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Utang na Loob (Deeply Indebted): The "MCC Effect" and Culture of Power in the Philippines

Brigitte Brown (Fletcher 2010), Madeline Gardner (LA 2010),
Kelsi Stine (LA 2010, Fletcher 2011), Cody Valdes (LA 2012)
Institute for Global Leadership, Tufts University
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I. EXECUTIVE SUMMARY

In March 2009, four undergraduate and graduate students from the Poverty and Power Research Initiative (PPRI) at Tufts University's Institute for Global Leadership travelled to the Philippines to study the causes of poverty in relation to the work of the Millennium Challenge Corporation (MCC), a United States international aid program. This research trip was intended to produce the second in a series of case studies about poverty, inequality, and the MCC that began with research in Guatemala between September 2007 and August 2008, in conjunction with the Institute for Central American Strategic Studies. Both the MCC's use of aid conditionality to encourage governance reform and its annual publication of independently measured governance scorecard ideally accommodated the students' interest in understanding the connections between political economy, poverty, and the formal and informal institutions of national governance.

The twelve-day trip to the Philippines was preceded by interview-based research in Washington, DC. There, PPRI students met with representatives of the MCC, World Bank, Philippine Embassy, Center for Global Development, and Global Integrity. In Manila, the students met with members of the Philippine private sector, government, NGO community, academia, journalism, and civil society as well as the US Embassy, USAID, and the greater international aid community. These interviews indicated that, unlike in Guatemala, the MCC is relatively unknown in the Philippine business community, and that the primary actor interested in receiving a Compact Agreement is the executive branch of the federal government under President Gloria Macapagal Arroyo.

The reform incentive offered by a potential MCC Compact Agreement became a focal point of interest for the PPRI students on their trip to Manila. Contrary to the logic behind the large-sum design of Compact Agreement grants, the students observed that in a country with as large of an economy as the Philippines, the potential funding amount was not a significant incentive for the Arroyo Administration to embark on earnest government reform. Instead, the Administration appeared more interested in gaining the American "stamp of approval" offered in a Compact Agreement in order to regain lost popular support and legitimacy as it entered its final months in office. As an additional benefit, securing a Compact Agreement would help the President and First Gentleman Mike Arroyo avoid prosecution for corruption after vacating Malacanang Palace.

Lastly, PPRI's interviews indicated that the Arroyo Administration lacked the political will to pursue the tangible anti-corruption reforms needed to pass the Philippines 2009 Country Scorecard's Control of Corruption Indicator, the major barrier it faced (at the time) to signing an agreement. Nevertheless, the students observed print media and television outlets publicizing the government's new partnerships with the MCC, creating the impression that the Administration has been working favorably with the US government to overcome these hurdles. We also noticed a strong sense of popular disillusionment with the Arroyo Administration, and the widely held sentiment that corruption had become far too entrenched in the national political system to be changed through democratic means.

Interviews in the Philippines pointed to an elite social structure, a culture of indebtedness and deference to authority, corruption, emigration, a lack of nationalism, and unchecked population growth as the key obstacles to development. Each of these interrelated issues presents a long-term challenge; while they are surmountable, resolving them will require a greater level of political will and commitment to the public good than the Philippine government has shown thus far. Such commitment must be measured by the success, rather than the planning, of serious reform initiatives, including the prosecution of high-level tax evaders, the vetting and reduction of civil service, and the requirement for greater transparency in congressional public works projects. Until such improvements are seen, the students advocate that the MCC Board decide not to grant the Philippines a Compact Agreement at its meeting on December 9th. They also believe that the Philippines is a country in which the much-touted "MCC Effect" – whereby momentum for genuine governance reform builds among MCC client countries competing for limited funds and positive recognition – has failed to take hold, and question the whether the MCA's standards of measuring this alleged phenomenon accurately assess the effectiveness of conditional aid programming.

II. INTRODUCTION

Between September 2007 and August 2008, a group of undergraduate and graduate students participating in the Poverty and Power Research Initiative (PPRI) through Tufts University's Institute for Global Leadership began researching the relationship between poverty and the national decision making structure in Guatemala. The US Millennium Challenge Account (MCA) foreign aid program, an advocate for national political reforms in developing countries, was used as a lens through which to study this relationship. At the time of research, Guatemala was in the process of trying to qualify for a Threshold Agreement, a small sum of preliminary funds intended to reward countries that had not yet qualified for a Compact Agreement but had demonstrated sufficient political commitment and progress to receive the United States' support. It was concluded that Guatemala was not upholding the MCA requirement of broad stakeholder participation. One private sector NGO, FUNDESA, dominated most public discussion about how to make the country eligible for an MCA program. FUNDESA put disproportionate emphasis on addressing the Economic Freedom section of their governance scorecard, rather than addressing the Ruling Justly and Investing in People categories, where the country performed most poorly. The students concluded that there might have been a connection between Guatemala's weak performance in its governance and social investment indicators and its lack of broad stakeholder ownership of the reform effort needed to qualify for MCA assistance.

In September 2008, PPRI selected the Philippines as its second case study on the linkages between poverty and governance and the role of the MCA. Unlike Guatemala, the Philippines had already qualified for and implemented a Threshold Agreement program. It is now working towards signing a much larger Compact Agreement, for which it was deemed eligible in March 2008.

The Philippines presented the students with a valuable case study for several reasons. First, it offered the opportunity to study the impact of the "MCC Effect" – how well receiving an MCC Compact, and its tangential effects such as increasing foreign direct investment, incentivizes governance reform – on a country that needed only slight improvements on its Control of Corruption indicator to qualify for funds.

Secondly, from a development perspective, the Philippines boasts many of the natural advantages that have helped other countries in Asia-Pacific to develop their economies. It is often noted that per-capita GDP in the Philippines was only surpassed by Japan in the first half of the twentieth century, but that since achieving independence in 1946, human and economic development in the Philippines has fallen flat in comparison to its Southeast Asian peers. In the post-World War II era a combination of weak revenue collection, an over-valued peso, and the infrastructural damage inflicted during the war evinced a long period of stagnation while countries such as Thailand, Taiwan, Indonesia, and South Korea experienced significant economic growth.[1] Though there is ongoing civil conflict on the island of Mindanao, the conflict's limited scope and geographic containment have not caused massive casualties, internal migration, or other humanitarian disasters that would typically entrench poverty in a country. Neither is the Philippines landlocked; it has tremendous access to shipping routes to export its agricultural and industrial goods, which should logically contribute to increased economic welfare. For these reasons, the Philippines offered the students a challenging and complex case study for examining the nexus between governance and poverty.

The Tagalog phrase "utang na loob," or "deeply indebted," refers to a culture of loyalty within an intensely vertical social structure, one that evolved over centuries from Spanish and later American colonization, the influence of the Roman Catholic Church, cliques of business and political elites, and foreign manipulation of domestic politics. Utang na loob is a culture of looking back, of owing favors, of obedience, exclusivity, networking, and saving face. It reflects a climate of ownership and personal interest, one where favors, relationships, and above all family become the central determinate of social mobility. This prevailing feature of Philippine society presents an enormous challenge to poverty alleviation and economic growth, signaling the need for development assistance that addresses root causes of economic exclusion and both formal and informal institutional failures.[2]

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[1] Richard Hooley, "American economic policy in the Philippines, 1902-1940: Exploring a dark age in colonial statistics," *Journal of Asian Economics*, 16, no. 3 (2005): 477. From 1950 to 1990, Philippine per capita GDP increased approximately 78 percent, while Japan's increased 890 percent, South Korea's increased 925 percent, and Thailand's increased 373 percent. Calculations based on data in Table 5 A.

[2] Ronald E. Dolan, ed. *Philippines: A Country Study*. Washington: GPO for the Library of Congress, 1991.

III. THE MILLENNIUM CHALLENGE ACCOUNT

The US Millennium Challenge Account, established in 2004, has granted over 18 Compact Agreements and 19 Threshold Agreements with candidate countries. Analysts such as Sheila Herrling, author of the Center for Global Development's "MCA Monitor," have identified many advantages of MCC's structure over more traditional forms of foreign aid, including predictable finance, country ownership, and a results-based orientation. The MCC also embraces the unique mentality of connecting the causes of poverty with weak governance. This generally translates into funding engagements with client countries that tackle structural failures rather than placating the symptoms of low human development indicators with traditional, quick-fix infrastructure projects and preferential trade agreements. Further, the MCC's use of conditional foreign aid has received praise for an alleged side-phenomenon called the "MCC Effect"[3], where the conditional incentive of a large untied aid package encourages governance reform in countries hoping to qualify. Though a product of the Bush Administration's attempt to align US foreign aid architecture more strongly with corporative management techniques, the MCC has received substantial praise from Washington's liberal academic, NGO, and think tank community.

Despite this support, the MCC remains at a crossroads in terms of its role in the US's new "smart power" approach to foreign policy. In March, the MCC's FY2009 budget was set at $875 million, nearly half of what it received in 2008. Such a significant cut in funding will clearly limit the MCC's ability to support and develop country partnerships for next year, but offers an opportunity to live up to its bottom-line orientation and develop more innovative programming. More promisingly, the MCC's FY2010 Presidential budget request to Congress, released in May 2009, is significantly larger at $1.42 billion[4]. This request demonstrates greater support for the MCC from the Obama Administration, and can facilitate the signing of three new compact agreements with, as it has indicated, the Philippines, Jordan, and Malawi, during the upcoming fiscal period.

IV. THE PHILIPPINES AND THE MCA

The Philippines signed a Threshold Agreement in July 2006 for $21 million. This money was used on a program to enhance anti-corruption efforts through a three-pronged approach: strengthening the Ombudsman's office, improving revenue administration, and increasing the Department of Finance's enforcement capabilities[5]. The Department of Finance programs were

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[3] See Millennium Challenge Corporation, *The 'MCC Effect': Creating Incentives for Policy Reform; Promoting an Environment for Poverty Reduction*. Revised November 2008.
[4] Millennium Challenge Corporation, "Congressional Budget Justification: Fiscal Year 2010." Accessed 12 May 2009. Available http://www.mcc.gov/documents/mcc-fy2010-cbj.pdf.
[5] Millennium Challenge Corporation, "Threshold Quarterly Status Report, July 2009." Accessed 12 August, 2009. Available http://www.mcc.gov/documents/qsr-philippines.pdf.

titled the Revenue Integrity Protection Service (RIPS), Run After Tax Evaders (RATE) at the Bureau of Internal Revenue (BIR), and Run After The Smugglers (RATS) at the Bureau of Customs. To demonstrate its commitment to the Threshold Program, the Government of the Philippines allocated P1 billion of its own funds for anti-corruption programs, P259 million of which has so far been released for the Threshold Agreement implementation process.

The MCC's annual scorecards measure countries in three categories: Ruling Justly, Investing in People, and Economic Freedom. Between the categories, there are a total of 17 indicators that are compiled from independent, external sources such as the World Bank's Governance Matters Project, Freedom House, UNESCO, and the Heritage Foundation. On its FY 2009 Scorecard, the Philippines has passing scores on every indicator except for Control of Corruption, Health Expenditures, and Primary Education Expenditures. Of the 17 indicators, a country must pass half in each category, plus the Control of Corruption indicator, in order to qualify for a Compact Agreement.

On March 11th, 2008, the Philippines was selected as Compact Eligible by the Millennium Challenge Corporation Board of Directors, meaning that the Philippines could begin submitting proposals for five-year poverty reduction programs that would be funded by the MCC. At this time, the Philippine's FY 2008 scorecard indicated that it had indeed met the Eligibility Criteria established by the MCC, and passed every indicator except for Health Expenditures, Primary Education Expenditures, and Fiscal Policy. Later that year, the MCC added two new data sources to the Control of Corruption indicator[6]. This additional source affected the Philippines' status of "Passing" on that indicator, the only "hard hurdle" that countries are required to pass in order to receive MCC funds. As a consequence, the MCC released the following statement at its December 2008 Board of Directors meeting:

"The Board agreed that the Philippines remains eligible for developing a compact proposal, but emphasized that MCC will not sign a compact until the country passes the indicator criteria on corruption. The Board also reiterated the importance of this principle with respect to all its partner countries. The Board called upon the Government of the Philippines to intensify its **efforts to fight corruption and will closely monitor the country's performance."**

-MCC Chief Executive Officer Ambassador John Danilovich[7].

Ambassador Danilovich's words indicated that the Philippines was in a state of Compact-limbo, with the understanding that the Philippines could retain its formal status as Compact

[6] Ambassador Willy Gaa in Jaleco, Rodney J. "Flunking MCC Corruption Test Imperils $700-M for RP Poor." Pinoy Herald, ABS-CBN North America News Bureau , 7 Jan 2009. Available http://www.pinoyherald.org/news/headlines/flunking-mcc-corruption-test-imperils-700-m-for-rp-poor.html

[7] Millennium Challenge Corporation. "US Commitment to Fight Poverty Calls on Partners to Recommit to Democratic Principles Columbia, Indonesia, Zambia now Eligible for Innovative Grants." Press Release 11 December 2008.

Eligible but would not be able to actually sign a Compact Agreement until it passed the Control of Corruption Indicator. Within the Philippines as recently as March and April 2009, government directed media reports announced that the Philippines had qualified for a Compact Agreement with the MCC and had entered the phase of Compact Development, though from our observations no mention was made of the barrier to signing such an agreement facing the Arroyo administration in the form of the failed Control of Corruption indicator.

Interestingly, in the MCC's recent release of its "Congressional Budget Justification: Fiscal Year 2010," the Philippines was identified as one of three countries (along with Jordan and Malawi) anticipated to sign Compact Agreements in that budgetary period. There was no mention in the report of the Philippines' Compact Agreement signing as being conditional on its passing of the Control of Corruption indicator, while both Jordan and Malawi have already passed and currently qualify to sign based on their FY2009 scorecard performance.

V. STUDENT RESEARCH

The students involved in PPRI spent from September 2008 until March 2009 studying development, history, and governance in the Philippines, as well as the structure and history of the MCC. In November 2008, PPRI led a research trip to Washington DC to interview researchers, experts, and policy officials about the role of the MCC in the Philippines. Subsequently, students Brigitte Brown (Fletcher 2010), Madeline Gardner (LA 2010), Kelsi Stine (LA 2010, Fletcher 2011), and Cody Valdes (LA 2012) travelled to Manila, Philippines from 14 to 23 March 2009 as student researchers from the Tufts University Institute for Global Leadership for an intensive week of interviewing. PPRI met with high-level businesspeople, Philippines government officials, academics, international NGOs, representatives from the World Bank, Asian Development Bank, USAID and the US Embassy, journalists, and members of civil society to inform its investigation. Upon their return, the students spoke with members of the Tufts faculty, including Stephen W. Bosworth, former Ambassador to the Philippines and Dean of the Fletcher School of Law and Diplomacy, to supplement their Manila-based findings. These interviews provided a variety of perspectives on the administration of President Gloria Arroyo and challenges to Philippine poverty alleviation. The interviewees included, by sector and organization:

Millennium Challenge Corporation, Washington, DC

- *Troy Wray*, MCC Associate Country Director for the Philippines
- *Maria Longi*, Managing Director for the Threshold Programs for non-African countries at the Millennium Challenge Corporation

Philippines Private Sector

- *Jaime Augusto Zobel de Ayala*, Chairman and CEO of Ayala Corporation, and his wife *Elizabeth Zobel de Ayala*, a Social Entrepreneur

- *Alberto Lim*, Executive Director of the Makati Business Club
- *Josias "Jody" T. de la Cruz*, Vice President for Microfinance at the Bank of the Philippine Islands
- *Corazon (Cora) Guidote,* Vice President for Investor Relations for SM Investment Corporation (SMIC)
- *Estelito Biacora*, Assistant Vice President and head of the Treasury and Financial Market Division of The Bank of the Philippine Islands
- *Angela Hollander-Padilla*, Head of the Commercial Markets division at Jones Lang LaSalle Leechiu real-estate and financial services corporation located in the Philippines
- *Francis Ferrer*, board member of the Philippine Export Zone Authority, governor of the Board of Investments. Mr. Ferrer the president of EMS Components Assembly Inc (EMS-CAI), a company he established in 2004. He also is the Association of Southeast Asian Nations (ASEAN) Electronics Forum Chairman.

Philippines Government

- *Angelito Nayan*, Vice Consul at the Philippine Embassy in Washington DC
- *Maria Ana Consuelo "Jamby" Madrigal*, national Senator and Chairperson of the Senate Committee on Youth, Women and Family Relations and the Committee on Cultural Communities
- *Panfilo Morena "Ping" Lacson*, national Senator and retired Director-General of the Philippine National Police
- *Teresa Habitan*, Director at the Fiscal Policy and Planning Office in the Philippines' Department of Finance in charge of government revenue collection

United States Government

- *Carlos Gavino* is the Millennium Challenge Account Philippine Threshold Plan Advisor for USAID in the Philippines
- *Larry Memmott* is the Counselor for Economic Affairs at the US Embassy in the Philippines
- *Christian Hougen* is Chief of the Office of Economic Development and Governance at USAID, Philippines, and Rebecca Thompson is the First Secretary and Press Attaché at the US Embassy in the Philippines

International Institution/NGO Community

- *Aart Kraay*, Lead Economist in the Development Research Group at the World Bank.
- *Nathaniel Heller,* Co-Founder and Managing Director of Global Integrity
- *Amy Crone*, Research and Policy Analyst at the Center for Global Development
- *Jesus P. Estanislao*, founding Dean of the Asian Development Bank Institute in Tokyo and founding president of the University of Asia and the Pacific in Manila. He represented the Philippines in the Eminent Persons Group of both the APEC and ASEAN

- *Lawrence Greenwood*, Vice President of the Asian Development Bank
- *Claudia Buentjen*, Senior Governance and Capacity Development Specialist at the Philippines Country Office of the Asian Development Bank
- *Heidi Mendoza*, Governance and Anticorruption Consultant in the Governance, Finance, and Trade Division of the Southeast Asia Department of the Asian Development Bank
- *Gilberto Llanto,* former finance secretary to President Aquino. He currently works for the Philippine Institute for Development Studies (PIDS) and has authored numerous microfinance publications at the World Bank, Asian Development Bank, Philippines Deposit Insurance Corporation publications, mainly regarding microfinance institutions
- *Kim Jacinto-Henares*, Senior Private Sector Development Specialist of the International Finance Corporation
- *Joel Valdes*, President of the Institute for Solidarity in Asia, a good-governance advocacy group in the Philippines. He is also Chairman of the Philippine Swiss Business Council

Domestic NGO Community

- *Sixto Macasaet* and *Cezar Belangel* are the executive director and deputy executive director of the Caucus of Development NGO Networks (CODE-NGO).

Academia

- *Stephen W. Bosworth,* Dean of the Fletcher School of Law and Diplomacy, former US Ambassador to the Philippines
- *Miguel Basáñez,* Director of the Cultural Change Institute at the Fletcher School of Law and Diplomacy, Tufts University
- *Ben Diokno*, Professor at the University of the Philippines and former Budget Secretary of President Joseph Estrada

The Catholic Church

- *Monsignor Pedro Quitorio*, spokesman of the Catholic Bishops Conference of the Philippines.

Journalism

- *William Esposo*, columnist for the Philippine Star who spearheaded the media campaign for the ratification of the new Philippine constitution, directed the publicity effort for the LDP - President Aquino's main party and was appointed in1988 by President Aquino to the post of Director-General of the Philippine Information Agency
- *Yvonne Chua*, professorial lecturer at the University of the Philippines and has been the training director of the Philippines Center for Investigative Journalism and a regular writer for Now I Report, the Center's quarterly journal, since 1995
- *Ellen Tordesillas*, journalist. She has covered Filipino politics for many years, and has contributed to the Philippine Center for Investigative Journalism

These interviews provided us with a ground level view of the main impediments to development in the Philippines. Further, they highlighted several key challenges to addressing poverty and inequality in the Philippines:

Social Structure: The Philippines' social and class structure is both rigid and vertically integrated. Opportunities for personal advancement are heavily dependent on family connections, reputation, access to higher education, and interpersonal relationships. Patriarchal models abound in the distribution of wealth, political and business positions, and access to public decision making power, preventing a culture of vertical accountability from emerging.

Economic and class structure: The majority of the Philippine's most profitable economic sectors are dominated by a single, or a very small number of, corporate conglomerates that are each associated with a prominent family clan. These clans maintain strong alliances throughout the business and/or political realm, consolidating access to public and private decision making power among the small national elite. Consequently, the Philippines has never successfully completed a comprehensive land reform program, leaving the distribution of natural resources one of the main contributing factors to the Philippines' high Gini coefficient of 44.5. Access to capital for small and small-to-medium enterprises is severely limited, helping to maintain the Philippines' large lower class.

Culture: The culture of "utang na loob" described previously is directly related to the Philippines' social and economic structures, and can be seen universally throughout society. It places heavy emphasis on the role of the family and clan, which when combined with the disconnected geography of the island-nation, prevents the formation of a sense of patriotism, civic duty, and national unity[8]. This particular values system has a severe impact on national politics, impairing vertical accountability to the Filipino citizenry in public and private governance. We observed a sense of popular disillusionment with the Philippine government and political system that stemmed from a belief that the cultural challenges to governance were deeply systemic.

Population/Religion: The Philippines suffers from severe overpopulation, and currently has a population growth rate of 1.957%[9]. Many experts attribute this problem to the anti-contraception position of Catholicism, to which 80.9%[10] of the Philippine population subscribes. This challenge is also connected to inadequate public access to education and information opportunities.

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[8] Bosworth, Stephen M. Personal Interview, 15 April 2009.
[9] CIA World Fact book. "Philippines," https://www.cia.gov/library/publications/the-world-factbook/geos/rp.html#People
[10] Ibid.

Emigration/Remittances: Approximately 10% of the Philippine population has migrated abroad, primarily in search of employment. Last year, the Philippines' nine to eleven million overseas workers sent back $16 billion dollars in remittances, or about 10% of GDP, which was largely responsible for the nation's economic growth of 6.1%[11]. While the remittances these workers send home significantly bolster domestic consumption, they indicate that many of the country's most talented members of the lower and middle classes have left the country, creating a deficit of grassroots leadership and innovation in political and business arenas.

Colonial and Political History: The Philippines' history as a colony to both Spain and later to the United States has placed it in a subordinate political and economic position relative to much of Asia and the Western World. Landed elites were entrenched in the political system by both Spanish and American colonial rulers, evincing the current social structure that hinders bottom-up development in the country today. The dictatorship of Ferdinand Marcos, supported by the Reagan Administration, left the Philippines deeply wounded after 21years of intensive state-led violence, corruption, and institutional evisceration.

Interface with global financial institutions: During the Marcos Dictatorship, the Philippines acquired a foreign debt of $26 billion. It has been one of the leading recipients of external loans from international financial institutions, including the IMF and World Bank, and as of August 2009 its current foreign debt was roughly $41 billion. President Corazon Aquino, who succeeded Marcos in the first People Power Revolution, insisted upon repaying the debt accumulated by her predecessor, leaving the Philippines with a substantial burden for years to come. Under Arroyo, the government has systematically underfunded social programs in the budget, partly in order to meet IMF requirements to honor its past debt. Indeed, since the Estrada administration, expenditure on health has gone down by 8.46% while expenditure on education went down by approximately 6%.

VI. RESEARCH CONCLUSIONS

The MCC's principles of conditionality and incentive-based lending have precedent within the international aid community. The World Bank's International Development Association (IDA) has historically maintained a strict set of self-regulated indicators called the Country Policy and Institutions Assessment. These indicators, which measure the strength of a country's "policies and institutional arrangements" towards growth and poverty reduction, largely determine the size of IDA's allocations to lower-income countries and are thus intended to tie good governance with development aid. Until very recently, however, the Bank has withheld the results of these assessments, and even today, it only releases the results for assistance-eligible countries. The Philippines, a Medium-Income Country, no longer belongs to

[11] Rushford, Greg. "Clan Warfare Hobbles the Philippines." Far Eastern Economic Review, 10 July 2009. Available http://www.feer.com/essays/2009/july/clan-warfare-hobbles-the-philippines

this group[12]. In contrast to the MCC, which has sought to achieve a "naming and shaming" effect with the publication of its scorecards, the World Bank has deliberately withheld the results of its governance assessments from the public eye.

This may be indicative of a larger trend that has dictated the relationship between developing countries like the Philippines and powerful international lenders such as the World Bank, USAID, and the IMF. In the past, the lender has typically been reluctant to urge substantial reform from the recipient country, preferring to expedite the flow of development funds rather than demand results-based improvements.[13] While various international government organizations have played key roles in providing technical support for governance reforms in the Philippines, their insistence on tangible improvements in national transparency has historically been limited. For example, the hands-off approach towards in-country reform is exemplified by the views of a high-level official at a prominent multilateral development bank. In an interview with PPRI, the official took a troubling stance toward anti-corruption efforts in countries such as the Philippines. While he acknowledged on one hand the pervasiveness of small and large-scale corruption and poverty, he also reproached any insistence on governance reform, claiming that members of the international community "do not own reform, it does not behoove us to push reform: it infringes on a country's sovereignty to do so." Foreign governments are ill suited to demand reform from a government in the developing world, the official claims, and therefore "I am against any attempts to 'buy' reform."[14] For the Philippines, with its long history of foreign indebtedness, the question of sovereignty is precluded by its financial dependence and the insistence of lending bodies on other reforms in the realm of fiscal policy.

The official later made a crucial distinction between demanding reform and incentivizing reform, as the MCC does, by noting that "the most effective approach is to work in partnership with countries, and to provide the incentives for them to do so, as well as to help develop the institutions which allow them to solve the problems themselves." Broadly speaking, with the exception of the MCC, international lenders have lacked the ability or the mandate to assist developing countries in erecting robust governance institutions, especially given the pace with which economic and fiscal reforms were enacted under the period of the "Washington Consensus" in the late twentieth century. With far too much emphasis placed on infrastructure projects that merely fill developmental voids left by corrupt and wasteful governments, development agencies provide more stopgaps than structural fixes. This has coincided with, if not partially caused, the laggard and at times disingenuous development of indigenous anti-corruption efforts in developing countries.

The inherently political nature of corruption creates an additional disincentive for lenders to push for substantial improvements. As a result, the anti-corruption efforts that do emerge tend

[12] Kraay, Aart. World Bank Institute. Personal Interview, 24 November, 2008. Washington, D.C.

[13] In the extreme case, this is known as the "bread before ballots" problem, where humanitarian development needs are prioritized over the difficulties of supporting corrupt and/or despotic regimes. The Arroyo Administration, whether in reality or not, is perceived as a highly corrupt regime by the Filipino public. Often, as one can argue is the case with USAID, the structure of the budgeting process for the lending organizations incentivizes spending to the point where a culture of blindness can emerge.

[14] Official, Interview via telephone.

to be overly administrative and fail to address the role of power inequities and lack of domestic political will that entrench corruption within political systems. The Threshold Program grant to the Philippines in 2006 may well be an example of this type of programming. Threshold Programs are intended to give borderline countries the extra cash they need to improve one of their policy indicators. However, the failure of the 2006 Threshold Agreement grant to the Philippines and the additional $21 million match by the Philippines government to improve the country's Control of Corruption score speaks volumes about the ability of entrenched interests to override administrative reform efforts. In fact, in the year that the Philippines was granted the Threshold Agreement, it had a passing Control of Corruption score of 73%, while two years *after* the funding was allocated, Control of Corruption decreased to 57% in 2008. By the time the Threshold Program concluded on May 29, 2009, the Philippines Control of Corruption indicator had sunk to a failing 47%, making another dramatic slide down to 26% when the 2010 scorecards were released 6 months later. *Clearly, a lack of funding or administrative reform effort is not the problem.*

Observation 1: Historically, anti-corruption programs in the Philippines have been both numerous and feeble.

Outside of MCC-sponsored programs, the Philippine government has pursued a variety of anti-corruption programs since the Marcos era that have had similarly paltry impacts. There is good reason to question the sincerity and foresight of even these nationally sponsored initiatives, given widespread belief – and internationally supported data – that corruption has returned to levels unseen since the Marcos era. The remainder of this section will discuss the largest of these efforts, and show how anti-corruption commissions, action plans, Ombudsman initiatives, and partnerships have all failed to address the root causes of corruption in the Philippines.

In 1986, President Corazon Aquino's first act upon taking office from Ferdinand Marcos was to set up the Presidential Commission on Good Governance to investigate and locate Marcos' stolen money and goods.[15] A comprehensive report by Transparency International in 2006 illustrated the Philippines' "superlative" history of anti-corruption initiatives:

> The 1987 Philippine constitution enshrines principles of accountability, constitutional independence, fiscal autonomy and disclosure of information. The government advocates zero tolerance for corruption and follows the world's best practice in adopting a three-pronged anti-corruption approach – promotion, prevention and enforcement. Civil society in the Philippines is among the most vibrant worldwide, with a strong anti-corruption ideology, and the country's highly literate population produces independent thinkers and committed champions for reform. The Philippine press is Asia's liveliest. Other

[15] James Henry, *The Blood Bankers: Tales from the Underground Economy* (New York, NY: Four Walls Eight Windows, 2003), 49. Unfortunately, by 2003, less than $2 billion of the estimated $5-10 billion believed to have been siphoned into the Marcos family's foreign holdings had been identified by the commission, and less than fifty percent of this had been returned to the Philippine government.

> constituencies, such as the business sector, civil society, community groups and religious organizations have all coalesced to support the anti-corruption agenda.[16]

Nevertheless, the rosy picture painted by its initial assessment is quickly rebuked, as the report bluntly concedes that "corruption remains prevalent," as a "plethora of newspaper reports on fertilizer scams, electoral fraud, *jueteng payola* (receiving illicit payments for an illegal numbers game), political financing scandals… and thievery in military procurement," a "lack of compliance and implementation on the side of the public and a lack of prosecutions, convictions and enforcement on the side of the authorities," and a "bifurcation… between catching 'small fry' and 'big fish,'" continue to feed the widespread distrust of the Philippine people towards their government.[17]

In its justification of the Office of the Ombudsman's new National Anti-Corruption Program of Action, introduced after Ombudsman Simeon Marcelo's resignation in 2005, and as a part of the Philippine's commitment to the ADB/OECD's Anti-corruption Initiative for Asia and the Pacific Action Plan, the authors of the Action Plan's 3rd Implementation Cycle[18] (2006-2008) offered a strong indictment of recent efforts to address government corruption:

> Anti-corruption efforts in the Philippines are largely diffused and uncoordinated. There are gaps and overlaps in anti-corruption policy development, enforcement and system improvement. There is also no performance tracking/accounting system to determine how far the country has come in achieving its anti-corruption goals and objectives. Although there are multi-sectoral anti-corruption efforts in the Philippines, the anti-corruption actors seem to pursue their own initiatives with little regard for the bigger national picture. There is therefore, a need for a convergence strategy to generate collective action in a coordinated fashion in order to achieve national anti-corruption goals with clear and accountable performance targets.[19]

Projects implemented in 2002 and 2003 under the Action Plan aimed at strengthening the Ombudsman's Office's prosecutorial abilities were claimed to have been successful, although the impact of the "Anti-Corruption Plan and Investment Program for the Office of the Ombudsman" was characterized as "quite difficult to see or measure."[20] Efforts to strengthen the Ombudsman's

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[16] Gabriella Quimson, Transparency International, "National Integrity Systems: Transparency International Country Study Report, Philippines 2006," 8.

[17] Ibid.

[18] The Action Plan, created in November 2001, is the main instrument of the ADB and the OECD's Anti-Corruption Initiative for Asia and the Pacific, defining the "objectives in building sustainable legal and institutional frameworks to fight corruption" for its 28 participating countries and economies. It is a joint effort of Asia-Pacific countries to combat corruption with strategic partnerships, "policy dialogue and exchange of experience, policy analysis, and capacity building."
http://www.oecd.org/document/35/0,3343,en_34982156_35315367_35029667_1_1_1_1,00.html/

[19] ADB/OECD Anti-Corruption Initiative for Asia and the Pacific, "Anti Corruption Reform under the Action Plan's 3rd Implementation Cycle (2006-2008)." http://www.oecd.org/dataoecd/3/57/38025991.pdf/ (accessed July 20, 2009).

[20] ADB/OECD Anti-Corruption Initiative for Asia and the Pacific: Anti Corruption Plan and Investment Program for the Office of the Ombudsman. http://www.oecd.org/dataoecd/3/55/38025964.pdf/ (accessed July 19, 2009). See also "Self Assessment Report on Project Implementation: Strengthening investigative and prosecutorial capabilities" http://www.oecd.org/dataoecd/21/35/35343551.pdf/ and "Self Assessment Report on Project Implementation: Trial advocacy skills development program" http://www.oecd.org/dataoecd/21/37/35343506.pdf/.

Office date back to 1989, when the Ombudsman Law was passed removing formal barriers to the investigation and prosecution of cases of graft and corruption, but since then progress has remained lethargic.

The MCC's Threshold Program has sought to bolster Ombudsman Merceditas Gutierrez and her team of prosecutors, establishing a new Center for Asian Integrity and developing a reference manual for corruption cases. Despite the Ombudsman's mediation of over 623 cases,[21] however, critics maintain that the will of the Ombudsman to tackle the so-called "big fish" has waned, and that she has instead focused on quantity over quality of prosecutions.[22] Indeed, according to former Ombudsman Marcelo, little progress has been made since the impeachment of President Joseph Estrada in 2001: "We have the same problems; the same ills plague us and the same tasks we set out to do remain to be done."[23] Public perception of the sincerity of the Ombudsman's office in fighting corruption has decreased dramatically since Marcelo's tenure, falling from a record-high ranking of "moderate" sincerity to "mediocre" in the course of one year during the transition.[24]

Reflecting what may be seen as an institutional flaw, numerous interviewees expressed skepticism towards the Ombudsman's office given the fact that the Philippine executive directly appoints the Ombudsman. Evidently, this set up could undermine the autonomy of the Ombudsman and her ability to remain neutral in the notoriously frictional arena of Philippine politics.[25] This problem has received particular attention in recent months as the Philippine House committee on Justice began holding impeachment hearings against current Ombudsman Gutierrez for her alleged protective bias against the President, her family, and her allies.

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[21] This figure is updated as of the Threshold's January 2009 Quarterly Status Report.

[22] Luz, Bill. Personal Interview. Makati Business Club. 15 March, 2009. Manila. Also, Transparency and Accountability Network, "The Office of the Ombudsman: Is there institutional weakness?" http://hdn.org.ph/wp-content/uploads/2009/05/tin02_tan.pdf/. The current Ombudsman's personal relationship with the First Husband Mike Arroyo – both were former classmates – has further discredited her slow handling of the NBN-ZTE Telecommunications scandal in which he was allegedly involved. Several failed impeachments have been filed against President Arroyo as well. Using a provision in the constitution that allows only one presidential impeachment charge to see the Ombudsman's desk per year, it was confirmed to us during multiple interviews that president Arroyo, paradoxically, has been first in line to have an ally of hers submit charges against her when the old case expires. Because these deliberately weak cases, due to their own impotence alone, are subsequently thrown out by the courts, the President and her allies are able to secure the president another year of impunity from a sure congressional impeachment.

[23] Luz Rimban, "Ex-Ombudsman: Gutierrez letting big fish get away." *Vera Files*. Published in *The Manila Times*, 4 March, 2009.

[24] Transparency and Accountability Network, "The Office of the Ombudsman: Is there institutional weakness?" http://hdn.org.ph/wp-content/uploads/2009/05/tin02_tan.pdf/. The polls, conducted yearly by the Social Weather Stations (SWS) to track "business groups' perception on the sincerity of select government offices in fighting corruption," saw a drop from a high +28 rating in 2004 under Marcelo's leadership to a +6 rating in 2006 under Gutierrez, who now sits at a low of +4 for 2008. "The Social Weather Stations ratings of net sincerity are as follows: 'very good' for over +50 net rate, 'good' for +31 to +50, 'moderate' for +11 to +30, 'mediocre' for +10 to -10, 'poor' for -11 to -30, 'bad' for -31 to -50, 'very bad' for below -50."

[25] It was noted during these interviews that because of the timing of President Estrada's impeachment and Ombudsman Marcelo's unexpected resignation, the cycle of Ombudsman appointment, which normally creates an overlap with the 6-year presidential term between two separate administrations, allowed President Arroyo to appoint Ombudsman Gutierrez at the beginning of her term.

Allegations include a decision not to prosecute a case of contract collusion for a World Bank road construction project in which First Gentleman Mr. Arroyo, Gutierrez's former classmate from Ataneo Law School, may have participated.[26] Furthermore, a newly introduced policy stating that no cabinet official can be subpoenaed without the approval of Malacanang Palace serves to further disenfranchise the Ombudsman's prosecutorial powers.[27]

Under Marcelo's leadership, the Philippine Ombudsman's office formed crucial partnerships with its Hong Kong equivalent, the much stronger Independent Commission Against Corruption. Under the counsel of Tony Kwok, this body helped to strengthen the Philippine Ombudsman's capacity through Value Formation Seminars. The Solana Covenant – a collaboration between the Ombudsman, the Commission on Audit, the Civil Service Commission, the Presidential Anti-Graft Commission, and prominent civil society groups such as the Transparency and Accountability Network – was instituted under Marcelo to enhance collaboration and reduce overlap of anti-corruption programs, but was subsequently flouted by Gutierrez, who effectively deactivated the Inter-Agency Anti-Graft Coordinating Council (composed of the same groups) and strained relations between her office and critical civil society organizations.[28]

A second major area of concern for the Philippine government and civil society groups is government procurement, especially of the Priority Development Assistance Funds and Congressional Allocation, collectively known otherwise as the "pork barrel" funds. In 2003, seeking to address a bloated pastiche of regulations, rules, and laws on procurement practices, President Arroyo signed the Government Procurement Reform Act. The Act included a set of procedural guidelines for all government contracts and purchases, whether national or local, with specific focus on bringing transparency to the bidding process.[29] Concomitantly, the Philippine Government Electronic Procurement System (PhilGEPS) was formally launched in 2006 under the *Medium Term Philippine Development Plan 2004-2010* as part of its joint commitment with the ADB to expanding anti-corruption efforts, all under the 2005 Paris Declaration on Aid Effectiveness and the ADB's Second Governance and Anticorruption Action Plan of 2006. PhilGEPS was to be a publicly monitored electronic portal for all government-private sector bidding procedures, but there is concern that not all government agencies use the service, and that many doing so only provide limited information to the public.[30] Moreover, delays in implementation of the first phase of PhilGEPS have prevented key components, such as public

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[26] Vigilia, Wendell and Peter Tabingo, "Gutierrez urged to go on leave," *Malaya News*. Accessed 19 July, 2009 at http://www.malaya.com.ph/mar04/news1.htm.
[27] Luz, Bill. Personal Interview. Makati Business Club. 15 March, 2009. Manila.
[28] Transparency and Accountability Network, "The Office of the Ombudsman: Is there institutional weakness?" http://hdn.org.ph/wp-content/uploads/2009/05/tin02_tan.pdf/ (accessed July 20, 2009).
[29] There were over 100 such laws in place before the Republic Act 9184 was implemented. See Asian Development Bank Technical Assistance Report, "Republic of the Philippines: Strengthening the Philippine Government Electronic Procurement System." March 2009. http://www.adb.org/Documents/TARS/PHI/42537-PHI-TAR.pdf/.
[30] Asian Development Bank Technical Assistance Report, "Republic of the Philippines: Strengthening the Philippine Government Electronic Procurement System." March 2009. http://www.adb.org/Documents/TARS/PHI/42537-PHI-TAR.pdf/, 2 (accessed July 20, 2009).

access to bidding information and an online payment facility, from being introduced.[31]

Despite the recent activity of the Philippine government to safeguard government procurement, Code-NGO, a prominent civil society group that has monitored pork-barrel spending since 2005, claims that government capacity for monitoring spending is weak, if not completely absent.[32] They estimate that between P2.4 and P6.4 billion – between 51 and 136 million US dollars – is lost to corruption every year, and cite a lack of coordination between the Department of Budget and Management, the disperser of funds; the Commission on Audit, the auditor of funds; the Department of Public Works and Highways or other Implementing Agencies, which receive the funds and implement the projects; and the various legislative sponsors and designees, as the primary cause of this loss.[33] At the fourth annual Philippines Development Forum led by the Philippines Finance Secretary and the World Bank Country Director in 2008, participants conceded that while efforts to safeguard government procurement, including the procurement law of 2003, provide "a robust framework," they are regularly "compromised by slow and inefficient enforcement."[34] Safeguards against corruption abound in the Philippine public sphere, but they presently lack the strength and tenure to be considered capable of shifting the tide of the country's corrupt culture, let alone effective institutions of the government.

Dismayed by the fact that its anti-corruption efforts were being underpublicized and by its wide-held reputation as the most corrupt country in Asia, the Philippine government created two distinctly opposite proposals to continue its fight against corruption at the Philippines Development Forum of 2007. One proposal was made to increase capacity within the Ombudsman's office and the Judiciary, focusing on increased remuneration for key positions aimed at attracting more competent staff.[35] This proposal would have complimented similar efforts underway with the MCC's Philippines Threshold Program. The second proposal, more characteristic of outdated thinking and with a mind for expediency, called for the creation of a *new* set of anti-corruption indicators that would give credence to the true "reality" of the government's corruption-fighting activities and capabilities.[36] This line of thinking among the governing elite of the Philippines is indicative of an enduring apathy for genuine reform. It also represents a *fundamental disconnect between American and Philippine attitudes towards earning*

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[31] Ibid. These two aspects are part of Phases 2-5, which will be implemented with technical assistance from the ADB and the World Bank.

[32] Code-NGO. "Looking into the Pork Barrel: PDAF Watch Report 2005-2007," 5.

[33] Sixto Macasaet and Cezar Belangel, executive director and deputy executive director of the Caucus of Development NGO Networks, Personal Interview. 22 March, 2009. Quezon, Philippines. See also Code-NGO. "Looking into the Pork Barrel: PDAF Watch Report 2005-2007."

[34] Asian Development Bank, "2008 Philippines Development Forum: Accelerating Inclusive Growth and Deepening Fiscal Stability." http://www.adb.org/Documents/Board/2008/IN119-08.pdf/. (Accessed July 20, 2009).

[35] ADB/OECD Anti-Corruption Initiative for Asia and the Pacific, "Anti Corruption Policies in Asia and the Pacific: Progress in Legal and Institutional Reform in 25 Countries." http://www.oecd.org/dataoecd/32/31/36832820.pdf/. (Accessed July 19, 2009).

[36] Asian Development Bank, "2007 Philippines Development Forum: Achieving Broad-based Growth b Sustained Reforms and Higher Investment." http://www.adb.org/Documents/Board/2007/IN53-07.pdf/. (accessed July 20, 2009).

an MCC Compact. On her recent visit to Manila in November 2009, US Secretary of State Hillary Clinton remarked in a townterview that,

> One of the programs that we have, the Millennium Challenge Account, requires that countries meet a certain level of anticorruption standards, and we are trying to promote that. We are looking for ways to link more of our aid to demonstrations that the aid gets to where it's intended and that it doesn't get siphoned off, as too often has been the case. But the biggest tool against corruption in any society is public exposure and citizens standing up and saying that they're not going to accept it, for it to be an issue in the political system, especially of a democracy.[37]

Yet many Philippine government officials have refused to take ownership for the persistently high levels of political corruption that are jeopardizing national development. Interviewed in an article for the Philippines Star after the release of the FY 2010 scorecards, one embassy official remarked, "we were victims of our own success,"[38] referring to Philippine's recent shift to classification as a Lower Middle Income Country, from its previous status as a Lower Income Country. Foreign Secretary Romulo explained further that,

> The country's failing grades in some areas is the result of technicalities in evaluation, such as the country's rise from a low-income country to a lower middle-income country. Higher income countries are measured using more stringent standards.[39]

While this change may have played some role, the Philippines Control of Corruption score has been decreasing for the last several years. Attributing the Philippine's failing score to data technicalities without acknowledging the embedded political barriers demonstrates a fundamental divergence with the United States in attitude towards corruption reform.

Observation 2: The prospect of gaining an MCC Compact Agreement has received little attention in the Philippines outside Malacañang and US agencies.

In our observation, the business community in the Philippines has little knowledge or interest regarding the Philippines' potential signing of a Compact Agreement with the MCC. We spoke about the role of the MCC in the Philippines with officials of organizations such as San Miguel Corporation, a prominent food, beverage, and packing conglomerate; the Ayala Corporation, a large holding company; the Bank of the Philippine Islands; SM Investment Corporation; and Jones Lang LaSalle Leechiu, a real estate firm. Few had heard of the MCC, and for those who had, none showed a strong desire to participate in the Compact Proposal process or had a strong vision for what the Philippines' relationship with the MCC should look like.

Contrastingly, the civil society organization CODE-NGO was active in the first round of MCC Compact talks in September of 2008. The MCC approached CODE-NGO for a

[37] Clinton, Hillary. Townterview with Maria Ressa, Ricky Carandang and Pinky Webb of ABS-CBN, University of St. Thomas, Manila. 13 November 2009. Available at http://www.state.gov/secretary/rm/2009a/11/131917.htm

[38] Katigbak, Jose. "RP gets poor report card from MCC." STAR Washington Bureau, the Philippine Star. 11 Nov 2009. Available http://www.philstar.com/Article.aspx?articleId=522284&publicationSubCategoryId=63

[39] Ibid

consultation, and Cezar Belangel told PPRI that he would find it beneficial for the country if the MCC were to direct greater ownership of the Compact-funded programs towards the local governments, with greater participation from civil society organizations, people's associations, and the private sector, and away from the central government, where he believes there is a tendency for national politicians to wastefully use such projects for private political gains. As he observed, "checks and balances at the local level are stronger when people are aware of the programs and they can monitor their results." He cited experiences in Naga City as an example of a positive experience with local project implementation.

One reason why the MCC has not attracted greater corporate or public attention appears to be the small amount of money offered in a Compact Agreement, relative to the overall budget of the government. Though designed to be larger than the typical annual allotments from USAID, Compact Agreements represent a relatively small amount of money in the context of the broader Philippine economy. Tellingly, the entire FY 2009 budgetary allocation from Congress, \$875 million[40], is still less than 1% of the Philippine's GDP of \$320.6 billion.[41] In comparison, MCC funding carries greater political and economic weight in a less productive country like Burkina Faso, which has an annual GDP \$17.82 billion[42] and was awarded a Compact of \$480.9 million in July 2008. Alberto Lim, Executive Director of the Makati Business Club, noted that the Philippines has several other sources of funding, including Japan, which has been the Philippines' top donor for 23 years,[43] and commented that other funding sources unfortunately did not share the MCC's expectation of governance reform.

Observation 3: The MCC Effect in the Philippines is superficial and manipulated for political gain.

In its November 2008 publication, "'The MCC Effect': Creating Incentives for Policy Reform, Promoting an Environment for Poverty Reduction", the MCC cites President Arroyo stating that greater unity and a redoubling of effort to meet MCC criteria would be the best gift she could bequeath to the Philippines when she steps down from office in 2010. The paper also mentions that the Philippine government "matched" the \$20 million provided in the Philippines' Threshold Agreement and that "corruption related investigations and dismissals stepped up significantly after the Threshold Program was initiated."[44] Both were cited as evidence of the "MCC Effect" in action, but, as was shown in Observation 1, anti-corruption mechanisms can easily be avoided or manipulated by members of the polity and the impact of the Office of the Ombudsman has been exaggerated.

[40] Center for Global Development, "MCA Monitor: Tracking the Millennium Challenge Account." Available at http://www.cgdev.org/section/initiatives/_active/mcamonitor/about_mca#MF.
[41] CIA World Factbook, 2008 estimate.
[42] Ibid.
[43] Embassy of Japan in the Philippines, "Volume of Total ODA to the Philippines." Available at http://www.ph.emb-japan.go.jp/bilateral/oda/index.htm
[44] Millennium Challenge Corporation, *The 'MCC Effect': Creating Incentives for Policy Reform; Promoting an Environment for Poverty Reduction.* Revised November 2008, 7.

PPRI is highly skeptical that an administration widely understood to be the most corrupt since the Marcos era is espousing commitment to reform in earnest. (One interviewee, a former high-level government official, alleged that the Arroyo years have seen deterioration in political behavior to a level *worse* than seen in the Marcos era). During our time in the Philippines, we observed a severe lack of public confidence in the Philippine government, particularly the executive and legislative branches. For instance, concerned individuals including senators, businessmen, journalists, and representatives of international financial organizations felt that the blatant impunity of high level tax evaders – the so called "big fish" – was one of the most egregious and noticeable sources of corruption in the Philippines. Another common allegation was that corruption is greatly entrenched within the legislature, where the representatives of entrenched business interests ensure that bills and federal contracts heavily favor their patrons. Alberto Lim of the Makati Business Club reflected that, "The problem is that we have a congress that divides everything by *N*, and *N* being the number of congressmen." The political dysfunction that ensues is "a hindrance to completing strategic infrastructure projects, which in turn leads to our lack of attractiveness as an investment destination." From our observation, his views were so widely shared that there was little public dispute or defense of the integrity of the government sector. While corruption is multifaceted, most of our interviewees stressed political will and the "utang na loob" philosophy in government and business rather than administrative and technical shortcomings as the primary causes of governance failures. Interviewees frequently mentioned the financial transgressions of the First Gentleman, Jose Miguel "Mike" Arroyo, which the Ombudsman has been unwilling or unable to curtail. In a nation with such a vertical and elitist social structure, the example of the executive family has a particularly strong impact when it appears to condone patronage and corruption.

Particularly worrisome is our observation that embedded corruption in the Philippines appears to be an enduring, even viral trait, capable of at chipping away at even the most reform-minded individuals and relegating their behavior to the "business as usual" of Philippine governance. Even the reformist stances of high-power individuals, such as Gloria Arroyo in the beginning of her presidency, often prove futile. Several individuals from the upper echelons of the private sector, especially those who have been involved with the Makati Business Club, told us that they had initially supported Mrs. Arroyo's presidency as an alternative to the corruption of the Estrada administration. When we spoke with former US Ambassador to the Philippines, Stephen Bosworth, and Dr. Jesus P. Estanislao, Chairman of the Institute for Solidarity in Asia, both voiced regret at the sudden decline in integrity of the Arroyo Administration. They had, respectively, worked in President Arroyo's international business advisory board and chaired her governance council in the early years of her presidency, though both ended their involvement with these bodies after her fervor for governance reform waned.[45]

[45] Bosworth, Stephen. Former US Ambassador to the Philippines. Personal Interview. 8 April 2009.; Estanislao , Dr. Jesus P., Chairman of the Institute for Solidarity in Asia, Inc.. Personal Interview. 17 March 2009.

Observation 4: The US "stamp of approval" holds greater weight than MCC funding in the Philippines.

While the money from a Compact Agreement has not yet incentivized substantial reform in the Philippines, the role of US soft power and diplomatic influence may provide significantly more leverage in encouraging good governance. In discussing the historical roles of Spanish and American colonialism, one interviewee shared the adage that the Philippines, "Has spent 400 years in the convent and 40 in Hollywood," implying that today's challenges can be traced back to pre-independence times. As the aftereffects of Spanish imperialism still shape the Philippine social hierarchy and Catholic practices, the glorification of American culture and close attention to US engagement testify to the strong influence that US decision making bears on politics and current events in the Philippines. Philippine leadership continues to seek US approval, despite long standing internal concerns regarding asymmetrical Visiting Forces Agreements, and to increase domestic political capital by demonstrating association with the US government.

In Guatemala, we observed an attitude among the officials of FUNDESA, the private sector NGO that leads the national qualification effort for an MCC Threshold Agreement, that securing an MCC partnership was a matter of diplomacy, accomplished through dialogues with officials from the MCC and the agencies that contribute to the MCC scorecard so that they would see Guatemala's social and political conditions in a more positive, "accurate" light. While we were not able to speak to Philippine officials as intimately involved with the MCC process, our reading of public addresses by the Arroyo Administration contrasted with the visible decline in government transparency. We interpret this to mean that Malacañang Palace is eager to gain a Compact Agreement and eager to show commitment monetarily, but is unwilling to match this rhetoric by addressing the most visible shortcomings in its own transparency and governing culture. Lawrence Greenwood, Vice President of the Asian Development Bank, agreed with our observation that diplomacy seemed to matter more than reform to the Philippine government, asserting that such was the case in many other countries as well. Thus, the United States has an excellent opportunity to use diplomatic pressure as leverage towards more successful reform with the next Philippine administration, as the seal of formal US approval appears to be a greater incentive than MCC funding, which would only add to that which is provided by other aid institutions without the prerequisite of reform.

VII. CONCLUDING REMARKS AND RECOMMENDATIONS

The fact that the Philippines has yet to pass its Control of Corruption indicator signals that the culture and practices of corruption have yet to be adequately addressed. We therefore question the ability and political will of the Arroyo administration to carry out successful reform during its final months in office, though we would applaud more public, drastic efforts, such as the prosecution of high-level tax evaders, as a first step. As evidenced by misleading newspaper headlines in March 2009 boasting that the Philippines had achieved Compact eligibility, the

Philippines government appears eager to gain favor with the people and promote its image as a committed and effective guardian of the national public interest. It remains prudent for the Philippine government to remember that it *continues to fail* the Control of Corruption indicator, and that it merely remains eligible *for consideration* for a Compact Agreement. More importantly, it bears a responsibility to the Filipino people to tackle corruption in earnest, beginning with improved transparency from the highest tiers of the executive branch.

The May 2010 Senatorial and Presidential elections will be a milestone in Philippines politics; twelve of twenty-four senators are vying for reelection, and a new administration will be sworn in. According to Kim Jacinto Henares, Senior Private Sector Development Specialist at the World Bank office in the Philippines, international development banks are intentionally maintaining low levels of engagement with a "wait and see" attitude until the conclusion of the elections in 2010. Further, she aptly noted, the timing of new foreign assistance initiatives is critical, and President Arroyo stands to benefit substantially from any new development initiatives that take place before the end of her term.

The MCC, while it has shown a commendable resolve to partner with reform-minded individuals and groups in the Philippines, must not forget the weight it carries as an agent of US government foreign policy. A tremendous effort has been made on the part of MCC officials and in-country partners over the past year to prepare for, and eventually implement, a Compact Agreement; it will be difficult for those involved to defer what are perceived as much-needed governance improvement programs. The fact that the Philippines was recently shifted to Lower-Middle Income Country status does not excuse its persistent corruption nor does it grant a temporary license to flout the MCC's hallmark standards of conditionality. Development aid, no matter how imperative and well intentioned, cannot be separated from the context in which it is granted. The very same force of brand recognition that underlies the "MCC Effect" can be abused by opportunist politicians acting in delegitimized environments. In the Philippines, this fact becomes even more salient with the upcoming 2010 Senate and Presidential elections, which will have momentous consequences for the senators up for reelection and for the First Couple, who will surely face prosecution for crimes of corruption and human rights violations once out of office.

Therefore, we recommend that the MCC withhold funds from the Philippines until the political fallout of the election has settled. The MCC must thoroughly consider the political ramifications of any engagement with the publicly maligned Philippine government and the message that such engagement would send to the Philippine people. While the passing of the Arroyo Administration will not absolve the broader expanse of the Philippines government of its perceived corruption, it would be an insult to the Philippine people, who have too long suffered the consequences of amoral leadership, if the MCC chooses to reward the current regime with a Compact Agreement. Nevertheless, we believe there is space for engagement with the Philippine government in the near future if the 2010 elections are perceived as free and fair and the next administration is prepared to redefine Philippine politics. If, however, the MCC and the Philippine Government carry forth with a Compact Agreement while public perceptions of government corruption remain dismally low, there must be a public understanding between the U.S. government and the Philippine nation that the Compact is not a reward for a job well done, but a redoubled effort in the fight to eradicate the inefficiencies and injustices within the Philippines government.

When the MCC finds that the Philippine government is prepared to accept a Compact Agreement, we recommend that the MCC look to fund programs that capitalize on earnest, transformative governance improvements and provide long-term benefit to the Philippine people. Examples of such programs include further strengthening the institutions and core facilities of the Office of the Ombudsman by continuing to provide training for current prosecutors and placing even greater emphasis on the computerization of revenue collection, both initiatives that deserve to outlive the transient Threshold Program. However, the Philippines will not be ready for a Compact Agreement to help them in these efforts until more serious concerns, such as the Ombudsman's lack of independence and political muscle, are addressed by a committed new administration. Until these political concerns are rectified, the effectiveness of training and other administrative efforts will be severely constrained. The MCC has rightfully identified the need for anti-corruption programming, and should carry forth with funding these initiatives once the Philippines has passed the Control of Corruption indicator on its own- a sign that political will is in place to begin an MCA partnership.

When the time is right, the ideal Compact Proposal will eschew elementary programs whose appeal lies in their tangibility, such as one-time, highly visible infrastructure developments, or in their sensationalism, such as the creation of yet another regulatory or prosecutorial body that further bloats the already over-regulated legal system.[46] Instead, a strong proposal would consider programs that create long-term sources of government revenue through targeted tax reform efforts, despite the "low return" politically of such initiatives. Funds may be put towards the institutionalization of anti-corruption education and training within the strata of the national political elite – a suggestion popular among numerous prominent Filipinos interviewed by PPRI, for many corruptors simply do not realize the extent of the harm caused by their practices.[47] A 2006 Transparency International report recommends, "Establishing an anti-corruption center that offers courses on ethical and values-based governance, transformational leadership, good practice, normative values and their importance as social constructs in corruption prevention."[48] Most importantly, a Compact-worthy proposal will explore new ways to address the challenges of grand corruption, which is being increasingly recognized as a primary roadblock to governance reform by the international development community. Such initiatives, while sometimes difficult to measure for output, ultimately provide a foundation for

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[46] Gabriella Quimson, Transparency International, "National Integrity Systems: Transparency International Country Study Report, Philippines 2006," 9.

[47] This is seen in the "what is good for General Motors is good for my country" syndrome, where class interest is equated too closely with national interest.

[48] Gabriella Quimson, Transparency International, "National Integrity Systems: Transparency International Country Study Report, Philippines 2006," 10.

addressing what may be the biggest constraint to national development and international credibility for the Philippines: poor governance.

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