercito Estrada on November 5, 1999. President Estrada referred to the report in several media appearances and said he planned to carry out its recommendations.

Since then, many articles have appeared in the press, supporting stronger public action against corruption, an issue of great concern to almost every Filipino. As a result of this publicity, both the Bank and the Government of the Philippines have received many requests to make the report public.

The full report is expected to be ready in early next year. However, in view of the public's interest in this subject and to encourage public debate, the government has given us the go ahead to make public our preliminary findings and recommendations. We welcome comments from readers. Please send them to me at The World Bank Office Manila, 23/F Taipan Place, Emerald Avenue, Ortigas Center, Pasig City, Philippines. You could also send them to me through email: vbhargava@worldbank.org. This article is also being placed on the following two World Bank internet sites: <http://www.worldbank.org/publicsector/anticorrupt>; <http://www.worldbank.org/eapsocial>. These two websites also provide links to a wealth of information on anticorruption programs of the World Bank as well as many other organizations.

Why a Stronger Anticorruption Program Now?

From an international perspective, a vigorous and credible program to combat corruption in the Philippines is vital for three reasons:

- The Philippines is cited with increasing frequency (by business surveys, the media, and anticorruption watchdog agencies) as a country where corruption is a factor that inhibits foreign and domestic investment and which may be eroding the country's competitive position. Such investment is vital to economic growth and social well being.
- Because corruption undeniably saps resources available for development, distorts access to services for poor communities, and undermines public confidence in the government's will and capacity to serve the poor, an anticorruption strategy is an essential complement to the Estrada administration's pro-poor and pro-growth stance.

- Corruption has emerged as a pivotal international criterion for allocating scarce development aid resources, and countries will increasingly be judged by their actions in combating corruption.

Prevalence of Corruption in the Philippines

In preparing this study, the World Bank analyzed a wide and significant body of information and published reports from Filipino and international sources. This analysis is being summarized in the final study. As yet, we have not done any new surveys or research. Our analysis so far reveals a broad consensus in government, nongovernmental, and international circles that corruption in the public and private sectors in the Philippines is pervasive and deep-rooted, touching even the judiciary and the media. (For the latter, please see Chay Florentino-Hofileña. 1998. *News for Sale: The Corruption of the Philippine Media*. The Philippine Center for Investigative Journalism and the Center for Media Freedom and Responsibility.)

One recent source of information on this subject is *An Exploratory Study of Graft and Corruption in the Philippines* by Linda Luz B. Guerrero and Steven A. Rood. This paper was published in the January-June 1999 issue of the PSSC Social Science Information of the Philippine Social Science Council (PSSC). It is based on data collected in September 1998 by the Social Weather Station (SWS) with funding from the Asia Foundation. Among other things, the survey revealed that nearly two thirds of the respondents thought there was corruption in government—38 percent said “a great deal,” 34 percent said “some.” A similar survey for 1999 has been done but the results are not yet available.

Another recent measure of prevalence of corruption in the Philippines is the Corruption Perceptions Index (CPI), published by Transparency International (website: <http://www.Transparency.de>). CPIs were calculated for 99 countries by conducting a “poll-of-polls.” For the Philippines, the CPI was calculated as a composite index of 12 different polls and surveys. On an scale of 1 (high perception of corruption) to 10 (negligible perception), the CPI for the Philippines was 3.6 in 1999. Out of the 99 countries rated, the Philippines was perceived as the fifty-fifth least corrupt.

Most estimates of losses due to corruption are imprecise and not very rigorous. Estimates by the Ombudsman, the Commission on Audit, and the Philippine Center for Investigative Journalism suggest, however, that very large amounts of public funds are being lost to both political and bureaucratic corruption. (For details please see: Office of the Ombudsman. Annual Reports; Civil Service Commission. Annual and other Reports; and Coronel, Shiela (ed.). 1998. *Pork and Other Perks: Corruption and Governance in the Philippines*. Manila: Philippines Center of Investigative Journalism, Evelio B. Javier Foundation and Institute of Popular Democracy). The above-mentioned study by Guerrero and Rood reported that in a September 1996 national survey by SWS, respondents were asked how much they believed was wasted due to corrupt practices. Fifty-one percent of the respondents said that more than 50 percent of funding for road building was wasted. More than 60 percent of respondents said they thought that in the process of collecting taxes, providing free books to children in public schools, and

installing modern equipment like computers in government offices, more than 30 percent of the funding was wasted.

Corruption is not just a public sector issue. As a frequent source of bribes for public officials, the private sector shares responsibility for corruption. For the first time, in 1999, Transparency International released a Bribe Payers Perception Index. This index ranks 19 leading exporting countries (mostly developed countries) in terms of the degree to which their corporations are perceived to be paying bribes abroad. On a scale of 1 (high) to 10 (negligible), more than half the countries scored below 7 and about one third scored below 5, indicating perceptions of widespread bribery by leading exporting countries. The Philippines was not a part of this survey.

In the Philippines, several instances of corrupt practices on the part of private corporations and individuals have been reported in the media. In a September 1998 SWS survey, asked whether corruption happens in the private sector as well, 52 percent of the respondents said it did, even without the involvement of government personnel. Similarly, 66 percent of the respondents said that when corruption involves a businessperson and a government official, both parties are guilty. These findings show that, as a major source of the funds used for corrupt purposes, the private sector has to be mobilized to combat corruption.

While our analysis so far confirms that corruption is a sizeable problem in the Philippines, it also reveals that progress has been made in the last decade largely by reducing opportunities for corruption through policy and regulatory reforms. The usefulness of year-to-year comparisons of the CPI scores is hampered by the changing sample and methodology, but the direction of change can be judged from historical scores over a long period of time. For the Philippines, Transparency International's estimates of CPI have steadily improved from a low of 1.04 in 1980–85, to 1.96 in 1988–92, 2.77 in 1995, and 3.6 in 1999 (a higher CPI on a scale of 1 to 10 means a lower perception of corruption). Though encouraging in the sense that progress has been made, the low score also says there is a long way to go.

Our analysis also indicates that the Philippines today meets many preconditions that offer promise for a successful anticorruption campaign. The Philippines' vibrant civil society and media have brought public focus to the issue. Other positive elements include: considerable knowledge about the problem; examples of successful anticorruption programs in key agencies; a legal framework for addressing the issue; and the existence of specific institutions charged with combating corruption in the public sector. Although corruption is a complex and deep-rooted problem in the Philippines, one that may take a long time to eradicate, it is encouraging to note that the public has faith that the problem is not insurmountable, judging by the fact that 59 percent of the respondents in the September 1998 SWS survey thought the government could be run without corruption.

Lessons from Asian and Global Experience

International experience offers many insights and concrete ideas for renewing the Philippines' anticorruption effort. A rich and growing body of experience shows that

corruption can be addressed at the national level and that well-led and well-designed anticorruption programs can show significant and rapid results. Clearly essential to success, however, are specific, tailor-made programs, firmly set in each country's culture and history and a sustained political will and leadership (see Box 1).

Box 1: Some Political Considerations in Fighting Corruption*

By Robert Klitgaard, Dean, The RAND Graduate School, Santa Monica, CA

Beyond diagnosing corrupt systems and developing a list of proposed improvements, it is necessary to develop a political strategy for fighting corruption. This is a vast and subtle topic, but here are some of the important considerations.

- ❑ Who will spearhead the government's efforts? Experience suggests that an anti-corruption effort needs both one person in charge and the idea that "in charge" means coordinating a variety of agencies that must be involved in fighting corruption.
- ❑ What is the "low-hanging fruit"? To build momentum, it's important to select a relatively easy-to-fix corruption problem first. More generally, one must carefully sequence the steps in an anti-corruption strategy.
- ❑ Which are the favorable forces in the political environment and how can the government align its efforts with them? Consider business groups, professional associations, NGOs, the press, students, international organizations, the military. Involve these forces in analyzing corrupt systems, in suggesting alternatives, in mobilizing resources, and in monitoring progress.
- ❑ If there is a culture of impunity, it can only be ruptured by "frying big fish." Select a few big violators-including those who give as well as receive bribes-and go after them.
- ❑ Building political support has a number of other dimensions. One must create a sequenced publicity campaign to raise the profile of the anti-corruption effort. Within the public sector, it is important to do something good for government officials before seeming to attack them.
- ❑ Strengthen institutional capacity not only through "supply-side measures" (more training, more experts, more computers) but especially through changing systems of information and incentives.
- ❑ Contextualize any anti-corruption strategy as part of a broader vision of transforming governance. For example, link it with ideas such as systematic client consultation, pay-for-performance, and privatization with high-quality regulation.

A final point: what if the people on top don't want to fight corruption? Then the questions become these. Can political leaders nonetheless be drawn into a systematic effort at reform through a combination of domestic and international pressure? Can this systematic effort be made as tamper-proof and non-political as possible? If political leaders cannot be drawn into such an effort, or if they undermine it, then we must consider how corrupt systems can be "subverted" through the efforts of the private sector and civil society? It turns out there are many possibilities.

*These ideas are drawn from the new book by Robert Klitgaard, Ronald MacLean-Abaroa, and H. Lindsey Parris, Jr., *Corrupt Cities* (Oakland: ICS Press, 2000).

Based on a comparative analysis of five Asian countries (India, Hong Kong, Mongolia, the Philippines, and Singapore), Professor Jon S. T. Quah of the National University of Singapore, draws six lessons for designing successful anticorruption efforts:

- Commitment by the political leadership is crucial.
- A comprehensive strategy is more effective.

- The anticorruption agency itself must be incorruptible.
- The anticorruption agency must be removed from police control.
- Opportunities for corruption in vulnerable agencies must be reduced.
- Corruption can be reduced by raising salaries, if a country can afford to do so.

A Proposed Nine-Point Approach to Fighting Corruption in the Philippines

Drawing upon our global experience and the Philippine-specific analysis, we recommend that a national strategy for fighting corruption in the Philippines should focus on reducing opportunities and motivation for corruption and should make corruption a high-risk, low-reward activity. Nine key elements are recommended for the national anticorruption program:

- reducing opportunities for corruption by policy reforms and deregulation
- reforming campaign finance
- increasing public oversight
- reforming budget processes
- improving meritocracy in the civil service
- targeting selected departments and agencies
- enhancing sanctions for corruption
- developing partnerships with the private sector
- supporting judicial reform.

REDUCING OPPORTUNITIES FOR CORRUPTION. Through policy reforms and deregulation, noteworthy progress has been made in the last 10 years to reduce opportunities for corruption, but much more can be done. Opportune areas for policy reform in the Philippines include:

- tax policy (for example, preferential tariffs, exemptions, investment incentives) and administration (for example, tax audits)
- regulation of infrastructure services and public utilities such as power, telecommunications, water, aviation (for example, granting of franchises, government guarantees, competitive arrangements)
- corporate governance reforms, particularly in the financial services area
- environmental and land use regulations
- import and trade arrangements.

REFORMING CAMPAIGN FINANCE. The dynamics of electoral politics as practiced in the Philippines—particularly, the financial requirements to obtain and retain office and placate core constituencies—create dysfunctional incentives that degrade the performance of the public sector as a whole. In its issues, nature, and institutional origins, issues of corruption in politics are bigger than campaign finance reform and different from petty corruption in procurement and bribery in the civil service. Although these issues have been acknowledged in the Philippines and demand due consideration, the World Bank's recommendations do not address them for lack of expertise and

jurisdiction in this area. Nevertheless, reforms of political processes and systems should be an integral part of the government's overall anticorruption program.

INCREASING PUBLIC OVERSIGHT. Measures to increase significantly the information made available to the general public have special importance because they let citizens know what officials are accountable for and how to judge their performance against those standards. Active efforts to engage civil society to advance accountability and integrity are also needed. Actions that could enhance transparency and public oversight include:

- establishing a citizen charter, requiring an agency to specify and publish: each step of procedures to obtain a particular service; maximum length of time to conclude the process; and procedures to file complaints on agency failure to follow required procedures
- using government officials' statement of assets and liabilities proactively to identify possible cases of corruption
- conducting client surveys to get regular feedback on access and quality of government services
- establishing advisory boards made up of prominent Filipino citizens to assist the Office of the Ombudsman as well as each department and agency targeted for anticorruption effort
- limiting the role of advisers in the government, who are not governed by public accountability and parliamentary processes, and enhancing the role of cabinet officials who are
- strengthening the ongoing initiatives for governance-appraisal systems for cities and municipalities and publishing results annually.

REFORMING BUDGET PROCESSES. Reforming *budget processes* to achieve discipline, allocative efficiency and operational efficiency is a promising area to address corruption issues. Key potential actions to reform the budget process are:

- enhancing the integrity and effectiveness of government wide and agency-level financial management systems
- improving program performance monitoring and evaluation
- simplifying public procurement, eliminating noncompetitive aspects, actively rooting out cartels, and opening up tenders to international competition
- limiting congressional discretion over detailed line-items and strictly enforcing public finance rules in remaining cases.

IMPROVING THE CIVIL SERVICE. The poor incentive framework governing the *civil service* in the Philippines is another major factor contributing to corruption. During the SWS September 1998 survey, respondents were asked why graft and corruption happens in the government. The three top reasons cited were: to be richer; their salaries are not

enough; and difficulties of life today. With this in mind, restructuring the civil service to reinforce merit and to provide adequate financial compensation and accountability for performance is recommended as a key element in a national anticorruption program. Some of the actions suggested in this area are:

- limiting the scope for patronage in public employment by depoliticizing the civil service and strictly regulating the use of casual and other contractual workers
- decompressing the government pay scale to provide competitive salaries up to senior levels
- strengthening performance evaluation, implementing related awards and sanctions, and enhancing meritocracy in appointments and promotions.

TARGETING SELECTED DEPARTMENTS AND AGENCIES. Many corrupt behaviors are unique to specific government units and functions. At this level, it is easier to make progress in the Philippines since: agencies and departments are relatively small; their mandates are narrow, well-defined, and can easily be subjected to scrutiny and reform; ambiguous legislation and administrative orders can be clarified or rescinded, and business processes can be broken down into discrete components and evaluated. Examples of suggested actions in this area are:

- selecting priority department and agencies, based on the public’s priority concerns
- identifying areas for a few quick wins that would give momentum to further reforms.

ENHANCING SANCTIONS FOR CORRUPTION. Anticorruption efforts should focus on preventing and eliminating root causes of corruption, but government’s capacity to detect corruption and sanction corrupt practices should also be strengthened. The goal is to change the current perception of corruption in the Philippines—from a “low-risk, high-reward” activity to a “high-risk, low-reward activity.” The following actions would strengthen the anticorruption institutions:

- fast-tracking—for successful prosecution—a few high profile pending cases of alleged graft and corruption
- merging the Presidential Commission Against Graft and Corruption with the Ombudsman’s Office and strengthen the latter’s capacity
- strengthening capacity of the *Sandiganbayan*
- supporting capacity building in forensic audit at Commission on Audit and corruption prevention at the Civil Service Commission
- streamlining and simplifying the legislative and regulatory framework involving corruption and civil service codes of conduct
- strengthening the functions of the Inter-Agency Anti-Graft Coordinating Council to harmonize rules and joint activities.

DEVELOPING PARTNERSHIPS WITH THE PRIVATE SECTOR. The private sector, as a major source of funds used for corrupt purposes, has to be mobilized to combat corruption. Involving the private sector will not only allow more sophisticated and sensitive policy responses to corruption to be developed but will also put pressure on the private sector to raise its own standards of behavior. The following actions could be part of a government-private sector partnership against corruption:

- involving representatives of the private sector in designing anticorruption strategies in vulnerable departments such as customs, taxation, industrial policy, infrastructure, and investment.
- engaging in a dialogue about how to solve the collective action problem associated with bribery: how to prevent some firms from continuing to bribe when others stop, thereby creating incentives for the others to revert to bribery again. The model antibribery legislation sponsored by the Organization for Economic Cooperation and Development (OECD) is an example in that it promises significant penalties for those who continue to pay bribes. Another example is the Integrity Pact concept being piloted in Indonesia, requiring a formal no-bribery commitment from all bidders for government contracts.
- encouraging higher standards of corporate governance. The OECD Principles of Corporate Governance (April 1999) provide a useful model for a local initiative.
- developing and implementing company codes of conduct and ensuring their effectiveness through internal control mechanisms, personnel training, and sanctions.
- adopting accounting and auditing rules and standards to ensure transparency in business transactions.

SUPPORTING JUDICIAL REFORMS. Global experience has shown lower levels of corruption in countries with predictable judiciaries (in the sense of adjudicating cases consistently and efficiently). Factors that make for a predictable judiciary are: merit-based recruitment and promotion; adequate compensation; and accountability for performance. In the Philippines, available data suggest considerable room for enhancing the judiciary's effectiveness and reducing perceptions of corruption within its ranks. A preliminary assessment suggests that an action program for judicial reforms should address the issues of: perception and reality of judicial corruption; case overload and delays; poor working conditions; alternative dispute-resolution mechanisms; and judicial education.

Implementing an Anticorruption Program

Having a good anticorruption strategy is a necessary but insufficient condition for progress—effectiveness in implementing the strategy will be a key determinant of success. In this regard, we have six preliminary recommendations:

- appointing strong leadership and management

- setting up a multisectoral advisory group
- developing a sequenced action program of priorities chosen from the nine-point anticorruption strategy
- launching programs immediately in priority agencies
- upgrading capacity in anticorruption institutions
- launching joint intergovernmental and interinstitutional efforts.

STRONG LEADERSHIP AND MANAGEMENT. Because leadership is of such critical importance in the anticorruption struggle, a talented manager should be appointed. This manager must have impeccable and widely recognized integrity, a track record of sticking to a job and showing results, and the ability to communicate well with a wide public audience. To drive forward the anticorruption strategy and agenda, the manager should be given the support of a strong organization and adequate resources. The manager's mandate would involve spearheading the anti-corruption efforts and coordinating a variety of agencies and groups involved in the effort.

MULTISECTORAL ADVISORY GROUP. To advise the government on its anticorruption strategy and monitor progress on a regular basis, a multisectoral advisory group of national and international experts should be set up. This group should include prominent Filipino citizens who represent civil society efforts to combat corruption. Efforts should also be made to establish a proactive partnership with civil society institutions to monitor government performance and to encourage the private sector to improve its own behavior.

A SEQUENCED ACTION PROGRAM (2000–2004). For effective implementation, the actions listed in the nine-point anticorruption strategy and many others which will emerge from further analysis and consultation, must be ranked by order of importance. It is recommended that the government develop a sequenced anticorruption action program, based on diagnostic surveys of households, businesses, and public institutions to identify priorities for anticorruption action and to design remedial programs. The surveys should be done by independent survey organizations under the guidance of the multisectoral advisory group. The survey findings should be presented to the public, an essential step in raising its awareness of the exact nature of corruption in the Philippines and what to do about it.

ANTICORRUPTION PROGRAMS IN PRIORITY AGENCIES. Specific anticorruption programs may be launched immediately in several priority departments and agencies. Within the government departments selected, citizens boards should be formed to advise, and to monitor progress, on priority action programs for eliminating corruption and improving efficiency in the delivery of services to poor communities. Agencies making rapid progress in anticorruption programs might be given priority in budget allocations while those lagging behind would face budget cuts.

INSTITUTIONAL CAPACITY UPGRADE. Upgrading the capacities of key anticorruption institutions should be a key implementation priority to bring to justice corrupt officials, particularly those in high places. We suggest upgrading three institutions in particular: the Ombudsman's Office, the Sandiganbayan, and the Inter-Agency Anti-Graft Coordinating Council.

INTERGOVERNMENTAL EFFORTS. Problems of corruption embedded within the broader system might be explicitly addressed through joint government, congressional, and judicial reform efforts.

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