THEMATIC ASSESSMENT (SUMMARY): GOOD GOVERNANCE AND POLITICAL ECONOMY

A. Performance, Problems, and Opportunities

1. Methodology and key findings. This summary assessment is based on the country governance risk assessment and management plan conducted by the Asian Development Bank (ADB) in 2011. The report follows the requirements of ADB’s second Governance and Anticorruption Action Plan (GACAP II) and draws on numerous studies, including the latest public expenditure and financial accountability assessment, the Country Procurement Assessment Report (CPAR), and the National Integrity Systems Report. The report concludes that the Philippines is characterized by high governance and corruption risks that, left unmitigated, pose risks to the country's development and the effective implementation of the country program. The challenging governance environment has been linked with the country’s low competitiveness rating and low elasticity of poverty to economic growth.

2. Reform-minded Government. The President was elected on a platform that highlighted "Kung Walang Corrupt, Walang Mahirap" (“without corruption there is no poverty”) and has promoted governance and anticorruption as core priorities of his political agenda. The commitment and leadership for governance reforms expressed by the Government and confirmed by the initiation of credible reform measures creates an unprecedented opportunity to address many of the challenges outlined below. However, resistance from entrenched interest groups will have to be overcome and has the potential to slow down the reforms.

3. Political economy. The Philippines’ complex political economy results in impediments that are likely to impact on the pace and quality of reforms. The system has been characterized as a highly politicized "patronage-based state" which according to Hutchcroft (p. 426) “a) occurs within settings that lack effective bureaucracies and/or well-institutionalized political parties; b) devolves important elements of state administrative functions to local power holders; and c) displays high levels of interconnectedness among the different territorial layers of Government via a patronage system that has its apex in the national capital.” Similarly, M. Johnston (2010) highlights the “oligarchs and clans syndrome.” As a result, although the President was elected

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1 Additional updated Public Sector Management Subsector Assessment Summaries are available on Investment Climate; Fiscal Policy; Judiciary and Justice Sector Agencies; and Decentralization and Local Governance accessible from the list of linked documents in ADB. 2013. Country Operations and Business Plan: Philippines, 2014-2016. Manila (Appendix 2).
in May 2010 with a significant margin ahead of the second-placed candidate, and his party, the Liberal Party, leads the Lower House of Congress, it cannot be taken for granted that political alliances always translate to legislative support needed for meeting the Government’s schedule for reforms. The Senate consists of members of different parties, and members may vote independently on specific issues and reform initiatives, which adds to the risk of prolonged legislative due diligence. Consensus building is influenced by the effective lobbying of vested interests, including strong nonsecular views that affect policy formulation. As a result and despite an active public debate and civil society, the quality of governance within the oldest democracy in Asia suffers.  

4. **Budget and public financial management (PFM) systems.** In the past decade, reforms have successfully been initiated in areas such as medium-term expenditure framework, results-based budgeting, and internal audit. Since 2007, the medium-term expenditure framework has guided the allocation of resources to priority sectors based on explicit medium-term fiscal targets or strategies. Reforms are ongoing in the following areas: (i) zero-based budgeting; (ii) abolition of lump-sum funds; (iii) rationalization of Government agencies; (iv) a move towards more programmatic rather than project-based budgets; and (v) and efforts to strengthen the Government integrated financial management information system (GIFMIS). The Government has also implemented agency results-based budgeting in the 2014 budget preparation through the Operations Performance Indicator Framework (OPIF) in over 270 national Government agencies, including the judiciary; Congress; constitutional offices; and state universities and colleges. The OPIF represents a shift from input-based to output-focused budgeting and encourages agencies to focus efforts on the delivery of outputs relevant to the organization and national development goals. A major achievement also relates with the identification of service delivery output agreements between the Department of Budget and Management (DBM) and national Government agencies as well as identification of performance indicators. National Guidelines on Internal Control Systems have been issued and internal audit units are operational in 13 departments.  

5. **Challenges in reforming budget and PFM systems.** Weaknesses remain unaddressed in various aspects of the budget and PFM system, specifically on budget execution and reporting. Certain features of the Philippine PFM system are inconsistent with international standards, such as (i) the constitutionally assigned dual role of the Commission on Audit (COA) as an independent, external audit body and also as the agency in charge of setting the Government’s accounting standards; and (ii) the strong discretionary authority enjoyed by the President. The ability of Government agencies to execute the budget and implement programs that deliver services to people is constrained due to (i) a fragmented PFM system characterized by weak capacities in policy coordination and project management; (ii) the introduction of ad hoc changes in policies or rules regarding specific sector programs; and (iii) a general lack of transparency and accountability over the use of appropriated funds. Similarly, a lack of accountability and transparency arises from several structural and procedural weaknesses in the PFM reporting system. These include a weak system of external reporting, exacerbated by fragmented data and unconnected manual and electronic information management systems. Ensuring efficiency and effectiveness in managing public resources requires oversight from actors both inside and outside the executive branch based on improved access to comprehensive and timely information on the various aspects of PFM.

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syndrome” with a particularly worrisome form of corruption dominated by the dealings of a relatively small number of powerful figures and their personal followings, a climate of pervasive insecurity, as well as violence.

An analysis of decentralization and local governance issues can be found in the Public Sector Management Sub sector Assessment on Decentralization and Local Governance (accessible from the list of linked documents in Appendix 2).
6. Initial budget reform initiatives of the Government. The Government has taken some early steps to enhance the quality of public spending and improve budget execution and reporting. The timely processing of budget laws since 2011 was widely welcomed in a country that had become accustomed to "reenactment" of previous year's budgets, resulting in delays in fund releases and service delivery. Initial measures were also taken to adopt a "zero-based budgeting" approach, which includes the evaluation of major national programs and reallocation of funds from inefficient to basic social services. As a result, the 2011 to 2013 budget laws include a significant reduction in the special purpose funds and increases for education, health, and social protection. The budget laws also include requirements for departments to increase transparency on procurement plans, funds utilization, and implementation. Further, DBM has initiated the posting of funds releases (e.g., congressional allocation chargeable against priority development assistance fund ["pork barrel"], financial assistance to local government units, a school building program, and the internal revenue allotment) on its website. In 2013, the General Appropriations Act serves both as a budget law and a budget release document, which dramatically reduced the time consumed for budget implementation. Starting in 2014, the budget law will be performance-informed, where outputs and outcomes will be reflected in the budget documents alongside the financial figures.

7. The Government has also engaged with citizens in the whole budget process with the creation of a civil society organization (CSO) desk at DBM and the establishment of Budget Partnership Agreements with CSOs. Government also introduced participatory budgeting through the Bottom-Up Budgeting (BUB) program where about $195 million worth of projects identified in 609 local government units were incorporated in the 2013 national budget. DBM targets over 1,200 poorest LGUs in the country to work closely with CSOs in identifying community programs and projects according to specific community needs. The country was a founding Government member to Open Government Partnership and signed the Open Government Declaration in September 2011. To broaden transparency, accountability, and participatory budgeting, DBM launched the People’s Budget and the Budget ng Bayan website – two initiatives agreed in the Open Budget Partnership, a national collaborative initiative between the Executive through the DBM, Congress, and civil society organizations including professional organizations, academic institutions, and the international development agencies.

8. PFM reform roadmap. A promising reform program for PFM has been developed beginning in 2009 by a working group consisting of senior level Government officials from the Department of Finance (including the Bureau of Treasury), DBM, and COA. The road map (consisting of an ambitious 5-year action plan) was adopted by the Government Integrated Financial Management Information System Committee Resolution in February 2011 and approved by the National Economic and Development Authority Board in June 2011. The reforms aim at building up a more credible PFM system supported by an integrated Government financial management information system. In early 2013, good progress was made in implementing the reform roadmap: (i) a new Unified Account Code Structure (UACS) harmonizing DBM and COA accounts for more effective and streamlined fiscal reporting will be

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8 A similar effort to increase transparency ("seal of good housekeeping") was taken by the Department of Interior and Local Government and is discussed in the Public Sector Summary Assessment on Decentralization and Local Governance accessible through the list of linked documents in ADB. 2011. Country Partnership Strategy: Philippines, 2011-2016. Manila (Appendix 2).

9 The Open Government Partnership is a global multi-lateral initiative that aims to secure more transparent, effective, and accountable Governments. See http://www.opengovpartnership.org/about

ready to be implemented for the 2014 budget cycle; (ii) design work was also completed for the introduction of a Treasury Single Account that will be introduced by 2013; and (iii) the Government Integrated Financial Management Information System (GIFMIS) is on track to be introduced by 2015. If successfully implemented, the reforms will result in a system that will provide reliable and accurate information to support operational budgeting, cash programming, management of liabilities, timely financial reporting, and effective enforcement and financial controls. This also has the potential for improved oversight by Congress and CSOs.

9. **Public procurement.** The *Government Procurement Reform Act*, passed in January 2003, provides for the modernization, standardization, and regulation of the procurement activities of the Government. The *Government Procurement Policy Board* (GPPB) is the policy and monitoring body with the mandate of handling all procurement regulatory matters affecting the national interest. According to the CPAR (footnote 3), the public procurement system has become more efficient, and many loopholes for corruption opportunities have been closed. The promotion of e-procurement through the *Philippine Government Electronic Procurement System* has brought the system into the digital age and vastly improved transparency and efficiency. Its functionalities are being expanded that enables online payment for common-use supplies and other goods offered for sale by the procurement service. Electronic payments are consolidated into a three-year road map to shift Government transactions to largely electronic payment system. In implementation, standard bidding documents and manuals are being used by the key actors in procurement, the procuring agencies and private sector providers. In reviewing compliance and closing the loop in implementation, the auditors and the GPPB are now looking at the same rules and documents as the actors, which should be making it easier to conduct review and audit. The 2010 procurement audit guide is being updated by COA. A new harmonized procurement implementing regulation (One Implementing Rules and Regulations of Republic Act 9184) took effect in July 2009. As a result, the procurement system has been strengthened. With 3 as a maximum score, the country’s overall score improved from 2.43 in 2008 to 2.57 in 2012 in the Organisation for Economic Cooperation and Development’s Methodology for Assessing Procurement Systems.

10. **Remaining issues in public procurement.** While the GPRA appeared to have fully met the baselines for a good procurement legal and regulatory framework, the challenge remains in implementing and enforcing the law across all Government agencies. The private sector is not yet confident of a level-playing field, although measures are in place to address the issue from the national to the sub-national Government level. The remaining issues relate to (i) lack of an independent complaint review body; (ii) absence of mechanism to ensure enforcement and compliance; (iii) lack of mechanism to monitor progress of dispute resolution cases; (iv) insufficient procurement training programs; (v) weak monitoring of bids and contract implementation by CSOs; (vi) existence of eligibility requirements that do not reflect the technical and financial capacity of bidders; and (vii) absence of professionalization program and systematic matching of skills against requirements of competitive recruitment for procurement practitioners. A public procurement action plan has been developed to address these remaining issues. GPPB is considering improving CSO role as procurement observers following recommendations in a study that was conducted by ADB in 2013.

11. **Combating corruption.** A comprehensive legal framework for anticorruption emanates from Article 11 of the 1987 Philippine Constitution, and the United Nations Convention Against Corruption that was ratified by the Senate in 2006. While there is a plethora of anticorruption

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laws, implementation and enforcement capacities are weak, and important laws such as a Freedom of Information Act and legislation for whistleblower protection are missing. The large number of integrity agencies with overlapping and diffused mandates has resulted in a dilution of resources and has undermined the authority of the main enforcement agency, the Office of the Ombudsman (OMB). The recent formation of PDF Sub-working Group on Anti-corruption can help rationalize mandates and develop synergies among anti-corruption agencies. Also in its 8-point priority agenda, OMB will improve the policy and program coordination among sectors and the rationalization of its functional structure. OMB’s other priorities within the next seven years include the disposition of high-profile cases, implementation of zero-backlog policy, and improvements in fact-finding rates, monitoring of referred cases, responsiveness to public assistance, and enhancement of its transparency and credibility. The Government has taken credible measures to strengthen the integrity of constitutional bodies and key oversight agencies, such as the OMB and COA.

12. **Partnerships with CSOs.** There is a wide range of CSOs in the country, including organizations that are willing to engage with the Government constructively in strategic discussions, analytical work, program delivery, implementation, and monitoring and evaluation as well as in efforts to hold Government to account. In the past, such partnerships have suffered from issues such as the absence of Freedom of Information legislation, and limited readiness of the Government to disclose critical information. Despite these limitations, several CSOs have established a solid track record for effective partnerships with Government. The Government continues to strengthen constructive engagements with CSOs. Aside from the BUB initiative and the Budget Partnership Agreements with CSOs at the budget preparation stages of 2013 and 2014 budget laws, Government actively pursues CSO participation in budget implementation i.e., public procurement, and in audit through the Commission on Audit’s (COA) citizen participatory audit program. For public procurement, the Government Procurement Policy Board (GPPB) is considering recommendations from an ADB study on establishing a devoted unit within the GPPB-Technical Support Office that will oversee and manage the CSO observer function in procurement and CSO capacity development and professionalization. On citizen participatory audit program, COA has pilot-tested the approach in three major infrastructure projects in 2013 and will continue in succeeding years. Constructive engagements with CSOs provide opportunities for more effective partnerships in the entire public sector management cycle i.e., national, regional, and local planning; budget formulation; project implementation and service delivery; and audit.

B. **The Government’s Governance Strategy**

13. **Government strategy.** The Philippines Development Plan, 2011–2016 devotes an entire chapter to "good governance and the rule of law." The weak quality of governance in the country is acknowledged, and governance constraints are identified as major impediments to poverty reduction and private investments. The strategy comprises four pillars to promote and practice effective and honest governance, namely: (i) ensure effective, efficient, transparent, accountable, economically and physically accessible, and nondiscriminatory delivery of public services; (ii) curb corruption; (iii) strengthen the rule of law; and (iv) enhance citizens’ access to information and participation in governance. In addition, the chapter on macroeconomic policy highlights a range of expenditure policy and debt management reforms. For each of the pillars, specific measures are identified.

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12 While the Constitution guarantees public access to information, the actual disclosure of information is hampered by a lack of legislation that defines the necessary procedures. A draft Freedom of Information bill, which was supported by a wide range of CSOs, failed to get approval in the last session before Congress closed in 2010. The bill is not included in the list of priority legislative measures highlighted by the President.
14. Core governance measures. The President formed the Good Governance and Anti-Corruption Cabinet Cluster (GGACC) to coordinate the implementation of governance- and anti-corruption-related initiatives contained in the President’s Social Contract with the Filipino People, the Government’s 16-point agenda and priority areas of development. GGACC is chaired by the President with members comprising Secretaries of the Departments of (i) Budget and Management; (ii) Finance; (iii) Interior and Local Government; (iv) Justice; (v) Trade and Industry; (vi) the Head of Presidential Legislative Liaison Office; and (vii) the Chief of Presidential Legal Counsel. It consolidated a comprehensive and integrated governance and anticorruption action plan and oversees implementation of planned and ongoing initiatives by various sector agencies. It is tasked to strengthen public institutions and to promote transparency, accountability, and participatory governance. It pursues improved public financial management systems, capacity for results-based budgeting, and improved policy and regulatory environment for private sector development. It promotes transparent Government transactions to combat graft and corruption and enable civil society groups to monitor and evaluate Government performance.

15. The Government leads the Philippine Development Forum, the primary mechanism for facilitating policy dialogue among stakeholders. It also serves as a platform for building consensus and commitments among different stakeholders towards specific policy actions. It has a Working Group on Governance and Anticorruption and two sub-working groups under it: the Procurement and the Anti-corruption Sub-working Groups. The former is tasked to conduct the 2012 Country Procurement Assessment using the Organisation for Economic Cooperation and Development’s-Development Assistance Committee-Methodology for Assessing Procurement Systems, identify the procurement risks, and recommend related policy reforms and systems improvements. The Anti-corruption Sub-Working group is tasked to coordinate whole-of-Government anti-corruption initiatives and identify synergies of efforts between agencies and development partners.

16. The Government is also pursuing improved access to information and participation in governance and is working on the legislation of the Freedom of Information Bill. Its passage into law was stalled during the last Congressional session after the House of Representatives failed to ratify the bill in time for the session’s closing in early 2013, but the Senate re-filed the bill at the opening of sessions in July 2013. To promote an open and transparent search process and selection of appointees, the Government has organized a multisectoral committee that assists in the nomination and the President’s appointment of officials in independent commissions and other oversight bodies.

C. ADB Thematic Experience and Assistance Program

17. Strong experience. Consistent with GACAP II, ADB is continuously engaged in assessing country systems for PFM, procurement, and corruption and in developing and implementing risk mitigation plans. In particular, ADB is leading the preparation of the CPAR in cooperation with the Government and the World Bank and has conducted sector governance risk assessments for transport, social protection, finance, and energy. A recent technical assistance (TA) was developed to mitigate corruption risks in a road project. Further capacity

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development was provided to mainstream OPIF reforms in the rural development and natural resources sector, and in the preparation of Government’s 2014 national budget. ADB has promoted policy dialogue and reforms through its leadership of the Philippine Development Forum working group on governance and anticorruption and through various TAs, some stand-alone, but most linked to program loans such as the Development Policy Support Program, the Governance in Justice Sector Reform Program, and the Local Government Finance and Budget Reform Program. Further details on ADB TA can be found in the subsector assessment summaries on public sector management and the country governance risk assessment and management plan. Dedicated staff resources will continue to support governance reforms.

18. Governance support priorities. Drawing on strong past experience with the implementation of governance reforms, GACAP II priorities, and the priority risks and mitigation measures identified in the Risk Assessment and Management Plan of PFM, procurement, and anticorruption, ADB will continue and deepen its engagement in governance and anticorruption reforms at the country, sector and project levels. ADB will, jointly with accountability agencies and other development partners, including civil society, regularly update governance assessments at the country level i.e., through participation in public expenditure and financial accountability assessments, CPARs, and public expenditure and integrity development reviews. ADB will also broaden the coverage of sector governance risk assessments, i.e. in the education sector. Project designs will be based on in-depth governance risk assessments and will include mitigation plans, where needed. ADB will also continue to allocate dedicated governance staff to the Philippines Country Office and will maintain coordination with development partner activities in the area of governance and anticorruption through engagement in the Philippine Development Forum (PDF) working group on governance and anticorruption and its subgroups. Continued close monitoring of developments in the area of PFM through participation in the PDF subworking group on PFM will be undertaken, including regular assessment of support needs that may arise. For public procurement, support for the implementation of action plan as defined in CPAR 2013 will be pursued in coordination with development partners and the Government. The successful approach of combining policy dialogue through programmatic lending with combined capacity development support will be continued in the areas of investment climate, local Government finance and budget reforms, fiscal policy, and justice sector reforms, and will be broadened to the sector level. The main priorities for reform will include (i) legal and regulatory reforms in budgeting, PFM, and debt management; (ii) strengthening capacities for budgeting, PFM, and procurement at the national and local Government levels; (iii) improved congressional and CSO oversight i.e., pilot-testing innovations introduced under the PFM reform map in ADB-supported loans such as monitoring of road construction and procurement by CSOs; (iv) capacity development for social accountability measures with emphasis on procurement, budget transparency and accountability, and performance monitoring; and (v) strengthening the capacity and accountability of enforcement agencies such as the Office of the Ombudsman, COA, and the judiciary.

17 The document is accessible through the list of linked documents provided in Appendix 2.