WORKING PAPER

Governance and Institutions in the Philippines

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Abstract

To achieve a better future by 2040, most Filipinos express the need for simple and efficient government transactions, affordable government services, and the elimination of corruption. This paper expounds on that vision by explaining how effective public goods and services are hinged on a government and markets that are functioning well altogether. In assessing the current state of governance structure and institutions in the Philippines, this paper highlights issues and challenges that should be addressed in the next 25 years. It then presents several policy options and emphasizes the need for the progressive sequencing of implementation—from fixing current programs in order to create more jobs and further enhance human capital, to more ambitious and deeper structural reforms related to politics and elections, human development, economic competitiveness, and public finance and good governance innovations.

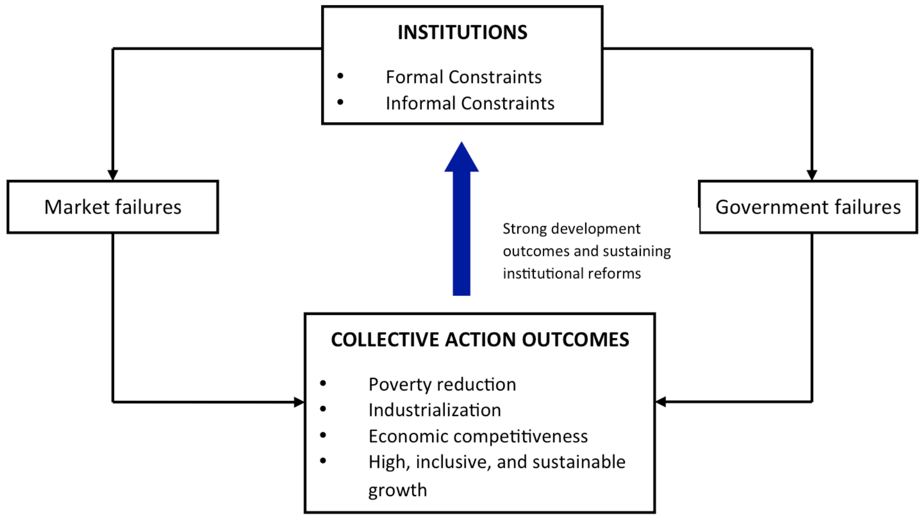
1. INTRODUCTION

Poor governance and weak public institutions can undermine even the most well-crafted policies to promote an inclusive development. Corruption, poor public service delivery, misallocation of resources, political instability, uncoordinated government agencies, and deeply embedded patron–client relationships are among the challenges of governance and institutions that slow down or defeat any socioeconomic reform agenda. In particular, corruption is a sizable problem in the Philippines, affecting all sectors and levels of the government.

In this paper, we refer to *governance* as the manner in which public officials and institutions acquire and exercise the authority to facilitate collective action, craft public policy, and provide public goods and services. On the other hand, *institutions* refer to the formal and informal rules that shape human interaction and their related enforcement mechanisms. Institutions therefore determine the possibilities for effective governance and collective action (see Figure 1). Both the government and market need institutions to function well. Otherwise, government and market failures are likely to litter the landscape instead of properly provided public goods and services. When government and markets work, then collective action outcomes—public goods and services—are more likely to succeed.

It is widely acknowledged in the literature that poor governance and weak institutions are among the critical constraints to investment and growth in the Philippines (see, for instance, ADB 2007; WB 2013; Aldaba 2014). Problems with governance, particularly corruption and political instability, weaken investor confidence and discourage the creation of much needed jobs that can, in turn, potentially lift many Filipinos out of poverty. Weak institutions constrain the delivery of public goods and services that aim to enhance the supply and the demand of labor, both of which are necessary to make economic growth more inclusive. As such, maintaining an environment stocked with adequate and well-functioning institutions is critical.

Figure 1: Framework on Governance, Institutions and Development



Note: This is an elaboration based on North (1993) and Fukuyama (2013).

Poverty amidst weak public goods and services could also debilitate efforts to continue building stronger institutions. As well elaborated in the political science and economic development literature, reformists often struggle against traditional economic and political relationships that are deeply engrained due to a long history of poverty, dependence and patron–client relationships. Thus, the struggle to dramatically upgrade institutions to build a modern state and a competitive economy could also be described as a difficult transition that breaks away from a low level equilibrium.

This paper assesses the current state of play of governance structures and public institutions in the Philippines, as well as their key issues and challenges, then presents policy options to reform public institutions and strengthen governance in the country. The proposals herein draw heavily on the literature as well as the consultations underpinning the strategic long-term visioning exercise for the Philippines.

2. STATE OF PLAY

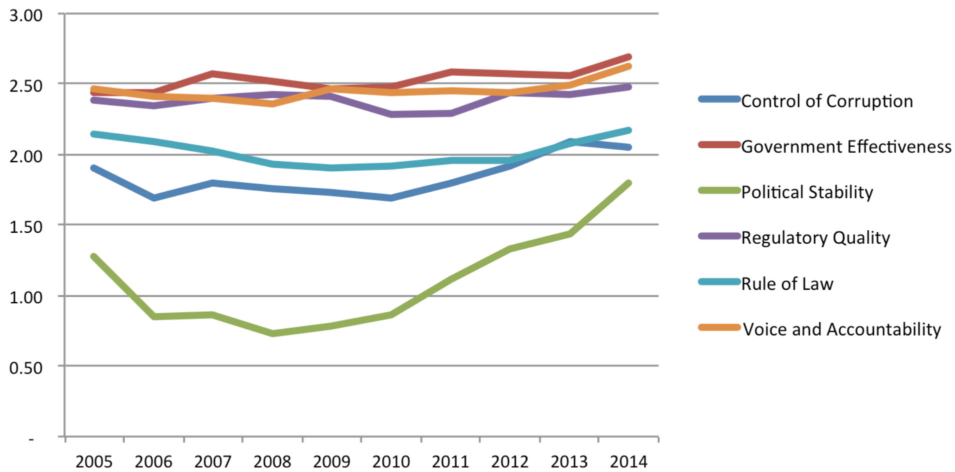
This section assesses the current state of governance structure and institutions in the Philippines compared to what it has been a decade ago and compared to what neighboring countries have achieved.

There is currently no cross-country objective data that measure the overall state of a country's governance and institutions. Due to the wide differences in rules and procedures among countries, defining what constitutes "good governance" and strong institutions is particularly challenging. For instance, the extent of corruption can be measured by the difference in procurement costs relative to materials purchased, but these are often limited as procedures vary per country. Meanwhile, subjective data can better pick up crucial distinction between the *de jure* and *de facto* institutional arrangements. Subjective data are typically based on perceptions of businesses, individuals, and experts, which are standardized across countries to allow for comparative analysis. Nevertheless, researchers acknowledge the limits of perceptions-based indicators, as they too can face measurement errors due to bias and imperfect information. Research studies on governance and institutions have relied on perception surveys when undertaking cross-country comparison, and supplement their analysis using individual country data.

In recent years, the Philippines has made impressive strides in improving its governance and institutions as shown by international benchmarking indicators. The improvements can be mainly attributed to the relatively more aggressive reforms undertaken by the government, aimed specifically at reducing the bureaucracy's vulnerability to corruption and creating a culture of transparency and accountability. These efforts have resulted in positive gains, which are apparent in the increase in investor confidence and eventually the expansion of the Philippine economy.

Among the widely used indicators of good governance are the World Governance Indicators of the World Bank (WB). They measure good governance with respect to six key dimensions: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. The Philippines has high scores in government effectiveness and voice and accountability dimensions, but has low scores in political stability and control of corruption dimensions (see Figure 2). It is apparent that since 2010 the Philippines' scores in all six dimensions, including regulatory quality and rule of law, have been increasing at a much faster pace than other countries, as reflected in the improvement in the Philippines' relative rankings.

Figure 2: Philippines' Scores in Governance Indicators, 2005-2014



Source: Data from World Bank's Worldwide Governance Indicators.

Compared with other members of the Association of Southeast Asian Nations (ASEAN), the Philippines is the only country that has improved its ranking in all six dimensions of governance between 2005 and 2014 (see Table 1). Among the 10 countries, the Philippines and Indonesia have the highest scores in voice and accountability (both with a percentile rank of 53; 100 being the highest), but they also have among the lowest scores in political stability (percentile rank of 23 and 31, respectively). Despite improvements in relative rankings, the Philippines still places behind Singapore, Malaysia, Brunei Darussalam, and Thailand in government effectiveness and control of corruption dimensions.

Table 1: Percentile Rank of Worldwide Governance Indicators Scores of ASEAN Countries, 2005 and 2014

	Government Effectiveness		Voice and Accountability		Control of Corruption	
Country	**2005**	**2014**	**2005**	**2014**	**2005**	**2014**
Singapore	99	100	51	45	98	97
Malaysia	84	84	43	37	63	68
Brunei Darussalam	70	82	24	29	62	72
Thailand	67	66	46	26	54	42
Philippines	56	62	49	53	35	40

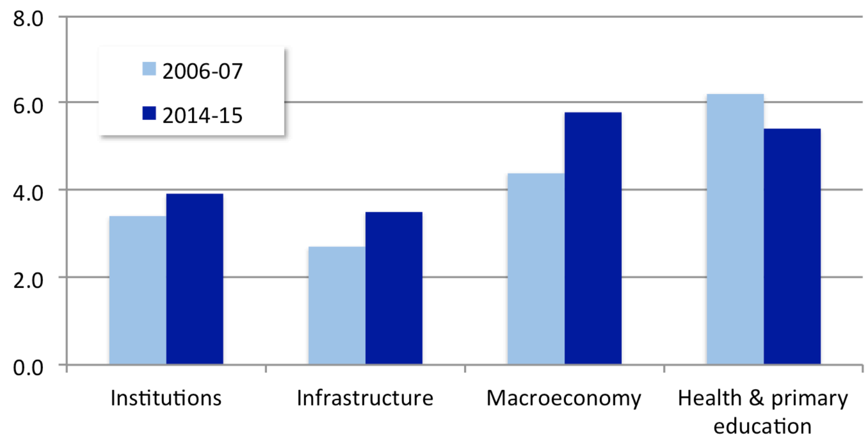
Indonesia	39	55	45	53	20	34
Viet Nam	49	52	9	10	25	38
Lao PDR	10	39	6	…	7	25
Cambodia	17	25	19	18	10	13
Myanmar	3	9	…	…	1	17
	Political Stability		**Regulatory Quality**		**Rule of Law**	
Country	**2005**	**2014**	**2005**	**2014**	**2005**	**2014**
Singapore	87	92	100	100	96	95
Malaysia	65	59	69	76	66	75
Brunei Darussalam	92	95	76	80	59	70
Thailand	22	17	65	62	55	51
Philippines	13	23	51	52	42	43
Indonesia	7	31	31	49	25	42
Viet Nam	62	46	28	30	46	45
Lao PDR	30	61	9	21	13	27
Cambodia	35	45	35	37	11	17
Myanmar	20	12	1	6	2	9

Source: World Bank's Worldwide Governance Indicators.

Looking at other factors that affect a country's competitiveness, the World Economic Forum (WEF) reported that infrastructure and institutions are among the weaknesses of the Philippines, while macroeconomy, health and primary education are its strengths (see Figure 3). This is according to how these factors have fared in the basic requirements of a competitive country as reported in WEF's Global Competitiveness Index. Over the last decade, there has been no significant change in the order of these factors—infrastructure and institutions remain as bottlenecks, although they have shown slight improvements over the last decade, while health and primary education have deteriorated.

Among the governance issues, corruption is the most problematic factor for doing business in the Philippines and has remained so over the years (see Table 2). Businesses in neighboring countries, such as Thailand and Malaysia, have also faced corruption as the most problematic for doing business in 2014. However, compared with these countries, the Philippines seems to have improved in this aspect, as the proportion of responses stating corruption as the most problematic factor for doing business in 2014 slightly went down compared to what it was in 2005. But during the same period, this proportion increased in the case of Thailand and Malaysia.

Figure 3: Philippines' Scores in Global Competitiveness Index Basic Requirements, 2006–2007 and 2014–2015



Source: World Economic Forum's Global Competitiveness Reports.

Table 2: Response Rates of Problematic Factors for Doing Business in the Philippines, Thailand and Malaysia, 2006 and 2014

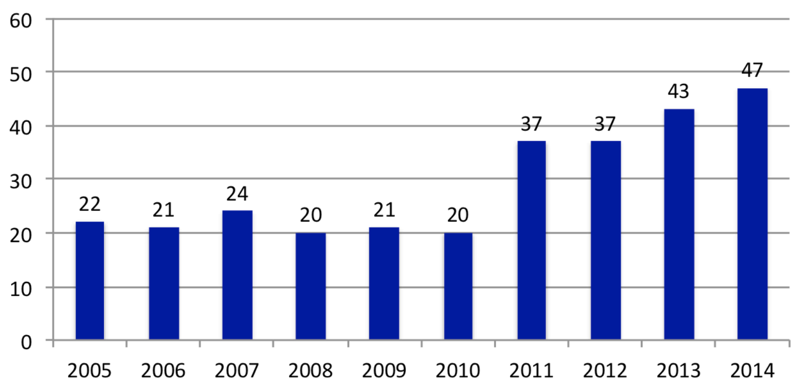
(%)

	Philippines		Thailand		Malaysia	
Problematic Factors	**2006**	**2014**	**2006**	**2014**	**2006**	**2014**
Corruption	21.5	17.6	14.7	21.4	8.0	17.0
Inadequate Supply of Infrastructure	15.2	15.9	6.0	6.3	5.8	4.4
Tax Regulations	4.4	13.3	8.2	2.4	8.3	4.4
Inefficient Government Bureaucracy	11.8	12.6	17.8	12.7	15.4	8.8
Tax Rates	3.7	9.7	2.5	2.6	7.0	6.6
Policy Instability	15.3	5.4	13.9	11.8	6.3	5.9
Restrictive Labor Regulations	2.5	5.3	2.6	0.5	8.3	3.4
Crime and Theft	3.8	4.1	0.2	1.0	5.4	9.5
Inflation	2.1	3.8	4.3	0.3	7.4	6.4
Inadequately Educated Workforce	0.8	2.3	10.2	6.2	6.7	3.9
Poor Work Ethic in National Labor Force	1.0	2.1	2.8	3.7	6.0	5.8
Insufficient Capacity to Innovate	…	2.1	…	6.3	…	5.1
Foreign Currency Regulations	0.3	1.9	2.0	0.1	8.1	3.4
Government Instability/Coups	13.6	1.9	7.7	21.0	1.1	5.2
Access to Financing	4.1	1.6	7.1	3.4	6.0	9.7
Poor Public Health	…	0.5	…	0.3	…	0.7

Source: World Economic Forum's Global Competitiveness Reports.

While corruption remains as the Philippines' top governance issue, data from Transparency International suggests that the country has made substantial improvements in this area in recent years (see Figure 4). The Philippines' score in the Corruption Perceptions Index has improved since 2011, rising from being in the bottom 20 percentile to almost in the 50 percentile by 2014. These improvements indicate that the efforts of the government to reduce corruption have been recognized by businesses, although the relatively low standing of the country emphasizes the need to sustain these efforts.

Figure 4: Philippines' Percentile Rank in Corruption Perception Index, 2005–2014



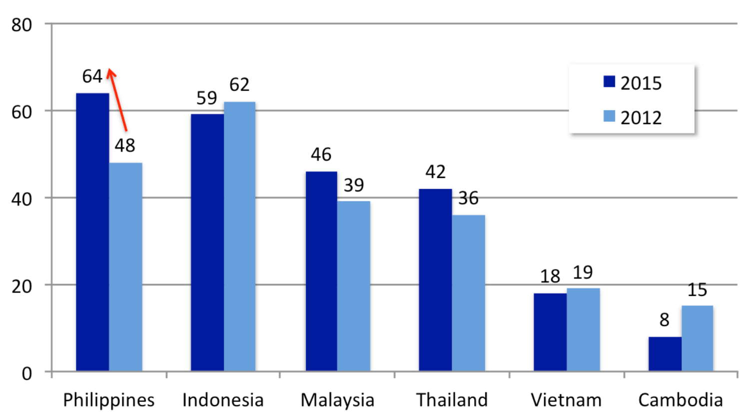
Source: Transparency International

A closer analysis of the reports explaining the recent improvements in governance indicators in recent years suggests that these are mainly attributed to President Benigno Aquino III's (2010–2016) leadership and commitment to good governance. Reforms of public institutions, policies, and programs have been guided by three core principles: transparency, accountability, and citizens' participation. Specifically, the Aquino administration pursued comprehensive initiatives that aim to reduce corruption, improve public service delivery, and enhance business environment. Past administrations also attempted to pursue strategic governance reforms, but they have suffered from issues of low credibility and public trust, particularly in the case of the Estrada and Arroyo administrations, whose leadership suffered from allegations of corruption.

Reforms of the Aquino administration in key areas for participatory governance included providing access to government information by the general public. Specific examples include data on import transactions published by the Bureau of Customs (BOC) in www.dof.gov.ph/customsngbayan, as well as the detailed budget information published by the Department of Budget and Management (DBM) in www.budgetngbayan.com. These are complemented by efforts to build citizens' awareness of—and capability to engage in—the budget and policymaking process. Recent efforts to assess the progress in budget transparency also suggest important gains, as the Philippines scored higher than many Southeast Asian countries in the Open Budget Index for 2015 (see Figure 5) of the International Budget Partnership and the Philippine Center for Investigative Journalism.

Moreover, government branches tasked with strengthening accountability have demonstrated important accomplishments in recent years. The Office of the Ombudsman, which serves as the government's key anti-corruption agency, is a case in point. Prior to recent reforms, the ombudsman seemed far less efficient in exacting accountability from erring officials. In contrast, the incumbent ombudsman, who assumed office in 2011 and inherited a backlog of 11,000 criminal and administrative cases, has already resolved 6,200 cases within four years.[1] These initiatives are ably changing the perception of the international community with respect to transparency and accountability in Philippine political institutions.

Figure 5: Open Budget Index Scores of Selected ASEAN Countries, 2012 and 2015



Source: International Budget Partnership's Open Budget Survey.

These reforms contributed, in turn, to the country's upgrades by credit rating agencies such as Fitch (from BB+ in 2011 to BBB- in 2013), Moody's (from Ba2 in June 15, 2011 to Ba1 in October 29, 2012) and Standard & Poor's (from BB in 2010 to BBB in 2014). According to

[1] Statistics are lifted from the presentations of the forum "Institutionalizing Anti-Corruption and Good Governance," organized by AIM in cooperation with Konrad Adenauer Stiftung (KAS).

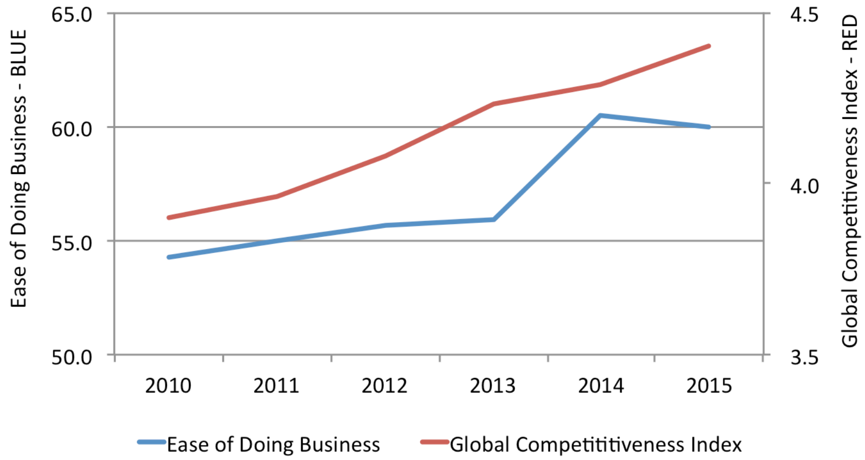
Moody's, for example, the sustained upgrades in the past five years were driven by solid macroeconomic fundamentals and factors related to governance and institutions (see Table 3). Furthermore, the Global Competitiveness Index (GCI) of the Philippines has increased since 2010, matched by improvements in the Ease of Doing Business Index (see Figure 6).

Table 3: Reasons for Moody's Credit Rating Upgrade for the Philippines

Date	**Upgrade**	**Main Factors**	**Governance and Institutions**
15 June 2011	Ba3 to Ba2	Fiscal consolidation under the new administration; Sustained macroeconomic stability; Strengthened position in external payments; Significant pick-up in economic growth.	The government doubled its efforts to go after tax evaders and smugglers.
29 October 2012	Ba2 to Ba1	Promising economic performance despite deteriorating global demand; Enhanced prospects for growth in the medium-term; Stability in the financial system; Continued gains from enhanced revenue administration.	There were noted improvements in infrastructure spending. The peace agreement between the government and the Moro Islamic Liberation Front provides an environment for more investments.
03 October 2013	Ba1 to Baa3	Robust economic performance; Ongoing fiscal and debt consolidation; Political stability.	The popularity of the Aquino administration among the voters, as proven in the midterm-elections, translates to continued support to the reform agenda. Improvements in third-party assessments of institutional quality and international competitiveness are pronounced
11 December 2014	Baa3 to Baa2	Ongoing debt reduction and improvements in fiscal management; Stronger economic growth; Limited vulnerability to common risks currently affecting emerging markets.	Continued rise in cross-country rankings of competiveness, in line with current administration's emphasis on good governance. Central bank's strong record in price and financial stability

Source: Various Moody's reports.

Figure 6: Philippines' Ease of Doing Business and Global Competitiveness Indices, 2010–2015



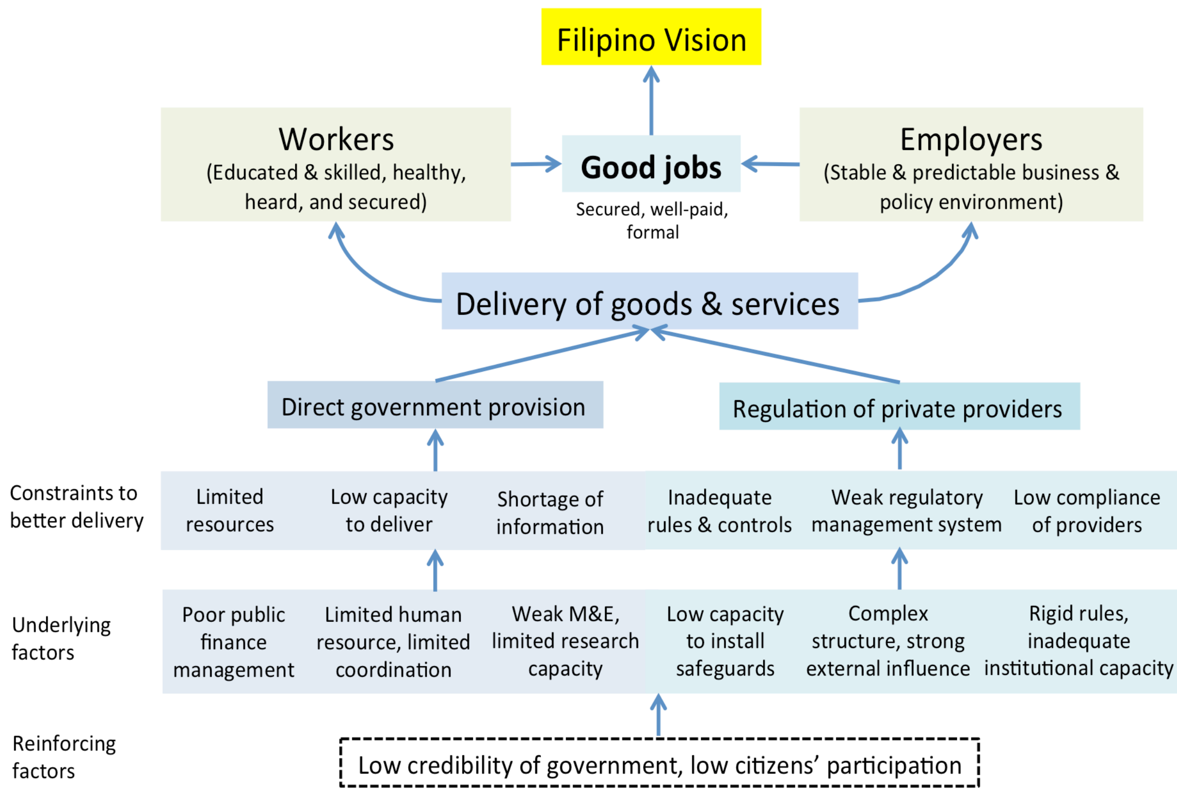
Note: Ease of Doing Business index shows the "distance to frontier" score, with 100 as the highest, while the Global Competitiveness Index ranges from 1 to 7.
Source: World Bank and World Economic Forum.

3. ISSUES AND CHALLENGES

While the previous section highlighted that governance indicators have improved in recent years, this section argues that there is more to be done in order to generate substantial social impact. In particular, the Philippines still belongs to the bottom 50% of countries facing corruption challenges. The reforms underlying the improvements in governance indicators were focused on rebuilding the credibility of the government and restoring public trust, which were critical in paving the way for broader and deeper reforms. But because of the daunting task, these efforts have not yet made significant impact on poverty, as the underlying factors that give rise to the deep-seated structural weaknesses in governance and institutions in the Philippines have yet to be addressed.

Figure 7 illustrates the framework for analyzing the issues and challenges in promoting good governance and strengthening of public institutions in the Philippines. The goal is to achieve the Filipinos' vision by 2040, and the role of the government is to provide an environment such that workers are able to take on "good jobs" and employers have the capacity to create such jobs. Ideally, this environment has the necessary goods and services, which are provided either directly by government or by private providers. However, there are constraints to effective delivery. The remainder of this section will attempt to identify the constraints, as well as the factors that give rise to them.

Figure 7: The Role of Institutions and Governance in Achieving the Filipinos' Vision by 2040



Note: Illustration is based on a review of literature.

A. Limited Resources

The government needs resources to be able to deliver goods and services and to perform its administrative functions. It is only recently that the Philippines enjoyed considerable fiscal space. But for several decades, the Philippines suffered from fiscal imbalances, which resulted in low provision of public goods (e.g., infrastructure) and inadequate delivery of services (e.g., education, health, social protection). The tight budget has undermined the government's capability to finance social expenditures as well as projects that could potentially improve its administrative efficiency such as computerization. The limited resources can be attributed to the small revenue base and poor public finance management, spanning from tax collection to disbursement of public funds. Interestingly, this environment may have also fueled a greater dependence on traditional relationships, particularly on how poor and low income households turn to local political and economic patrons to be able to cope with a diminished and less credible state. Breaking from this low-level equilibrium requires mobilizing resources more effectively in order to resuscitate fuller public goods provision (de Dios 2007; Mendoza, et al. 2015).

Yet, tax collection, in particular, has been low due to factors including low tax compliance (evasion and avoidance) and low tax administration capacity (Usui 2011). Local government units (LGUs) also have very low capacity to generate their own revenues and have mostly relied on internal revenue allotments (WB 2003). Moreover, there are issues in the allocation of expenditures that are compromised by various distortions, including allocation of resources to off-budget items that are not aligned with national government priorities, while weaknesses in the financial reporting system make comparing budget with actual expenditures technically difficult (WB 2010).

In addition to creating leakages and misuse of resources, the poor public finance management makes the system vulnerable to corrupt practices. For instance, the complex tax payment system opens up avenues for rent-seeking behavior among government personnel. Wide discretion on the use of funds, particularly the ones allocated to lawmakers to provide the needs of their constituencies, have been subject to misappropriations, bribery, and kickbacks, while the lack of transparency and consistency in reporting of expenditures diminish the space to scrutinize how resources are used. Hence, while the old system triggered a hollowing out of the state, it also tended to feed more corrupt and traditional relationships and practices.

B. Low Capacity to Deliver

The delivery of public goods and services, particularly in areas and sectors where private sector does not come in, is central to government's role in ensuring equity. However, this role is constrained by the low implementation capacity to deliver such goods and services. An example is infrastructure—despite increases in the resources allotted to this sector, the low spending capacity of the government limits the number of projects that can be implemented. The quality of the human resources of the public sector could still be improved. The lack of qualified personnel limits the functions that agencies are required to perform, such as implementing programs, collecting and consolidating information, and analyzing critical information that can feed into policymaking. Many tasks entailing numerous steps to process permits and licenses and facilitate coordination within the bureaucracy, could be dramatically streamlined, as well as improved, though e-government investments. Ultimately, a leaner but technically more equipped public sector bureaucracy should be able to accomplish more and better services, with far less but more productive bureaucrats.

Many studies have attributed low capacity of government personnel to low salaries relative to their counterparts in the private sector (for instance, WB 2000; NEDA 2011). Not only do low salaries prevent qualified people from joining the government, these also create a reason for employees to resort to graft and corruption. This behavior among employees is also made possible by weak systems and procedures that can be easily manipulated. Corruption among government personnel is particularly rampant in agencies whose operations have direct contact with private individuals, such as in tax collection and procurement of goods and services. Minimizing this contact through streamlined procedures or stronger e-government platforms could dramatically reduce incentives and opportunities for rent seeking in many areas of government.

Another factor that contributes to the low quality of civil service is the existence of numerous key positions that are reserved for political appointees, rather than for qualified personnel. An incumbent administration tends to put new hires in these key positions, whose education and skills profile do not necessarily fit into the position but are still hired because of political favors, especially during elections. This creates disincentives for qualified people to stay longer in the government. Professionalizing and stabilizing the civil service will be critical in this regard.

C. Shortage of Information

The government is required to make complex policy decisions that affect the whole economy. However, there is generally a shortage of information that can support these decisions. Policymakers often rely on their own intuitions and experiences when making decisions. As a result, decisions tend to be politically oriented. Underlying this constraint is the lack of reliable management information systems (MIS) within agencies that are capable of recording their operations and generating the relevant information that can support decision making. In a study conducted by Ballesteros and Israel (2014), it was pointed out that the lack of central monitoring and evaluation system within the agencies created difficulty in identifying and integrating information and data. Such record keeping is mostly undertaken at the local offices, and data are sent to the regional offices, and then consolidated at the central office, taking significant delay and in varying quality. Moreover, most administrative data are not open to the public, which also limits the citizen's participation in data analysis.

There are attempts in the government to improve its MIS, such as the computerization programs dating back to the Ramos and Estrada administrations, but policy and institutional issues have created barriers. These issues include lack of coordination among agencies in setting up the network infrastructure, limited financial resources, continually changing government structures due to rationalization programs, and limited absorptive capacity of government agencies (NITC 2000). While some government agencies have invested in MIS, they are largely limited to support clerical functions.

D. Inadequate Rules and Controls

Rules and controls are necessary to ensure that public resources, both human and financial, are allocated and used efficiently and effectively. These include systems that track and monitor financial flows and physical progress of projects, systematic selection of potential beneficiaries of programs, periodic monitoring of program outcomes, among others. When rules and controls are inadequate, they can potentially open up opportunities for discretion, manipulation, and rent seeking, which lead to corrupt practices. In many government operations, notably in procurement of goods and services, tax collection and administration, and in programs targeted at the poor, rules and controls are somewhat inadequate.

The procurement of goods and services by the government, for instance, has been subject to corrupt practices, which include collusion among bidders to attempt to raise the price, non-competitive bidding process that ultimately favor one contractor, delivery of substandard products and services that are eventually approved by government officials, among others (ADB 2013). These practices can be attributed to inadequate controls in procedures and the lack of public awareness of such procedures to illicit accountability among concerned parties.

On programs targeted at the poor, only few of them use a systematic method to identify their beneficiaries, which often leads to diversion of benefits away from those who need these programs the most. For example, livelihood assistance that provide cash grants to facilitate business start-up among the poor often rely on the discretion of local community leaders for the identification of beneficiaries, who may opt to select allies, friends and relatives rather than those facing the greatest need. Once again, public service delivery is jeopardized while traditional relationships are rewarded, leading to an erosion of trust in systematic and fair public goods provision. The conditional cash transfer (CCT), or the Pantawid Pamilyang Pilipino Program, is one of the few programs that have embedded measures to limit discretion in the implementation.

E. Weak Regulatory Management System

When private sector is involved in the provision of goods and services, regulation is critical to ensure that the goods and services provided serve the best interest of the public and, at the same time, to create and facilitate conditions for effective and efficient markets. Several studies have indicated that the regulatory management system in the Philippines is generally weak (Cariño 2005; Llanto 2015). This can be attributed to a myriad of factors, such as complex regulatory structure, contradicting laws, low technical capacity of regulatory bodies, limited coordination among government agencies, but most notably the strong influence of certain groups in the regulation process.

The strong external influence in regulation can be seen in many instances of government decisions that are more politically—rather than technically—driven. The regulators, many of them appointed by elected officials, are not immune from influence from forces outside the regulatory system, including powerful voices in society seeking protection of their economic position, or large domestic industry players seeking protection from foreign competition, who are also electoral constituents or campaign financiers, respectively. The vulnerability of the regulatory system to political manipulation is reinforced by the low transparency in making decisions, weak evidence base on which these decisions are made, and low integrity of higher officials tasked with sensitive regulatory oversight.

As the government veers away from direct provision to regulation, the weak regulatory management system in the Philippines has substantial implications on the quality of goods and services. General competition regulation will also impact on the country's competitiveness. While regulatory issues in the Philippines are much more apparent in the utility sectors, such as energy, water, and telecommunications, the social sectors such as education and health, which also increasingly involve the private sector in service delivery (e.g., private schools and hospitals) are also not spared from their negative effects. And as the country aspires to pursue innovative service delivery models—such as through public-private partnerships (PPPs)—combined with an ambitious international economic integration agenda (e.g. ASEAN), the load on a credible and professionalized regulatory system can only be expected to increase.

F. Low Compliance with Rules Among Private Providers

The rules and regulations set forth by the government to extract from the private sector the goods and services that the public needs are only effective when they are complied with. There is a dearth of information on compliance, but available information on the quality of goods and services provided indicates that the compliance rate is low, particularly in areas that matter most for human capital development such as education and health, and in addressing critical constraints to doing business such as infrastructure. The low compliance among private providers can be attributed to the rigid rules in the provision of goods and services, which open up opportunities for rent seeking, combined with the generally inadequate regulatory capacity of agencies.

In the education sector, for instance, despite having better facilities and learning materials, some private schools lag behind public schools in terms of educational quality as evidenced by the difference in the National Achievement Test (NAT) results. During the school year 2010–2011, the mean percentage score (MPS) of public elementary school students was 70 while it was only 54 among private schools students. The same pattern was recorded in secondary education, wherein the MPS of public and private school students were 49 and 45, respectively (DepEd 2014). Despite having in place the right policies, standards, and guidelines in the private provision of education, the lack of institutional capacity of the government to monitor the performance of the private sector gives rise to poor delivery of these services.

Moreover, low compliance with regulations is also apparent in the provision of public goods, such as transport infrastructure. An assessment of transport infrastructure in the Philippines indicated that agencies' limited institutional capacity is one of the main challenges in private sector provision of infrastructure (ADB 2013). Only few transport projects went through open and competitive bidding process, which reflects the lack of capacity within sector agencies for project planning and preparation as well as their lack of clear principles and rules for developing partnerships with the private sector.

Overall, most of the above factors that constrain the effective delivery of goods and services in the Philippines are common among developing countries, where resources are scarce and systems are less efficient. Developing countries, in general, are characterized by uncertain information, poverty, pervasive state influence in the economy, and centralization in decision making (Grindle and Thomas 1991). But other developing countries, such as those in Southeast Asia, have been relatively more successful in addressing these challenges. It therefore takes an administration that has the credibility to initiate and undertake reforms, in order to build public trust, so that all actors form collective action towards attaining the goal.

4. WAY FORWARD

This section presents policy options to address the above issues and challenges with a view to achieve the Filipinos' 2040 vision. While there is no single prescription to promote good governance and strengthen institutions in the Philippines, this section argues that there is a need for the "right" sequencing of reforms, starting from those that are easier to implement and face less political resistance, progressively building up towards more ambitious and deeper structural and political reforms. The *first round of reforms* will focus on simpler and more pragmatic reforms that aim to improve the delivery of goods and services that have immediate and significant impact on poverty reduction. These reforms are envisaged to trigger dramatic poverty reduction, in turn opening the window for the *second round of reforms*, which are more challenging to implement as they address the deep-seated structural weaknesses in governance and institutions in the Philippines. Underlying this strategy is the "theory of change," whereby the long-term goals are first defined and then the necessary conditions to support these goals are mapped to the present institutional landscape.

The term "theory of change" is widely used in philanthropy, non-profit activities, and government. It refers to an outcomes-based approach to promote a social change necessary to achieve a desired outcome. Specifically, the approach starts from defining the goal and then working backwards to identify the strategies on how to achieve the goal. Essentially, theory of change is a way of thinking rather than a prescriptive set of policies to achieve the goal. It is mapping out of the sequence of policies that can potentially lead to the goal. This approach is not new, but at its core are evaluation and informed social action.

In the Philippines, each administration has a defined goal, such as poverty reduction and inclusive growth. It also outlines the strategies to achieve these goals. However, what appears missing in the strategies is the sequencing of policies in a way that a particular policy change can affect the next policy change, leading to the achievement of the goal. The often noisy political environment could be part of the reason for this, as reforms appear to be much more opportunistic than strategic in nature. The theory of change elaborated in this paper attempts to address the question of how to break free from the low level institutional and development equilibrium—moving from the traditional to a more modern institutional set for the country.

A. First Round of Reforms: Fixing Programs that Create Jobs and Enhance Human Capital

The first round of reforms focuses on key areas where pragmatic governance reforms could yield immediate poverty reduction gains. It involves making the current programs and services of the government work to enhance both the supply of and demand for labor. On the labor supply side, it entails the following: (i) widening access to programs and services such as education, health, and social protection that effectively improve human capital; and (ii) increasing the capacity at the local level to deliver such services. On the labor demand side, it entails the following: (i) providing the supporting policy environment that allows markets to expand; and (ii) lowering down costs of doing business to encourage small businesses to grow.

i. Widening Access to Programs and Services that Effectively Improve Human Capital

For many Filipinos, human capital investments combined with migration decisions (notably to fast growing urban centers) offer a quick way for succeeding generations to escape poverty and rapidly increase their wage prospects. Essentially, this is the same job creation and labor migration pattern observed among other Asian economies that successfully industrialized and reduced poverty in the last few decades. It is in this regard that the government has increased the budgetary allocations for education, health, and social protection. However, there remain areas in the Philippines that are underserved, and the quality of services in these areas is low. While increasing the amount of resources seem to be the most obvious solution to low access and quality, improving governance in these sectors can also bring important gains while keeping the same budget envelope.

Improving the public financial management (PFM) system. The government has already come up with a PFM reform roadmap, which needs to be continued. Priority could be placed in strengthening PFM in education and health, so that increases in the budgetary allocations toward these sectors translate into improving both the access and quality of their services. It involves the collective action not only among oversight agencies such as in budget and management, audit, and finance, but also the financial units of the education and health departments. Making the PFM system more efficient and transparent can reduce leakages of funds allotted to these sectors as well as promote accountability in the use of resources.

Using systematic targeting and strengthening monitoring and evaluation (M&E). Providing publicly financed services could mean focusing resources only on those who need such assistance and less on those who have the capacity to pay for privately provided services. Greater emphasis could therefore be placed on formulation and adoption of targeting mechanisms to ensure that the individuals who receive government support are those who need them most. Moreover, M&E mechanisms can ensure that existing programs are continually upgraded to yield high impact and minimize leakages and waste. The government has made strides in embedding evidence-based M&E strategies in its key programs, such as the CCT program. The marked shift towards evidence-based targeting, monitoring, redress, and evaluation strategies could be seen as part of broader efforts to boost government transparency and accountability mechanisms.

Focusing public resources only on cost-effective programs. Public resources are spent on many programs whose impacts are hardly known. For instance, there are social protection programs that are being implemented by many agencies and have existed for decades, but their impacts have never been evaluated. There is a need to evaluate the cost-effectiveness of existing programs and services in order to determine whether or not they need to be expanded, redesigned or terminated. The same amount of resources can be used more efficiently if they are channeled to programs and services that are proven to yield benefits to targeted beneficiaries and away from those that are ineffective.

Enhancing coordination among implementing agencies. Widening access to education, health, and social protection programs and services require closer coordination among implementing agencies. Areas with inadequate number of schools are likely to have inadequate number of hospitals and health clinics. There are also programs that have similar objectives with similar target beneficiaries but are being implemented by multiple agencies with limited coordination, spreading out resources and creating redundancy in the use of government's human resource. In many areas, there is a need for greater policy and program coherence, so that fuller development outcomes are more easily reached.

Making government data accessible to the public. The government can take advantage of research institutions to contribute to policymaking and program management, particularly in honing government strategies and maximizing the impact of government-led initiatives. This is especially important when it comes to testing new programs and scaling up current programs. The successful institutionalization of these types of reforms could help ensure that public resources are spent responsibly and strategically, and contribute to the cultivation of a culture of evidence-based policymaking that supports and continues efficient and effective policies and discontinues inefficient and ineffective ones.

ii. Increasing the Capacity at the Local Level to Deliver Services

Under the decentralized system, the assignment of service delivery, revenue mobilization, and expenditure allocations is given to LGUs, although the national government still assumes the delivery of certain services. However, LGUs and local government agencies vary in their capacity to deliver services, and the areas in the Philippines where human capital investments are needed the most tend to have governance and implementation challenges. These areas are characterized by low economic activity, disperse geography, persistence of conflict, and limited connectivity with markets, among others, that make policymaking particularly difficult.

Improving the quality of human resource, especially at the local level. There is a need to continue reforms to improve the quality of civil service, but priority can be given to local agencies, which are in charge of program implementation and service delivery. Some local offices have inadequate human resource relative to the amount of task that they are required to deliver, while others have redundant positions and employees with overlapping functions. These often result in varying performance of the agencies in terms of meeting their targets, and consequently in the amount of budget that they receive. In this regard, there is also a need to fast-track the rationalization plans of line agencies to better evaluate human resource requirements in local offices, and to shift resources towards local offices that need these resources the most.

Using performance-based mechanisms to access national government funds by LGUs. LGUs differ in their abilities to generate adequate local revenues, such that national government agencies continue to deliver certain social services. The subsequent dependence on internal revenue allotments of many LGUs reinforces existing vertical fiscal imbalances and prevents local leaders from effectively carrying out their responsibilities. One possible approach to encourage low revenue-generating LGUs to improve the delivery of their services is to utilize a performance-based mechanism, which rewards good performance and incentivize the efficient use of resources. This offers more funds as well as flexibility to LGUs that display concrete and measurable efforts to lessen their dependence on central government transfers. Put simply, well performing LGUs could be rewarded with more (and more flexible) access to resources, while LGUs with poor governance track records could be more adequately monitored, along with programs that include stronger governance mechanisms (e.g. requirements for greater transparency).

Enhancing coordination between local and national governments. Strong local development outcomes will not necessarily take place automatically. Patron–client relationships and institutional backwardness in many parts of the country could frustrate the intended goals of participatory governance. There is still a role for centralized approaches, notably in terms of crafting a holistic strategy in allocating resources, designing programs that are robust enough to stand implementation challenges at the local levels, and collecting and publishing data for broad groups of academia, civil society and think tanks to analyze and use in engaging both national and local authorities. Examples include allowing the public access to information on tax and other payments, and managing natural resource wealth by publicly disseminating mining revenues and receipts through the Extractive Industries Transparency Initiative (EITI), whereby both national and local governments as well as mining companies are held accountable.

Encouraging political competition. In lieu of forthcoming deeper political reforms (e.g. anti-dynasty, pro-inclusive democracy and political party reform laws), it could be useful to create the incentives to compete politically for access to more (and more flexible) resources or support for public goods provision based on clear development outcomes and a framework of greater transparency and accountability. The existence of political dynasties can exert influence over local government spending patterns and subsequently local government outcomes. The disbursement of the so-called pork barrel was observed to favor local patrons. The resulting skew in the manner of distribution of public resources could run contrary to policy objectives, such as poverty reduction (Mendoza, et al. 2012).

Fostering cooperation among LGUs to realize scale economies. Local governments do not exist in isolation, nor can they function without cooperation from nearby localities. LGUs must be encouraged to form cooperation strategies to realize scale economies in public goods of which they would be contributing to the cost. This is important particularly in disaster-risk reduction and management that entail large costs, such as transport infrastructure, coastal management facilities, and early-warning facilities, from which not only their constituents would benefit but also those of other LGUs.

iii. Providing the Supporting Policy Environment that Allow Markets to Expand

Many studies have indicated that the slow economic growth in the past decades could be attributed to a policy environment that is highly protectionist and restrictive, which raise the cost of doing business in the Philippines (see, for instance, Medalla 1998; Fabella 2000; Clarete 2006; de Dios 2011; de Dios and Williamson 2013). Recently, the government has taken steps towards a new industrial policy, whereby incentives are properly designed to avoid rent seeking, such that clear, targeted, and benchmarked outputs and activities must first be delivered before public support is granted to a firm, and to build transparency and accountability mechanisms on the firm and the government.

Evaluating existing investment incentive systems. Fiscal inducements such as income tax holidays, tax deductions and tax credits do not seem to exert a strong influence on investments (Aldaba 2007). One possible option is to incentivize and finance productivity-enhancing public goods such as infrastructure, health, and education, which are likely to attract more investments (Clarete 1992; Reside 2007). Moreover, the adoption of performance-based incentive systems has the capacity to spur productivity in firms and entice investors into the Philippines. Recent policies taken by the Department of Trade and Industry (DTI) to concretely specify output targets and tie incentive measures to these targets are among the steps in this direction.

Reviewing regulatory barriers to investments. The government has also taken steps to review regulatory barriers to investments through the drafting of industry roadmaps in collaboration with the government, academe, and industry associations. The roadmaps are useful in evaluating the rules and regulations affecting certain industries. For instance, some of the provisions of the laws affecting small industries are found to be obsolete and need to be amended. These laws can potentially inhibit the growth of businesses or discourage them to participate in formal markets. The roadmaps could serve as basis for further review of existing regulations, particularly those that affect industries that are labor intensive.

Improving capacity to provide missing critical inputs. Infrastructure is the most critical missing input to a better industry performance (Aldaba 2014). Transport infrastructure, in particular, can potentially connect markets and people, and encourage more economic activities. However, the infrastructure sector is marred by severe governance challenges, such as low institutional capacity of the government to allocate, spend, and manage resources for infrastructure as well as to integrate plans, including those at the local level. Efforts to improve governance in the area of infrastructure, however, also affect other sectors such as utilities (e.g., energy, water and communications) and social services (e.g., education, health and social protection). But in terms of prioritization of reforms, the government may need to first focus on those that affect all these key sectors.

Putting in place policies to encourage innovation and self-discovery. The government may devise incentives for first movers to encourage new investments. One readily implementable government intervention to promote self-discovery is through the provision of access to raw materials, intermediate inputs, and shared service facilities (Aldaba 2014). The measure prompts firms, particularly micro, small and medium-sized enterprises (MSMEs), for instance, to use common service facilities and infrastructures, wherein machinery and equipment for a specific industry is provided to ensure that production gaps are addressed and value chains are strengthened. Given the exogenous boost in productivity in this setup, one successful firm or a multiple of firms benefitting from the inputs could consequently create more output or instead pursue more innovative activities with higher production value.

Enhancing coordination between public and private sectors. Finally, it would be difficult to envision the success of the aforementioned initiatives without first placing emphasis on formalized coordination mechanisms in fostering greater cooperation between the private and public sectors (Rodrik 2004; Aldaba 2014). The creation of industry development councils encourages deeper and more meaningful dialogues between the government and industry leaders. This in turn, allows for a more nuanced and interactive policy evolution process, building in accountability through more transparent and evidence-based discussions and consultations. Increased cooperation could enable both parties to work more closely in identifying binding political constraints, developing appropriate interventions for industrial bottlenecks, and formulating more strategic ways of investing public and private sector resources.

iv. Lowering Costs of Doing Business to Encourage Small Businesses to Grow

Related to providing an enabling policy environment, this section emphasizes the need for policies targeted at small businesses. Markets are not necessarily inclusive (nor do they exist) in areas where poverty is rampant because of a variety of factors, including both governance and market failures (Mendoza and Thelen 2008). The poor residing in remote areas are effectively excluded from formal markets because of their lack of connectivity, either physically (e.g. access to road networks) or through communications networks. Inadequate investments in human capital also prevent them from participating in formal markets. While informal markets offer some relief to a difficult environment where productivity-enhancing and poverty-reducing activities are capped, they are typically constrained, which prevent businesses to realize scale economies.

Lowering down the cost of doing business in the formal sector. Many of the small firms in the Philippines operate informally, which can be mainly attributed to the high transactions cost involved in participating in formal sector. These include business registration, income tax payment and compliance with labor regulations. The systematic simplification of business processes could make it easier for smaller entrepreneurs to register their business, access government business support programs, tap into formal business networks, and participate in private initiatives in aid of small and micro enterprises. A review of existing tax incentives for small business is necessary so as not to create disincentives to comply.

Supporting small entrepreneurs. Many of the poor resort to small-scale entrepreneurship because of limited access to wage employment, either due to their low skills or the lack of jobs in areas where they live. Stamping out overregulation, developing and formalizing channels through which LGUs could assist social entrepreneurs, and adopting enabling business environments encourage private enterprises. Two examples that tap productive potentials of rural locales are the Farmer Entrepreneurship Program in Pangasinan, a joint initiative of the Jollibee Foods Corporation, Catholic Relief Services, and National Livelihood Development Corporation, and the Seaweed Federation in Parang, Maguindanao. In essence, this reform strategy focuses on the elimination of the impediments to entrepreneurship in order to bolster local productivity. The recent creation of “Go Negosyo Centers” in various cities is also part of institutional reforms in this area. These centers essentially play a coordination role by helping to connect key stakeholders and provide a platform for more effective collective action to assist entrepreneurs and the innovation process.

Promoting local clusters. While government is unlikely to play the lead role in forming value chains, it can nevertheless act as a catalyst by promoting the emergence of more extensive market connectivity involving small and medium scale enterprises by strategically channeling investments for entrepreneurial clusters through LGUs. In essence, the national government could correct information problems by investing in identifying and mapping potential value clusters; and leveraging social capital and greater familiarity of LGUs with existing local institutions and communities to jumpstart small and medium scale business ventures. These local value clusters could then be closely integrated to regional or even inter-regional value chains in order to foster greater efficiency through greater specialization.

Building partnerships with local communities for projects that matter to them. Government may facilitate the development of relationships that underpin community-centric and community-specific business models. The success of Manila Water's "Tubig Para sa Barangay" Program and CocoTech's Livelihood Program hinges on the strength of partnerships between the local government and community-based organizations. Given that greater emphasis is placed on the role of the community in the initiative (the community as a business partner), community involvement is integral for the underlying business models to function (Ganchero and Manapol 2007). Behind this strategy are the promotion of local ownership and cultivation of shared responsibility, including the formal and informal rules these entail. The role of LGUs could be viewed to be twofold: lend legitimacy to the project through the leveraging of their social capital and serve as a means to navigate through local politics.

B. Second Round of Reforms: Address Deep–Seated Structural Weaknesses

In addition to the above policy options, this section presents the key institutional reforms that should be pursued for continued economic development in the Philippines. They are categorized into the following four broad themes: (i) political and electoral reforms; (ii) social, development and asset reforms; (iii) economic competitiveness reforms; and (iv) public finance reforms and good governance innovations.

i. Political and Electoral Reforms

The objective of these reforms is to increase citizens' participation, whereby majority of the population would be involved in democratic governance, political life, and the electoral process. Major political and electoral reforms need to be undertaken to strengthen the Philippine democracy through the enactment of crucial laws, such as those related to anti-political dynasty and pro-inclusive democracy, political party development, and freedom of information (see Table 4). To allow for more active participation of LGUs in the development process, there is also a need to reexamine the Local Government Code.

For effective and responsive governance to be felt, political and electoral institutions need to be changed in such a way that the behavior and belief systems of organizations are aligned with the welfare of the people. These reforms not only change the ways in which public hierarchies are formed, but also promote the rule of law, adequate commitment and accountability of the government to its citizens. Another possible option to promote the rule of law and strengthen the anti-corruption drive is to create an independent anti-corruption agency, which augments the powers of the Office of Ombudsman, and draws on the experiences of other developing countries like Thailand's National Anti-Corruption Commission and Indonesia's Corruption Eradication Commission (KPK). Meanwhile, simple and transparent regulator and public administration systems and procedures in government operations, combined with serious investments in e-government, could also dramatically upgrade the governance landscape.

Table 4: Status of Key Political and Electoral Reforms as of 2015

Reforms	Key Feature	Selected References	Status as of 2015
Bangsamoro Basic Law Bill	Promoting inclusive governance in Mindanao	Schiavo-Campo and Judd (2005); Human Development Network (2005)	Pending
Anti-Political Dynasty Bill	Prohibiting family members and relatives from holding or running for elected local government positions	Mendoza, et al. (2012); Solon, Fabella and Capuno (2009); de Dios (2007); Teehankee (2007)	Pending
Freedom of Information Bill	Requiring government agencies to allow public review and copy of all official information	Malaluan (2009); Habito (2010)	Pending
Political Party Development Act	Strengthening the political party system to develop genuine political development and democratization	Friedrich Edbert Stiftung (2009); Hutchcroft and Rocamora (2003)	Pending
Whistleblowers Protection Act	Extending security and benefits to individuals who volunteer information on graft and corruption in government		Pending
Reforms on the Sangguniang Kabataan Law	Prohibiting family members and relatives of national and appointed officials from sitting as Sangguniang Kabataan officials		Pending
Revisiting the Local Government Code	Amending the Local Government Code to address the challenges in local service delivery	Capuno (2007)	Pending

ii. Social, Development and Asset Reforms

These cover the scope of constructive and well-designed programs and policies that directly affect human development outcomes (see Table 5). As for asset reform, inequities arising from a skewed distribution of resources and assets open the door for government intervention that addresses these problems. The economic and social impact of the Comprehensive Agrarian Reform Program is still widely debated among various stakeholders and academics (Fabella 2014; Monsod and Piza 2014). In this regard, at the institutional level, effective asset reform is contingent on good governance and political will, and overcoming constraints at this level can lead to greater impact and better performance (Habito 2010). Conversely, alternative solutions with the objective of addressing structural issues on land assets have also been proposed. In the midst of market failures such as imperfectly competitive markets and asymmetric information (e.g. when economies of scale prevail for a certain industry, thus leading to more market concentration), promoting competition in this setting can be an important driver of economic growth and innovation.

Table 5: Status of Key Social Development and Asset Reforms as of 2015

Reforms	Key Feature	Selected References	Status as of 2015
Philippine Risk Reduction and Management Act	Strengthening the disaster-risk reduction and management	…	Enacted into law in 2010
Reproductive Health Law	Guaranteeing universal access to methods on contraception, fertility control, sexual education, and maternal care	Medalla (2002); Alonzo, et al. (2004); Pernia, et al. (2011); Pernia (2014); Pernia and Pernia (2015)	Enacted into law in 2012
Universal Health Care Act	Ensuring that all Filipinos, especially the poorest of the poor, will get health insurance coverage from the Philippine Health Insurance Corporation	…	Enacted into law in 2013
K-to-12 Basic Education Program	Expanding basic education to additional two years	…	Enacted into law in 2013
Amendments to the Philippines Fisheries Code	Prohibiting small-scale fishermen to fish in Manila Bay, among others	Habito (2010)	Amended in 2015
Social protection reforms	Converging social protection programs: KALAHI-CIDSS, Pantawid Pamilya, Sustainable Livelihood Program		Implementation ongoing
Comprehensive Agrarian Reform Program	Redistributing public and private agricultural lands to farmers and farmworkers who are landless	Fabella (2003); Fabella (2014); Monsod and Piza (2014)	Pending
Mining Revenue Sharing Act	Providing a new revenue-sharing arrangement between government and large-scale mining companies		Pending

iii. Economic Competitiveness Reforms

These reforms are aimed at encouraging competition to promote efficiency (see Table 6). The recent passing of the Fair Competition Law could be used to maintain a level-playing field for the market economy, to protect and promote competition (from the perspective of both producers and consumers) and to stimulate the competitive process, so that the market is able to function properly and bring about the economic efficiency (Medalla 2002). Recent enacted laws, such as the Go Negosyo Act and Magna Carta for Micro, Small and Medium Enterprises, allow for these enterprises to access financing, technology, information and markets. These laws reflect the value of a government-wide thrust when it comes to developing and supporting MSMEs in the country (Habito 2010).

At the macro level, another way to accelerate the country's performance is by boosting foreign investments that will generate a myriad of benefits for the country, such as positive externalities and foreign capital (Sicat 2005). Augmenting this long-standing position is evidence that constitutional reform on the economic provisions with respect to foreign ownership or "Economic Charter Change," particularly lifting restrictions, could positively affect foreign investment flows into the Philippines (Mendoza and Melchor 2015). These new investments are associated with expansion of output, increased productivity and reduction of unit costs of production in the economy, which could also consequently enhance the level of competition in the market (Sicat 2005). Nevertheless, such deep reforms should be complemented with adequate safety nets that ease the adjustments by different sectors facing the brunt of competition. The importance of these complementary reforms should be strongly emphasized, if further international economic integration is to be sustained through broad-based support from citizens and all stakeholders.

Table 6: Status of Key Economic Competitiveness Reforms as of 2015

Reforms	Key Feature	Selected References	Status as of 2015
Magna Carta for Micro, Small and Medium Enterprises (MSMEs)	Promoting, supporting, strengthening, and encouraging the growth and development of MSMEs	Habito (2010)	Enacted into law in 2008
Go Negosyo Act	Establishing "Negosyo Center" in all provinces, cities, and municipalities	…	Enacted into law in 2014

Fair Competition Law	Breaking the current monopolistic behavior and unfair but very profitable trade practices of several corporations	Medalla (2002); Aldaba (2008); Habito (2010)	Enacted into law in 2015
Youth Entrepreneurship and Financial Literacy Program Act	Delivering highly relevant programs to improve financial literacy among the youth	…	Enacted into law in 2015
Microfinance NGO Act	Strengthening NGOs engaged in microfinance operations for the poor	…	Enacted into law in 2015
Amendments to the Cabotage Law	Allowing foreign-flagged vessels to carry imported cargo directly to the final Philippine port of destination	…	Amended in 2015
Amendments to the BOT Law	Accelerating the procurement process for PPP projects and designating certain projects to be of national significance that will be shielded from adverse local government action	Llanto (2007a and 2007b)	Pending
Revisiting Ownership Restrictions in the Philippine Constitution	Relaxing foreign ownership restriction of local firms	Sicat (2005); Foundation for Economic Freedom (2012); Mendoza and Melchor (2015)	Pending
Credit Surety Fund Cooperative Act	Enhancing accessibility of MSMEs, cooperatives, and NGOs to credit facility of banks	…	Pending

iv. Public Finance and Good Governance Innovations

These are related to taxation and spending activities of government, taking into consideration the government's influence on resource allocation and income distribution (see Table 7). The more notable and definitive reforms that attempt to adjust prevailing backward systems to current times, such as the taxation of compensation income and modernization of customs and tariff, have yet to be enacted into laws. What is most problematic about this set of reforms is the fact that taxation (via tariff and income taxation) should translate to provision of public goods and the proper utilization of these public funds. However, since this may not necessarily translate into reality in the context of a weak state, the enactment of these laws may make collection of funds more efficient and equitable.

Table 7: Status of Key Public Finance and Good Governance Innovations as of 2015

Reforms	Key Feature	Selected References	Status as of 2015
Sin Tax Reform Law	Restructuring the excise tax on alcohol and tobacco products	…	Enacted into law in 2012
Performance based grants (Seal of Good Governance, Performance Challenge Funds)	Creating an incentive mechanism for local government units to improve their performance	Brillantes (2001)	Implementation ongoing
Open and participatory budgeting process	Allowing the public to participate in decisions regarding the local budget	Brillantes & Fernandez (2010); Capuno & Garcia (2008 & 2009)	Implementation ongoing
Reforms on Income Tax	Restructuring the income tax system	Diokno (2005); Quimbo and Javier (2015); Gloria et al (2014)	Pending
Rationalization of Fiscal Incentives, Tax Incentives Management and Transparency Act	Reviewing the current incentive structure with a view to encourage more investments	Aldaba (2007); Reside (2006 and 2007)	Pending
Customs Modernization and Tariff Act	Modernizing customs and tariff administration through full automation of operations	Llanto et al (2014) Mendoza, Gloria and Pena-Reyes (2014)	Pending
Reforms on Local Public Finance	Improving financing system of local government units	Manasan (2005); Llanto (2009)	Pending

Although innovations in good governance are often combined with public finance reforms (e.g. public expenditure tracking and open procurement), these innovations can also come in other forms. For instance, at the local level, these include innovations stressing the importance of accessibility to information, an enabling policy environment, aggressive civil society and the quality and leadership of a local executive. There is evidence that transparency can lead to the promotion of accountability and participation, as well as a development of trust to local leaders (Capuno and Garcia, 2008 and 2009).

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