

## **SoD Summary**

# **Philippine Democracy Assessment Minimizing Corruption**

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## Key Recommendations

- The effective implementation and execution of the vast array of laws and policies is crucial in the struggle against corruption.
  - Continued bureaucratic re-engineering can occur through the adoption of new communications and organization technologies, and the strengthening of a culture of rules.
- Free trade commitments could help reduce and eliminate corruption by bureaucrats, particularly in customs.
- Transactions on public procurement, licensing and registration, taxation and customs administration, and financial regulation have to be made effective, transparent and open in order to prevent state capture by cronies.
- Citizens must be empowered to assess the integrity of business-government transactions. This requires simplification of the language and procedures used in legal codes.

## The Assessment on Minimizing Corruption

### **Origins: Why perform a SoD assessment?**

The development and pervasiveness of corruption in the Philippines can be traced back to its colonial history. The establishment of the colonial administration by Spain was accompanied by discretionary and arbitrary forms of administration. These survived during the 20<sup>th</sup> century and reached their climax during the Marcos regime (1965-1985).

In 1986, when democracy was restored, laws and policies were enacted to prevent and curtail corruption. These laws have been augmented and reformed during the last 20 years.

Thus, the assessment team decided to put the Filipino society and institutions to trial and determine the effects of this vast array of regulations, that is, understand in what ways the reforms and laws have dealt with corruption and integrity in public life.

### **The Separation of Public Office from Party and Personal Interest**

According to the assessment team, the Marcos regime and its widespread corruption were the main reasons for the crafting of anti-corruption laws in the Philippines. Ferdinand Marcos ruled the country through presidential decrees after declaring martial law in 1972 and, with the aid of his family, friends and cronies, was able to capture not only the state apparatus and resources but also private corporations, such as the media empire of the Lopez family and the industrial group of the Jacinto family.

All policies on the prevention of corruption in the Philippines come from the 1987 Constitution. Through it, several bodies were established to protect the principles of integrity and accountability. These are the *Office of the Ombudsman*, in charge of preventing graft and corruption; the *Sandiganbayan*, which acts as a special court for senior officials and has jurisdiction over criminal and civil cases involving graft and corrupt practices; the *Civil Service Commission*, and the *Commission on Audit*. These agencies have launched several programmes aiming at reducing corruption and strengthening investigation and prosecution activities, such as: the *Lifestyle Checks Program* and the *Ehem! Aha!* whistleblowing programme set up by the Office of the Ombudsman; the improvement of the Government Accounting System and the establishment of the Fraud Alert System on behalf of the Commission on Audit; the Procurement Watch, which includes civil society participation in the procurement of goods and services for the public offices, implemented by the *Department of Budget and Management*; and the professionalization of bureaucracy and implementation of e-government activities undertaken by the

Civil Service Commission, amongst others.

Despite the vast array of laws, regulations, and policies, these are not properly enforced. The range of responsibilities and functions are wide, and tend to overlap. Moreover, the environment does not encourage integrity in the public service. Public servants are required to declare annually their assets and liabilities. However, these declarations are merely formal, and do not disclose real properties, assets and incomes. The division between rich and poor who violate the law is evident, what makes the enforcement of anti-corruption laws almost impossible. High ranking officials are seldom investigated or convicted, while prosecutions and convictions abound amongst those of low rank.

As for political and electoral corruption, there is *no effective political party system* in The Philippines. There is an absence of strong, operational political parties; lack of internal discipline; no clear system of accountability; public officeholders show strong loyalties to family, relatives and friends-in the Philippines. Parties do not generate and dispense funds for their candidates: on the contrary, money raised is directed to candidates expected to win, and they decide which candidates are to be supported and funded. Diversion of funds for political and campaign purposes, despite being formally prohibited, ultimately depends on the approval and consent of the authorities.

### **Protecting Office Holders and the Public from Bribery**

Bribery proliferates against a backdrop of red-tape and low wages. To put a halt to bribery, several measures have been institutionalized in the Philippines, including: dissemination of anti-corruption laws and regulations amongst government employees and office holders; preparation of agency-specific codes of standards and ethical codes; training on ethics, spiritual formation and moral recovery; publication and dissemination of blacklisted offenders, and increasing transparency through electronic technology on the procurement of goods, services and infrastructure projects. However, public agencies with heavy front line services, such as the regulatory offices of the police, traffic centres, customs and the Bureau of Internal Revenue are presented with opportunities for corruption due to the large amount of public transactions. Two widespread cultural assumptions challenge the rule of law. First, that persons are more important than the letter of the law; second, that the rule of law should always be applied adapting to the particular context of its application. In this sense, and despite laws designed to discourage it, the sub-culture of gift giving, reciprocity and clientelism in the Philippines is extensive. Together with these cultural traits, there exists a common perception that public office as an easy way to get wealthy. There is also one standard that exacts strict accountability from the rank and file, and another that allows wide discretionary powers with scant accountability for higher rank officers.

Informal networks and rules abound in the public service, and these are required to keep smooth public transactions. These are the “fixers”, who direct the way through the bureaucratic complex in exchange for a fee. Although this can actually help clients in trouble, the fixers can also proceed with extortion, as has happened with police officers: according to a 1999 *Social Weather Stations* (SWS) survey, 44% of the respondents claim that policemen ask for bribes. Institutionalization of the fixers has led to the development of strong syndicates and extended networks of corruption within the police force.

Despite all the measures adopted after the Marcos regime, discretionary power is embedded in institutions, and rules are arbitrarily applied. The degree of arbitrariness is very high, particularly those stemming from the Office of the President: this is a source of enormous power, but its accountability mechanisms are not clearly defined as the officers within it are accountable only to the President. In this sense, one of the major problems of the Philippine administrative and political system is that of personality-centred, instead of rule-driven, leadership. The irrelevance of the rule of law can be fully seen in the understanding of a law being “failed” whenever it does not respond to a particular context: practitioners consider that “blind” and “irrelevant” rules must be reformulated. One example of institutionalized bribery is that of the Bureau of Immigration, in which illegal fees are extorted from foreign migrants, particularly Chinese. The volume of Chinese immigrants has been historically high, and there are limits to their entry into The Philippines. Despite changes of administration and personnel in the Bureau, a full-blown parallel system granting residence to illegal foreigners has developed and become entrenched.

### ***Public Confidence in Corruption-free Public Officials and Services***

Corruption is considered the major factor hindering development in the Philippines. A 1989 public perception survey shows that 58% of the respondents considered that government officials brought great peril to the economy, and that this led to the expansion of the New People's Army and National Democratic Front, organizations linked to the Communist Party of the Philippines.

Surveys and studies show that corruption is still seen by the majority of the public as the biggest problem in the country, and this perception has been worsening. According to the Transparency International *Corruption Perception Index*, the perception of corruption had deteriorated from 3.6 (10.0 being the no corruption level and 0 being the highest corruption level) in 1999 to 2.9 in 2001 and 2.6 in 2004.

Social Weather Stations 2001 survey shows that 47% of the public believed that there was a great deal of corruption in the government: an increase compared to the 38% who responded similarly in 1999. On the contrary, the proportion of those who considered that corruption was nil, decreased

from 12% in 2000 to 7% in 2001. As for corruption in the judiciary, a 2000 survey indicates that among those liable to corruption in courts were judges (34%), lawyers (30%) and complainants (34%).

The opinion of businessmen is also highly indicative: a 2003-2004 SWS survey of 700 businessmen indicates that 56% of the respondents considered that corruption was wrong as it hampers efforts in achieving development; however, 57% admitted that they resorted to bribery in getting government contracts. They indicate that the most corrupt government agencies are the Bureau of Customs, the Bureau of Internal Revenue, the Department of Public Works and Highways, the Philippine National Police, the Land Transportation Office, the Department of Environment and Natural Resources, the Department of Education, the Office of the President, The House of Representatives and the Senate: 25% of the respondents had extensive experience and personal knowledge of corruption three months before the application of the survey, and 49% reported moderate personal knowledge. However, there is a decreasing trend in the instances of bribes being asked by officials, particularly at the local level and for tax collection.

There is also a perception of corruption in the media: according to a SWS 2001 survey, 18% of the respondents considered that there was a great deal of corruption, while 37% believed there was some corruption in the media.

### ***Remedies taken against Corruption***

The business sector, represented by groups such as the *Makati Business Club*, has been pursuing and supporting anti-corruption reforms and accountability measures. The *Concerned Citizens of Abra for Good Government* (CCAGG) is an example of locally organized NGO committed to fighting corruption; other examples are the Negros People's Graft Watch, and the *Volunteers Against Crime and Corruption* (VACC), which have supported "whistle blowers" in government offices. Networks and alliances have also developed, such as the *Transparency and Accountability Network* (TAN), the Evelio Javier Foundation, and the Transparent and Accountable Governance (TAG) project. The World Bank works in partnership with several government institutions through the *Global Distance Learning Center* and several multilateral agencies support anti-corruption efforts as well.

### ***Corruption in Business-Government Relations***

There are certain critical and high risk areas and transactions more prone to corruption. Governments are able to offer businesses certain goods and services, and in the process of transacting these, corruption occurs. Corruption thrives particularly in markets with ambiguous legal systems, where the rule of law is not embedded within cultural norms, and where legislation and the judiciary allow officers and employees discretionary authority. According to a 1999 SWS survey, 49% of the respondents said businesses resort to bribery in order to get away with illegalities. Moreover, the same proportion noted that businesses resort to bribery because if they do not, their competitors will anyway. The major obstacle to reduce corruption in business-government transaction common to all of them lies in ensuring compliance and effective prosecution. This is despite comprehensive and promising legislation in effect.

**Procurement:** Many forms of corrupt and fraudulent dealings can occur when government agencies procure goods and services. There are three critical phases. First, the procurement planning and design stage, in which the specifications may be set to favour a particular bidder and overpricing, can occur. Second, the pre-qualification and tendering/bidding stage, when the bidding can be rigged, which supposes some form of collusion between procuring authorities and bidders, or between bidders. Moreover, in this phase the choice of procurement mode is open to abuse of discretion: for instance, a project may be deliberately awarded to someone who has family or friendship ties with a sensitively positioned official. Finally, during the project execution, implementation and delivery phase, the consequences of corruption become evident: bidders collect without delivery; contract

variations occur and quality standards are modified or simply not met; costs are increased; project monitors, auditors and inspectors are especially targeted in order to avoid contract prescriptions; and, in extreme cases, the actual goods or projects procured end up being totally different from that which was advertised, tendered for, and awarded.

Several measures have been implemented by public agencies to confront corruption in government procurement. The *Government Procurement Reform Act* (GPRA) passed in 2003 is crucial in this sense, and several civil society initiatives related to personnel training and capacity-building and monitoring of contract implementation and service delivery, have been implemented in support of that act by organizations such as *Procurement Watch Inc.*, the Evelio Javier Foundation, Government Watch, the Concerned Citizens of Abra for Good Government, and *the Coalition Against Corruption*, amongst others.

**Licensing and Registration:** In the area of licensing and registration, the main forms of corruption are bribes (Standard Operating Procedures) to secure needed permits and licenses; hiring or contracting *fixers* (public agency insiders), to expedite procedures and transactions; the transparency of material exchanges to facilitate inspections required to secure licenses and permits; and the transparency of material exchanges of goods when tax and fee levels are determined. Most informal and illegal payments are correlated to bureaucratic delays, and these are more frequent in obtaining import licenses, operating licenses and construction licenses.

The main solution to these problems lies in making business processes more efficient and transparent. In 2005, President Macapagal-Arroyo issued *Executive Order No. 428*, directing all department, bureaus and offices belonging to the executive branch of the government to simplify and expedite bureaucratic and administrative transactions, particularly regarding those with businesses. Regarding local licensing and permitting, both national- and local-level initiatives are in place. The former are directed by the *Department of the Interior and Local Governments*, which has ordered municipalities to establish One-Stop Shops, Customer Complaint Desks, and simplified Civil Application Systems. Another example is the *Electronic Commerce Act* passed in 2000 which mandates all government departments, bureaus, offices and agencies, as well as state owned corporations, to make use of electronic messages and documents when issuing permits and licenses, as well as work with an integrated online network. Other relevant laws are the *Magna Carta for Small and Medium-Scale Enterprises* of 1997, and the *Barangay Micro-Business Enterprises Act* of 2002. At the local level, the measures vary according to the creativity of local government planners and policy makers. However, and despite the progress made, the major problem lies in effective implementation and ensuring compliance with the vast array of laws and regulations.

At the civil society level, the *Fellowship of Christians in Government* (FOCIG) has been reviewing the governmental operating procedures, while the *Development Academy of the Philippines* has developed the Integrity Development Review tool. The Corruption Prevention Program, initiated in 2005 by the Office of the Ombudsman and the *European Commission Representative in the Philippines*, is another instance of joint monitoring and overseeing the development of anti-corruption policies in matters of licensing and registration. As for business groups, several local chambers of the *Philippine Chamber of Commerce and Industry* (PCCI) have succeeded in convincing their respective local government units to allow them to take over issuance of permits.

**Tax Administration:** The highest risks involve securing and availing tax credits and exemptions, and the conduct of tax audits and investigations. Tax credit frauds are well documented in the Philippines. Tax credit certificates are used as incentives for domestic companies to import raw materials used for production of export goods, replacing tax refunds. Businesspeople, sometimes with collusion of authorities, are able to fraudulently obtain tax credit certificates. This was the case with the Chingkoe Group, which obtained \$2.5 billion Philippine pesos (Php) worth of tax certificates between 1994 and 1997: the group appeared to be producing export goods and importing raw materials for ghost export production. On the other hand, corruption in tax auditing



and investigation happens through informal agreements between tax auditors and tax-payers: taxes can be reduced in exchange for an illegal payment to the former. This payment is shared between the auditor and the regional director, the revenue district officer, and the chief of assessment division. In response, public policies and programmes, as well as investigations by business associations, are in place. President Macapagal-Arroyo issued the Executive Order 259, establishing the *Revenue Integrity Protection Service* of the *Department of Finance*. This organization has been focusing on conducting lifestyle checks as part of evidence gathering, together with capacity building and instruction programmes. The *Bureau of Internal Revenues* (BIR) has been proceeding with an intensive automation and computerisation of tax administration, completed in 1999 and since then regularly updated. Besides this, the Bureau has also integrated its anti-corruption plans to the National Transparency and Accountability Program. The creation of the BIR Inspection Service, which includes the Internal Audit Division, is another example of the policies adopted by this agency. Civil society action is also involved in these matters: one example is the cooperation and support agreement signed between the Coalition Against Corruption and the BIR in 2005. Nevertheless, a 2003 Philippine Chamber of Commerce and Industry survey of businesspeople shows that over 60% of the respondents did not see any improvements in the BIR. Amongst the major problems, the respondents identified the lack of a system of public evaluation of the BIR performance, the possibility of the BIR to legislate through regulations, the use of tax mapping to harass tax-payers, and the wide discretion allowed in matters of tax auditing and examination.

**Customs Administration:** Corruption can be of two kinds in customs administration. First, actions that facilitate illegitimate and illegal transactions, such as collusion between smugglers and Customs officials to under-value, classify and declare goods erroneously, divert dutiable and tax-free imports to the domestic market, and outright theft of containers with the connivance of Customs personnel. The other form of corruption occurs in actions affecting legal and legitimate transactions, particularly in the regulatory steps in the cargo clearing process. Customs officials having wide personal discretion can embark on corrupt activities. One example is the abuse in shipment valuation and classification for taxation purposes: importers or brokers conduct a self-assessment of payable duties and taxes, value that is declared on the shipment entry. The procedure to ascertain the declared value is cumbersome and complex, as the imposition of additional taxes depends on poorly maintained value and price reference information. Thus, the application of additional taxes and duties are often contested between officials at the entry point and the central administration. These complexities are most frequently solved by a negotiation between both officials and the importer, where the latter ends up paying a fee to both officers and no additional taxes are applied. Another example has to do with the informal facilitation and appreciation fees charged at each step in the cargo clearance process: failure to comply outweighs the benefits of paying these fees, as these are small and transactions with the officers involved are frequent and regular.

Formal policies set to bend these practices are of two kinds. The first seeks to make transactions efficient, transparent and less corruption-prone. These involve automation and modernization of customs procedures, attempting to reduce human discretion and intervention as much as possible. Some examples of these programmes are the Automated Customs Operating System, the *Bureau of Customs* (BOC) Integrity Action Plan, and trade enhancement and facilitation initiatives, particularly the *ASEAN Single Window* scheme. A further set of policies aims at curbing illegitimate and criminal transactions. In this sense, the BOC's *Run After the Smuggler* Campaign involves education, enforcement, and engineering and technology aspects. Another example is the *Executive Order No. 385* of 2004, which creates the Task Force on Anti-Smuggling. Yet, these same policies are also risky. Industry groups are also very active in this matter. For instance, in 1997 the PCCI and the *Federation of Philippine Industries* (FPI) concluded a Memorandum of Understanding with the BOC establishing assistance of experts in the correct assessment, valuation and classification of imports. The FPI was also active in establishing Customs Valuation Teams in the BOC and the monitoring of duty-free imports in economic zones. However, private sector involvement in customs administration has not escaped suspicion, as industrial players have interests to protect.

**Banking Operations:** Several cases of corruption, fraud and falsification have been recorded against banks and financial corporations by the *Bangko Sentral ng Pilipinas* (BSP). The financial regulatory organ, due to unsound and risky banking practices and undertakings for the benefit of other allied business interests and concerns. However, prosecution and trials can be delayed and last years. Several legal measures have been implemented to avoid corruption, for example the Republic Act No. 7653, which creates the BSP, the *Anti-Money Laundering Act*, the General Banking Law of 2000, and the *Act Establishing the Philippine Deposit Insurance Corporation* (PDIC) of 2004. These laws allow the BSP ample quasi-legislative powers through the issuance of circulars and other legal instruments that have the force of law. In order to meet the challenge of the blurring of distinctions between different forms of financial institutions, where banks are exposed to risks arising not only from its operations as banks but also from the operations of its non-bank subsidiaries and affiliates, the BSP has adopted a consolidated approach to the supervision of the financial sector. This means covering all companies related to a bank, including both the controlled and controller firms. The BSP relies mainly on bank inspection, examination and surveillance, monitoring financial condition and performance of banks based on periodic reports. The Risk Assessment System, instituted in 1999, is a major tool used by the BSP to assess risks in bank operating system. The consolidated approach to financial monitoring and regulation led to the creation of the Financial Sector Forum in 2004, composed by the BSP, the *Securities and Exchange Commission* (SEC), the *Insurance Commission*, and the PDIC. This forum allows for consultations, exchange of information and ideas, and coordination of regulatory and supervisory actions of the four agencies.

**Stock Market Operations:** Cases of corruption in stock market operations are usually oriented towards manipulating stock prices through several methods. Some examples are *wash sales*, in which the buyer and seller of the shares is the same, *over-the-counter transfers*, that are orchestrated sell and buy operations, and *private lock-up agreements* to create artificial stock shortages and raise prices. The Republic Act 8799 of 2000 established the *Securities Regulation Code*, which covers non-banking financial institutions and entities that originate, trade, and deal with securities, and is very comprehensive in terms of its provisions. The SEC is in charge of overseeing and enforcing compliance with this law, as well as for monitoring, supervising and regulating the *Philippine Stock Exchange* (PSE). Notwithstanding this, the PSE is also self-regulating in several aspects of its operations and undertakings.

To ensure the integrity of SEC-monitored businesses and institutions, the *Code of Corporate Governance* was issued in 2002. It covers several types of non-bank financial institutions, including exchange and non-exchange brokers-dealers, government securities dealers, investment houses, publicly-listed companies and mutual funds. Several provisions seeking good corporate governance are established in this code, such

as the presence of independent directors on the board of directors and the existence of independent audit mechanisms to monitor reliability and integrity of information and compliance with laws, regulations and contracts: This code also includes independent direction of the audit committee; stockholder rights and protection of minority stockholders' interests; provisions on disclosure and transparency, and the promulgation and adoption of rules on corporate governance in a manual form subject to approval of the SEC. The SEC has also worked for the adoption of *International Accounting Standards* (IAS) and *International Standards on Auditing* (ISA).

#### **Funding and form**

This is the second volume of a series of focused assessments of democracy carried out by the Philippine Democracy Network and covers one of the aspects amongst the 14 sub divisions organized in four pillars contemplated by the International IDEA assessment Framework (2002).

This strategy was consciously adopted by the team in order to achieve richer, more focused analysis, while simultaneously reducing the resources needed.

The assessment was initiated by academics from the University of the Philippines and the Ateneo de Manila University, and undertaken with support of the [Friedrich Ebert Stiftung](#), the [British Council](#) and the [Transparency and Accountability Network](#).



**Pre-Need Industry:** These are another type of non-bank financial institutions providing insurance and investment services which have fallen into insolvency and illiquidity on previous occasions: over-selling of plans and misplacement of the plan holders investments -for instance, real-estate ventures owned by the pre-need firms.

These firms are under supervision of the SEC, which is in charge of formulating and implementing regulations on: registration of pre-need plans; licensing of persons involved in the sales of such plans; requiring disclosures to prospective plan holders; prescribing advertising guidelines; providing for uniform accounting systems; reporting and record-keeping with respect to plans; imposition of bonds, capital and other financial responsibility, and establishment of trust funds for the payment of benefits. Pre-need firms must also comply with the *Actuarial Reserve Liability* (ARL), constituted by an amount set aside and maintained to answer plan holder claims, and with the provisions established by the Code on Corporate Governance. The BSP and the SEC have entered into a Memorandum of Agreement in order to strengthen supervision and regulation, aligning the separate regulations that affect pre-need firms, and the Financial Sector Forum has also been used to harmonize normative provisions.

### ***Shielding Elected Officials from Sectional Interests***

In the Philippines, public office is sought after because it is good business. The main economic activity for political players is that of elections: these become means to create and consolidate core constituencies. As political parties do not provide strong internal checks, nor does the current legislation control spending, elections become expensive activities. Indeed, elections produce noticeable variations in GDP: in 1988, the economy grew 6.6%, while in 1989, it grew 6.2%. Estimates indicate that winning a seat in the Lower Chamber of Congress requires between Php \$25 to 50 million, depending on the size of the district and the intensity of the competition. For national positions, the figure can climb to Php \$5 billion for the presidential post, and Php \$100 million for a seat in the Senate. Together with weak political parties and malleable electorates, the high costs of elections provide a perfect scenario for corruption. In this sense, there are three critical stages: the candidature, incumbency itself, and life after politics.

Each national election sees the emergence of a fair amount of political parties following lone national figures coming from other political parties or from the bottom. These coexist with the more established parties, as the *Liberal Party*, the *Nacionalista Party*, and LAKAS, and other smaller players, as the *PDP-LABAN*, or returning parties as the UNIDO. Loyalties within parties are not stable, and high-profile candidates may do without the parties during the whole campaign. The main reason to be close to a party in these cases is to gain access to local players and votes. On the other hand, local parties form alliances with national groups to gain access to additional monetary support. All of this translates in very unstable party positions regarding major political issues.

A good deal of campaign funding comes from businesses, particularly in urban areas. The difference between legitimate and illegal funding is hard to establish, as money comes from “collective” donations: nevertheless, the intention is to further business interests. In the local level, especially in the rural areas, bingos and beauty contests, although prohibited, are extensively used for fundraising. In general the bulk of the raised funds go to the incumbent, and the rest is spread to party-colleagues contesting for lesser positions. This personality-based contest, instead of a dispute between party programmes and platforms, is one of the effects of the lack of coherent political parties; the gap created between politicians and electorate in terms of political education is another one. The absence of party life leaves an entire group of people without political affiliation, hampering the development of a genuine civic culture and providing incentives for spoil-oriented electorates.

There is an impressive gap between electoral laws and regulations and reality. In this sense, experts indicate that if the Omnibus Election Code, the main legal instrument regarding elections

administration in the Philippines, was observed, “*candidates would have to self-finance campaigns.*” There are major problems with identifying the proper nature of relationships and instances of undue influence. Tracking public money and resources diverted towards discretionary funds of incumbents, as well as the destiny of surplus funds after a campaign, has been very complicated as well. The *Commission on Elections* (COMELEC), the main electoral regulating and monitoring organism, stands in the middle of these problems, as it becomes simultaneously the protector and broker of elections. This institution is ill prepared to police campaign overspending and other corrupt and illegal actions, and the unrealistic restrictions posed by the law generate a wide gap and few incentives to cross it. Thus, both the lack of viable political parties to perform internal audits, and the lack of external audit systems, allow fundraisers to deal with substantial amounts of money for unknown purposes. Another legal instrument that seeks to strike balances in electoral matters is the *Fair Election Act*, which guarantees all candidates and parties equal access to media time and space and blocks abusive practices on the media. However, the costs of advertisement are already very high, providing fairness to those who count with financial means. As for the role of the Congress, several observers and analysts consider that the representatives have not done enough to prevent corruption. For instance, in 1992 the Congress decriminalized provisions on campaign finance and lowered maximum penalties. Another example is the absence of provisions establishing resignation of public officers one year before elections in order to avoid the use of public funds for campaigning.

After the very expensive campaign process, the first priority of the elected officers is to recover from their own, and political investors' expenses and start cashing in. However, the monthly salary of a mayor or governor is no more than PhP \$30000, which is not large enough to repay for the assistance received. The usual forms of repaying include contracts, franchises, jobs, and bids awarded, all easily granted by mayors as these are their unique responsibility. A particularly attractive instrument available to mayors is the availability of discretionary, unaccountable funds.

The 1991 Local Government Code devolved authority to local government units in the areas of basic services, functions and personnel, the appointment of personnel and regulatory powers, increased shares from national taxes and power to levy local taxes, and popular participation in local government. Nowadays, mayors have great powers, and have also committed great excesses: many maintain lucrative local extractive industries and expand their holdings with their political power. In some areas, mayors (or congressmen and other local officials) are also heads of tribes. Political dynasties keep away from adverse public judgement distributing tokens of gratitude. At this level, corruption at moderate levels is preferred, and honesty about engaging in illegal activities can actually win an increase in the support of voters. Some of these activities are simple, such as taking shares of construction materials; some are more complex, such as forging council meetings that approve lucrative concessions, payments for purchases that are never delivered, or the construction of public structures that offer enough money to distribute to everyone. These operations are covered-up by placing the blame on a lower level municipal officer: these cases are then judged in local courts, which happen to be under the heavy influence of the mayor. Thus, most of the cases get nowhere.

Many of the local leaders and dynasties, and their operations, have been exposed by civil society organizations, the *Philippine Center for Investigative Journalism* (PCIJ) being notable for its work. Legal mechanisms that hold local authorities accountable are the *Anti-Graft and Corrupt Practices Act* and the *Code of Conduct and Ethical Standards for Public Officials and Employees*. Besides these laws, government officials must also submit a yearly Statement of Assets and Liabilities to the Commission on Audit. The law allows for recall elections in case of errant local officials: however, this mechanism can sometimes be used for politicking by opposition figures.

The government agencies in charge of holding public officials accountable are the Ombudsman and the Sandiganbayan. At the local level, the former has considerable problems with encouraging witnesses to testify and substantiate allegations. The geographical characteristics also play against these agencies and increase costs of following through with investigations. The Office of the Ombudsman has faced this challenge by facilitating access and increasing its coverage through new

technology. Notwithstanding, the major obstacle to the prosecution of public officials is found in legal loopholes that render corrupt elected public officials unaccountable for their actions. Although local corruption is widespread and politics are funded through activities as the Jueteng (small scale gambling schemes), involving local police forces and public officials, the research indicates that the bulk of the funding for local campaigning and the associated corruption networks can be traced back to the major political powers in Manila.

***This summary was prepared by International IDEA. Views expressed in this summary do not necessarily represent the views of International IDEA, its Board or its Council of Member States, or the local State of Democracy assessment team.***