



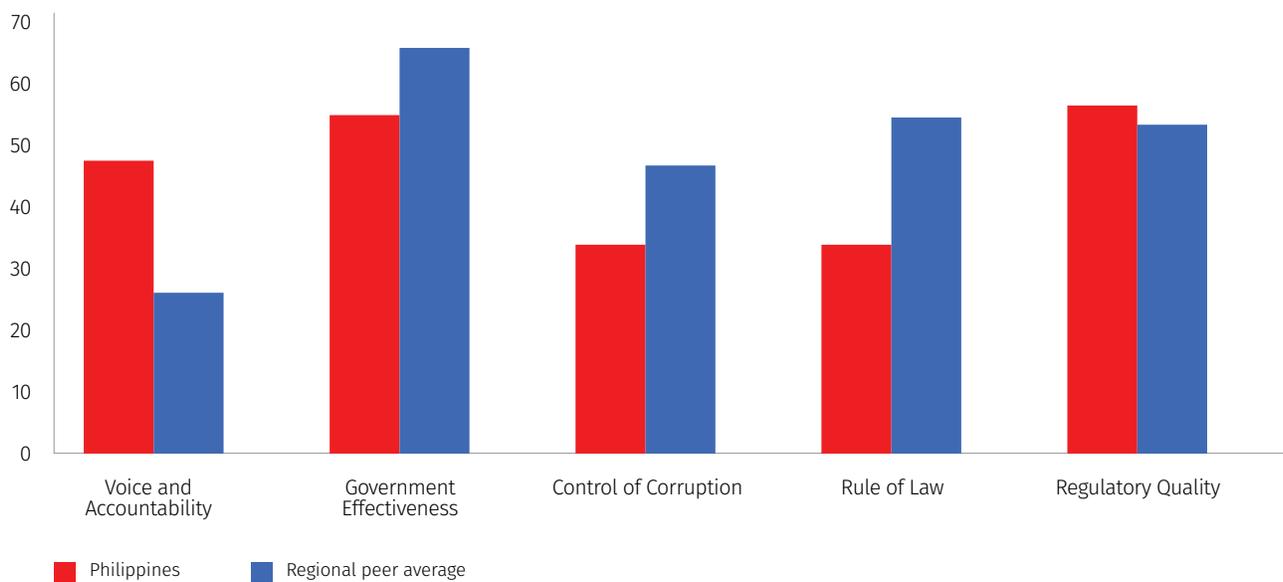
GOVERNANCE

The Philippines faces a complex mix of governance challenges that span across inclusive growth and jobs, human capital, and resilience. The Philippine Development Plan has adopted the Worldwide Governance Indicators (WGI), which provides a rough snapshot view of governance concerns for the country. The Philippines ranks above regional peers in Voice and Accountability and Regulatory Quality but below them in Government Effectiveness, Control of Corruption, and Rule of Law (Figure 69).²⁴ Limited government effectiveness results in poor implementation of the government policies and programs. More than one-third of firms identify corruption as a major constraint, suggesting that it stifles economic growth and poverty reduction. Weak rule of law in the form of judicial inefficiency both delays policy implementation and favors powerful firms over those without connections. Voice and accountability are limited by the twin phenomena of family political dynasties and vote-buying, which limit incentives for policymakers to seek votes through programs and policies that serve constituents and reduce poverty.

6.1. Government Effectiveness

Government effectiveness is limited by a range of public administration challenges. In combination, these profoundly limit policy and program implementation. The institutional structure emanating from the 1987 Constitution and subsequent legislation and regulations has been characterized by overlapping responsibilities and duplication between agencies. This is exemplified by the roles and responsibilities of financial management and accountability institutions of the Department of Finance, the Department of Budget and Management, and the Commission of Audit. Differences in views and approaches to financial management and fiscal governance among agencies have resulted in delays in development and implementation of reform agendas, mixed signals to line agencies about what is required, and reinforcement of a culture of excessive caution.

Figure 69: Worldwide Governance Indicators for Philippines and Regional Peers (Percentile Rank), 2018



Source: World Bank 2019a.

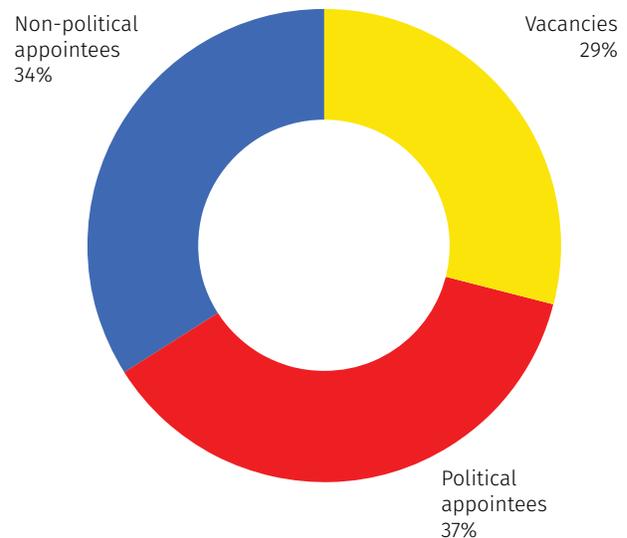
²⁴ The Philippines Development Plan does not monitor the Political Stability and Absence of Terrorism/Violence indicator. This report does not discuss that indicator or the indicator for Regulatory Quality.

Public financial management (PFM) has been incrementally strengthened through successive administrations, and improvements in transparency and regulatory arrangements are evident. Nonetheless, there remain areas where additional reform has further potential, particularly in budget utilization, procurement, financial reporting, and parliamentary oversight of financial management. Better use of technology can improve PFM. The government is implementing a new financial management information system across all agencies to improve the reliability and timeliness of financial information.

Public procurement outcomes may not be achieving best value for money, based on a joint 2014 World Bank and government empirical study of infrastructure contracts. Data extracted from PhilGEPS, the government e-procurement system, indicate a high level of fragmentation of contracts into a plethora of very small contracts, with about two-thirds being under \$1 million. This imposes a large administrative burden on government and bidders and undermines the potential benefits of economy of scale. Part of the reason for breaking up procurement requirements into smaller-value contracts could be that larger contracts require greater scrutiny through a more stringent approval process. Furthermore, the procurement process for larger-value contracts takes substantially longer to complete. Contracts exceeding \$1 million on average take 60 percent longer than smaller contracts. Added to this, the time taken for contract signing is unusually long, sometimes up to three months. There is also a high percentage of unsuccessful procurement processes, the extent of which varies across agencies, but some experience more than 30 percent of bidding failures by value, even on low-value tenders.

Civil service capability is weak, and it lacks leadership, management, and motivation. Strengthening the civil service can start with having a leadership cadre whose capacities are rigorously demonstrated through relevant competencies and skills. This will require developing a strong alignment between such competencies and political appointments, which make up over one-third of senior administration positions (Figure 70).

Figure 70: Status of the Government's Career Executive Service Positions, August 2019



Source: Data provided by the Career Executive Service Board.
Note: There were a total of 2,716 positions as of August 2019.

Weak arrangements for strategic human resources management offer little support for career and succession planning. This is a necessary foundation to nurture the leadership and management cadre of the future and address the challenge of an aging workforce where more than 70 percent of executives are over 50 years old. In addition, the Philippines will need to expand use of digital technology within administrative activities, civil service processes, and service delivery. The Philippines lags far behind all regional peers in the adoption of digital technology for use by the government. (Figures for the World Bank's Digital Adoption Index can be found in the Inclusive Growth and Jobs chapter.)

Inconsistent development and reform agendas between political administrations constrain progress on government reform initiatives. There has been a strong tendency for each new administration to announce ambitious agendas that are neither fully implemented nor continued by subsequent administrations (Teehankee 2012).

Another constraint is the lack of legal protection for bureaucrats in the conduct of their duties. Officials are personally liable for decisions taken, or for acts of commission or omission in the conduct of their duties, even where they did not make the decisions (for example, where their subordinates made the decisions) and even after they have left or retired from the service. This is a strong disincentive to autonomous decision-making, informed risk-taking, and innovation. Officials who may have served on an evaluation panel for a sizable procurement contract could be personally liable to respond to legal action taken by unsuccessful bidders or other aggrieved parties. They will be expected to retain legal counsel at their own expense, defend themselves in court, and be personally responsible for any damages awarded. In most countries, civil servants are protected from personal liability for actions or decisions taken in the conduct of their official duties and cannot be sued in their personal capacity for reasonable behavior. In these countries, legal actions are typically brought against the state rather than individual civil servants.

The challenges facing public sector governance in the Philippines are greater at local government levels. The Local Government Code (LGC) of 1991 devolved many service delivery responsibilities and was intended to provide greater autonomy, authority, responsibilities, and resources to local government units (LGUs). The intention was to improve local services by bringing resource allocation and prioritization close to the citizens, making it easier also to hold the government accountable. Nearly 30 years on, however, the impacts of decentralization on poverty reduction and access to services remain uneven across the country. Limited good governance remains a defining factor in the development of communities, including the progress in poverty reduction. Several studies have shown that the levels of fiscal transfers from the national level to LGUs are not sufficient for poor municipalities to assume the costs of devolved basic services. Previous and current administrations have taken initiatives to increase fiscal transfers from the national level to LGUs, with a bias for the poorer municipalities. In 2019, the Supreme Court affirmed a ruling that LGUs are entitled to a much larger “internal revenue allotment” (IRA) transfer

than currently provided. The ruling, which takes effect in 2022, has raised concerns about the absorptive capacity of LGUs and other impacts on public services and the economy more generally.

LGUs lack the capacity to effectively plan for development. Despite decentralization, national line agencies retain a substantive role in the provision of subnational infrastructure and services, resulting in fragmented planning and diffused accountability. Local governance faces the challenge of achieving coherence in vertical planning and resource-sharing among the provincial, municipal, and barangay LGUs. In general, they lack sufficient technical capacity to implement infrastructure projects and provide services in a timely and quality manner, perpetuating dependence on the national line agencies.

Local governance in conflict-affected areas is often weak. Of the 123 LGUs in the ARMM, only 30 percent passed the 2014 Good Financial Housekeeping (versus a standard national average of 91 percent) and none received the 2015 Seal of Good Governance (versus a standard national average of 15 percent). Fiscal resources are limited (low revenue collection means that many conflict-affected areas rely on the national government for 99 percent of revenues) and most likely inefficiently spent (the number of qualified audit reports tends to be high in conflict-affected areas).

Establishment of the BARMM offers many challenges and opportunities that will have lessons for adoption of greater devolution of autonomy and responsibility to subnational governments. The Bangsamoro Organic Law will provide greater flexibility to the regional administration in allocating block transfers from the national government. It does not change the relationships between the regional government and lower-tier governments. LGUs will continue to be strongly dependent on the national government for their funding and operational framework. The disconnection between regional and local governments creates the potential for inefficient and conflicting activities while eroding accountability because of the lack of clear responsibility and contribution to regional, local, and national goals.

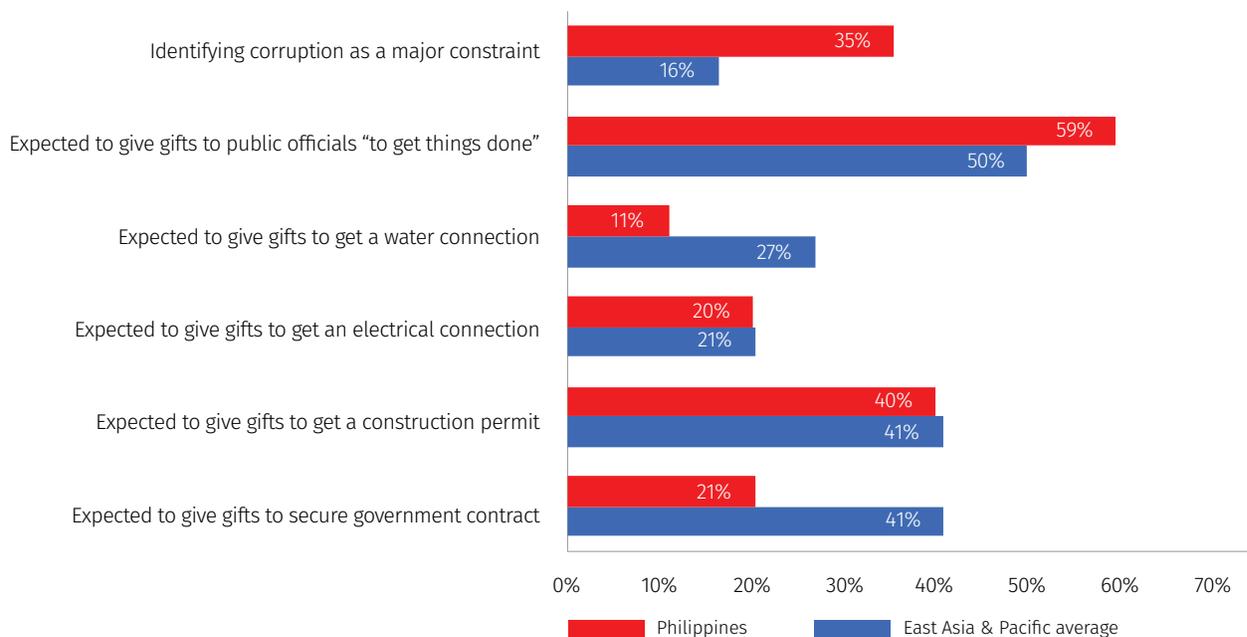
In large metropolitan areas, including Metro Manila, Cebu City, and Davao City, issues such as congestion and flooding often span administrative boundaries. There is no effective coordination of urban development in the Philippines. The limited capacity and resources available for the Metropolitan Manila Development Authority mean that it is unable to meet the needs of the region's expanding population, let alone play a leading role in national urban planning and management (World Bank 2017). The challenges facing urban areas are exacerbated by weak land administration arrangements, conflicting intergovernmental responsibility and accountability, and lack of comprehensive preparedness for handling natural disaster and other risks to sustainable urban growth.

6.2. Control of Corruption

The Philippines ranks at the 34th percentile among countries in the WGI for control of corruption. The average percentile rank among regional peers is 45. A principal challenge for evaluating the extent of corruption is the lack of publicly available data. Most analyses of corruption rely on perception surveys.

Data from surveys of firms confirm that corruption affecting the private sector remains widespread. In the 2015 Enterprise Survey, 35 percent of firms identified corruption as a major constraint, more than double the average among countries in East Asia and the Pacific. The fraction of firms reporting that gifts are expected for various government transactions is also high but in most cases below the average for other countries in the region. Particularly high rates of expected gift-giving are “to get things done” (59%), to get a construction permit (40%), and to secure a government contract (21%) (Figure 71).

Figure 71: Corruption Reports in the Enterprise Survey (Percentage of Firms), 2015



Source: 2015 Enterprise Surveys.

6.3. The Rule of Law

A major rule of law concern in the Philippines is weak judicial efficiency, which stymies economic growth and regulatory effectiveness. Stable economic growth, trade, and industry require an efficient judiciary to protect agreements, create an environment where contracts are enforced, settle disputes, and backstop regulators in implementing their mandates even in the face of strong commercial vested interests. Businesses need assurance that contracts are going to be honored and enforced, that government policies are consistently and transparently applied, and that decisions on disputes that reach the courts will be rendered in a timely manner and will not unduly extend uncertainties.

In the Doing Business subindex measure for “Enforcing Contracts,” which measures the time and cost of resolving a commercial dispute in court, the Philippines ranks 152 out of 190 countries. Limited court automation and case management systems mean courts do not report the time it takes to dispose of a case, do not provide single case progress reports, and are opaque about the age of pending cases. In a 2013 survey, 68 percent of enterprise managers said they do not believe the rich and poor receive equal treatment in court (Social Weather Stations 2014).

The heavily overburdened judiciary suffers from significant governance challenges. The Supreme Court was weighed down with a total caseload of 14,411 cases in 2017, including 8,726 pending cases. The backlog at all levels of the court system is high. For instance, the Court of Appeals had close to 20,000 pending cases at the end of 2016 and the lower courts had over 800,000 cases pending in 2017.

Judicial inefficiency hampers inclusive growth by favoring established and well-connected firms with the resources to engage in protracted court battles. Managers and owners from medium-size firms are nearly twice as likely as those from large firms to identify the court system as a major constraint to business.²⁵ A poorly functioning judiciary helps entrench existing oligopolies and discourages small and medium enterprises (SMEs).

Important reforms critical for economic and social development often face fierce challenge in the courts.

High levels of uncertainty in the integrity and timeliness of decisions can significantly undercut potential benefits for growth and development. For example, two challenges to the Reproductive Health Act of 2012 delayed full implementation for five years.

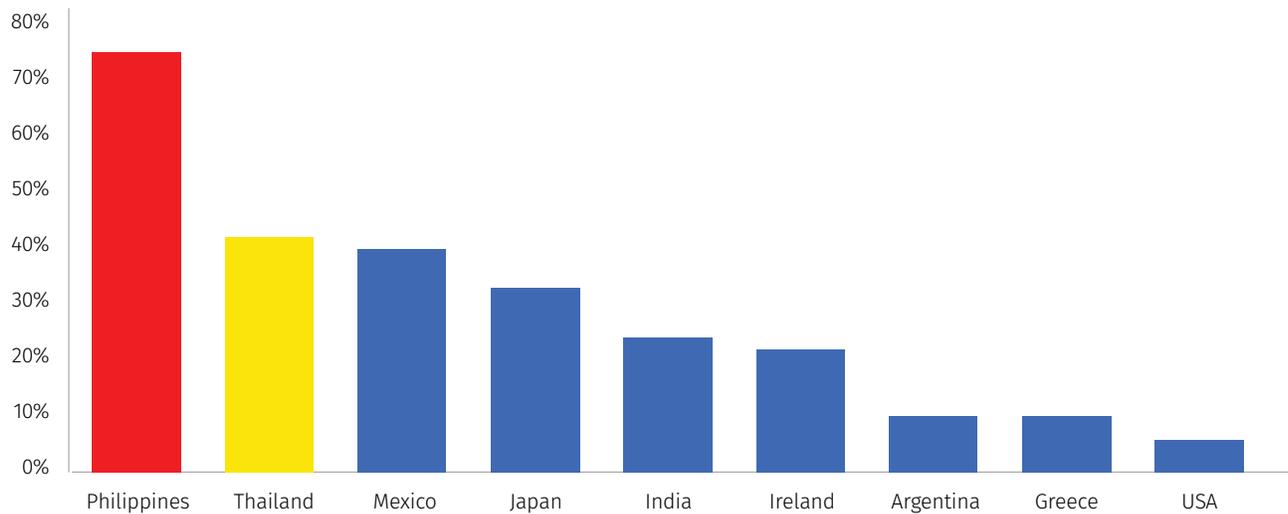
Substantial rule of law concerns have also been raised about the deaths resulting from the war on drugs. The Philippine National Police (PNP) report that more than 6000 people were killed in police anti-drug operations between July 1, 2016 and July 31, 2019 (Philippine News Agency 2019). This figure excludes those killed by unidentified gunmen.

6.4. Voice and Accountability

Voice and accountability are limited by political dynasties and vote-buying. These twin political phenomena stifle voice by discouraging active political participation of those without family connections and the ability to raise the funds. They limit the accountability of elected officials by weakening competition. In the economic sphere, limited competition is a constraint to inclusive growth. In the political sphere, political dynasties limit competition, stunting government performance, particularly at the local level.

Political dynasties are uniquely prevalent in the Philippines. A political dynasty is a family that retains political power by maintaining control over at least one elective position over successive generations. The Ateneo School of Government has documented the extent of political dynasties in the Philippines and their impact. The share of Philippine legislators who hail from dynasties is three in four, far higher than in Mexico, Thailand, and other countries for which estimates are available (Figure 72). Eighty-five percent of provincial governors are from dynasties.

²⁵ Based on data from the World Bank's 2015 Enterprise Survey.

Figure 72: Percentage of Legislators Who Come from Political Dynasties

Source: Mendoza et al. 2016.

Note: Regional peer is shaded yellow.

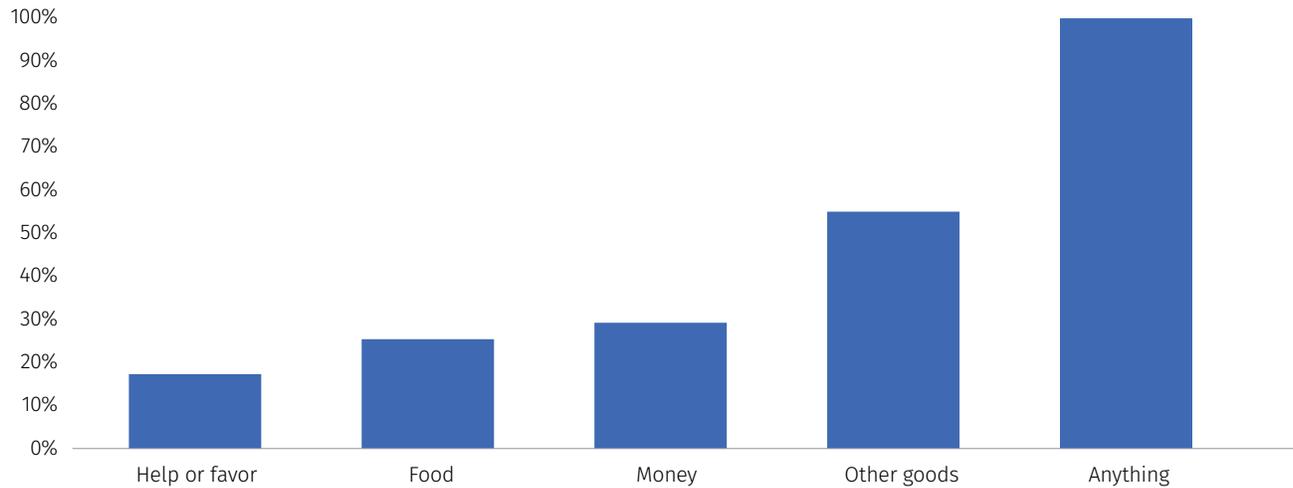
The share of positions held by members of political dynasties has increased in the last decade (Mendoza and Banaag 2017). Concern about the impact of political dynasties is long-standing, and the Philippine Constitution enacted in 1987 prohibits political dynasties “as may be defined by law.” A law to define dynasties and enable this provision has yet to be passed.

There is a positive correlation between the extent of strong political dynasties and poverty in the Philippines. This relationship is particularly strong in Visayas and Mindanao (Mendoza et al. 2016). There is also a correlation between low political contestability and poor socioeconomic welfare in conflict-affected areas of Mindanao. The scholarly literature identifies how a deterioration of political competition as a consequence of dynasties may result in poor socioeconomic outcomes. The principal mechanism is that dynasties may erode checks and balances, weakening accountability and auditing mechanisms that are supposed to police the behavior of public officials, particularly in the way they manage public resources. In situations where the provincial governor, district representative, and several municipal mayors

are related, for example, expenditure decisions will be strongly influenced by a single family. Political dynasties can potentially take advantage of state power for self-serving interests without fear of replacement or administrative sanctions.

Academic research suggests that vote buying, which occurs in many countries, is widespread in the Philippines. One detailed study based on a 2016 survey of low-income voters in Metro Manila found that attempts at vote buying were widely prevalent: 100 percent of respondents were offered something in exchange for their vote (Canare, Mendoza, and Lopez 2018). Vote buying consisted of an offer of money, food, other material things, or favor in exchange for a vote (Figure 73). The sums voters received are surprisingly high: in one recent study, they range from \$20 to \$50 per household in local elections (Cruz et al. 2018). Politicians who can buy votes have less incentive to seek votes through programs and policies that serve constituents. International research has observed that in areas where vote buying is prevalent, the delivery of primary health services and health outcomes are weaker than elsewhere (Khemani 2018).

Figure 73: Percentage of Low-Income Metro Manila Voters Offered Something in Exchange for Their Votes



Source: Canare, Mendoza, and Lopez 2018.

Vote-buying and political dynasties lie at the nexus between extreme wealth concentration, oligopoly power, and weak rule of law. Although systematic data are lacking, numerous case studies demonstrate how the political system in the Philippines has historically been hijacked by the interests of economic elites (Hutchcroft 1998; McCoy 2009; Studwell 2013).

Politicians often block implementation of policies and programs that threaten the dominant oligopolies and their owners, who may be the politicians themselves, their family members, and others who funded their election campaigns. The weak rule of law also favors the elites, who can navigate the courts and use them to tie up legislation they oppose.

