

REGULATING CAMPAIGN FINANCE IN THE PHILIPPINES: LIMITS AND CHALLENGES

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

---[Johann Wolfgang von Goethe](#) (1749-1832)

Introduction

You can count on government to do the right thing^{3/4}but not often enough, and most of the time, not long enough. Whether in fiscal management, environment, health and education--- or in the case at hand, electoral finance---the storyline seems to be the same. It is easy to follow with uncanny frequency the travails of government entities 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 the fact that successions of government managers continue to chase held-up goals, self-willed despite the risks and the setbacks.

It is no coincidence why most government initiatives, regardless of source, fail to endure and lose ground more often than not. The culprit is a *troubled* enabling environment. It is not easy to go beyond one's governance perimeters. Scattered reforms, including those in campaign finance, 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 which 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 own 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 "mimic" its actions, and hopefully create a virtuous circle of reforms.

That, of course, is easier said than done, not least in the bureaucracy which, by definition, is routine-oriented. 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 implementors to do things right. Some kind of a "yardstick competition" should emerge within the bureaucracy, if enough groups, in government and outside of it, overcome their collective action hurdles to produce a counterwave of changes.

This paper addresses this tension between a constraining governance environment and the reforms that have to be put in place in order for campaign finance 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. Campaign finance reform programs thus should be crafted around realistic “litmus tests” that recognize the qualifying factors in such environments.

What this paper does is to draw out governance themes within the campaign finance sector 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 problems in campaign finance and (2) provide a touchstone for reform strategies that are keyed both to the specific contours of the difficulty and to 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.

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. It is evident that 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 to guide the interactions of those participating in these practices are established and operated.

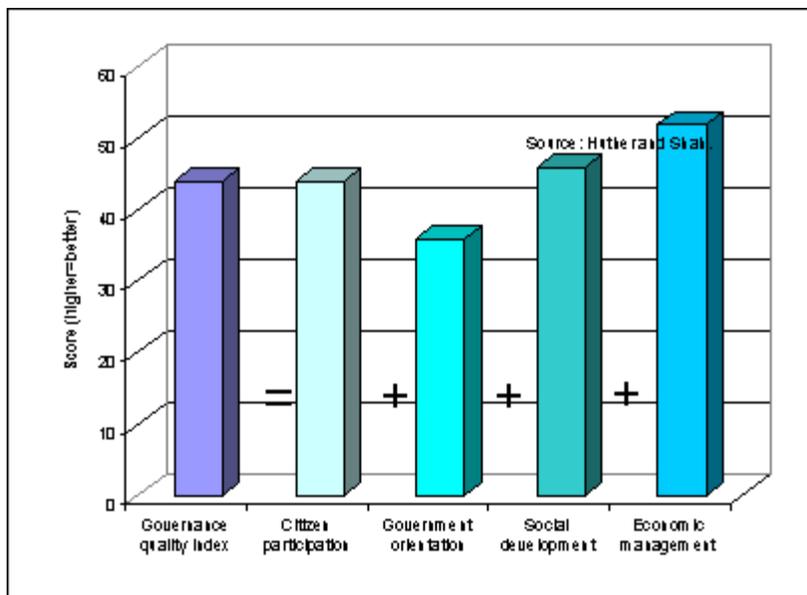


Figure 1
Fair governance marks for the Philippines

As Douglass 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 government towards the provision of public goods and services is keyed to three indices: judicial efficiency, bureaucratic efficiency, and lack of corruption.

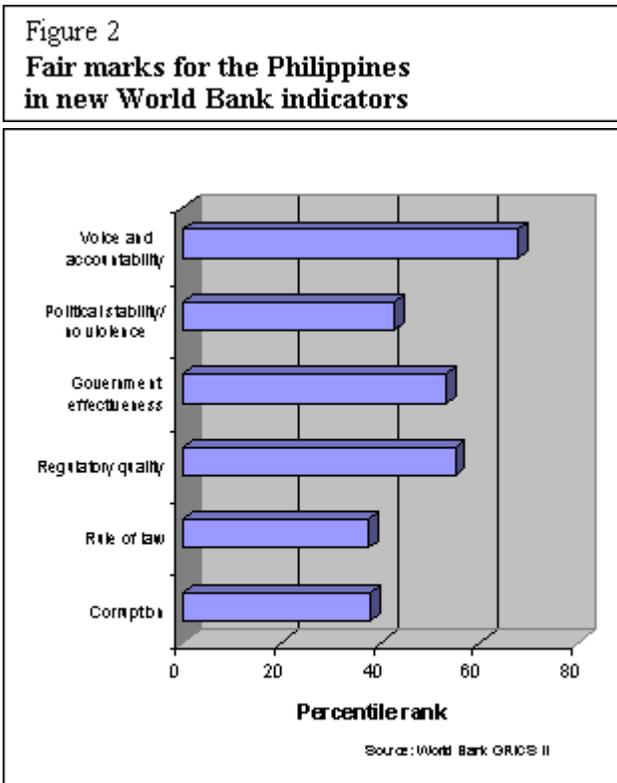
Two widely known components, the human development index and gini coefficients (which quantify the degree of income inequality) make up the social development index.^[1] The quality of a government's economic management is assessed through performance indicators of fiscal policy (debt-GDP ratio), monetary 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).^[2]

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---indeed political competitions are found at all levels---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-governmental 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 quite frustratingly high.
- The Philippine government remains inadequately oriented toward the provision of public goods (including elections), although reforms in public sector management are gradually easing delivery bottlenecks (efforts to automate voting is underway). Bureaucratic inefficiencies are still fairly pronounced. Allegations of corruption in the judiciary (excepting a reform-minded Supreme Court) are widespread. Protests over election outcomes, for example, are decided late in the electoral cycle, and decisions are vulnerable to buy-offs. 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, 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. High literacy rates, however, do not correspond to high voter education---the poor being vulnerable to both vote-buying and populist choices. The one-person, one-vote rule remains as a second best democratic practice.

- Its upside is the outward orientation of the economy (trade policy) 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 negative effects of weak governance on investment and growth erode the financial base, undermining the quality of public services---including electoral services[ptf1]---and eroding the prospects of providing public subsidies to political parties. It also deters the poor from seeking basic political entitlements.



The country's fair governance marks are corroborated by the World Bank's GRICS II,^[3] which surveyed non-governmental organizations, commercial risk rating agencies, and think-tanks from up to mid-2001. The Philippines has the following percentile ranks (0-100 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.

A fair score is a passing mark, and indicates that for the country to slip into a worse rating, institutions have to collapse dramatically³something that is not likely 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 (and public officials) serve as conduits for capture of both policies and public resources.
- There is either half-baked understanding or insufficient respect for the separation between public duties and private interests. Disregard of this conflict of interests rule leads to the perversion of the rules of the game, to the benefit of a few, rather than for society as a whole. Electoral services are handicapped by asymmetric information and this divergence between public and private interests and incentives³characteristics that provide fertile

ground for corruption. Voters, especially the poor, are not strong enough to counter this hardship.

- 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, campaign finance programs have to be carefully selected and tested to see if they will survive^{3/4}and eventually outstrip^{3/4}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).

Repression of progress by powerful interests

In the Philippines, the steadfast advance of the capacity of the state and the strength of its public administration is easily repressed by powerful vested interests.

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 it has been difficult to enforce campaign finance reform under a liberal democratic regime, particularly one in which political life is dominated by parties of the elite.

The power center is a centralized bureaucracy that orchestrates the execution of policy and allocation of spoils. Such concentration of power at the top blends with the decentralized power of families and clans, within the context of a “neo-patrimonial” political system (Azfar, et.al., 2000). The flow of power is from regional elites to central state authorities (Franco, 2000). The main political formations—LAMP, NPC, Laban, Lakas, and NDF—are unstable political coalitions, implying no genuine party loyalty exists. The national electoral system, which is nominally competitive (incumbency does not assure re-election---Franco (2000)), is a curious set of first-past-the-post contests, and mainly yields the president, senators and local-council (*sanggunian*) representatives who are elected at large, as well as Congress members elected from geographic constituencies (along with a small number elected from party lists). The need to share the spoils of political victory often incites a scramble by politicians across parties to join the winning Presidential candidate’s party (Azfar, et.al., 2000).

Because the president has discretion over disbursement and big-ticket government contracts, licensing authority, and fiscal management powers---a pattern appropriated from the American presidential system---politicians have to ally themselves with the chief executive to ensure funding for key projects and a major share in the patronage resources of the government. In turn, in the absence of effective political parties, the president has to count on local elites for electoral support and mobilization. As a result, local elites can leverage local power effectively during elections and, in-between, ask for major concessions, through the Congress, from the central government (Rocamora, 1995). The leverage that the chief executive has on local politicians is matched by the leverage that local politicians have in their ability to collect votes from their local bases of power (Igaya, 1999).

This local-central symmetry is perpetuated when Congress members routinely engage in party switching to bolster the ranks of the ruling party in successive elections, a practice which in turn stiffens the lack of any real programmatic or ideological separation among Philippine political parties (Franco, 2000). One result of this system is that the Philippine legislature by and large does not mediate differing interests; its policies, laws and resource priorities are seen widely as directly favoring powerful constituencies (Gonzalez and Mendoza, 2002). Also, minorities have little voice (other than as local majorities), especially in national politics (Azfar, et.al., 2000). As suggested by De Dios and Ferrer (2001) as well as Mendoza (2001), these political contests for control of resources are quite intense since the state “disposes over a significant amount of resources and exercises discretion over a wide sphere.”

It is at the central level where concentration of vested interests takes a life of its own and generates incentives that induce grand corruption. The Marcos regime left a legacy of tightly knit relationships between central government and big business. Political and economic exchanges were and, still are often based more on informal and personal relationships than on market transactions. Further stimulated by a presidential system that concentrates decision-making power in the hands of a rather small political elite, the close tieup between big business and government can be seen as one of the chief causes of corruption in the Philippines. Rules have not been able to adequately sort out the coupling of private and public interests.

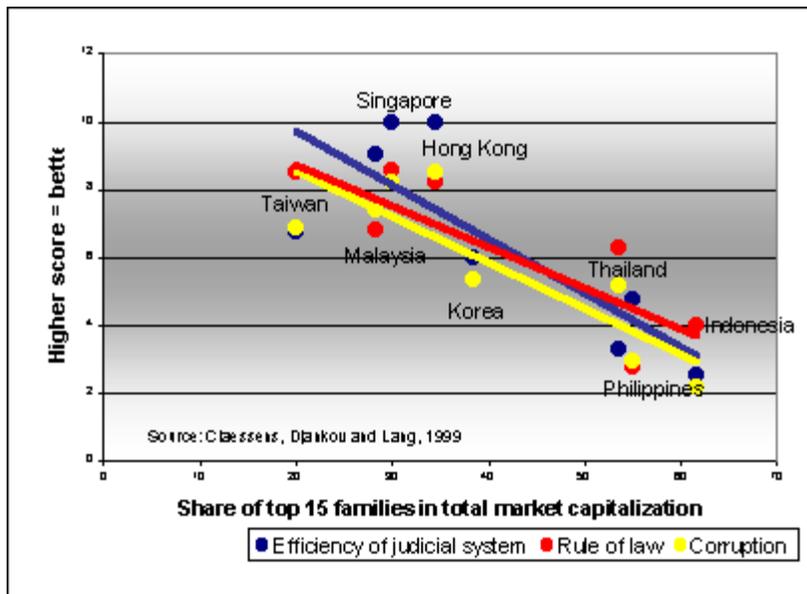


Figure 3
Are Asian judicial systems endogenous?

It is crucial to understand this in the context of a political economy distinguished by *relatively weak institutions*. The formal channels of interest intermediation can offer circuitry for *state capture*^{3/4}the actions of individuals, groups, or firms both in the public and private sectors to influence the underlying rules of the game (i.e. legislation, laws, rules, and decrees).

State capture also suggests purchase of laws and policies to get both the legal framework and the policymaking process out of shape---in a systematic striving for concentrated rents (World Bank, 2000a). Captor firms seek to shop for privileges *a la carte* directly from the state---such as individualized protection of their initially weaker property rights---in an environment where government undersupplies the public goods necessary for effective entry and competition (World Bank, 2000b). The reality of Philippine politics is that access to and application of government policy, are for sale.

State capture is evinced by a relatively small number of families having a strong effect on the economic policy of governments. In the Philippines, a single family (the Ayalas) has ultimate control over 17.1 percent of the total market capitalization (Claessens, Djankov and Lang, 1999). Such wealth concentration, and the interlocking links between owners and government officials, casts doubt on the independence of legal institutions in the country. It raises the prospects, according to Claessens, Djankov and Lang, that the legal system may be endogenous to the variety and strength of control over the corporate sector. In a situation of state capture, legal institutions are subverted and less likely to evolve in a manner that promotes transparent and market-based activities. In Figure 3, the higher the share of the top 15 families, the lower the level of efficiency of the judiciary, the weaker the rule of law and/or the higher the judicial corruption. Thailand, Indonesia and the Philippines seem to have the lowest level of legal institutional growth because of heavy ownership concentration in the corporate sector (Gonzalez and Mendoza, 2002). Under such conditions, alliances with the wealthy are easy to make and painful to break, and independence in decision-making is hard to maintain.

Corruption has had a significant impact on this process, encoding advantages in new rules and institutions for narrow vested interests. Public officials appear to have created a private market for the provision of normally public goods (contract rights, sale of public assets). Bribes are offered and accepted to ensure the capture of these resources; in turn these bribes transfer monopoly rents to private interests. Such substantial gains for private parties unfortunately generate negative externalities for the rest of the economy and society at large.

The problem of grand corruption in the public sphere---Rose-Ackerman (1999) defines it as “a substantial expenditure of funds with a major impact on government budget and growth prospects”---is a typical outcome arising from the character of government interventions. Transactions within the government always involve some asymmetry of information between two or more parties. Government intervenes precisely in situations of market failure, when provisioning through the market is not a viable option. In this context, corruption ensues spontaneously as a result of the existence of rents and monitoring failures (World Bank, 2001).

Ultimately, the political superstructure---the political system, balance of powers, electoral competitiveness, and so on---establishes the incentives for those in office to be either honest or dishonest. The specific features of the political structure determine the degree of accountability in the system. The features that are important in this respect are the degree of competition in the political system, the institutional choices made by government (and the checks and balances mechanisms that come with them), and the transparency of the system. Eventually, these condition the responses of the political actors to corruption, and, thus, set the equilibrium level of corruption (World Bank, 2001).

The role of political competition and political parties

Political competition determines the efficiency of political outcomes. Rose-Ackerman (1999) suggests, for example, that elections, if freely, regularly and fairly conducted, can ensure that politicians can be held accountable to their action while in public office. Elections are, theoretically, both a reward and punishment device that can control

politicians' conduct. In practice, perverse incentives allow politicians to transform elections into a platform for rent-seeking.

The key, according to the World Bank (2001), is to establish rules (or institutions) that stretch politicians' time horizons to improve the efficacy of elections as a reward mechanism. That means redirecting the system so that politicians assume a longer range of vision. The more long-term the goals, the higher are politicians' incentives to adhere to good governance. For example, political systems that make political parties relatively stronger *vis-à-vis* candidates, should have fewer self-interested politicians. Close lists are a good example. In legislative elections, they create incentives for individual politicians to worry about the reputation of the party as a whole; thus they have a corruption reducing effect (Rose-Ackerman, 1999).

When political parties vie for the provision of the same public service in a competitive environment---by way of a straightforward competition mechanism (elections)---they tend to reduce the extraction of rents and distribute political rewards more evenly (World Bank, 2001). Because the elected official has a social coalition behind his position, the official will be less susceptible to powerful elite forces out to bend the state to their will (Igaya, 1999). The party is often put in a contradictory position of pleasing every constituency, but if it is unable to carve its own role, goals and policies, it weakens its position *vis-à-vis* other stakeholders and makes it susceptible to pressure by dominant interest groups.

The institutional weakness of the Philippine state is in a way a reflection of the weakness of Philippine political parties. Political parties in the Philippines are not based on class or ideological differences. While political parties continue to be the main instrument of social mobility, they carry no development paradigm (Igaya, 1999). Drawing from various observations, Romero (2002) characterizes political parties as makeshift coalitions built around specific electoral contests---essentially instruments used by the elite in personalistic political competitions. They are held together only by dyadic patron-client relationships. Necessarily, they are financially and organizationally weak. Romero points out that as a result, the political system cannot establish a competitive, level-playing field. Ruling parties have distinct advantages in campaign fund raising. And because they are parties of the elite, the system becomes inhospitable to parties representing the poor majority of workers and peasants. The lack of mass membership---what can be found are "cadre" members (candidates and their retainers), not "mass" members---suggests that the current system obstructs the institutionalization of mass political parties, because there is a constant need for re-grouping. It is not so much the political parties that are the real mobilizing organizations but the candidate's electoral machinery and network of relatives, friends, political associates, and allies (Gonzalez, 2002).

Lacking any stable membership base, Philippine political parties have no steady organizational life, no discernible structures by which to engage the energies of party stalwarts to project their presence, no regular activities. They come alive only during elections. Between elections, their presence is seldom noted or missed (David, 1997).

Without broad-based support, political parties have no party funds to collect or account for. Party expenses are paid for directly from the pocket of whoever is aspiring to be the standard bearer in a given electoral season (David, 1997). Political parties are more dependent on powerful firms and financial interests for sources of financing and on electoral tactics such as vote-buying, vote-rigging, and intimidation. On the other hand,

there are virtually no funds for other, non-election activities such as strategic planning and platform formulation, recruitment of party members, voter education, among others. (Romero, 2002).

Moreover, in a context of widespread corruption and lack of confidence in the impartiality and efficiency of government, Philippine political parties (or rather, politicians comprising their influential echelon) easily transform public offices into opportunities for personal profit. della Porta, et.al. (2000), who did an excellent study of Italian political parties' shady dealings, may just as well be describing the Philippine context: The more costly the political campaign, the larger the incentives to draw money from the occupation of public positions. At the same time, the richer the opportunities for illegitimate profit in public roles, the easier (and more advantageous) it is to invest huge sums in electoral campaigns. Worse, potential corruptors can modify public decisions in a way favorable to them. Corrupted party leaders and functionaries can directly influence the action of public administrators, who are the final executors and providers of specific favors (della Porta, et.al., 2000).

From the perspective of principal-agent relations, the agents (in this case, the politicians and bureaucrats) are able to abuse the advantages offered by such discretionary political power in the wake of the *incoherent interests* of the principal (in this case, the electorate or the public at large). This incoherence of public interest, according to De Dios and Ferrer (2001) stems partly from social divisions (resulting from ethnic-linguistic dimensions, religion and urban-rural distinctions) and the gap between rich and poor. Moreover, large segments of Philippine society do not necessarily regard institutions of government as representing values that are superior to those of smaller groups, such as clan or family, thus contributing to a split-level set of acceptable public behaviors. In this context, as De Dios and Ferrer put it, "where the notion of what constitutes public interest is either vague or disputed, reward and penalty mechanisms are unlikely to function smoothly." Without a clearly articulated public interest, it is not easy to align politicians' preferences with those of the electorate; consequently, it would be hard to punish politicians who adopt "bad policies."

Linkages between campaign money and policy outcomes

In the Philippines, it is not difficult to purchase major influence over government through campaign contributions. Although there is separation of powers---which disperses power and influence widely, and while they also multiply veto points as well as points of political access (legitimate and otherwise)---those who can be said to have such power (the President, arguably, and a few major legislators) are the focus of demands (and receive contributions) from a very broad range of firms and individuals seeking influence over public policy.

The Philippine pattern of free-standing, self-financed campaigns---for most, and particularly for challengers, party support is often limited or nonexistent---do not necessarily represent a dispersal of political influence. That is because winning candidates at all levels, who must organize and find funds for their own campaigns, become in any case beholden to the victorious presidential candidate and his or her political entourage for bureaucratic largesse. While overall large sums are spent on campaigns, demands are focused on only a few high-level offices---a weakness that obstructs meaningful electoral finance reform. Agents (e.g., politicians and bureaucrats in these high-level offices) are better informed about prospective

policy changes that offer new rent opportunities (e.g., privatization initiatives during liberalization episodes) (Mendoza, 2001).

Ironically, weak parties that help define the Philippine political landscape make for equally weak rules and regulations, and thus easier access to influence. There exists no party disciplining mechanism that will provide some measure of accountability for winning candidates. Neither is the party responsible for applying government sanctions, which in any case are not enforced strongly. Simply put, most of the campaign donors' recipients---even party leaders---could credibly guarantee major favors in exchange for funds. As with every scarce and valuable commodity, political guarantees can then be demanded and supplied in exchange for a price. Examples of policies that can be "guaranteed" are industrial priorities, fiscal policies, regulatory rules, judicial decisions, and electoral rules, among others (De Dios and Ferrer, 2001). Changes in regime or policy environment can provide opportunities to secure illicit gains from "policies for sale." Not surprisingly, this factor increases the clout of any one big contributor.

Despite this, causal links between electoral contributions and policy outcomes can be exceptionally hard to prove, whether analytical or legal standards of proof are employed. In any campaign finance situation, the "money trail" can involve diverse players, with ultimate sources being difficult to trace (Johnston (2000)). It may be easy enough to detect or legislate against politicians using public office for personal gain. But it is much harder to ascertain (even if there are strong suspicions) whether these politicians are becoming overly indebted to the groups or individuals who fund their campaign.

To begin with, politicians spend three times---one, to become candidates, two, to be voted upon, and three, to get the votes counted in their favor. It takes money to pay a campaign staff and buy materials. It takes money for a campaign to be taken seriously by the press. It even takes money to raise more money. In the Philippines, a presidential candidate needs billions of pesos to finance a nationwide campaign. In 1998, one estimate put the total cost of presidential campaign at P3 billion: P1 billion for organizing a nationwide machinery; P1 billion for media and propaganda; and P1 billion for election and post-election day expenses, including the recruitment of poll watchers. Airplanes and helicopters---musts in campaigning in an archipelago and in traffic-choked cities---are also among the big ticket items in campaign expense bills, as are slick PR practitioners (advertising can swing races) and poll watchers, and the ubiquitous semi-secret kitty to buy votes (de Castro, 1998). Yet ensuring that the campaign kitty is used only for ethical campaigning purposes by the party, and is not eventually channeled to policy-makers, is a regulator's nightmare.

There is a melange of political financing---some are legitimate, most are tainted. To be sure, the most known ones are donations, commissions, bribes given to public officials in exchange for contracts, concessions, and so on. Voter support is also won through the use of pork barrel for funding "visible" public works projects. Diversion of government funds---money that comes from the Treasury or government corporations---for election purposes occurs matter-of-factly every election season. Deft strategizing by government lawyers may have helped the practice escape being considered illegal (de Castro, 1998).

All these make the paper trail very difficult, and even aggressive NGOs like the Philippine Center for Investigative Journalism---noted for uncovering several campaign finance irregularities---have to chart untrodden courses to establish proof of wrongdoing.

In addition, the Commission on Elections (Comelec)---the electoral oversight body---does not make a clear distinction among campaign expenditures, which are largely unregulated, even if there are firm limits on paper. In the United States, political parties are allowed to spend money on both "party building activities," such as "get-out-the-vote" efforts and generic advertising, such as "issue" ads (soft money) *and* on more conventional campaign spending (hard money). Good accounting can help establish the connection among policy outcomes, recipients of political contributions, and donors---but Philippine regulators often look the other way.

Wholesale political influence through electoral finance may be hard to uncover in the Philippine system, but that does not mean there are no corruption perils. Also, access to pork barrel funds by legislators may be justified by some as constituent service, but strikes most people as safeguarding electoral bases. Innocuous riders in bills---often inserted in the course of bicameral sessions---are unlikely to attract much public or press attention, but can be of major benefit to a particular donor. Looked at another way, politicians and bureaucrats may practice a form of "political money-laundering", converting resources that cannot be transformed directly into influence by other means. At local levels, campaign finance purchase benefits that may be individually too small to be visible to be minded by the public, but collectively add up to a corrupting influence upon Philippine politics.

Institutional choices: mostly weak links and a few bright spots

The Philippine experience in campaign finance to date has produced largely harmful results. To a large extent, this failure in governance has been occasioned by 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 slow changes. These institutional choices represent a binding constraint on further progress in campaign finance reform.

Current laws leave little way of knowing what the scope of the problem might be. Major corrupt practices via campaign contributions do not seem to precipitate any kind of crisis in the Philippine political system. But it is also hard to see how existing laws would systematically reveal such problems, or prevent efforts at influence-buying by sufficiently determined and skillful agents. Some of the major questions---what constitutes knowing involvement in raising funds, what is or is not an illegal contribution---are well-removed from the actual exercise of corrupt influence, and from rent-seeking behavior by agents, that is, politicians and bureaucrats.

It is difficult to make a case that political contributions, either foreign or domestic, have hijacked the Philippine political process. But it is quite clear that campaign finance in the Philippines may pose emerging corruption risks demanding new safeguards.

In the Philippine electoral system, success is equivalent to the total number of votes a candidate is able to garner. Candidates to political offices---from President down to the barangay chairman---are elected in this "first past the post" system. This system is simple, straightforward, and much easier for ordinary voters to understand (compared to "block voting" for example). It sets off, however, a parallel system of competition for electoral funding from various vested sources. All those with name-recognition who emerge as top choices in pre-election surveys get the contributors' nod, to the disadvantage of less known

(but probably better qualified) newcomers. The election victories of movie personalities in the Philippines (the most known of whom was Joseph Estrada) were in part the result of a scramble for campaign money that favored popularity over competence.

The situation would not be so bad if election spending were closely monitored, and opportunities to practice extortion are carefully watched. Like political money, running for office is not a bad thing in itself, but like political money it creates the political equivalent of moral hazard.

In the Philippines, transparency in campaign finance is reflected in rules on party financing. The country's election code sets guidelines and limits on financial contributions to political parties. But these rules (e.g., low ceiling on election expenses) are too unrealistic that they tend to provide incentives to hide rather than declare fund sources. Comelec, mandated to oversee these matters, lacks the capacity to scrutinize political donations. Even worse is the fact that when violations occur, the Comelec rarely enforces sanctions (Rocamora, 1998).

The government of Corason Aquino tried to reduce election spending by banning political advertisements. But this effort failed to halt the explosion of campaign budgets. Candidates made use of legal gaps that allowed them to spend huge sums to "buy votes, purchase the loyalty of local officials, and indulge in other traditional, if expensive, ways of winning public office" (de Castro, 1998). Politicians have hijacked even this small part of this good governance agenda, with Congress lifting the ban on political advertisements. Essentially, it is not hard to blow holes through whatever reforms are introduced. With Comelec not being able to scrutinize party records (if they exist at all), the campaigns no longer adhere to contribution or spending limits. Paradoxically, as a public body with a clear constitutional mandate (which means it cannot be abolished by legislation), Comelec has vast powers to scrutinize, and enforce limits on, election donations and spending. It is nominally independent of the Chief Executive and Congress. But years of acting by improvisation, with no clear sense of purpose or coherent strategy, and a rather short attention span, Comelec has fallen prey to politicians' manipulations.

State subsidies are still a thing of the future. To be sure, Comelec allocates free radio and television time equally and impartially among parties and candidates, and this can be considered a form of indirect subsidy; other than this, state assistance to political parties has not been introduced (Gonzalez, 2002). For better or worse, Philippine policy on domestic political finance has come to rely much more upon vigilance by the press, individual voters, and civil society---than upon limits or restrictions. It was mainly exposed by PCIJ on illegal campaign donations that a number of politicians, including ex-President Joseph Estrada, now find themselves facing various corruption charges. Still, the scant data disclosed in an election year makes it difficult to unearth abuses until well after the "paper trail" has led to concrete evidence and the public has maintained its vigil.

In the end, the variation in institutional outcomes reflected poor choice of institutional structures. The country's political managers opted for institutions---unstable political formations, first-past-the-post elections, weak Comelec interventions---which did not demonstrate much accountability. That suggests the critical importance of policy innovation and strategic vision in altering the course of development of electoral finance in the Philippines.

So what else could the Philippines be possibly doing right? The one 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.

Precisely because they have close relationship with communities, and owing to their non-bureaucratic character, NGOs are obvious wellsprings of innovation. The existence of campaign finance watchdogs (the PCIJ is one shining example) can turn the tide against corruption in the use of campaign funds. 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 in electoral reform had been known to disappear as soon as grants from donors dry up. Others, like NAMFREL, are too focused on election reform. Still, despite fragile structures, NGOs are here to stay, and the key to is to strengthen their culpability, so that they are made answerable for good governance initiatives such as campaign finance reform.

These early choices about the structure of institutions affected the trajectory of campaign finance. The institutional context is strong on some “fundamentals”^{3/4}a fairly developed nationwide election infrastructure, the presence of an independent and authoritative constitutional body (the Commission on Elections) which could be responsible for the integrity of all issues regarding party finance and electoral rules, civil society watchdogs^{3/4}but is as yet not strong enough to deliver the minimum necessary underpinnings for long-lasting reforms.

The challenge is bound to grow, as the risk of maintaining the status quo (not to mention backstepping even in limited reforms) 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 that are mutually reinforcing, and have a demonstrable impact in reducing weak campaign finance initiatives. Some measures are distressing, but not irreversible. Decisive leadership can push through the necessary reforms as new gains give the reform program a new credibility.

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 creating new accountable structures (such as mass political parties), increasing formal channels of access to decision-making, deconcentrating political and economic power through deeper decentralization, and enhancing oversight through participatory strategies.

Political accountability is perhaps the most crucial constraint needed to restrain the behavior of politicians and public officials by organizations and constituencies with the power to enforce sanctions on them. The key is to increase the cost of making decisions that benefit narrow interests at the expense of the broader public interest. An important step is to increase the transparency of electoral funding decisions made by elected officials, followed by the strengthening of institutions (for example the courts) 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 and disciplinary committees, and in the case of Comelec, better regulations on disclosure of electoral contributions and expenditures. Civil society groups can also express their collective demands for transparency and accountability.

The answer to enforcing effective sanctions on politicians is a meaningful degree of political competition in the electoral process, channeled through organizations that provide broad constituencies with vehicles---such as mass-based political parties---to express their collective demands to political leaders. Exposés of cases of poor performance associated with high levels of corruption is an effective deterrent to corrupt behavior (World Bank, 2000). Philippine political parties need to build a mass membership to encourage a healthily widespread political participation. The more of the electorate are induced to affiliate with political parties, the better for aggregating and systematizing the interests of the people (Romero, 2002).

Apart from dues-paying members, parties can form around affiliated organizations, labor unions, guilds, NGOs, among others that contribute funds to the party (Romero, 2002). In some countries, such as Germany, parties require elected officials to give a proportion of their salaries to party funds. If the levy on professional politicians is compulsory and uniform, their contribution does not give them greater influence on policy than they already enjoy through their position in the party (*The Economist*, 1999).

But dues and membership fees obviously would fall short of parties' total needs. If membership fees are set too high, they will discourage potential members. Parties will likewise be reluctant to bleed their own affiliates and officials too hard. Like it or not, parties would try to pass the hat around more widely, raising the question of how far they can go.

In the Philippines, prohibitions on financial contributions to political parties make it almost impossible for any political party to accept anything. Under the country's election code, political parties are barred from accepting donations from the following: foreigners and foreign corporations, public or private financial institutions, public utility firms, those engaged in exploiting any natural resources of the nation, those who hold contracts or sub-contracts to supply the government with goods or services or to perform construction or other works; those who have been granted franchises, incentives, exemptions, allocations or

similar privileges or concessions by the government, those with government loans in excess of P100,000, Educational institutions with public grants exceeding P100,000, and officials or employees in the Civil Service, or members of the Armed Forces of the Philippines.

Experience worldwide suggests that regulation of party funding can be effective if well-designed, backed by effective sanctions, and accompanied by a parallel diffusion of appropriate ethics and norms. There is no single prescription for success, but a selection of the following litmus tests, suggested in World Bank (2000), might prove to be helpful:

- *Leave a paper trail. Ensure that all donations and other sources of party revenue are made public, that donors and the amounts of their donations are identified in the public record, and that candidates disclose links to lobbyists, as well as sources, types, and amounts of support, both before and after elections. Expenditures and their purposes should be similarly published and available for audit.*

Party financing in the Philippines is one of the more contentious issues with regard to the regulation of political parties. A new transparent system for reporting political donations, if introduced in the Philippines, should allow parties and candidates to hand out receipts for political donations which are issued by the Comelec. This measure can provide ruling and opposition parties with equal chances for political fundraising. To operationalize it, setting up an acceptable administrative structure will be required of parties to ensure that political donations are properly used and that accounts are kept. At the same time, the new anti-money laundering law passed by Congress can ensure more transparency in political finance by putting under scrutiny donations exceeding P500,000. As *The Economist* argues, although such measure may not stop would-be influence-peddlers, it ensures that parties will have to justify any decisions that are in the interests of their donors (*The Economist*, 1999).

Because transparency depends crucially on freedom of press so that right- and wrong-doings on the part of the government can be publicized, a freedom of information law ought to be enacted by Congress. The public can demand the disclosure of information regarding campaign finance by invoking such law. That will reduce the informational problem between principals (citizens) and agents (politicians and bureaucrats), thus improving accountability and, particularly, reducing corruption in electoral funding (World Bank, 2001). To be fully effective, however, a freedom of information law needs an oversight body. In the Philippine case, the Commission on Elections, given its management role in campaign finance, is in a good position to give life to freedom of information, recognized in the Philippine Constitution but still needing legislation.

- *Ban the use of state resources for political purposes. Parties in government should not use state funds, postal services, cars, computers, or other assets for political purposes or in election campaigns.*

In the Philippines, the administration party, because of its access to far greater resources than opposition political parties, is often accused of tapping government resources, and using the government machinery, to support its candidates (Gonzalez, 2002). Yet ruling parties need to be guided by distinct funding rules. Regulation should draw a line between proper governmental spending and the use of public money to keep the ruling party in power. For example, the administration has a right to spend public money to implement party programs, or to test whether policies are working. But it should be barred from spending designed to test voters' attitudes to public policies, or to persuade the electorate to

vote in a particular way (*The Economist*, 1999). For example, suppose the ruling Lakas-NUCD party decides to support a shift to a parliamentary system. It should not, under normative rules, be allowed to circulate its stand in the referendum using public money.

- *Limit “soft money” donations.*

The donor restrictions imposed by Comelec refer only to elections; Comelec excludes those not related directly to elections. In practice, individuals or corporations wishing to influence an election could chip in hundreds of thousands of pesos even on election themes, such as "issue" advertising targeting or supporting a specific candidate. In fact, in a non-election year, would-be candidates can produce TV plug-ins that promote government programs that they sponsor---an obvious way of skirting campaign advertising rules. In either case, politicians can often escape with a reprimand from Comelec.

In theory, donors can strengthen political parties if they direct donations at party-building measures, such as funding for political research or for get-out-the-voter drives. But since “soft money” is not yet formally recognized as a political good in the Philippines, the country can learn from lessons abroad. In America, both Republican and Democratic Parties have been using soft money as a route around existing curbs on “hard money.” Spending on advertisements, for example, ostensibly are about issues rather than candidates. The collapse of Enron, the energy trading giant which showered money on politicians and political parties late last year undoubtedly helped tip the balance in favor of a new campaign finance law. The new law would impose limits on this kind of spending by banning soft-money donations from companies, unions and non-profit lobby groups for such advertisements within 60 days of a general election and 30 days of a primary election (*The Economist*, March 21, 2002).

- *Limit expenditures. Make party politics as inexpensive as possible. Usually the demand exceeds the supply of funds, leading to a search for funding that may breach legitimate frontiers. There is a lot to be said for reversing this relationship by imposing legal limits on spending, with actual expenditures subject to audit and to effective sanctions in the case of breaches of the limits.*

Money can reap political dividends only if it is spent. As *The Economist* (1999) suggests, by limiting the ways in which parties can spend money, they will lose their appetite for raising it in the first place. It cites the case of Britain which bans paid television and radio advertisements, the idea being to limit the need to raise funds and to level the playing field. France does so too, but goes further: it outlaws press advertising, posters, and freephone lines (Pujas, 2000). The Philippines used to be in this league, banning political advertisements as elections drew near.

In some cases, restricting the amount may yield better results than restricting the type of spending. In the Philippines, an election reform bill now pending in the Senate puts limits on voluntary contribution: P100,000 for individuals and P500,000 for corporations. But this approach of putting a cap is wrought with practical difficulties. A crucial test is timing: what period should be covered by the spending limit? *The Economist* (1999) outlines the dilemma: “Often, the earliest spending is the most effective. Money spent years before an election on party infrastructure or computerized databases may pay greater political dividends than a last-minute advertising splurge. But cumulative limits set several years in advance would prevent early-spending parties from adjusting their tactics towards the close

of a campaign. In France, all spending in the year before an election counts towards the limit. In Britain, where the date of an election is set by the prime minister, often only weeks in advance, the limits apply only to spending after the official start of a campaign.” Spending limits in the Philippines are ridiculously low; there is no question that Philippine political parties cannot observe the ceilings. The primary difficulty is neither timing nor purpose, but denying the parties the incentive to set up an accounting scheme that will not detect overspending.

In addition, the limits clearly should apply to parties and candidates. But disbursements by outside organizations can dwarf the direct spending of parties and candidates. In the Philippines, political candidates make it a routine to attribute to third parties the source of funding for campaign materials. Thus, election posters are “donated by the friends” of the candidate. Establishing an overall ceiling for third-party spending then allotting the money among different groups will be a hassle for any regulator. But restricting organizations to a fixed amount will simply give interest groups the incentive to sub-divide so as to qualify for several spending allowances under various guises (*The Economist*, 1999).

In the end, it makes no sense to have limits which are disregarded. No winning candidate in the Philippines has ever been disqualified on grounds of overspending. At any rate, disqualification is not a practical option, especially since the spending ceilings are unacceptably low. Rather than put a squeeze on how, and how much, parties and candidates can disburse, a more feasible alternative is to raise the limits, and simultaneously, raise the penalties. Making it easier for politicians to comply with the new limits would also make it easier for them to accept the sanctions.

- *Consider public funding. Many countries have established partial public funding, recognizing that political parties play a public interest role: they make an essential contribution to political contestability and the decentralized expression of diverse values and interests. Public funding reduces the scope for private interests to “buy influence” and can also help reinforce limits on spending, because of the electorate’s resistance to excessive public expenditure.*

Public financing can be done through direct financial assistance or through indirect means like tax relief and credits (Gonzalez, 2002). The basic idea is that it is worth spending tax money to replace a system that encourages the unchecked (and therefore corruption-prone) solicitation of private money. If the Philippines were to subscribe to state finance, one way is to get it directly from taxpayers. Individuals need not pay any additional tax, but simply allow the government, as collection agent, to collect a tax check-off, a small amount of their existing tax, which goes towards a government pool to finance political parties. Or the government can set up matching funds, where the government matches private donations, usually up to a low limit, with taxpayers’ funds. This can be offered in exchange for parties agreeing to limit their spending or not accepting, beyond a ceiling, any further private donations.

In a more complicated setup, such as that in Germany, state help is made proportional not to parties’ fund-raising success but instead to their electoral support, usually using a formula based on the number of votes and seats. Here, though, any formula based on current political representation will tend to reward the parties and candidates voters chose in the past, rather than the ones they may wish to support in future. As in private funding, state funding is fraught with difficulties (*The Economist*, 1999).

Public funding of political parties in the Philippines is gaining momentum but has a long way to go. A proposal brought up by House Speaker Jose de Venecia in a Congress planning workshop in July 2001 called for a government allocation of P3.5 billion annually for political party activities. This amount is the equivalent of one-half of one percent of what is supposedly lost to graft and corruption (20 percent of the national budget then estimated at P700 billion) (Romero, 2002). A new campaign finance bill filed in the Senate creates a state subsidy fund to “augment campaign expenditures and program operations of accredited national political parties.” It proposes a set of eligibility criteria that seem to follow the German model (the subsidy is released to each party proportional to number of seats obtained in most recent elections), and leaves it to the Comelec to define the details. The ground rules will be based on the following:

- .. number of seats gained in the national legislature in most recent national elections (political representation)
- .. number of political chapters, organizations nationwide and number of active and permanent members of the party (organizational strength and mobilization capacity)
- .. number of years of existence of the party; ability to field complete slate of candidates in the past 3 national elections (performance and track record)
- .. number of projects and programs related to voters education, info campaigns on national issues, training and other constituency-building activities (capability to implement developmental programs for their constituents)

It is apparent that these qualifying standards would favor dominant parties and put handicaps to fledgling coalitions. The state subsidy, moreover, mixes “hard” and “soft” election activities, which could give rise to accounting nightmares. Allowable “party development” spending covers party administration, recruitment and civic education; research and policy development; education and training of members; institution building and constituent outreach program; and other reasonable logistical and operational expenses that are essential in strengthening the party. Allowable campaign expenditures include operating expenses (staffing, setting up of headquarters); travel expenses of candidates and campaign personnel; info dissemination and advocacy; production and distribution of electoral paraphernalia.

There are several mechanisms that help bring transparency and accountability to the new system. The schedule of release---non-election year for party development activities; election year for campaign subsidy---could somewhat ease the expenditure tracking problem. The post-audit to be done by the Commission on Audit offers additional safeguards. The bill also requires public disclosure of all contributions and expenditures. These should give strong guarantees against fund manipulation by political parties. But it is not foolproof.

Public financing has some disadvantages. First, it entails high costs to taxpayers. Secondly, it is not a guarantee that the subsidy will tame the appetite of political parties for private funds. Thirdly, difficulties can arise on how to introduce “fair” allocation of money among parties (Gonzalez, 2002). There is also the risk, pointed out by *The Economist* (1999) that the greater the taxpayer subsidy, the greater the likelihood that parties will become institutions of the state rather than voluntary associations of their members.

There is little doubt that antidotes against potential inequities and corruption risks linked to political money are difficult to write into law, making reform much more challenging.

Nevertheless, If the bill become a law, it will be a breakthrough in campaign finance reform, in the sense that public accountability also implies matching reform efforts with resources and capacity.

This far-reaching legislation could have a powerful impact. But its enforcement would require strong verification and audit powers and further judicial training and reform, areas worthy of consideration in their own right. Successful oversight would need a combination of reliable judges, electoral authorities and an active investigative press. A credible reform program should be designed to make political parties 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 electoral reform. Initiatives of this sort are a powerful impetus for developing performance benchmarks for political parties, and providing a breeding ground of change from a rent-seeking-oriented framework to one of service delivery and accountability.

If public financing does not automatically reduce corruption, it is also not responsible for corruption. For all its faults, it is a necessary institution that can prevent social inequalities from being reflected in an unequal access to politics. Ideally, political financing has to maintain a delicate balance between the principle of equality (limiting the influence of the richest) and the principle of freedom of choice (supporting one's preferred party), between the goal of providing the parties with enough money to carry out their responsibilities and that of avoiding misuse of funds (della Porta, et.al., 2000).

In principle, devolution of powers from the central to subnational levels could also contribute to institutional restraints. A centrally-driven, regulatory approach to managing elections combine with the resource-strapped monitoring capacity of local governments. A parallel trend, that of a centrally-driven patronage system that creates incentives for local politicians to break away from their political parties to join the administration's bandwagon, further compromises local enforcement capability. But the potential for changes is still there. The key is to parlay the LGUs' own advantage³4a fairly developed system of public administration and trained public officials³4to promote transparency and accountability in campaign finance within their domain.

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 exogenous pressures and opportunities will have a powerful impact in reducing state capture and making steady progress in campaign finance reform. Civil society groups can act as intermediaries for communication between the populace and the institutions of state. They can provide the critical tools of public monitoring and accountability that are essential for placing constraints on politicians and political parties.

Finally, it may be worthwhile considering a shift to a parliamentary system. In the country's presidential form of government, the appointing powers of the President and control over the disbursement of government finances create a powerful incentive for politicians to make sure they belong to the ruling party, thus diminishing chances for a true multi-party system. Political parties in presidential systems engage in a zero-sum game that polarizes competition. Thus, US parties are not parties but "political machines" in the sense they are understood in parliamentary systems. Political science literature offers the hypothesis that presidential systems produce looser parties and programs than do

parliamentary systems. Parliamentary systems produce more consolidated parties and programs (Romero, 2002)

The Philippine presidential system also creates a situation of multiple, separately-financed campaigns contesting each of 250 House seats, 24 Senate races and of course, the presidency. In a parliamentary system, campaigns radiate from the parties' leadership. Unifying the executive and legislative branches through a parliamentary structure will force political parties to take a better and healthier role.

Creating virtuous circles

Taken together, the building blocks of electoral finance reform appear overwhelming, as they entail significant changes in the nexus of relationships within government and among government, the private sector and civil 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 fair governance in the country.

A serious campaign finance reform 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 and organizations within civil society. 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, while ensuring that the decisions are made above board, open to the scrutiny of the public.

In campaign finance, leadership can come from a determined Commission on Elections with the clout and resources to launch reforms in its area of responsibility. Of course, its reform efforts 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 and directly. Paradoxically, even 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. The lack of bold campaign finance initiatives, in the context of weak leadership, illustrates the difficulty of emerging from a vicious cycle once it has taken hold.

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 paper. Dialogues are also important in building constituencies. In campaign finance, it is imperative to focus confidence-building efforts among voters, whose frustrations about elections are widespread. How workable specific reform instruments are 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 the public-at-large.

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. That requires assessing political culture, as it relates to the way authority is exercised, and the extent to which *power* is deployed across different institutions. Pinpointing where the discretion is would be a significant step in breaking the links between money and influence, and reversing state capture. Political finance goes to the heart of the country's political culture. The high spending abilities of politicians and the weak powers of parties affect the way political culture progresses. The culture of governance is also linked to *accountability*: the goal is to destroy patron-client structures, especially in political parties, and replace them with explicit rules.

In sequencing, the early picking of “low-hanging fruits” has the potential to achieve a 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. Early disqualification of candidates known to have violated campaign finance rules---the current practice is to give the candidate the benefit of the doubt and make decisions ex-post---would boost public confidence in the electoral system. A running public disclosure of candidates' expenses, rather than an after-the-fact publication, would have a similar salutary effect. Civil society groups can also alert the public on whether Congress is giving favors (e.g., tax breaks) to interest groups that contribute heavily to parties and campaigns.

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 strengthening Comelec's monitoring capability (a core of strong, credible, and independent professionals could reverse its fortunes), putting more realistic limits on contributions and spending, assuring the passage of a state financing law, and generating more accountability in the ranks of civil society organizations involved in watching over campaign finance. Despite attempts to limit government's role to enabler and facilitator, it remains the biggest player, in terms of its own public management stakes.

Sustainability also means digging deeper into the underlying sources of institutional weaknesses and strengthening institutions that can resist them. One key measure is to build public service neutrality: ensure that the public service is politically neutral and that public servants are neither allowed nor required to make contributions to political campaigns as a way of obtaining public sector employment. This will contribute to a meritocratic public service that will resist party bias and will encourage decisionmaking in the public interest. Another is to strengthen the lower courts so that campaign finance cases are decided fairly and with dispatch. As it is, cases drag on and it is no accident that key decisions on political finance have found their way to the supreme court. Likewise, there is a strong need to strengthen corporate governance. Restraining business misbehavior obviously will limit the range of public policies that are potentially “for sale”, thus constraining illegal receipt of political donations.

All systems of political finance involve trade-offs. Parties and candidates have a legitimate need for money, but risk becoming too beholden to either individual donors or the state. Even if it were possible to devise a perfect scheme, implementing it would be difficult. For rules on political finance can be changed only with the authority of governments consisting

of elected politicians. And politicians will want to change rules only if it is in their interest. Sustaining often complicated reforms requires resources and ingenuity that can see them through to completion over the long haul. Changing incentives by stretching the election cycle (making it possible for incumbents to stay longer and avoid early campaigning) and by shifting to a parliamentary system could deliver credible fresh outcomes.

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 state subsidy), while still taking swift, decisive actions (such as devising a “catch-up” plan meant to raise capability levels in Comelec). Government must assign budget resources as well as capable managers to a campaign finance reform program. Civil society can only give so much of its own. Business associations and NGOs can help identify priorities and can monitor results, but they cannot deploy the political will and resources of the state that eventually are needed to create transparent and accountable institutions of campaign finance. The challenge ahead is awesome and the task will not be easy.

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[1] The human development index combines estimates of life expectancy, average education levels and per capita income. The gini coefficients are based on recent surveys of income distribution.

[2] Huther and Shah (1998) used a stylized view of countries based on broad categories of “poor,” “fair” and “good” governance to classify countries and the likely outcomes of governance reforms.

[3] World Bank’s Governance Research Indicators Country Snapshot II, 2000-2001.

[ptf1]No need. This is the author’s statement.