

## CONCLUSION – CREATING VIRTUOUS CIRCLES OF GOOD GOVERNANCE

EDUARDO T. GONZALEZ

### I. INTRODUCTION

*To be pleased with one's limits is a wretched state.*

– Johann Wolfgang von Goethe (1749-1832)

You can count on government to do the right thing – but not often enough, and each time, not long enough. So imply the contributors to this **PHILIPPINE GOVERNANCE REPORT**, as they 'unbundle' the practices of government to identify different patterns of doing things in government sectors. Whether in health, education, social welfare, environment, agriculture, housing, or Mindanao, the storyline seems to be the same: each contributor follows with uncanny frequency the travails of government departments unable to find or sustain the right moves, and in the process limping along to an unfulfilling end. If there is any saving grace, it is that successions of government managers continue to chase held-up targets, self-willed despite the risks and the setbacks.

It is no coincidence that most government initiatives, regardless of source, fail to endure and often lose ground. The culprit is a *troubled* enabling environment. It is not easy to go beyond one's governance perimeters. Scattered reforms, left to run their own course, often run aground because of the limits imposed by weakened institutions and a not-so-level playing field.

To be sure, conditions in the Philippines point to a *fair* governance milieu, assuring it of being at least a cut above developing countries that are poorly governed. But fair governance is not destiny, and fair is *below* good or excellent. The challenge is to overstep the confines, to create synergies that can lead to a "creative destruction" of fair governance. In terms of game theory, when one agency breaks out of its institutional boundaries, others ought to typically ask themselves how they must react to come up with a least bad outcome – that is, if they have an incentive to fear being left behind by successful moves. So the first agency must motivate at least a few others to copy its actions and, hopefully, create a virtuous circle of reforms. Of course, this is easier said than done, not least in a bureaucracy that, by definition, does not have the attributes of a free market. Nor can the private sector, saddled with its own frailties, always do better, although it is expected to do no worse. But other stakeholders, such as civil society groups, can show up as pressure points, or even as partners, in order to induce a shakeout and force implementers to do things right. Some kind of a "yardstick competition" should emerge within the bureaucracy, if enough groups overcome their collective action hurdles to produce a counter-wave of changes.

This concluding chapter addresses the tension between a constraining governance environment and the reforms that have to be put in place in order for the different sectors (examined in this report) to make a good deal of progress. Windows of opportunity for changes occasionally open up to significant breakthroughs, but only up to a point. It is important to acknowledge that the institutional weaknesses of the state, the concentration of vested interests, and the extent of what the institutional economics literature describes as "state capture," will work as powerful brakes on various government initiatives, eroding their effectiveness and sustainability. Government programs thus should be crafted around realistic "litmus tests" that recognize the qualifying factors in such environments.

What this chapter does is to draw out common governance themes across sectors and distill lessons for targeting reforms more effectively. A quality of governance index, designed by [Huther and Shah](#) (1998), is used as a heuristic tool to (1) examine the different circumstances underlying the persistence of governance problems, and (2) provide a touchstone for reform strategies that are keyed both to the specific contours of the difficulty and the means of overcoming it. The end product is a set of policy options, with stress on how to target reform efforts, how to carry them out in stepwise fashion, and how to sustain them in a fair governance context.

## **II. SOFT STATE, FAIR GOVERNANCE**

The late Swedish economist Gunnar Myrdal, a Nobel laureate, coined the term "soft state" to refer to developing countries that lack a disciplined and capable bureaucratic culture, a cogent societal fabric, and strong political will to overcome such weaknesses. The Philippines easily classifies as a soft state under this definition. Not surprisingly, the aspects of a soft state extend over those of a poorly or fairly governed state. That means there is something wrong with the way social institutions, set of roles, rules, decision-making procedures, and programs that serve to define social practices and guide the interactions of those participating in these practices, are established and operated.

As Douglass C. North, another Nobel prize-winning economist, makes plain, these institutions, whether formal or informal, are the means through which authority is exercised in the management of the resources of the state. They make up, in other words, the enabling environment. The observable aspects of this environment that are important enough to consider, according to Huther and Shah (1998), are citizen voice and exit, government orientation, social development and economic management. To capture these governance ingredients, Huther and Shah came up with a composite index that measures a government's ability to: (1) ensure political transparency and voice for all citizens, (2) provide efficient and effective public services, (3) promote the health and well-being of its citizens, and (4) create a favorable climate for stable economic growth.

The citizen participation index attaches value to both the ability of citizens to influence the quality of governance they receive and the level of political stability of a country. The orientation of governments toward the provision of public goods and services is keyed to three indices: judicial efficiency, bureaucratic efficiency, and lack of corruption.

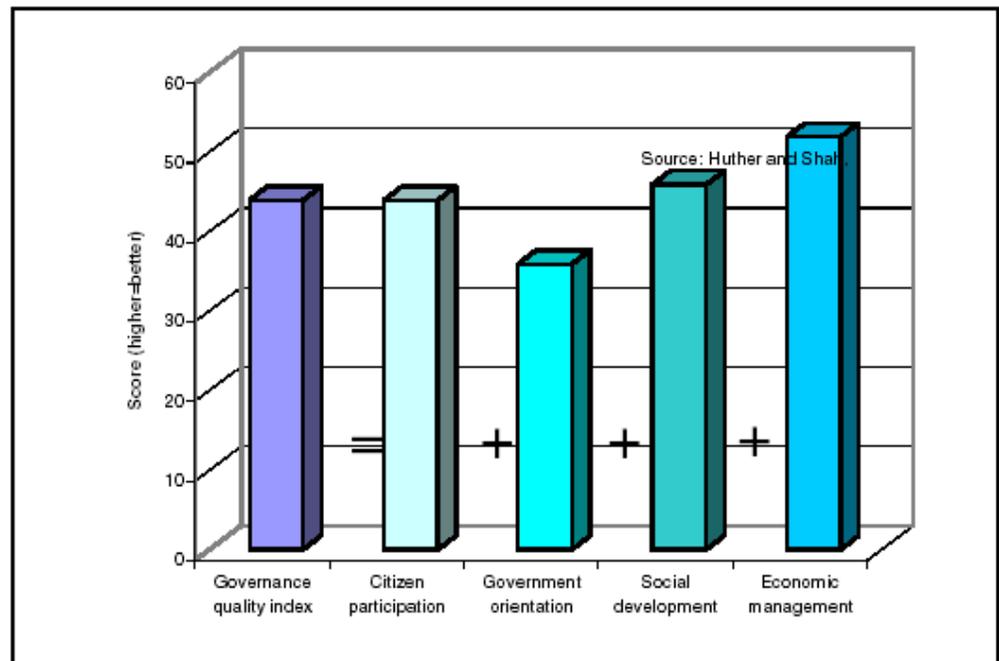
Two widely known components, the human development index and Gini coefficients (which quantify the degree of income inequality) make up the

[social development index](#). The quality of a government's economic management is assessed through performance indicators of fiscal policy (debt-GDP ratio), monetary policy (central bank independence) and trade policy (outward orientation).

On these counts of governance, the Philippines has received fair marks, suggesting that the country is reasonably managed although serious challenges remain. In a 1998 ranking of countries on governance quality, the Philippines is rated "fair" governance, with an [index of 44 on a scale of 0 to 100](#) (with 100 being the highest score) (See Figure 1).

What does this score mean? Essentially, it suggests the following: There is a fair degree of political freedom as well as political stability in the Philippines (notwithstanding the volatile situation in some parts of Mindanao). Elections are regular and relatively free and open, although for the most part only the moneyed and landed families contest and win them. However, other forms of political participation are comparatively high, for example, non-government organizations register a powerful presence as a voice mechanism. Yet, collective action barriers persist, as the cost of organizing coalitions that represent broader interests can be frustratingly high.

Figure 1: Fair Governance Marks for the Philippines



The Philippine government remains inadequately oriented toward the provision of public goods, although reforms in public sector management are gradually easing delivery bottlenecks. Bureaucratic inefficiencies are still fairly pronounced. Allegations of corruption in the judiciary (excepting a reform-minded Supreme Court) are widespread. The lower courts are especially critical, as they need to enforce accountability through timely and fair decisions. If not, corruption and a weakened judicial system are likely to

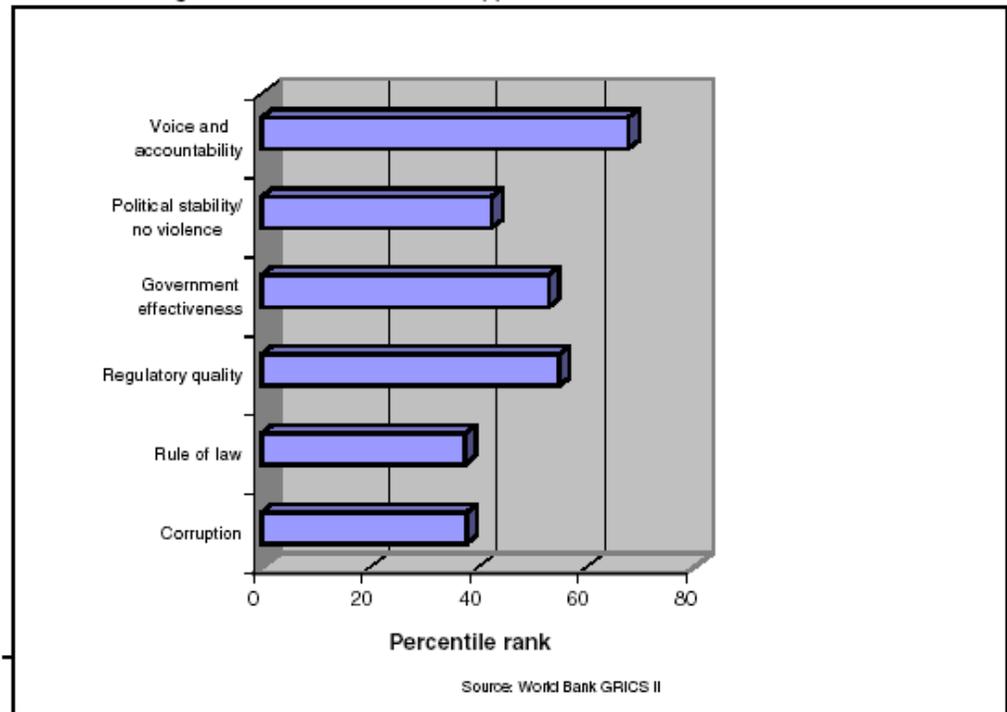
be 'partners in crime', so to speak, feeding on each other to erode a country's institutional defenses (Mauro, 1998), and inflict harm that fall lopsidedly on the nation's poor.

The country has moderately good social development, with notable progress in health, education, and per capita income. Government spending has enabled the country to reach fairly reasonable levels of human development, but would need a boost to catch up with the country's neighbors on the income side. Growth with equity appears as a firm policy commitment of the government, which scores well on economic management.

Its upside is the outward orientation of the economy (trade policy), manageable debt, and a viable monetary policy. The case against the Philippines, however, is that the regulatory structure and trade regime, although changing, still hurt economic performance. Investors are not quite impressed, and the financial markets are lackluster.

The country may also have run out of easy sources of new growth potential. The country's fair governance marks are corroborated by the World Bank's GRICS II,4 which surveyed non-government organizations, commercial risk rating agencies, and think-tanks from up to mid-2001. The Philippines has the following percentile ranks (0 to 100 in percent): voice and accountability – 67.8; political stability/no violence – 42.6; government effectiveness – 53.1; regulatory quality – 55.0; rule of law – 37.6; and corruption – 37.9 (Figure 2). The percentile rank indicates the percentage of countries worldwide that rate below the selected country. In other words, the Philippines ranks poor in rule of law and corruption, below average in political stability, and average in government effectiveness and regulatory quality.

Figure 2: Fair Marks for the Philippines in New World Bank indicators



A fair score is a passing mark, and indicates that for the country to slip into a worse rating, institutions have to collapse dramatically – something unlikely to happen. Nonetheless, a country with a fair governance environment has to overcome a number of difficulties, including the following:

- The involvement of vested interests in public affairs (many invest their time and money to maintain a strong grip over state institutions in order to strengthen their influence over state policies). Public agencies serve as conduits for capture of both policies and public resources. This backdrop was clearly unmistakable during the Estrada administration.
- There is either half-baked understanding or insufficient respect for the separation between public duties and private interests. Disregard of this conflict of interest rule leads to the perversion of the rules of the game, to the benefit of a few, rather than for society as a whole.
- With institutional safeguards working in fits and turns (inconsistently functioning legal system, weak accountability structures, inadequate financial transparency), reforms may not last long, or worse, are vulnerable to political capture by predatory interests.

Given a fair institutional and policy environment, good governance programs have to be carefully selected and tested to see if they will survive – and eventually outstrip – these limits. This process combines judgments about both how suitable the particular intervention is (which suggests targeting) and how important such governance initiative is compared to any other (potential for welfare gains) (Huther and Shah, 1998).

The governance scorecard does not describe an unambiguous and unchanging situation. Following Huther and Shah, it is used as a heuristic device to underscore the pattern of governance existing in the Philippines. It is a rule-of-thumb for gauging the nature of governance issues confronting the country. It is neither an absolute nor a final classification of the country on these given dimensions of governance. In fact, it might be more important to know in which direction the country is moving rather than its position at any given time. As Huther and Shah explain, "countries can zigzag, progressing on one dimension of governance, falling behind on the other, or moving ahead on both fronts simultaneously." The scorecard is an indicator, not a full explanation, of the extent and nature of governance problems in the Philippines.

### **III. INSTITUTIONAL CHANGEOVER: BRIGHT SPOTS AND WEAK LINKS**

As suggested in this report, the experience of sectoral programs so far has produced mixed results. To some degree, their progress has depended on choices made by the country about institutional structures, which in turn, set in motion transition paths that favor particular growth patterns and shape incentives for either slow or fast changes.

Institutional breakups, for instance, have a strong influence on the way agencies develop, thus making or breaking sectors. Some changes were for the better, but in many respects, agencies also changed for the worse. When the education sector was branched off into three main parts (basic schooling, vocational-technical education, higher education), it was widely held to be a wise move. Such "trifocalization" of education management, according to Macasaet, allowed each subsector to focus and direct its attention to a single constituency, thereby increasing the channels of accountability within the sector. The Department of Education could now singularly deal with basic education, which had slowly deteriorated despite its potential for high social rates of return. Higher education, on the other hand, could be better addressed through a handful of coordinated, "centers of learning excellence." To strengthen vocational centers, the focus would be on standards setting, accreditation, and R & D.

Politicians have hijacked part of this good governance agenda, with Congress indiscriminately granting franchises to new state colleges, and in the process inflating the budget for higher education at the expense of basic education. Today, CHED has its hands full supervising an excessive number of these state colleges (there are now a record 113!). According to Macasaet, there are no antidotes so far to these proliferating state schools, which further erode higher education standards and quality. Generally, they perform poorly, and have a more costly upkeep than private institutions. TESDA, too, has been burdened by an unwanted task, that of running vocational schools that ought to be turned over to the local governments. Still, these are remediable failures, and if they could be remedied soon enough, trifocalization would stand the test of time and work better.

This cannot be said for the agriculture and natural resources sectors, which remain trapped in a bureaucratic and policy divide between resource protection, agricultural development, and land reform – the price paid for the structural separation of the Department of Agriculture, Department of Environment and Natural Resources, and the Department of Agrarian

Reform. Ocampo-Salvador suggests that the payoff that the nation reaped over the years was not exactly pleasant: no coherent and comprehensive land use plan, plus a policy framework on resource use based on generalized access (the result of low cost of land lease and land acquisition and low mining taxes). The environmental qualities of the resource base, according to Ocampo-Salvador, were traded off for extractive resource utilization.

In the end, the variation in institutional outcomes in the agricultural sector reflected poor choice of institutional structures. The country's political managers opted for functional segregation when the situation demanded keeping the integrated approach intact. That suggests the critical importance of policy innovation and strategic vision in altering the course of development of each sector. Both were sadly lacking in the agriculture sector when the 3-way split happened.

So what else could the Philippines be possibly doing right? The answer is localization, or installing accountability at the local government level. Decentralization was a clear transition choice that the country embarked on after most of the controlling structures of martial law were formally dismantled. Of the six government departments under scrutiny in this report, two, the Department of Health and the Department of Social Welfare and Development, had fully complied with the requirements of the Local Government Code, passed in 1991. Together, they had transferred to various tiers of LGUs "expenditure assignments" in key frontline services: nutrition and family planning, primary health care, hospital care, maternal and child care, day care centers, drug rehabilitation programs, and disaster relief operations, among others.

The Department of Agriculture has likewise devolved agricultural extension, communal irrigation, and local agricultural planning to local governments. Much more limited localization has taken place in the Department of Environment and Natural Resource, with only the powers to manage and protect small watershed areas being the most important to be transferred to LGUs. The Urban Development and Housing Act of 1992 allowed local governments to supply socialized housing, but funding difficulties and lack of capacity to do more basic things like land use planning impede any form of decentralized shelter. The Department of Education is not under any legal obligation to devolve basic schooling, although it is pursuing on its own some form of school-based management outside the purview of local governments. So far, according to Macasaet, this policy of de-concentration in education has done little to increase autonomy and control at the school level.

Although bureaucratic devolution has proceeded surely, if unevenly, fiscal decentralization remains unconvincing, and has thrown off-balance the need of local governments need to gain more fiscal autonomy to support expenditures. Revenue and tax assignment is the weak link in this chain, with LGUs still heavily reliant on central government transfers, such as the Internal Revenue Allotment. More local responsibilities, however, have not meant more central transfers. The DOH, DSWD, and DA still have dominant control over appropriations. In agriculture, for example, before devolution, central offices held 80 percent of appropriations; after devolution, the share decreased slightly to 75 percent. LGUs, according to Martinez, had a measly 9 percent share. The DOH and DSWD have likewise managed to retain the same percentage of budgetary allocation from the national

government, leaving many LGUs scraping the bottom of the barrel for spending money.

Centralist tendencies persist, with key projects in health and agriculture still being designed at central headquarters. A centrally driven, regulatory approach to managing environmental resources combine with the resource-strapped monitoring and enforcement capacity of the state. In some cases, "retained" programs such as public health campaigns are jointly undertaken with LGUs, but such concurrency has only served to befuddle accountability issues. In housing, it has been a seesaw affair between LGUs, expected to make shelter an integral part of the local service delivery program, but wanting in technical capacity, resources and even political will to address the problem of informal settlements, *and* the national government, which still bears the onus of supplying the money and the expertise for housing. In all, continuous centralization imposes a single policy across jurisdictions with unmistakably varied needs and preferences.

This is not to suggest that devolution is a cure-all. The fractured political geography of ARMM still haunts its creators, despite good attempts to rectify it through the social inclusion of more areas. Fragmentation has limited the possibility for dynamic interaction; in fact ARMM has "centralized" service delivery in the region by having full control over field personnel and government services, in the process forcing municipal LGUs to be obeisant to it. In the words of Ramiro, ARMM has hijacked decentralization, ran away with it, leaving local governments almost powerless. Overall, whatever its failings, the creation of ARMM remains groundwork to build on, like patches of quilt that need to be sewn together.

Despite some reversals in decentralization, it still is a shining star in the good governance firmament. When the DOH went full steam on devolution in 1993, it looked at it as a rare opportunity for enhancing local-level accountability that could turn the tide for health care at the very point of delivery. As Dela Cruz avers, it also paved the way for the organization to re-invent itself in 1998, especially in five key areas – health financing, links to local health systems, public health, hospital systems, and health regulation/standard setting. Here, it parlayed to its own advantage a fairly developed system of public administration and better-trained public officials – the Philippines does have strong skills in public management – to promote transparency and accountability within its domain.

The other important thing going for the Philippines is its romance with civil society. Civil society is much more developed in the Philippines than in any other Southeast Asian country. When civil society is franchised, collective action blossoms, and institutional restraints within the state are let loose, allowing the country generally to successfully confront internal pressures for reform. When civil society is repressed, ambitious reform campaigns flounder at the implementation stage. The Generics Law, the Clean Air Act, and the Indigenous People's Rights Acts were won on political battlefields because of the unflinching gallantry of civil society groups.

Although civil society organizations bloomed in the aftermath of martial rule, some NGOs were active in prior periods. For the indigenous peoples, according to Ocampo-Salvador, collective action was framed around claims to ancestral lands against vested interests, and as popular resistance to environmental degradation. The claims were secured through local rule-making institutions and organized community action. NGOs also

spearheaded community-based resource management schemes. New laws passed in the 1990s (Local Government Code, fisheries code, national integrated protected area system act, indigenous people's rights act) merely set the stage for a shift from a centrally driven open access policy to more participatory policy reforms in environmental governance. Precisely because they have close relationship with communities, and owing to their non-bureaucratic character, NGOs are obvious wellsprings of innovation in not just environmental services, but in welfare and health delivery. As Dela Cruz chronicles it, from being in the trenches doing health and welfare improvisations in the 1980s, NGOs became full-fledged partners in primary health care, and later on subcontractors executing health programs on their own.

Civil society has proven to be most effective when the government treats it as a participatory ally. Yet, all is not well with many civil society organizations. A principal drawback is that accountability structures among NGOs have been slow to emerge. In contrast to government agencies, which have long life spans, civil society groups, at least many of them, have brief shelf lives. The price of organizational flexibility is sometimes an unsure, fly-by-night existence. Some NGOs assisting agrarian reform communities or social forestry groups, for instance, had been known to disappear as soon as grants from donors dry up. Still, despite fragile structures, NGOs are here to stay, and the key is to strengthen their culpability, so that they are made answerable for many development programs and good governance initiatives.

These early choices about the structure of institutions affected the trajectory of governance. The institutional context is strong on some "fundamentals" – public sector reengineering, localization, links with civil society – but is not yet strong enough to deliver the minimum necessary underpinnings for long-lasting reforms. In fact, steady progress in terms of the capacity of the state and the strength of its public administration is easily repressed by powerful vested interests. The formal channels of interest intermediation, now fairly developed, can offer circuitry for *state capture* – the actions of individuals, groups, or firms both in the public and private sectors *to influence policy making* to their own advantage. Note that the types of actors engaged in the capturing vary – private firms, political leaders, or narrow interest groups.

Historically, economic elites have long secured positions of dominance in the government as a way of preserving economic and political power. It is no accident that, as Martinez puts it, it has been difficult to enforce a "compulsory" agrarian reform program under a liberal democratic regime, particularly one in which political life is dominated by parties of the elite. Landowners, he argues, have more influence in the labyrinths of power. In contrast, the peasant movement is frail, the beneficiaries of the program are marginalized from the policy-making process, and the impetus to change is weak. Or, conversely, it has been easy to please some narrow interest groups despite the folly of their demands. For example, the Philippine Cotton Corporation was put up upon the instigation of cotton growers from the Ilocos region, and their influence helps keep it in existence – this despite the GVAA of cotton being the equivalent of the budget of the PCC. Or, it has been no surprise why the lack of policy could itself be good policy for vested groups, such as what Dela Cruz suggests: "For an industry as big as that of health maintenance organizations (HMOs) and private insurance firms, government has not stepped in to exercise even minimal regulation."

Often, an overemphasis on measures that do not take into account the power and concentration of vested interests takes a life of its own and generates incentives that block key structural reforms. In the housing sector, the policy bias toward homeownership resisted any major policy overhaul because most interest groups, developers, NGOs, and the urban poor themselves hankered for ownership. Yet, according to Valte, the real problem was, and still is, shelter provision and security (which could be promoted in many forms such as rental, lease-purchase, and long-term land lease).

The outcome was not just a huge fiscal burden for government, which did not close the housing gap, anyway, but *moral hazard*: everyone borrowed at will, with lax rules, as developers and builders were assured of automatic mortgage takeout by government financial institutions. In other words, profits were assured while the risk was borne by government. In the end, both providers and end-users constantly failed to deliver shelter to those who needed it most – the urban poor.

In agriculture, meanwhile, keeping in place quantitative restrictions on cereal imports appease farmers, but do nothing to encourage farmers to adopt more productive techniques or shift to more profitable crops. Keeping intact commodity-specific agencies (NFA, SRA, PCA) placate rice producers, sugar growers and coconut planters, but stiffens the partiality for regulations (which supply rents for those allocating import/export licenses) at the expense of productivity enhancing measures such as research, extension, and irrigation. In the health sector, inaction to break up the monopoly in the production, wholesale, and retail distribution of pharmaceutical products may pacify both producers and retailers, but has squeezed out generic drugs that favor poor consumers. Such is the upshot when government managers act by improvisation, with no clear sense of purpose or coherent strategy, and a rather short attention span.

In housing, the state is often put in a contradictory position of pleasing every constituency, with one set demanding its withdrawal from direct provisioning so the market can step in, and another expecting it to live up to its traditional role of provider for low-income and marginalized sectors (socialized housing being a quasi-public good). But the state's incapacity to carve its own role, goals and policies, according to Valte, weakens its position vis-à-vis other stakeholders and makes it susceptible to pressure by dominant interest groups. When the separation of private and public interests has not been adequately defined, conflicts of interest abound as political strongmen tend to equate their private well being with the country's well being.

Nowhere is this more visible than in ARMM, where public responsibility and personal fiefdoms merge, in a context where traditional leadership and the cultural context condition governance. In agriculture, advocates of food security *as self sufficiency* have more forces on their side – Congress, farmers groups, the sugar bloc – despite the economic viability of food security *as a matter of comparative advantage*. A shift to agribusiness to earn foreign exchange for staple food produced abroad would have been a better alternative.

Corruption has had a significant impact on this process, encoding advantages in new rules and institutions for narrow vested interests. Like it or not, all forms of state capture are directed toward extracting rents from the state for a narrow range of individuals, firms, or sectors through

distorting the basic legal and regulatory framework with potentially enormous losses for the society at large. The public perceives corruption to be woven into the basic institutional framework, undermining governance and weakening the credibility of the state.

The sectoral reports did not dwell much on corruption, but Bautista indicates that in 2001, an estimated 23 percent of the social welfare budget went to corruption. The labyrinthine process of securing different permits, clearances, licenses to construct a house – something that takes two and a half to three years to get – also makes the housing sector vulnerable to corruption, with bribe money solicited in exchange for facilitating transactions. The "hidden cost" is eventually passed on to end-users as high-priced and/or substandard housing products. It is the poor who bear the heaviest brunt of corrupt governance. It weakens public service delivery, misdirects public resources, and holds back the growth that is necessary to pull people out of poverty. The negative effects of weak governance on investment and growth erode the tax base, further undermining the quality of public services, and deterring the poor from seeking basic entitlements.

The good news in all these is that the country has embarked on political and economic reforms that only need sustaining. Yet, limited reforms also set the stage for state capture, enabling narrow interests to shape policies to their liking, in the end undermining public trust and weakening the impetus for further reform. That the country can get trapped in a vicious circle seems clear in vulnerable sectors like agriculture.

According to Martinez, "While opponents of agrarian reform have effectively emasculated the agrarian reform program, they cannot kill it outright. There seems to be a lingering fear that this action would effectively re-ignite widespread support for revolutionary movements." The landlords are not powerful enough to stop land reform, but powerful enough to water it down. This impasse has generated uncertainties in the agricultural market: no private investor is willing to invest in an agricultural enterprise if it is going to be acquired later for redistribution. Land reform illustrates the difficulty of emerging from state capture once it has taken hold.

The challenge is bound to grow, as the risk of back stepping rises. The astuteness of powerful economic interests to hold legal, legislative, and regulatory initiatives at bay could outpace even the constraints imposed by competing interest groups and the pressure points set up by civil society. Yet, the country can also lock itself in a virtuous circle. The key is making the right policy choices. These policies should be mutually reinforcing. They also should have a demonstrable impact in reducing weak governance. Some measures are lamentable, but not irreversible. Decisive leadership can push through the necessary reforms as new gains give the reform program a new credibility.

#### **IV. CROSSING THE THRESHOLD**

Two immediate things make change a likelier outcome than stasis. One is that pressures to deliver have given the government a continuing motive for reform, while persuading most other stakeholders, whatever their snarls of criticism or resentment, not to stand in its way. The second is that the actions implied by that motive are likely to draw the government into new acts and new types of engagement, whether it likes it or not.

Since the big challenge is how to dilute the high concentration of power by vested interests, the repertoire of reform must gradually expand to include broader structural interdependence among core state institutions and wider giving-and-taking between the state and civil society. The key focus of good governance should be on enhancing political accountability and taking maximum advantage of a strong legacy of public management. The priorities should include increasing formal channels of access to decision-making, de-concentrating political and economic power through deeper decentralization and corporate reforms, and enhancing oversight through participatory strategies.

Clearer and more far-reaching conflict of interest legislation could have a powerful impact. Its enforcement would require stronger verification and audit powers and further judicial training and reform, areas that are worthy of consideration in their own right. A credible reform program should be designed to make more public officials answerable to a wider range of constituencies. Strong sources of advocacy and analysis from NGOs and academic institutes are imperative for building and empowering constituencies that generate sustained demand for good governance. Think tanks like the Development Academy of the Philippines have initiated report card surveys on basic government services, and published findings on how public entities fared according to their efficiency, integrity, and observance of service standards.

Initiatives of this sort are a powerful impetus for developing performance benchmarks, and providing a breeding ground of change from a control-oriented framework to one of service delivery and accountability. Political accountability is perhaps the most crucial constraint needed to restrain the behavior of politicians and public officials. The key is to increase the cost of making decisions that benefit narrow interests. An initial step is to increase the transparency of the decisions made by public officials, followed by the strengthening of institutions (the courts, for example) having the power to apply credible sanctions to them. In favorable contexts, such mechanisms can also be created within government bureaucracies by establishing ethics codes, regulations on lobbying, disciplinary committees, and mandatory disclosure of income and assets. Civil society groups and media can also express their collective demands for transparency and accountability.

Leadership makes the difference in devising means for sustaining ends. Broadening the number of stakeholders in various sectors and encouraging their participation in decision-making can end policy biases in housing, agriculture, and health, while ensuring that the decisions are made above board, open to the scrutiny of the public. Public accountability also implies matching reform efforts with budget and capacity. In the education sector, it would do well for government to supply the missing P1 billion endowment fund for TESDA's development work, and to permit CHED to use off budget items – such as the higher education development fund – as incentive for rewarding efficiency and quality enhancing measures. CHED should establish a panel of higher education specialists that would streamline the number of SUCs to manageable levels. Promising SUCs will be retained and better funded. A moratorium should be strictly enforced. Self-sufficiency should be enforced on remaining SUCs. Spending on productivity-enhancing agricultural measures such as irrigation, roads, and farming systems diversification has actually fallen and needs to accelerate.

Human capital development is part of institutional capacity building. A core of strong, credible, and independent professionals could reverse the fortunes of the ARMM government, now saddled by a low credibility brought on by years of failing to deliver its services. That would also cut the bloated ARMM bureaucracy into manageable size and help build the competence of the ARMM LGUs. A more fundamental reform initiative, reportedly supported by the Arroyo administration, is the removal of presidential power to appoint public officials below the assistant secretary level. Right now, in the Department of Agriculture alone, about 180 posts are filled by the President. When presidents change, appointees to the top level of government also change, raising the possibility of chaos or a level of discontinuity that is not conducive for good governance.

In principle, devolution of powers from the central to sub-national levels could also contribute to institutional restraints. Community-based health information and monitoring systems have proven useful in instilling accountability for health at local levels, according to Dela Cruz. Local health boards and local education boards can also be made to improve decision-making, problem solving. They need to be widely used as a participatory mechanism.

In Mindanao, promoting accountability is more a matter of adapting culture-sensitive processes. Indeed, as Ramiro suggests, the practice of consultations and consensus building using the structures of the sultanate, and the enforcement of Shariah are central to enhancing good governance. The Islamic way of life offers creative and suitable means to harness their interest and to spur collective action toward rebuilding and reconstructing their severely damaged communities. Experience also indicates that decentralization in the presence of central controls is counterproductive. For instance, logistics support for TB control, nutrition, and maternal and child health services coming from the DOH is based on DOH determined targets (supply-driven rather than demand-driven), thus violating the principle of subsidiarity, which suggests that needs and preferences must be determined from below.

Communities also want a voice in the determination of educational outcomes, but it is effectively stilled by a binding constraint: the system of decision and control over allocations for basic education arises from the central government budget. There is little room for DepEd or for local education authorities to redirect expenditures within the budget. Although deeper decentralization would go a long way in empowering LGUs, the more fundamental changes must be in the area of capacity building. Here is where central-local handholding will do a lot. LGUs will soon have to run vocational schools, an event that is deferred only because TESDA has not come up with a coherent strategy for devolving technical schools (whose supervision is outside its mandate). For a start, TESDA needs to build the capacity of LGUs to take over management and financing of technical schools.

The emerging role of LGUs as managers also needs shoring up in the environment department: drawing up forest land use plans, declaring watershed areas, coastal fisheries management plans, and biodiversity protection schemes. LGUs also must get new skills to implement coastal resource management, legislate municipal boundaries, and hence look after its own municipal fishery interests. KALAHI, or *Kapit-Bisig Laban sa Kahirapan* (asset reform, human development, social security, and

development administration), a flagship social welfare program of the Arroyo administration, can kick-start its activities by adequately preparing the LGUs and communities for active interfacing in decision-making.

Housing agencies ought to prepare LGUs for decentralized shelter, especially in the key aspects of regulation and supervision, and risk management. Civil society can increase accountability pressures as part of the good governance agenda. The Philippines has a strong tradition of collective action as part of the political process. Thus outside pressures and opportunities will have a powerful impact in reducing state capture and making steady progress in political and economic reforms. Civil society groups can act as intermediaries for communication between the populace and the institutions of state. Health NGOs can scale up best practices in health, drawing from the strengths of LGUs, people's organizations and communities. They can provide the critical tools of public monitoring and accountability that are essential for placing constraints on central health bureaucrats.

Some NGOs are a cut above the rest, providing leadership in a critical field like environmental protection or peace building. An example is NIPA, which administered the global environment facility fund in the debt-for-environment swap arrangement between the Philippines and the World Bank. Another example is the NGO originators of CMP, which deliver housing for the urban poor. In war-torn Mindanao, the responsibility for peace building and development rests mostly on development NGOs. According to Ramiro, civil society groups in the region are adept in conflict resolution, confidence building among warring groups, and building "networks of civic engagements" between unlike communities levels, and fostering the values of trust, reciprocity and civic responsibility.

Likewise, there is a strong need to strengthen instruments of voice, such as business associations, trade unions, and other collective actors for broad-based economic and social interests. Some sectors such as health, housing and agriculture clearly must be made contestable. Greater private sector participation obviously will limit the range of public policies that are potentially "for sale." In health, private initiatives like FriendlyCare (established in 1999) and the Well-Family Midwife Clinics must be encouraged as a private sector vehicle for the delivery of affordable and quality reproductive health services, especially family planning. Conceived to segment the market and to attract low income Filipinos to avail of its outpatient services, efforts like these ease the pressure on public facilities that should instead focus on serving the poor. In agriculture, a strong case can be made for strengthening irrigators' associations as an option to public management of facilities. This frees the national government's time for the more important function of generating good institutional policy for allocating and managing water resources. In housing, commitments from the private sector to share risks through schemes such as buy-back, financial guarantees, and warranties with involvement may level the playing field and bring in more resources for housing.

Despite attempts to limit government's role to enabler and facilitator, it remains the biggest player, in terms of its own public management stakes. Policy reforms in sectoral service delivery are of critical importance. Some central government functions have moved into quasi-private-sector structures. This is unwise, as these structures blur the lines of policy direction and accountability. For instance, as suggested by Valte, by

requiring SSS, GSIS and Pag-Ibig Fund to use membership contributions as loanable funds for housing, government is effectively using private money to support public policy and to finance public activities that should instead be covered by government appropriation.

Unclear appropriations and unreliable disbursements often leave public managers unable to deliver reliable services. They also undermine the accountability of budget managers and undermine monitoring and evaluation. In health, a crying need is to give attention to the disadvantaged sectors by freeing most of the resources spent on curative programs and shifting them to preventive and primary health services that have greater reach and impact. DOH spends over half of its resources on 50 hospitals (many of them in Metro Manila), which is certainly not an effective way of targeting subsidies to the poor. In addition, according to Dela Cruz, there is also a need to shift funds to R & D. Without sufficient R & D, the DOH's already weak ability to strengthen its ethical base (equity, quality, sustainability) for health action will erode further.

Health services are handicapped by asymmetric information and divergence between public and private interests and incentives – characteristics that provide fertile ground for corruption. Health consumers, especially the poor, are not strong enough to counter this hardship. Antidotes are available, including reforms in health care financing (DOH is pursuing it), together with parallel steps to reallocate resources to priority target areas, reduce waste due to shady procurement deals, and improve the competence and wages of health care manpower.

## **V. CREATING VIRTUOUS CIRCLES**

Taken together, the building blocks of reform appear overwhelming, as they entail significant changes in the nexus of relationships within government and between government and society, and in the current policy practices of government. The lock opener is not a singular capacity to pursue reforms all at once. The choice and sequencing of reforms must be in harmony with both the limits and possibilities of governance in the country.

A serious governance program cannot be commanded from the outside, but needs committed leadership from within, correctly from the topmost levels of the state. While pressure for reform can come from below – indeed, this can effectively supply a broad social consensus – any effective program must be supported from the top. Yet, any strategy that relies only on high-level leadership will be vulnerable to the many uncertainties of the political process. Marshalling credible commitment should cover key state institutions, the private sector, and organizations within civil society.

In sectoral areas, leadership can come from a determined cabinet secretary with the clout and resources to launch reforms in his or her area of responsibility or from a local executive committed to change in a particular locality. At the DOH, for instance, this leadership challenge would mean orchestrating the whole gamut of health organizations, from giants like PhilHealth and HMOs to NGOs and private health givers to government agencies vital to producing health services (such as the DBM, DepEd, DENR, and DOLE). A broad-base alliance will be the guarantee for any long-lasting health program. Power-sharing between LGUs and communities and central government agencies, especially in natural resource management projects and decentralized shelter delivery systems will require the combined energies of national, local, and civil society key

players. Certainly, any leadership will produce mistakes. The point however is without it, worse things can happen. Leadership is needed where others cannot be expected to step in so readily.

Developing dialogues with institutions of government and civil society are critical for gaining knowledge beyond the narrow limits of the governance typology employed in this chapter. Dialogues are also important in building constituencies. In Mindanao, it is imperative to focus confidence-building efforts in communities distressed by conflict and poverty. The effectiveness of specific reform instruments is closely linked to the way in which people feel trust in their institutions and in each other. Trust is a critical ingredient of social capital in communities.

Whether an enabling or constraining environment is created, along with incentives and disincentives for change, would be decisive in the choice and stepwise implementation of reform initiatives. This requires assessing political culture, as it relates to the way authority is exercised, and the extent to which *power* is deployed across different institutions. For example, in revitalizing ARMM, ways must be found to broaden access to authority at the local levels. At the same time, these must be consistent with culture-sensitive local governance processes. The culture of governance is also linked to *accountability*: the goal is to destroy patron-client structures and replace them with explicit rules.

In sequencing, the early picking of "low-hanging fruits" has the potential to achieve considerable impact. Modest, highly visible gains can provide levers to sway public opinion and pave the way for more significant results at a high level.

Broad-based programs such as immunization, providing cheaper drugs through the *Gamot para sa Masa Abot-Kaya*, and family planning can jumpstart the drive for longer-lasting health initiatives.

Sustainability has been defined as "the resilience to risk of net benefit flows over time." As demonstrated earlier, stand-alone efforts are likely to be vulnerable to state capture. Isolated islands of reform can provide valuable demonstration effect but may only survive a brief period before being swamped by inefficiencies at other levels.

Initial reforms ought to grow into more comprehensive programs. These include convergence programs such as CIDSS, and integrated forest management schemes, where sectoral services are marshaled at the point of delivery, and the community is mobilized to coordinate efforts and act as effective participants. Sustainability also means digging deeper into the underlying sources of institutional weaknesses and strengthening institutions that can resist them. Reforms in tenure create institutions that break down patron-client relationships; reforms in ancestral domain build institutions that promote social capital in indigenous communities. Changes in agricultural incentives erode protectionist structures and the current policy gridlock in food security. Crystallizing property rights institutions at local levels shape and promote varied forms of rights of access that entrench participatory governance. New mechanisms that protect higher education can counteract congressional insistence on creating SUCs that only dilutes the system and prevents delivery of quality basic education.

Sustaining often-complicated reforms requires resources and ingenuity that can see them through to completion over the long haul as well as deliver credible fresh outcomes. Increased R& D support to PITAHC, if sufficiently funded in the medium-term, will enable it to integrate traditional medicine and primary health care in communities. Universal coverage in health insurance, if backed up by sustainable sources of funds, will have a profound impact on the poor and indigent health consumers. Also beneficial to the poor will be the creation of a sustainable housing finance system anchored on shelter security; and the provision of transparent, targeted and on-budget subsidies.

Well-meaning initiatives that are not realistically backed with sufficient resources and know-how will likely boomerang. In housing, in the face of severe financial constraints, government can only afford to be an enabler – creating the appropriate policy and regulatory environment. While valuable windows of opportunity may arise in specific occasions, it is necessary to manage expectations and emphasize the long-term character of reform (such as the mainstreaming of Muslim and *lumad* way of life), while still taking swift, decisive actions (such as devising a "catch-up" plan meant to raise human development levels in Mindanao). Government must assign budget resources as well as capable managers to these governance programs. Civil society can only give so much. Business associations and NGOs can help identify priorities and monitor results, but they cannot deploy the political will and resources of the state that eventually are needed to create transparent and accountable institutions. The challenge ahead is awesome and the task will not be easy.