This book is for those who are interested in corruption, whether they are journalists, activists, government officials, academics, researchers, or plain concerned citizens. What you have in your hand is a how-to manual, a practical guide intended for those who wish to understand how corruption takes place and the damage it has wrought. It is also for those who want to venture beyond understanding to doing actual investigations of corrupt acts and officials.

Investigating corruption requires skill, patience, and a nose for wrongdoing. This manual is intended to make the task less daunting and to provide a map for those who are embarking on the effort. It is hard to navigate blindly the corridors of power and malfeasance. This book was written with the certainty that with a manual such as this, even first-timers can take on the task. It is our hope that the numerous examples contained in this book of how wrongdoing has been unraveled will inspire others to do their own investigations.

The chapters in this volume were written in such a way that they can be read in any order, depending on what readers are interested in or on what they are looking for. The first chapter provides a broad overview, based largely on the existing literature on the definition, types, and consequences of corruption. The chapter also provides a listing of what Philippine laws define as corrupt
acts. Those who want more practical advice on investigating corruption can skip Chapter 1, but they should know that a grasp of legal and academic definitions as well as a grounding in the academic literature can help set the direction for probing.

Chapters 2, 3, and 4 describe the techniques that can be used for investigating corruption in the public sector. These techniques are based largely on the experience of journalists who have worked on corruption investigations for the Philippine Center for Investigative Journalism (PCIJ). Chapter 2 is an overview of investigative strategies; Chapter 3 describes the techniques that can be used for investigating officials; and Chapter 4 looks at the sources — human and documentary — that can be tapped for corruption investigations. Many of the investigations cited in these chapters are contained in the PCIJ's anthology, *Betrayals of the Public Trust: Investigative Reports on Corruption*. Published in 2000, the book describes how the authors of the reports included in the collection investigated wrongdoing, and is therefore a handy companion for this manual.

Chapter 5 lists the various ways in which corruption has been measured by survey groups, governments, donor agencies, and NGOs. This chapter is useful for readers with a statistical bent or for those who want to arrive at an estimate of the scale and cost of corruption. The chapter explains in detail the different methods used to measure corruption, including methods that can be used by researchers, journalists, and citizens’ groups who can invest only modest staff and financial resources in the effort.

Chapters 6 to 8 examine corruption in specific sectors. Each chapter starts out with an overview of the functions and structure of a sector before going on to explain how corruption has taken place there and how malfeasance has been investigated by journalists and researchers as well as official bodies.

Chapter 6 explains the complex issue of public procurement or how national and local government units purchase goods and services and contract out public works. The chapter describes the procedures followed in government procurement and shows how corrupt contractors and bureaucrats have gone around these procedures to steal public funds. The chapter also lists the “red flags,” the signs that indicate that bribery is likely taking place and that investigators should look out for when probing government contracts and purchases.

Chapter 7 describes the structure of the Philippine judicial system and provides tips on investigating corruption in the courts. Chapter 8 does the same for the environment sector and lists guide questions for investigating corruption in the environment.

Chapters 9 and 10 describe the efforts being undertaken to curb corruption. Chapter 9 looks at all the government bodies that are tasked with investigating and prosecuting corruption in the public sector. This is useful for those who wish to know which government agency is responsible for probing the corrupt acts or officials they are interested in, the powers of this agency, and the way in which it is structured. Finally, Chapter 10 describes the work of nongovernmental groups in campaigning for good governance, researching corruption, and probing malfeasance.

Because each chapter was written with the idea that it can be read independently of the others, acronyms are spelled out and the complete names of individuals and agencies are given the first time they are used in the chapter. Readers who go through the entire book will find that there are some repetitions, as the writers do not presume that those who read, say, Chapter 6 had already gone through Chapter 3. There are also natural overlaps in the sections: Chapter 3, for example, describes lifestyle and asset checks as one way of investigating officials. Asset checks are also tackled in Chapter 5, as they are one way of measuring the scale of corrup-
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DEFINING CORRUPTION
Meanings, Types, and Consequences

Sheila S. Coronel

Corruption is as old as history itself. In the Philippines, the origins of corruption have been traced to the Spanish colonial era, when public office was auctioned off to the highest bidder and government was mainly an instrument for extracting money and labor from people. Jose Rizal vividly described in his novels the cruel impositions of a corrupt colonial government in late 19th-century Philippines.

The United States saw itself as a more benevolent and modernizing colonizer, but it also introduced U.S.-style machine and pork-barrel politics. Postindependence governments were hounded by graft charges, and political debate since 1945 has often been dominated by corruption scandalmongering.

After World War II, corruption flourished as politicians scrambled for a share of war damage payments. In the 1950s and 1960s, opportunities for corruption were created by the imposition of import and foreign exchange controls, the issuance of mining and logging permits, and preferential access to government loans and pork-barrel funds.

Ferdinand E. Marcos centralized corruption in the Office of the President when he declared martial law in 1972. He divided the most profitable sectors of the
Corruption, therefore, has been part of public discourse in the Philippines for centuries. It has led to the downfall of governments—in more recent times, that of Marcos in 1986 and of Joseph Estrada in 2000. Public opinion polls have consistently shown high levels of public concern about corruption. While such awareness has been translated into popular mobilization in two “people power” revolts in 14 years, it has not resulted in sustained reforms.

The persistence of corruption through various regimes has been attributed to weak institutions, a patronage-based political system, or a “cacique” or oligarchic democracy where a small elite monopolizes access to the state and the economic benefits that can be derived from it.

The costs of corruption in the Philippines are generally acknowledged to be massive. The Office of the Ombudsman estimated that the government lost $48 billion to corruption from 1977 to 1997, much more than the foreign debt of $40.6 billion. In 2002, the Department of Budget and Management calculated that P95 billion, or 20 percent of that year’s P476 billion procurements budget, would be lost to “side payments.”

Since the 1990s, citizens’ groups have shown fresh interest in the phenomenon of corruption. The Philippines has become part of what has been called a global “corruption eruption.” Throughout the world, the fall of socialist and authoritarian regimes, the rise of democracy movements, and increasing economic liberalization brought to the fore issues of transparency and accountability. At the same time, increasing media penetration and the development of information technology pried open new areas of public life. As new democracies faltered because of malfeasance, global institutions such as the World Bank and the United Nations made “good governance” the core of their programs. The age-old issue of corruption was rediscovered.

While much more is known about corruption now than in the past, a lot more needs to be found out. Corruption thrives in secrecy, and part of the campaign against malfeasance is uncovering new information about corruption and building a body of knowledge that will help citizens and reformers come to grips with the problem. Unearthing information about corruption is the first step toward preventing it.

What is corruption anyway?

We know corruption when we see it. But defining it is not easy. Definitions, however, are necessary. To investigate corruption, one must first of all find out what it is.

Some scholars have written entire books just trying to define corruption. There is a rich academic literature on the subject. The most common—and simplest—definition, however, is the one used by both Transparency International, the global corruption watchdog, and the World Bank:

Corruption is the abuse of public office for private gain.

This is a minimalist definition that covers a wide range of wrongdoing. As the World Bank explains:

Public office is abused for private gain when an official accepts, solicits, or extorts a bribe. It is also abused when private agents actively offer bribes to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal benefit if no bribery occurs,
through patronage and nepotism, the theft of state assets, or the diversion of state revenues.

In the Philippines, public office includes appointive and elective posts at both the national and local levels as well as positions in state-owned corporations, government financial institutions, and other quasi-official bodies. Even if they are private individuals, government nominees to the boards of sequestered companies or of firms where government holds shares are also considered to be holding public positions. So would private-sector representatives in government bodies like bids committees or local development councils. Similarly, persons like the First Lady, presidential advisers, and government consultants, even if they do not receive any compensation, have official titles and influence and can therefore be considered to be holding public office.

Most definitions of corruption are limited to that which takes place in the public sector, but they also recognize the involvement of private individuals who initiate or act as brokers and facilitators of corrupt deals. Most definitions, however, exclude corruption in the private sector, as when, for example, company officials award contracts to firms in which they have interests, or when their relatives get choice jobs even when there are others more qualified.

Private-sector corruption often harms the public, who may, as a result, suffer from higher consumer prices, bad service, etc. This manual, however, deals mainly with public-sector corruption. Malfeasance in the private sector deserves a separate manual.

The problem with definitions

Corruption does not include just the extortion, offer, or payment of bribes. Corrupt deals can involve nonmonetary rewards—such as shares in companies, a Rolex watch, or a night on the town. Public office can be abused in other ways, such as preferential treatment given to relatives and friends who get contracts, appointments, state housing, or subsidized health care from a state hospital.

The definition often quoted in academic texts is one by scholar Joseph Nye, who defined corruption as behavior which deviates from the formal duties of a public role because of private-regarding (personal, close, family, private clique) pecuniary or status gains, or violates rules against the exercise of certain types of private-regarding influence.

This definition is a more complicated way of saying public office for private gain. But it is also more inclusive as it lists behavior that may result in nonmaterial gain. A politician, for example, will dispense government favors for “status gains.” He can become more popular, develop a reputation for being approachable, and he could parlay this popularity for political and other purposes.

In the Philippines, where corruption often takes the form of patronage for status gain, this definition becomes problematic. An elected official who gives jobs to friends, supporters, and family members is not considered corrupt. He is merely sharing the rewards of public office. As Senate President Jose Avelino said in the 1950s: “What are we in power for?”

Indeed, the practice of dispensing government largesse is widespread and seen as socially acceptable. Thus, every president who is appointed to office names thousands of new people, mainly his or her supporters, to various government posts. Neither laws nor prevailing social norms condone the practice. There are legal limits to the appointment of relatives, of course, but there are big loopholes as well—relatives are allowed as “confidential” appointments, such as staff of officials or as consultants.
The law may condone practices that may be considered corrupt in other contexts. Corruption investigators should therefore not be limited to what the laws say. They should carefully weigh their findings and point out forms of wrongdoing even if these are not covered by law.

For example, the discretion given to legislators to choose projects that will be funded by their “pork barrel” is legal, even if it raises conflict-of-interest issues: legislators vote on the budget yet they also appropriate sums for themselves and their districts, so they may be said to be torn between the national and their self- or constituency interest.

Judges are forced to inhibit themselves from cases in which they or their close kin have an interest. Yet, many legislators who are themselves businesspersons often deliberate and vote on bills that may directly or indirectly affect the businesses in which they have a stake. As explained in Chapter 3, “Investigating Officials,” conflict of interest in Congress is very loosely defined.

The law is not always a reliable gauge of what constitutes corruption. In the U.S., sizeable campaign contributions from corporations are legal within certain limits. Yet, as the collapse of the energy giant Enron in 2002 made clear, these outsized campaign contributions allowed Enron to get favorable treatment from various sectors of the U.S. government. This raises the question of when a campaign donation, in effect, becomes a bribe. This is a question that applies to “money politics” in the Philippines and other countries as well.

What the laws say

In the Philippines, the legal definitions of corruption are supplied by three laws:

- Republic Act 3019, or the Anti-graft and Corrupt Practices Act, passed in 1960;
- Republic Act 6713, or the Code of Conduct and Ethical Standards for Public Officials and Employees, enacted in 1989; and
- some provisions of the Revised Penal Code, which include penalties for such crimes as malfeasance, bribery, and malversation.

Those investigating corruption should have some familiarity with these laws so that they will know whether the officials or agencies they are probing can be held liable in court. The laws define illegal behavior. Philippine anti-corruption laws punish a range of offenses, not just bribery. This means that those on the trail of a corrupt official should look for other forms of wrongdoing, such as unduly favoring a firm or entering into contracts with disadvantageous terms.

The Anti-graft and Corrupt Practices Act has the most comprehensive listing of what is legally defined as corrupt behavior on the part of public officials and employees. These include acceptance of bribes, gifts, or other non-material considerations (such as a job for the official or a family member) in connection with the approval of licenses, contracts, permits, or other transactions.

Even if no such bribes or benefits are involved, the Act also penalizes officials who cause “undue injury” because of their actions or who enter on the government’s behalf into transactions that are disadvantageous to the state. The Act also provides protection against conflicts of interest by banning officials from participating or intervening in decisions in which they may benefit. Even premature disclosure of information and delaying official action are punishable.

If investigators want to nail a government official or employee in court, they should find out whether that person has committed any of the following violations listed in the Act:
persuading or influencing another public officer to violate government rules or allowing himself to be persuaded to commit such a violation;

- directly or indirectly requesting or receiving any gift or benefit for himself or any other person in connection with any contract, transaction, permit, or license;

- accepting or having any member of his family accept employment in a private enterprise with pending official business with him;

- causing undue injury to any party or giving any private party any unwarranted benefits in the discharge of his official functions;

- neglecting or refusing to act within a reasonable time on any matter for the purpose of obtaining material benefit or to favor his own interest or that of another party;

- entering, on behalf of the government, into a contract or transaction that is manifestly or grossly disadvantageous to the government;

- directly or indirectly having financial or pecuniary interest in any business, contract, or transaction in which he intervenes or takes part in his official capacity;

- knowingly approving a license, permit, privilege, or benefit in favor of any person not qualified for, or not legally entitled, to such a license or benefit; and

- divulging valuable information of a confidential character acquired by his office or by him on account of his official position.

The penalties for violation of the Anti-graft and Corrupt Practices Act include imprisonment for six to 15 years, perpetual disqualification from public office, and forfeiture by the government of any prohibited interest and unexplained wealth. The Act defines unexplained wealth as that which is acquired during the incumbency of an official, whether or not that property or money is in his or her name, as long as it is "manifestly out of proportion" to his or her salary or lawful income. Unexplained wealth is ground for dismissal or removal from office.

R.A. 3019 also contains provisions on private individuals. It says that it is illegal for any person having family or "close personal" relation with any public official to take advantage of such relationship by requesting or receiving gifts or other benefits from a person transacting with the government, if said official can intervene in such transaction. Family relation includes spouses and relatives within the third civil degree. "Close personal relation" is defined as "close personal relationship, social and fraternal connections, and professional employment giving rise to intimacy which assures free access to such public officer."

R.A. 6713, on the other hand, has more comprehensive provisions on conflict of interest. The law and its implementing rules say that public officials cannot have a direct or indirect financial or material interest in any transaction requiring the approval of their office. An official is said to have a financial interest if s/he is a substantial stockholder (enough to elect a director), member of the board, or officer of a corporation; is the owner of, or has substantial interest in, a business; or is a partner in a partnership.

If a conflict of interest arises, officials or employees are required to divest themselves of such interest within 60 days after assumption of office. Divestment cannot be made to relatives within the fourth degree. [Chapter 3, "Investigating Officials," has a section on conflicts of interest.]

The Revised Penal Code imposes stiff penalties for such crimes as bribery; fraud in the making of contracts, furnishing of supplies, settling of accounts, and collection of taxes and other fees; and malversation or misappropriation of public funds or property.

Finally, R.A. 7080 or the Anti-plunder Law, enacted in 1991, defines plunder as a series of criminal acts by a public official which results in at least P50 million in illegally acquired wealth. Plunder is a nonbailable capital offense. The plunder charge against Estrada, for ex-
ample, includes allegations that he received P545 million in illegal gambling payoffs, P131 million in tobacco excise taxes, and P3.2 billion “from commissions, gifts, percentages, and kickbacks” that he deposited in the fictitious “Jose Velarde” account.

Types of corruption

The laws give an indication of the many types of behavior that can be considered corrupt. Corrupt acts vary in magnitude, intensity, and scale. Corruption takes so many different forms and is found at various levels of government that it is often difficult to decide where one should begin investigating.

One way to grasp the phenomenon of corruption is to look at the various ways in which it has manifested itself. A knowledge of the types of corruption can help investigators know what they are looking for and recognize corruption when they see it in its various manifestations.

Over the years, academics and activists have classified corruption in various ways, according to:

- Where it occurs

Public-sector corruption as defined above is that which takes place in government, while private-sector corruption involves businesses and other nonstate sectors, such as churches, NGOs, foundations, and professional associations. Public-sector corruption can be either bureaucratic or political.

Bureaucratic corruption is that which occurs in the civil service, among the corps of state officials and employees who run the day-to-day affairs of government. Bureaucratic corruption may involve low-level government employees who are given small amounts as “grease” to speed up transactions, such as for licenses or permits. It may also involve higher-level officials such as district or provincial highways engineers, or members of bid committees who get substantial cuts or commissions for awarding government contracts to favored firms.

Political corruption, on the other hand, takes place among elected officials and typically involves such things as vote buying, corruption of the electoral system, the political or regulatory harassment of opponents, and the preferential treatment of friends and allies. For example, a legislator may vote against a franchise that is given to the ally of his political rival, or he can initiate a congressional investigation of a government contract and then later accept a bribe to call off, delay, or derail the probe.

Political corruption often involves the use of influence to get appointments, tax incentives, bestest loans, and other concessions from the government. President Marcos, for example, approved hundreds of millions of pesos worth of preferential loans from state banks to his cronies. Estrada, on the other hand, got state pension funds to buy shares of stock from favored firms.

Ferdinand and Imelda Marcos in the 1960s. The Marcos dictatorship brought political corruption to new heights.

(LOPEZ MUSEUM)
Political corruption can sometimes involve horse trading. A senator may vote for the confirmation of a Cabinet secretary in exchange for jobs for his constituents, or a congressman will approve the budget of the public works department in exchange for an assurance that the department will award contracts to a contractor recommended by the legislator.

Political corruption takes various forms and often involves bigger amounts because politicians have more powers, including the powers to craft or vote on laws and to make policy, than those in the civil service, who implement law and policy. The bureaucracy can sometimes serve as the channel for political corruption, as in the case of pork-barrel funds. Legislators decide what projects they want funded from their “pork,” but the budgets for these projects go through the bureaucracy, which also makes sure these are implemented. Thus, politicians need to collude with bureaucrats if they want to get kickbacks from pork-barrel funds.

■ Scale and intensity

Corruption may be petty or grand. Retail, petty or street-level corruption is what most citizens experience in their daily lives. A motorist who pays a policeman P100 to escape being fined for a traffic violation is a party to petty corruption. So are citizens who pay fixers small sums to speed up the processing of their driver’s license. Petty corruption involves lower-level administrative bureaucrats who are the frontliners in government agencies that transact with the public on matters such as taxes, traffic regulations, licensing requirements, or the discretionary allocation of government benefits such as subsidized food and fertilizer, disaster relief, or low-level jobs in state-funded projects.

Grand corruption, in contrast, involves big amounts. In the case of the Amari scandal that hit the headlines in the mid-1990s, the amounts supposedly paid to various officials reached P3 billion. Bribes were paid to ensure that prime government property was sold to the company and that legal and regulatory obstacles were hurdled.

As the Amari case showed, grand corruption takes place at the highest levels of government, where political leaders, including then House Speaker Jose de Venecia, the bureaucracy, and the private sector interact. Grand corruption involves government decisions that can be made only with the intervention of high-level politicians, such as the President, legislators, and Cabinet secretaries. Typically, these decisions have to do with the awarding of big-ticket equipment and infrastructure contracts, the granting of multimillion-peso loans from government banks, or the drafting of policy on matters like the allocation of tax incentives or industrial subsidies.

A recent case of grand corruption involved then President Estrada and El Shaddai leader Mike Velarde. In 1999, the government paid Velarde’s Amvel Land Development Corp. P1.22 billion for land in Parañaque that was going to be affected by the construction of a road linking to the C-5 highway. Velarde was paid over P15,000 per square meter, when zonal values were less than a third of that amount and market values of land in nearby areas were much less. It was Estrada who made the transaction possible, using the power of the President to approve contracts above P50 million. He himself directed the Toll Regulatory Board to acquire the property from Amvel. He also signed the final approval of the deed of sale and the contracts for land acquisition.

Apart from scale, the other way to classify corruption is according to intensity. Isolated corruption occurs in bureaucracies or sectors that are normally otherwise honest. If corrupt acts take place, these are exceptions rather than the rule. In this case, it is fairly easy to put corruption under control, as it is mainly a problem of investigation and prosecution.
Systemic corruption, on the other hand, is when corruption permeates nearly all levels of a government agency. That is generally perceived to be the case with the Department of Public Works and Highways (DPWH). Studies have shown that corruption permeates the entire life of most DPWH projects, from bidding to completion. Collusion among bidders for a project is routine, so bids are normally rigged. Other common anomalies are “ghost” deliveries, “ghost” projects, the use of substandard materials, and the outright bribery of officials. Politicians often intervene by interceding for favored contractors and getting a cut for themselves. Corruption has become so ingrained in the culture of DPWH and in the way projects are implemented that it is difficult to root it out.

- Types of corrupt action or behavior

Another way of classifying corruption is by looking at corrupt acts themselves, rather than at the magnitude of malfeasance, where it occurs, and who is involved. Bribery is giving anything of value—whether in cash or in kind—to an official in exchange for an act or an omission in that official’s public functions. It is probably the most common, and most visible, type of corruption.

As Yale University professor Susan Rose-Ackerman pointed out, bribes are paid:

1) to get a benefit, such as a procurement contract; access to government-regulated goods, credit, foreign exchange, import and export license, or business permit; access to government services or subsidies; even the purchase of state assets at a bargain-basement price;
2) to avoid costs, such as compliance with regulations, taxes, prosecution for illegal activities, delays, and red tape; and
3) for official positions. In the Philippines, for example, school teachers pay principals one-month’s salary to get a teaching position.

Distinct from bribery is the theft of state assets. This can range from petty theft of such items as office equipment, fuel, and supplies, to the big-time theft of tax revenues or fees that would otherwise go to the government. In May 2001, for example, Dominga Manalili, a cashier at the Bureau of Internal Revenue (BIR), was sentenced to two life terms after being found guilty of plunder. Manalili had opened two bank accounts where she and her cohorts diverted and withdrew more than P260 million in withholding-tax payments of government and private employees from 1996 to 1997.

Thievery can also take the form of cash advances that are never repaid. Commission on Audit reports show huge unpaid advances in nearly all agencies of government. Payments drawn for “ghost” employees, projects, or deliveries are likewise a form of theft. In the Department of Education, ghost or nonexistent deliveries of textbooks and school desks are common, resulting in massive shortages in public schools.

Patronage is considered in the academic literature to be a form of corruption. Patronage entails the distribution of government largesse—jobs, subsidized housing, public land, and other public goods and services—in exchange for political support. It is a way of acquiring, maintaining, and expanding political power by distributing economic benefits from the state and dispensing them to political allies, ward leaders, and followers.

Philippine politics at both the national and local levels is patronage-based. As discussed earlier, Philippine norms do not consider the dispensing of patronage as corruption. But most Filipinos will not contest that patronage corrupts politics, if only because the large demands imposed by followers on political patrons is one reason politicians amass illegal wealth.

Cronyism, such as that seen during the Marcos era, is the term used when personal relationships (relatives,
Consequences of corruption

Corruption is not, as many officials seem to believe, a victimless crime. On the contrary, it has profound consequences on individuals, firms, social sectors, and the development and security of society in general. Investigators, therefore, should focus not just on how and where corruption takes place and who is responsible for it. They should also examine the damage it has wrought.

The literature on the consequences of corruption is vast. In the 1960s, it was fashionable to say that corruption could have beneficial effects on economic development, bureaucratic capacity, and democratization. By the 1990s, however, more and more experts had found that corruption was damaging in various ways, among them:

Corruption impedes economic growth

Empirical studies have shown that countries where corruption is rife suffer from lower levels of increases in gross domestic product and investments. Some experts concede that corruption may indeed be beneficial for some time. For example, so-called East Asian “crony capitalism” — marked by sweetheart deals between government and big business and state support for favored industries and firms — resulted in spectacular economic growth.

Over the long term, however, the sustainability of such growth has been put in doubt, especially after the East Asian economic crisis of 1997. Over time, corruption will tend to undermine growth when privileged firms lose their capacity to compete in open, more competitive markets and officials demand higher and higher levels of payoffs that grossly inflate the cost of business.

Based on the evidence from many countries, the most significant impact of corruption on growth is that it reduces investments. Economists have shown that improvements in the corruption index result in significant increases in investment and per capita growth rates.

classmates, business and professional associates) become the paramount consideration in state policymaking and the allocation of public resources. Cronyism has been described as “an extreme form of corruption in which the allocation of rents to elites is a function of their loyalty to individuals or power.” Marcos, for example, awarded infrastructure contracts and control of key sectors of the Philippine economy, such as coconut and sugar, to his kin and cronies. This was also the case with President Suharto of Indonesia, whose relatives and cronies apportioned industries and monopolies among themselves.

Cronyism is different from nepotism, which is the use of government posts to obtain good jobs or unfair advantages for family members.

A term often found in corruption literature is rent seeking, which comes not from political science but from economics. Economists like Manuel Montes make a distinction between profits “that arise out of internal efficiencies and investments of the firm” and rents, which are “due to the firm’s success in obtaining and retaining some economic advantage by the state.”

Rents are created when the state restricts access to the market, for example, when it rations foreign exchange, curbs free trade, and licenses economic activity. In the Philippines, power and telecommunications monopolies have been accused of rent-seeking behavior, because they have made use of government concessions — including generous franchise terms, loans, rate increases, and tax cuts — to ease out competitors and guarantee high profits for their operations.

The Philippines has been called a “rent-seeking society” because businesses thrive on such behavior and on the concessions and privileges they can get from the state. The playing field for business has thus been described as uneven or noncompetitive because of the reliance of businesses on government privileges.
In the Philippines, where crony capitalism has had disastrous results, the devastation wrought by corruption on economic development is starkly clear. Exactions from corrupt officials increase the costs of business, so investors would rather put their money elsewhere. Those who benefit from corruption are inefficient firms with favored connections. When the playing field for business becomes very uneven, business activity as a whole suffers, with only corrupt companies tending to survive.

Moreover, in the Philippines, the gains from corrupt profit making have tended to end up in Swiss bank accounts, real estate in California, and conspicuous domestic consumption. Profits that could otherwise have been plowed back to productive investment in the local economy are either invested abroad or dissipated at home.

**Corruption worsens income inequity and poverty**

All over the world, corruption is associated with lower levels of spending on education, health care, and other public services. The costs of corruption, therefore, are borne largely by the poorer sectors of society, who need these services the most. Corruption in textbook procurements means that poor students don’t have books; kickbacks from public works contracts mean poor farmers will not have roads for transporting their produce; and under-the-table commissions from the purchase of vaccines mean poor children become prone to disease.

No matter how inadequate these services are, the poor end up paying for them through indirect taxes that the government imposes to raise funds while the rich bribe revenue officials to evade income taxes. Apart from that, the poor also have to shoulder the costs of inefficient and corrupt firms in terms of more expensive goods and services.

Corruption therefore creates a vicious circle. When the budget for procuring goods and services is inflated by

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**Slum near the Payatas garbage dump. Corruption hurts the poor the most. (Sandy Yambi)**

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grant, and tax revenues are low because of widespread corruption in the tax-collection system, the government has no choice but to raise more taxes and cut spending. Because the corrupt evade tax payments, the exactions are made on the poor through indirect taxes. At the same time, social spending on services that benefit the poor is slashed, so the poor are mired deeper in misery. Meanwhile, the pockets of corrupt officials and businesspeople are filled up, contributing to further inequities in wealth.

Corruption also distorts the allocation of economic benefits from the state. For example, when government decides to spend on a white elephant, it is often so that officials can enrich themselves from kickbacks from construction contracts. Money spent on useless infrastructure is also money taken away from clinics or schools, which are more sorely needed but government scrimps on them because officials can make more kickbacks elsewhere.

**Corruption damages political legitimacy and stunts democracy**

Corruption undermines governments. The Marcos and Estrada regimes collapsed largely from the weight of corruption. But corruption exacts other political costs as well. It shatters the faith of citizens not only in their
political leaders, but also in government and in democracy itself. Citizens become naturally suspicious of the intentions of those in authority, thereby eroding the capacity of their leaders to govern. They also become prey to authoritarian and nondemocratic leaders and forms of political action.

Corruption damages the political fabric of a society in other ways. Some political scientists argue that corruption is bad not so much because money changes hands but because it bypasses representation, debate, and choice. If politicians pay for votes or use state patronage to win support, then the candidates who get elected are not necessarily those who represent the citizens’ best interests. Patronage skews the political playing field; it results in limited political choices for the electorate, as only those who have money and access to government largesse will contest public office. In such a situation, social debate and democratic development are stunted. “Corruption begets bad politics,” writes Michael Johnston, “and bad politics begets further corruption.”

**Corruption endangers public order and safety**

Corruption results in rules being bent, laws being disregarded, and formal processes, subverted. Corruption in the judiciary suspends the rule of law, so that criminals and lawbreakers are on the loose and allowed to operate with impunity. Corruption in the police force means syndicates involved in drugs, theft, gambling, smuggling, prostitution, and kidnapping thrive, making cities and communities unsafe.

Police forces are especially prone to being drawn into crime because they deal with criminals. Thus they have ended up providing “protection” to syndicates or being part of these syndicates themselves.

Thai scholar Pasuk Phongpaichit's description of the “syndication” of police corruption in Thailand holds true for the Philippines as well:

Corruption within the police force is held to be sustained by regular redistribution of revenues from corruption widely through the police force itself and through other related institutions. It is sustained also by a subculture which strengthens the group loyalty of those involved, legitimizes the acceptance of revenues from corruption as supplementary income and binds together vertical networks of bosses and subordinates who share the tasks of collecting and redistributing revenue. The values of group loyalty and hierarchy which underlie this subculture are first nurtured in the police cadet school. They are further reinforced at work by the examples of other police officers and the pressure from superiors and peers involved in the corruption networks. Not all policemen are involved in these networks. But the proportion which is corrupt is large enough to maintain the syndicate.

Other forms of corruption have other impacts on public safety. Widespread payoffs in building-safety inspections have led to such disasters as the Ozone Disco fire in Quezon City in 1996. Some 160 youths perished in the blaze caused by an electricity overload. Subsequent investigation revealed that the casualty count was very high because of the absence of fire safety devices and properly marked fire exits, among others. Investigators found over 20 violations of the national building and fire codes, yet year after year, the disco had supposedly been inspected by city hall and permitted to operate.

As in the Ozone Disco disaster, the trail of greased palms was evident in the collapse of portions of the Cherry Hills subdivision in Antipolo in 1999, which killed 37 residents. The construction of the housing estate did not have an environmental compliance certificate. Shortcuts in the procedures evidently led to the safety of residents being put aside.