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of Commerce Abroad*

Technical Report

INVESTMENT CLIMATE IMPROVEMENT PROJECT (ICIP) Final Report for March 2006-February 2007

Appendix 7: Workshop on Anti-Red Tape & Corruption, August 23, 2006

by John D. Forbes and Richard Umali

Prepared for

**The American Chamber of Commerce
of the Philippines**

Submitted for review to

USAID/Philippines OEDG

May 2007



**Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE)
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Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-03-00020-00 Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

The American Chamber of Commerce in the Philippines (AmCham) submitted an unsolicited proposal to EMERGE on January 25, 2006, for a grant to set up a mechanism to identify and communicate to the Philippine Government activities that will generate additional investments and jobs in the country. It was called the Investment Climate Improvement Project (ICIP), and the key actors were Mr. Robert M. Sears, AmCham Executive Director, Mr. John D. Forbes, AmCham Legislative Committee Chairman, and Mr. Robert W. Blume, AmCham Desk Officer at the Philippine Board of Investments (BOI). Mr. Richard Umali was added to the team as a Project Assistant. EMERGE subsequently hired Mr. Arlan Z. I. Brucal to help AmCham edit this and draft other summary reports.

Because of their cumulative size, most of the appendices to this report are published in separate volumes:

Appendix 7: Workshop on Anti-Red Tape & Corruption, August 23, 2006;

Appendix 9: Workshop on Foreign Direct Investment, October 5, 2006;

Appendix 10: Workshop on Infrastructure, February 2, 2007;

Appendices 16-42: Economic Law & Policy-related Letters;

Appendices 43-56: Economic Law & Policy-related Statements; and
Selected Press Clippings

The Workshop on Red Tape and Corruption documented in this appendix was co-sponsored by the Philippine Chamber of Commerce and Industry.

The views expressed and opinions contained in this publication are those of the authors and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.

Effecting Transparency in Local Governance

The i-Governance initiative

JESSE M ROBREDO

Mayor, Naga City

Improving Local Governance

- NAGA CITY, PHILIPPINES

■ e-Governance

- a **tool** to improve local governance
- a subset of the bigger i-Governance initiative due to **digital divide**

■ Outcome of a process of *continuous improvement*

■ Three broad categories:

1. Service quality improvement
2. People empowerment
3. Information openness

Service Quality Improvement

■ ADOPTION OF PRIVATE SECTOR MANAGEMENT TECHNIQUES

PRODUCTIVITY IMPROVEMENT PROGRAM (PIP)

■ Improve both processes and procedures (systems change) and values and culture (people change)

- “Performance Pledge”
- Annual Very Innovative Person Award
- Productivity Improvement Circles

edp ELECTRONIC DATA PROCESSING OFFICE
 HERE, IN THE ELECTRONIC DATA PROCESSING OFFICE, WE ARE COMMITTED TO PROVIDE THE HIGHEST POSSIBLE SERVICE PERFORMANCE AND PLEDGE TO ACHIEVE THE FOLLOWING:

MANAGEMENT INFORMATION SERVICES (MIS)

FRONTLINE SERVICES	RESPONSE TIME	PERSON/S RESPONSIBLE
<ul style="list-style-type: none"> Debug and fix in-house systems <ul style="list-style-type: none"> Debug program errors Fix, backup/restore & reindex database Design & develop new information system Design, develop and maintain online/web-based applications Maintain and upgrade the city website (www.naga.gov.ph) 	1 day 30 minutes 1 month (minimum) 1 month (minimum) Bi-weekly or as need arises	BENJAMIN N. PADRE, JR. (Head, EDP Office) JESUS M. NATIVIDAD ANSELMO B. MAÑO

GIS

FRONTLINE SERVICES	RESPONSE TIME	PERSON/S RESPONSIBLE
<ul style="list-style-type: none"> Produce GIS Maps <ul style="list-style-type: none"> A3 - A4 size Large Format x database Mapping services using GPS* 	30 minutes 45 minutes 1 day minimum and/or depending on the scale of the proposed project	BENJAMIN N. PADRE, JR. (Head, EDP Office) ADOLF ESTEBAN T. ROSALES

DATA AND NETWORK MANAGEMENT SERVICES (DNS)

FRONTLINE SERVICES	RESPONSE TIME	PERSON/S RESPONSIBLE
<ul style="list-style-type: none"> Install typical software Maintain & upgrade the Local Area Network (LAN) Inspect, troubleshoot and repair workstation/computer Maintain and repair electronic-related equipments/peripherals 	3 hours 30 minutes (minimum) 1 day (minimum)	BENJAMIN R. REAPOR (Network Admin.) ARVIN WILLY S. FAJARDO RODANTE S. BAUTISTA REX O. ALBEUS TEODORO I. LITANA

WWW.NAGA.GOV.PH

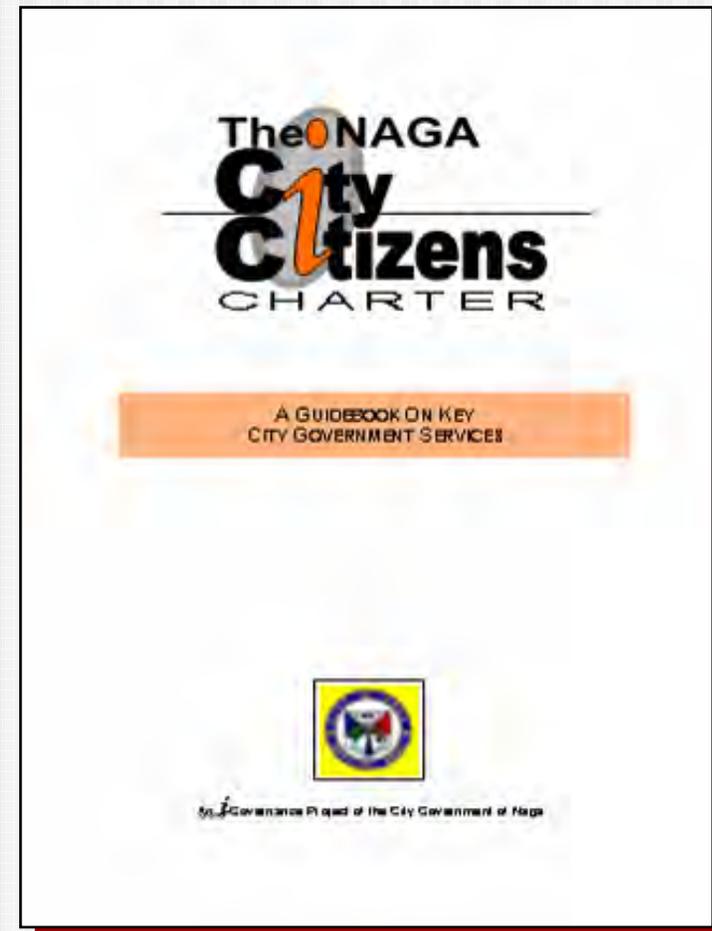
EMAIL: EDP - NAGA@NAGA.PH

Service Quality Improvement

■ ADOPTION OF PRIVATE SECTOR MANAGEMENT TECHNIQUES

PUBLIC SERVICE EXCELLENCE PROGRAM (PSEP)

- **Linked service values and orientation with existing procedures. Continually proposed improvements whenever possible**
 - Documentation of City Government's frontline services. Laid down foundation for **Citizen's Charter**
 - Expanded service listings in the Performance Pledges

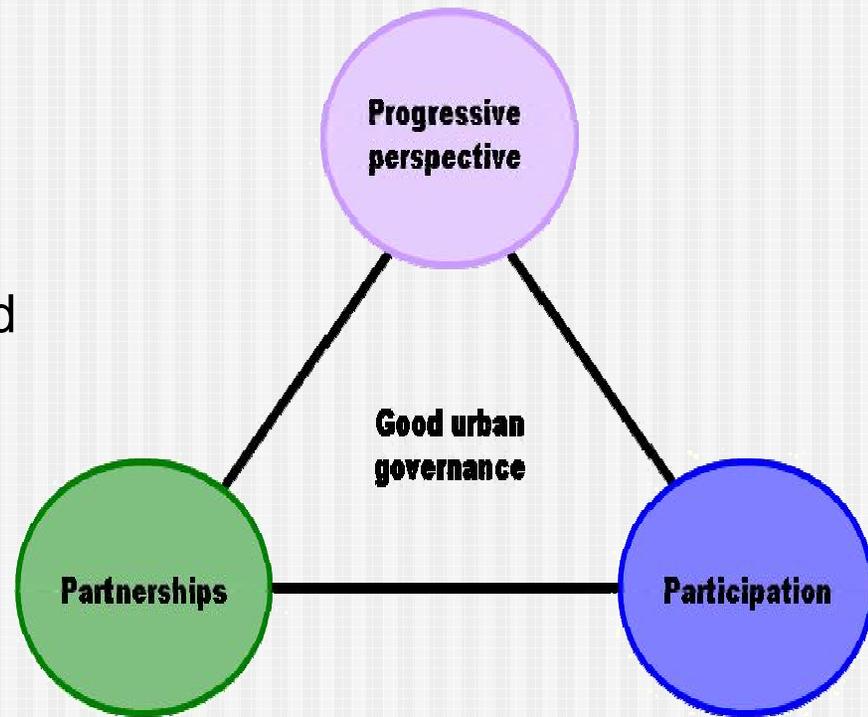


Naga Governance Model

■ A GUIDING FRAMEWORK FOR PEOPLE EMPOWERMENT

Naga has developed its own governance model

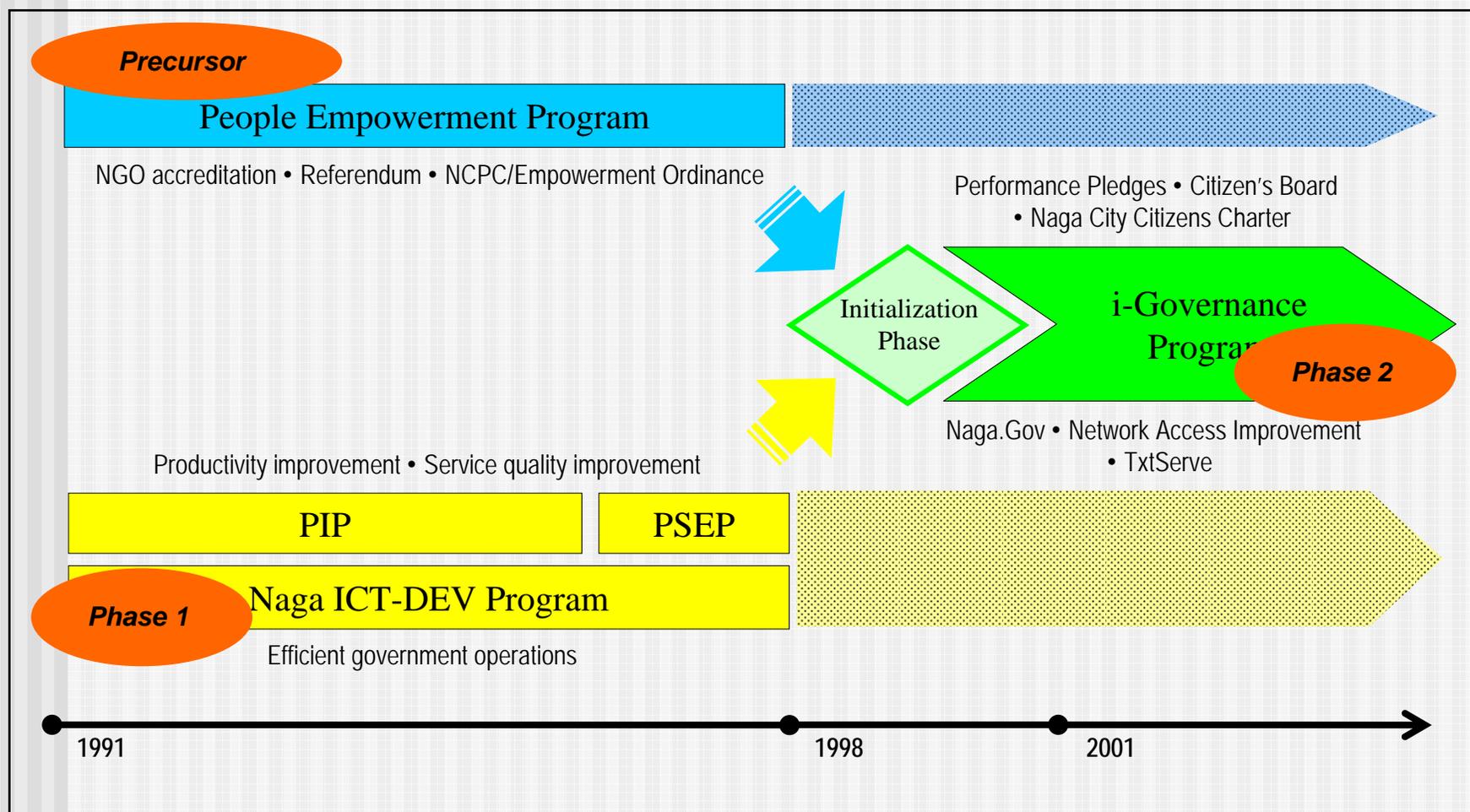
- **Progressive development perspective.** Seeks prosperity-building tempered by an enlightened perception of the poor
- **Functional partnerships.** Vehicles that enable the city to tap community resources for priority undertakings
- **Participation.** Mechanisms that ensure long-term sustainability of local undertakings



The Naga Governance Model

Evolution of i-Governance

■ DEVELOPMENT TIMELINE



i-Governance Program

- A program that identifies and uses various tools to
 - encourage participation in government decision-making, especially by *individual citizens and households*
 - concretize the governance principles of transparency and accountability
- Allows the local government to meet the challenge of sustaining innovative approaches by
 - Doing more with less
 - Improving and ensuring equitable service delivery

PROGRAM COMPONENTS

Delivery mechanisms

1. Analog or paper-based tools. Addresses need of around 67% of population without ICT access

- **Performance Pledges**
- **Citizens Board**
- **Naga City Citizens Charter**

2. Digital or ICT media (e-Governance)

- **naga.gov initiative**, through the city's website www.naga.gov.ph

3. Mobile Governance.

Uses cellphones which have higher penetration rate than dial-up internet. Around 67% of households own a mobile phone.

- **TxtServe Naga**

4. Network access improvement.

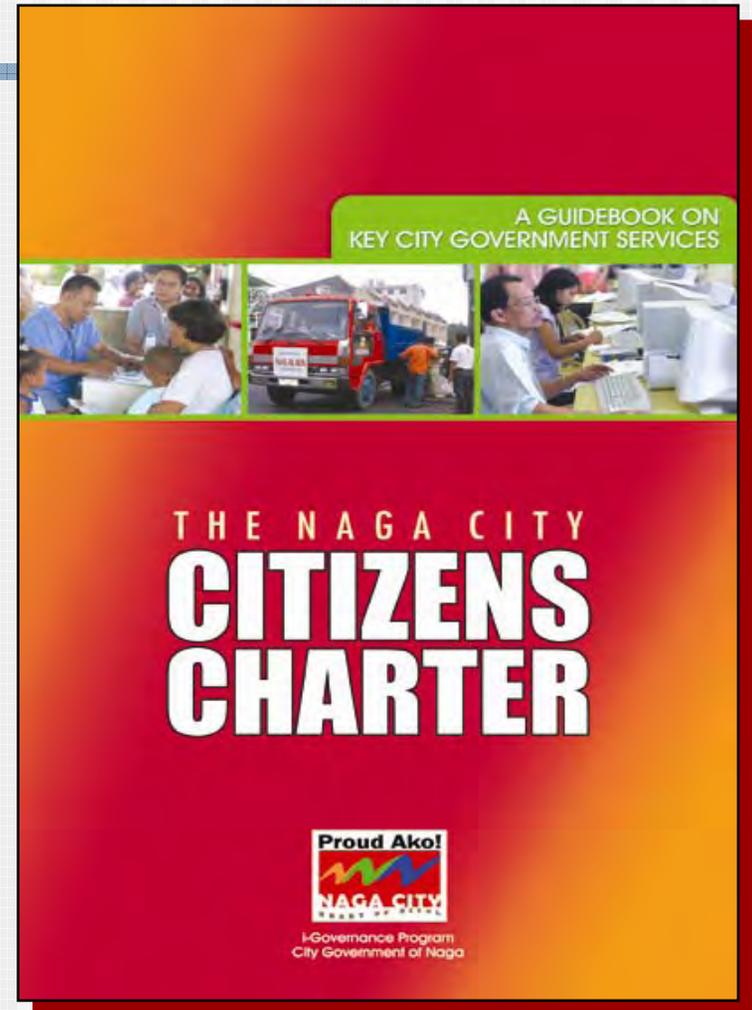
Addresses digital divide through strategic IT investments

- **Cyberschools (Click Project)**
- **Cyberbarangays**

The Naga City Citizens Charter

■ GREATER ACCOUNTABILITY IN SERVICE DELIVERY

- A guidebook on 140 key services being delivered by the City Government to its customers
 - Procedure
 - Response time
 - Personnel responsible for each service
 - Requirements checklist to facilitate service delivery
 - Schedule of fees (if applicable)
 - Location maps sketching office/s handling the service
- A “contract” that can be enforced through feedback
 - Provides for customer feedback form



www.naga.gov.ph

■ A DIGITAL ENGAGEMENT AND EMPOWERMENT TOOL

■ Maximizes web technology

- Within reach of local resources and capability

- Full access to information on Naga, including city government financial reports

- proposed and approved annual operating budget
- quarterly financial statements
- bid tenders, and
- outcomes of every bidding process completed

- Platform for communicating requests and complaints

- Contains a digital version of the Charter (called NetServe) and the Citizens Board

The screenshot displays the Naga City website interface. At the top, there is a navigation menu with links for Profile, Tourism, Investments, News & Gallery, City Hall, Services, and Jobs. A banner for 'CITY OF NAGA' is visible, along with a 'Best City Website' award. Below the banner, there are sections for 'Proud Ako!', 'What's in this Web Site?', and 'ONLINE SERVICES AND UPDATES'. The 'What's in this Web Site?' section includes links for Heart of Bicol, Customer Service, Transparency at Work, Milestones, Jobs, and Links. The 'ONLINE SERVICES AND UPDATES' section lists services like TxtNaga, Innovated Service Value Entitlement, Business Online, GIS Online Mapserver Portal, Online Library Catalog, and Planet Naga. There is also a 'News' section with a recent article about human rights action centers. At the bottom, there is a 'Community Forum' section with a post about CD-Rs, a 'Bids and Projects' section with a bid bulletin, and a 'QUICKLINKS' section with links to Downloadable Forms and Performance Pledges. The footer contains the text: 'This site is designed and maintained by the Naga City I-Governance Team. All Rights Reserved. Copyright 2006 ©'.

TxtServe Naga

■ A MOBILE GOVERNANCE ENGAGEMENT TOOL

- Allows citizens to send complaints, other concerns to City Hall through SMS or text messaging
- Reconfigured early this year to meet local needs more fully



WHY IS D YOUTH CNTER\ 'S
POOL W/C S SUPPOSD 2 B
PUBLIC POOL BEING CLOSED
COZ PRIVATE SKOLS\ ' P.E.
STUDENTS R USING D WHOLE
POOL EXCLUSIVELY? why?

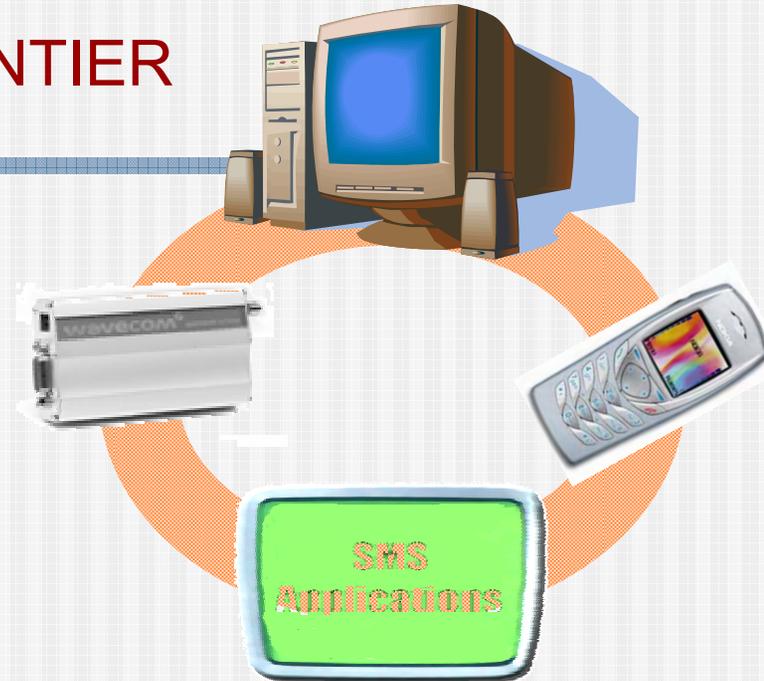
TxtServe Naga, Reloaded

■ i-GOV'S MOST PROMISING FRONTIER

■ **TXTNAGA Hotline** – a locally managed and controlled SMS messaging system

■ Consists of

- a PC
- a GSM/GPRS modem
- TXTNAGA hotline with Globe Telecom (0917-TXTNAGA or 0917-8986242), and
- SMS applications developed by local programmers



ADVANTAGES:

- Locally managed, and therefore more flexible, instead of being network dependent
- More accessible to ordinary citizens. Less than P1 per SMS sent vs. P2.50 under the 2960 service
- More cost-effective in the long-run

Initial TxtNaga applications

- **General complaint** with automatic and manual reply and forwarding to the office concerned
- **3 customized modules**
 - LOOK module (anti-truancy)
 - PULIS module (police matters)
 - LITES module (streetlights)



Outcomes

■ SERVICE QUALITY IMPROVEMENT

■ Shorter response times

- PSEP program helped improve government response times

www.naga.gov.ph

FRONTLINE SERVICES
NETSERVE

Ciudad nin **NAGA**
Bicol, Philippines

Proud Ako!
LAGALAGI
Heard of Bicol

Naga Main Services Home Naga City Map Cityhall Map Feedback Downloadable Forms

Welcome to the service webpage of the City Government of Naga. We give you on-line access to our frontline services and more! Check out our service delivery response time. Download the forms and maps that you need. Browse through a complete directory of City Hall services and find out how to contact key persons. We deliver services beyond the front desks.

- Business & Investments
- Tourism & Visitor Services
- Livelihood and Employment
- Infrastructure Services
- Agricultural Services
- Transport and Traffic Management Services
- Executive Service/Request to the City Mayor
- Social Welfare
- Integrated Health
- Education
- Urban Poor
- Environmental Services
- Civil Registry
- Personnel Services
- Legal Services
- Information Services
- Other Taxes, Fines and Administrative Fees
- Complaints

Know more about the city government's
Productivity Improvement Program

Find out about our new services...
Socialized Medical Care Program (SOMECAP)

SOMECAP is a health care program designed for the poor residents of Naga. It allows the poor to afford the rising cost of health and hospitalization.

TRANSACTION	BEFORE	AFTER
Business permits renewal	At least 1 day	30 minutes
Real property transactions	At least ½ day	15-30 minutes
Building permit application	More than 15 days	3 days

Outcomes

■ SERVICE QUALITY IMPROVEMENT

■ Simplified procedures

- **Fastlane system** or “**processing by exception**” – introduced in 2002 for renewal of business permits
 - Normally, firms renewing license normally have to secure clearances from
 - City Engineer’s Office (building inspection)
 - City Planning and Development Office (zoning clearance)
 - City Health Office (sanitary inspection), and
 - Bureau of Fire Protection (fire clearance)
 - Instead of requiring all applicants to secure approval, these offices were required to just submit **exception reports**
 - **Only firms listed in the reports are required to secure approval.** As a result, 95% of applicants only have to secure the signature of the City Treasurer and City Mayor

Outcomes

■ SERVICE QUALITY IMPROVEMENT

- **Unified Business Tracking System** – 2003
enhancement of the fastlane system
 - All offices involved in business licensing are
 - connected to the city's local area network
 - have access to the business license database, and
 - adopt a uniform code for all business establishments.
 - CEO, CPDO and CHO use their respective computer terminals **to input inspection reports** into the business license database
 - CTO accesses database to determine whether clients still need to secure clearances from other offices
 - Bureau of Fire Protection (BFP), a national agency, was added to this network last year

Outcomes

■ SERVICE QUALITY IMPROVEMENT

- **One-Stop Shop** - maintained by the Naga City Investment Board. Simplifies business permit processing for new enterprises
 - Instead of setting-up a one-stop shop housing all government offices involved in the business registration process, **dedicated NCIB staff facilitates transactions** and liaises with other offices
 - New registrant will only have to deal with an **Investment Servicing staff** and a **cashier from the City Treasurer's Office** for payment of fees

Outcomes

■ INFORMATION OPENNESS

- **Widespread availability of information enables transparency in government operations** facilitate citizen engagement with local state agencies
 - Citizens Charter, both in its analog and digital format, is **a performance metrics tool** that enables greater transparency in service delivery
 - Customers have all the information required to **exact accountability in service delivery** through documented frontline services

Outcomes

■ INFORMATION OPENNESS

- **Made the procurement system work for government through reduced costs**
 - Road construction – 38% lower than national government standards
 - Asphalt overlays – 47% lower
 - Public school classroom – 36% cheaper
 - Medicine – 19-70% lower than other local government units, 62% lower than branded products imported by the national government
 - Supplies – up to 33% lower than local government standard.
- City Accountant's Office estimates that through transparent procurement, city **generates savings of at least P10 million a year**
- As a result, **World Bank considers Naga the country's model city** for good practices and innovations in procurement

Outcomes

■ INFORMATION OPENNESS

- **Stimulates greater stakeholder participation and facilitates the flow of information**, which further drive down operating cost
 - Wider participation of service providers in the bidding process
 - Inputs as to where the city can source out other suppliers offering the same product or service at lower cost
 - Lower bid prices as website provides information on winning quotations that prospective suppliers can scrutinize

...by putting up the numbers for everyone to see, the city is "requiring from us more than greetings. They are asking us, for the sake of the city, to look at the numbers, study them, question them."

- Nagueño,
after looking
at the city's
budget and finances at the
city website

Lessons learned

- **Anti-corruption and transparency strategies do not come about overnight**
 - Importance of confidence building to restore, strengthen 'social contract'
- **Strategies evolve as outcomes and necessary adjuncts of continuing effort to improve governance**
 - 'There is always a better way'
- **Corruption can be contained by triangulating strategies built around (1) revitalized bureaucracy, (2) strong local institutions, and (3) solid commitment to information openness**
 - Need to combine inward and outward looking strategies

NAGA CITY UNIFIED BUSINESS TRACKING SYSTEM

What is it?

1. an e-government initiative that enhances the city's one-stop business processing system
2. applies to renewal of business permits
3. uses ICT and the web to shorten processing time and reduce the number of signatories that an applicant must secure to renew a business permit through "processing by exception"

Why was it introduced?

1. normally, business permit renewal requires the signatures of:
 - a. City Treasurer (CTO) – assessment and payment
 - b. City Planning and Development Officer (CPDO) - zoning clearance
 - c. City Engineer (CEO) – building inspection
 - d. City Health Officer (CHO) – sanitary inspection
 - e. Bureau of Fire Prevention (BFP) – fire inspection
 - f. City Mayor (CMO) – mayor's permit approval
2. the CPDO, CEO, CHO and BFP conduct their respective inspections before business permit renewal time (January 1 to 20 every year). The results are used as the bases for approving applications. Historically, however, only approximately 5% of applicants would have deficiencies with any of these 4 offices.
3. the unified business tracking system "frees" 95% of applicants who passed inspections from securing approval from these offices. These applicants have to secure only the signatures of the City Treasurer and City Mayor.

How does it work?

1. before the end of the preceding year, the CPDO, CEO, CHO and BFP enter the results of inspections into the unified business tracking system using their own computers.
2. the CTO, through its own computers, checks the results of inspections every time a client applies for business permit renewal. The CTO will see a screen which looks like this:

Taxpayer's Information: Record no. 1 of 1 Record(s)

Taxpayer Information

Business ID No [BIN]: 22 Type of Entity: Single Proprietors

Taxpayer Full Name: AGOR, DOMINADOR, A. 308

Registered Name: _____

Home Address: 789 FLARIDEL ST., TABUCO, NAGA CITY

Citizenship: Filipino TIN: _____

Mobile No.: 811-74-68 SSS: _____

Email Address: _____

Business Trade Information

Bus Trade Name: CENTER GLASSWARE Telephone No.: _____

Business Address: # 129 GRD. FLR., SUPERMARKET

Transaction History

Date Apply	Trade Name	Address	Arrears
1/10/2005	CENTER GLASSWARE	# 129 GRD. FLR.,	0.00
1/6/2004	CENTER GLASSWARE	# 129 GRD. FLR.,	0.00
1/7/2003	CENTER GLASSWARE	# 129 GRD. FLR.,	0.00
1/9/2002	CENTER GLASSWARE	# 129 GRD. FLR.,	0.00

Deficiency

Not OK with Annual Tax

Zoning Deficiency

Building Deficiency

Fire Deficiency

Health Deficiency

Navigation: <<P Find F3 N>> Edit Print Bill Transactions F4 New F5 Renewal F6 More Functions Close (ESC)

3. Clients who have deficiencies are directed towards the concerned office. Those without deficiencies may already pay their taxes and secure their business permit.

Can a client check the status of inspections before he/she renews a permit?

1. Yes. To facilitate applications, clients may check the status of inspections and tax payments either through the **Naga City website** or **TxtNaga**.
2. **Business Permit Query and Verification** is part of the Business Online services of the Naga City website. Clients need to provide their Business Identification Number (BIN) and Personal Identification Number (PIN). Upon log-in, a client will see a screen similar to this:

NAGA CITY TREASURY OFFICE				
Business Information Query				
BUSINESS INFORMATION				
Name :	PALACPAC, OMEGA REGALA S.	Res Cert No.:	20827300	
Address :	72 FELIX PLAZO ST. IGUALDAD, NAGA CITY	Issued at:	NAGA CITY	
		Issued on:	1/26/04	
Date Applied:	2004-01-26			
Trade Name:	omega store	Employees:	1	
Business Address:	72 Felix Plazo St.	Floor Area:	0	
Plate No.:		No. of Vans/Trucks:	0	
ASSESSMENT				
Code	Description	Annual	Quarterly	Amount Paid
547	Retailers Sari-Sari	858.00	214.50	858.00
Mayor's Permit				
	Retailers Sari-Sari	200.00		200.00
	Sanitary Permit	100.00		100.00
	Garbage Fee	50.00		50.00
	Fire Inspection	20.00		20.00
ARREARS: 0.00		Total Assessment:	Total:	1,228.00
Other Charges:		Amount		
	Health Cert. Fees		36.00	
	Fire Safety Clearance Fee		35.00	
	Building Inspection Fee		120.00	
	Business Plate		0.00	
	Sticker		30.00	221.00
TOTAL PAID:				221.00

PAYMENT RECORD							
Code	Date Paid	OR Number	Amount	Surcharge	Interest	Penalty	
547	2004-01-26	4378956	858.00	53.62	0.00		

Status of Regular Inspections:

No deficiencies:

As of 09/14/2004, you have no building, zoning, or fire inspection deficiencies. You only need to secure the signatures of the City Mayor and City Treasurer when you renew your business license. [Click here for procedures in applying business for permit.](#)

3. Clients may also check through TxtNaga by:

- a. Typing **BIZ/<BIN>/<PIN>**
- b. Sending the same to **0917-TXTNAGA** or **0917-8426242**

OTHER ONLINE BUSINESS SERVICES

Other Online Business Services (currently just accessible over the web) are:

1. **Real Property Online** .- Verify real property tax assessments on all your lands and buildings. Ensure that payments have been made to avail of substantial discounts.
2. **Building Permit Query and Verification** - Confirm the status of building and occupancy permit applications. Find out online if you have other requirements to comply with before you go back to the Office of the Building Official.

Workshop on Red Tape and Corruption
 Ballroom 1 Renaissance Hotel
 Pasay Road corner Paseo de Roxas, Makati City
 August 23, 2006 8:30 A.M.-4:45 PM

Morning Session

08:30-09:00	Registration	Secretariat
09:00-09:10	Invocation National Anthem	Mr. Raul C. Hernandez <i>Vice President Productivity & Global Competitiveness</i>
09:10-09:20	Welcome Remarks	Amb. Donald Dee <i>President, PCCI</i>
09:20-09:30	Introduction of Speakers	Mr. Francisco Floro <i>Vice President, SME Development</i>
09:30-10:45	Reduce and Simplify: The Anti-Red Tape and Corruption Programs	Mr. Joachim Von Amsberg <i>Country Director, World Bank</i>
		Mr. Mahar Mangahas <i>President/CEO, Social Weather Stations</i>
		Hon. Henedina Abad <i>House of Representatives, Lone District of Batanes</i>
	Reactor	Ms. Dolores Español <i>Chairperson, Transparency International</i>
10:45-11:00	Coffee Break	
11:00-12:15	Effecting Bureaucratic Efficiency through E-Procurement	Ms. Josefina U. Esguerra <i>President/CEO Procurement Watch Inc.</i>
	Clarity and Transparency: The roles of the Ombudsman	Hon. Ma. Merceditas Gutierrez <i>Office of the Ombudsman</i>
	Reactor	Ms. Marites Vitug <i>Editor-in-Chief, Newsbreak Magazine</i>
12:15-01:15	LUNCH	

Afternoon Session

01:15-02:30	Effecting Transparency in Local Governance through: Policy and Local Ordinance Development	Hon. Vice Mayor Jesus C. Cruz <i>National Representative, League of Vice Mayors of the Philippines</i>
	Business Friendly Initiatives	Hon. Mayor Feliciano Belmonte, Jr. <i>Mayor, Quezon City</i>
	E-Governance	Hon. Mayor Jessie Robredo <i>Mayor, Naga City</i>
02:30-04:00	Breakout Sessions	
04:00-04:30	Presentation of Breakout Session Results	
04:30-04:45	Closing Remarks	Mr. Sergio Ortiz-Luis, Jr. <i>Chairman Emeritus, PCCI</i>

Emcee: Mr. Crisanto S. Frianeza
Secretary General, PCCI

Documenters: Dwight Agulan & Maricris Villanueva

PART 1

Presentations:

- The Anti-Red Tape and Anti-Corruption Programs
- The Anti-Red Tape Bill
- Reactions

Mr. Von Amsberg, Country Director for the World Bank, and Mr. Mangahas, President/CEO of the Social Weather Stations, presented studies that reflected the perceptions regarding the amount of corruption present in the country and the negative consequences it presents to both current and potential investments.

A direct relationship between corruption and economic growth was established by Mr. Von Amsberg, citing that 20% of business sales go to corruption leading to less innovation, less efficient allocation of capital and, in the long-run, slower growth. Also presented during his talk were some principles that would help in cutting red tape. According to his presentation, one of the reasons why we have this problem point to the inherent bias of the government to prefer excessive regulation. As such, deregulation and the use of independent groups in monitoring government actions and procedures is the most plausible action to be taken in the World Bank's perspective. Mr. Von Amsberg also presented the "Doing Business Database" compiled by the World Bank, where the Philippines ranked 113 out of 155 countries surveyed (from best to worst).

Mr. Mangahas' presentation showed a more comprehensive assessment of the Philippine situation, which in part reflects the evaluation done by the World Bank. According to their latest survey, there has been a decline in the involvement of businesses in corrupt transactions, with an upward move in honest business practices and a steady increase in the enthusiasm in fighting corruption, a positive trend has been developing in businesses with regard to corruption. On bribery, it has been found that there was a decline of such act in some government offices but has been countered by a rise in others. Constant in this, however, is the low frequency of those who report such cases. The private sector's eagerness to help provide and be part of the solution to the problem of corruption is clearly evident in the survey. On concerns such as monitoring of government activities and the provision of protection to whistleblowers, private sector participation may be relied upon, and such, can be considered essential.

An important aspect of the discussion on corruption is the presence of red tape in government processes, which, according to Hon. Abad, is a concern that directly contributes to the magnitude of the issue. The Anti-Red Tape Act of 2006, with Hon. Abad as one of the main advocators, aims to promote integrity, accountability and proper management of officials in all government agencies and offices that provide frontline services in transactions with private businesses. This, as proposed by the law, may be done through re-engineering systems and procedures, institutionalization of a Citizen's Charter, a Report Card Survey, and the implementation of penalties.

In relation to the presentation that there exists a direct relationship between corruption and red tape, Mrs. Español, Chairperson of Transparency International, voiced her reaction. According to her, the presence of red tape in government processes leaves no choice for those who need to go through it but to give tips or "bribes" in order to expedite regular and normal functions in getting official papers, forms, and routines done. Such is taken into consideration in the computation of businesses costs, which, as have been observed by Mrs.

Español, deters investments. On a positive note, she commended the signing of Executive Order 557 that aims to streamline government processes and created the Anti-Red Tape Task Force. Inline with the problem of corruption, she cited the researches done by TI – the Corruption Perception Index (CPI), which is the general perception of how covered countries fair in the over-all perception of corruption among 158 countries around the world; the Global Corruption Barometer, and; the Bribe Payers Index (BPI), which tries to determine the provider of corruption money to the bribed recipients of grease money to facilitate business transactions.

As perceived by Mrs. Español, in selecting potential investment sites, businessmen take into consideration the probable profit, the business climate, the political climate, the justice system, the labor force, and government policies. However, with issues such as the PIATCO take over of Terminal 3, the Bataan Nuclear Plant being a subject of political vendetta, the awarding of the Manila Hotel to a management group in Malaysia, the China North Rail agreement, the IMPSA deal, and the YNN purchase of the Masinloc Power Plant reaching international magnitude, it is understandable why investors would want to overlook the Philippines as a potential site.

In order to answer these problems, the passage of the Whistleblower Act, the prosecution of those committing grand corruption and petty ones, leadership by example, an incentive system, and education and practice of moral values were recommended. In addition, private businesses and NGOs may help each other through funding and/or through coordinated programs in fighting red tape and corruption.

Part 2 Summary (Ombudsman and E-procurement)

Hon. Casimiro, the OIC-Overall Deputy Ombudsman, discussed the direct relationship between corruption and investment. He cited studies that state that improvements in corruption index result in significant increases in investments and per capita growth rates. In addition, the cost of corruption is borne largely by poorer families, a sector that is in most need of government provided services. The issue on transparency and accountability was also tackled. According to Hon Casimiro, since transparency ensures that information is available for the measurement of government authorities' performance, it goes hand in hand with the concept of accountability.

Given such problems, discussion on the efforts on the part of the Office of the Ombudsman was done. According to the presentation, the first steps were to reform the organization from within. New field investigators were hired together with additional prosecutors to investigate and prosecute cases. Training programs on trial advocacy, forensic accounting, conduct of financial and fraud audits, case monitoring and records management, and the adoption of the Integrity Development Review (IDR), among others. Through multi-sectoral partnerships, the National Corruption Program of Action (NACPA), the lifestyle probe program, transparency in procurement, the OMB Courtwatch Program, the installation of Resident Ombudsmen, the Citizen's Primer on Whistle Blowing, and seminars on public accountability were made possible.

Mr. Villaseñor, President/CEO of TransProcure Corp., presented an alternative way in curbing corruption. According to him, with procurement being one of the venues where corruption may take place, fraudulent behavior in such processes would lead to losses for the country, from the buyers in the public sector to the end-users of the services. More specifically, some of the problems in procurement revolve around the fact that there are too many suppliers to manage, use of too many middle-men, brother-in-law relationships, poor "procurement information" on the procurement processes and costs, transparency, and time consuming procedures.

As an answer to such, the use of eProcurement will dramatically improve procurement efficiency in government agencies. According to Mr. Villaseñor, such will help in the aggregation of key suppliers, in price discovery, in the negotiation for lesser costs and for better contracts, in the reduction of procurement cycle time, and in the improvement of procurement staff productivity. He also discussed some key trends of best practices in procurement, more specifically those that concern procurement transformation, strategic sourcing, low-cost country sourcing, eProcurement, and procurement out-tasking. To these efforts, private sector participation is essential.

A response was given by Ms. Vitug, Editor-in-Chief of Newsbreak Magazine, to the presentations discussed above. On the issue of the Ombudsman, according to her, the state of the Office today does not seem to be as good as before. Ms. Vitug stated that the current Ombudsman seem to lack independence compared to the former, as have been demonstrated in the filing of impeachment charges against only one Comelec official when there was a possibility a filing it against all incumbent Comelec officials involved in the purchase of the overpriced counting machines. Other test cases include the plunder charge against President Arroyo for the alleged misuse of the P728M fertilizer fund and the bribery charge against presidential friend and presidential friend and former Justice Secretary Hernando Perez by then Manila Representative Mark Jimenez. To such, Ms. Vitug

emphasized the need for other agencies such as the Sandiganbayan and the help of the media.

On the issue of procurement, Ms. Vitug emphasized the need for trained observers that would understand such process. As such, she proposed that there be programs, that would invite possible observers and those instituted by law, that would train such people on the processes involved in procurement.

Part 3 Summary (Success Stories)

The sense of competitiveness among LGUs may be observed in different parts of the country. Different innovations have been devised in order to foster growth, mainly by creating environments conducive to investments.

Mayor Belmonte reported that among all the localities in the country, Quezon City has the biggest total equity and the biggest net income. This has been achieved by optimizing the budget of the city, which was done by lessening the garbage handling fees, and lessening the workforce. In addition, business friendly initiatives have been done in order to spur investments. Government procedures that deal with businesses have been modified through computerization, which affected business licensing and procurement, among other things.

For key innovations in Naga City, Mayor Robredo presented their Naga City Unified Business Tracking System. According to him, it is an eGovernment initiative that enhances the city's one-stop business processing system. Such program revised the renewal of business permits and shortened its processing time through the use available ICT technology. The internet has been utilized to reduce the number of signatories needed in processing documents. In addition, real-time checking of the status of inspections of a business permit may be checked through SMS.

With just 12 hectares of land, Vice Mayor Cruz presented how Mandaluyong changed, from a town with a bad connotation to one being dubbed as the "shopping capital" of the Philippines and as a "tiger city." According to him, the quality of governance a locality has directly affects its growth. For their part, the government officials in Mandaluyong has strengthened their ties with key business leaders through the local chambers of commerce and industry. By streamlining processes in frontline services, specially in the issuance of business permits both in the baranggay and the municipal levels, and the computerization of government offices, more specifically in tax collection. At a macro level, Vice Mayor Cruz observed that it is through the efforts given by the executive and legislative bodies in effecting such changes can real changes be effected. In addition, private-public partnership should be continued to be adopted in order to solidify such efforts.

**A Reaction on the Topic: "REDUCE AND SIMPLIFY:
The Anti-Red Tape and Corruption Programs"
during the Workshop on Red Tape and Corruption
organized by the Philippine Chamber of Commerce and Industry
and the AmCham Investment Climate Improvement Project**

**Ballroom I, Renaissance Hotel (formerly New World)
August 23, 2006 – 9:00 – 5:00**

Dolores Español
Chairperson, Transparency International - Philippines

Respected organizers, fellow colleagues in the fight against corruption, ladies and gentlemen, Good Morning!

My role as a Reactor in this Program is quite unique but challenging for this is the first time that the existence of red tape is acknowledged as a part of corruption which we all know is waging havoc in our society today.

To succeed in recognizing "Red Tape" and doing something to eliminate it, we must understand it. The origins of the term are obscure, but it alludes to the 17th and 18th century English practice of binding documents and official papers with red tape. Other than the British government documents, some in the Vatican were also traditionally bound in red cloth tape.

Another origin tale circulated is that all American Civil War veterans' records were bound in red tape, and the difficulty in accessing them led to the current use of the term, but there is evidence that the term was in use in its modern sense sometime before this.

Karl Marx wrote about the phenomenon of changing from one person in control of a complete task, to having multiple people each with specialties in specific tasks. He saw this occurring as society shifts from a Seigniorial system to a capitalist system. Although Marx drew different conclusions about this trend, it is often this abstraction among workers that is the source of red tape. This interpretation would explain why it is often perceived that the presence of red tape is increasing.

Red tape from experience is the unwillingness of somebody with authority to take action expeditiously on matters that have to be resolved regularly. The most common definition is "to tie official papers, official forms and routines or rigid application of regulations and routine, resulting in delay in getting business done." The only way to move official papers, forms and routines, is to give tips, or "bribes" in order to expedite a regular and normal function attached to the office causing the delay.

Before I proceed, I wholeheartedly congratulate the organizers of this Workshop for their success in having President Gloria Macapagal-Arroyo sign Executive Order No. 557, creating the Anti-Red Tape Task Force last Wednesday, August 16, 2006. Accordingly, the EO was designed to streamline government processes and reduce transaction costs especially for documents to start up business. I wish it should not emphasize "documents to start up business", because this may be taken to mean that this is aimed as a trap such that once the investor has brought in his investment, it would be impossible for him to take it out. This stigma should be removed in order to establish a healthy atmosphere for

investments in general from the very beginning, as business transactions with the government continues from day one till the license or franchise is terminated.

Going back to my assignment, for those who do not “respect” this built-in system of corruption, their papers either get lost, or the action person becomes unavailable perennially attending to “meetings” or “stricken with ailment”. Thus, if one is working within time frames, he has to cough up with grease money to get things done.

From the business point of view, grease money has to be included as “investment capital” of any enterprise and is not a simple way of addition that is entailed. Loss of income and profit opportunities are likewise added to the profitability or non-profitability of investment. This is a simplistic analysis of red tape. But in relation to the “Expected Output on the Reactor,” that an “Assessment of current country placement with regard to red tape and corruption and the international perception of doing business in the Philippines”, it is my humble observation that “red tape” practices are mini but insurmountable deterrents to the current country investment starvation that we are experiencing.

There are no direct researches done by Transparency International or (TI), on this specific issue of red tape and corruption. The Corruption Perception Index or (CPI), which is done yearly by TI-Berlin is the general perception of how covered countries such the Philippines, fare in the over-all perception of corruption among 158 countries around the world. From the Annual Report for 2005 recently released by TI, the Philippines placed 117th together with Afghanistan, Bolivia, Ecuador, Guatemala, Guyana, Libya, Nepal and Uganda, receiving a score of 2.5 out of 10 points and a confidence rating between 2.3 to 2.8, from 13 surveyors. Other research-survey being published by TI, are the Global Corruption Barometer and the Bribe Payers Index or BPI, the provider of corruption money to the bribed or recipients of grease money to facilitate business transaction. The Global Corruption Barometer has come out for three (3) successive years, the first was in 2003 and the last was in 2005 while the BPI has been in hibernation since 2003. Reason for this to my perception is the source of corruption would rather have their faces hidden from sunlight and expose only the culprits. But just like a famous and favorite dance of the Filipinos among others, it takes two to tango as in corruption there are always two (2) actors, the giver and the receiver.

These researches, however, are mere catalysts and it is up to countries to take remedial measures to improve the ratings or disprove corruption, otherwise, they remain as stumbling blocks to attaining economic development, distrust of the investors and people and even usher in chaos.

The more cogent factors that investors take into consideration to my mind, are: 1) the reliability that the investor will be able to recover its investment plus the profit that impelled it to put in its capital, 2) healthy investment climate where there is an even playing field among other investors in specific areas of interests, 3) stability of the political climate that will provide security to investment, 4) a sound and working justice system founded on the rule of law; 5) honest, hard-working and reliable labor force and 6) operational government policies conducive for expansion of economic activities in specific investment sectors.

To tackle each and every factor mentioned above, would need tremendous amount of time. However, to present the over-arching flaws in governance that are counter-productive to investment, would hopefully be eye openers to the policy makers, the enforcers thereof, and the technocrat-advisers to the leaders at the top of the ladder of the bureaucracy.

The sad part of all these frantic efforts to attract investors is the tainted image of the country with regard to creating an attractive investment climate. Reports of cases of grand corruption taking place almost regularly involving investors who have sunk enormous amount of investments in the country drive away would be investors and even those who are already here have to pull out. For instance, the PIATCO take over of Terminal 3. Reports abound that just when the German and Philippine consortium has almost completed the construction, the government for unknown reason took over the complex from PIATCO and despite the Court's ruling that reimbursement should be given to the contractors, refusal was vehement on the part of the government. This case has reached foreign shores such as Singapore and Washington, D. C. for arbitration while the terminal itself is lying idle. Under these circumstances human nature would necessarily give the wrong signal to prospective investors.

Before this, was the Bataan Nuclear Plant that has become the subject of a political vendetta and despite the resolution of the issues off-shore, the corruption issue refuses to die. Another local transaction with international flavor, is the scuttling of the award of the Manila Hotel to a management group from Malaysia, followed by another Malaysian investor in Subic whose operation of a casino complex was ordered closed. Then while the above instances of anti-investment climatic barometer are hitting the headlines of local and foreign media, we also have the China North Rail agreement reportedly seething with irregularities, even as the IMPSA deal was still fresh in the air, involving an Argentinian investor in the Caliraya Botocan Kalayaan power plant in Laguna. Very recently there was also the YNN purchase of the Masinloc Power Plant and it turned out that this entity was a mere agent of an Australian investor spiced with allegations that grease money have lined the pockets of some government officials. All these transactions with foreign flavor sow distrust and apprehension in the ability to attract legitimate foreign investment.

On the other hand, with our dire need for investors, we have numerous reports about capital flight and/or stashing away funds generated or coming from within the country. Some have entertained suspicions that these came from polluted sources. As this is taking place, government authorities are preoccupied with designing projects or programs to be funded with borrowed funds if not foreign grants. These situations certainly have contributed to the international perception of the lamentable state of affairs of doing business in the Philippines. Add to this the unabated outflow of overseas workers whose remittances are propping the resources of the government to stay afloat operationally and the binge of the government to export domestic helpers, but when in trouble such as the disturbance in Lebanon we depend on foreign facilities to repatriate our own overseas workers as the funds for the purpose are unavailable. These incongruent incidents provide wrong signals to investors.

As has been conceptualized, the Investment Climate Improvement Project or (ICIP), aims to present the problems in the Philippine investment setting, assess its relative importance to the investment climate and act towards finding and implementing practical and effective solutions. To this, I would like to mention some of the tools that may be devised to address this problem should include: 1) passage of the whistle-blower act, 2) prosecute evenly those committing grand corruption and those committing petty ones, 3) address the leadership by example crisis; 4) punish the culprits and reward the righteous; 5) re-inculcate good morals and right conduct norms in schools and places of work and most importantly, 6) be doers of righteousness instead of being mere talkers of moral values.

For the corporate world, as Dr. Mangahas has reported that business continues to be enthusiastic about fighting corruption, it may be well for them to make good the proposed contribution of a certain percentage of their profit to some NGOs who are ready, willing and

able to monitor anti-corruption initiatives in order to have a support system in the fight of corruption, as over-sight entities. One good activity that the business sector can do, is to share resources for the advocacy of moral values in work places and thereafter, put up time frames for licensing offices first and next all work places to make the realization that a public office is a public trust.

Our Constitution has numerous provisions about cherished principles and policies found in Article II – “Declaration of Principles and State Policies,” some pertinent sections under Article III – “Bill of Rights,” and re-awakening provisions in Article XI – “Accountability of Public Officers,” that need to be re-visited and re-inculcated in the hearts and minds of everyone, in appropriate advocacy programs.

If some if not all of the above observations can be done, many believe there are good prospects that the people in this wonderful country will be able to overcome the problems of corruption that we are facing by reducing or eliminating red tape and corruption. The present trend is for funding or donor agencies proscribing the reduction, fight or elimination of red tape and corruption, is very encouraging. But we need action and action needs machinery that needs fueling, and with a modest start, we can take off, God willing. Unfortunately, with lip service, we only give the actors of red tape lead time to acquire more and more strength if they go unpunished knowing that their time may be short. Thus, instead of reducing red tape and corruption, this malady has been on the rise. Accordingly, the regulatory burden on business and the citizen is increasing year by year across the world, thus, the “cutting of red tape” is a popular electoral and policy promise. However, the Global Corruption Barometer of 2005 indicated differently. In it, it reported that corruption will be on the rise in the next three (3) years according to four (4) countries with India voting 78% and surprisingly, the Philippines 76% that it will be so, in contrast to our respected World Bank speaker.

What is amazing is the fact that while there is an incessant flurry of initiatives to cut red tape and consequently corruption, the rise is not only perceptible but alarming. Why? This phenomenon is biblically confirmed in the book of Second Timothy 3: 1-5, which reads:

“BUT realize this, that in the last days difficult times will come. ²For men will be lovers of self, lovers of money, boastful, arrogant, revilers, disobedient to parents, ungrateful, unholy, ³unloving, irreconcilable, malicious gossips, without self-control, brutal, haters of good, ⁴treacherous, reckless, conceited, lovers of pleasure rather than lovers of God; ⁵holding to a form of godliness, although they have denied its power; and avoid such men as these.”

The above situation is unfolding before our eyes everyday, yet very few have responded to the call in the following chapter of the same Book, to “²preach the word; be ready in season and out of season; reprove, rebuke, exhort, with great patience and instruction. ³For the time will come when they will not endure sound doctrine, but wanting to have their ears tickled, they will accumulate for themselves teachers in accordance to their own desires; ⁴and will turn away their ears from the truth, and will turn aside to myths”, so that by the end of the day, you can say: “⁷I have fought the good fight, I have finished the course, I have kept the faith; ⁸in the future there is laid up for me the crown of righteousness, which the Lord, the righteous Judge, will award to me on that day; and not only to me, but also to all who have loved His appearing.” (2 Tim. 4: 2-4 and 7)

THANK YOU AND MAY GOD BLESS US ALL!

Cutting Red Tape to Fight Corruption and Improve the Investment Climate

World Bank
August 23, 2006

1. **Introduction**
2. **Investment Climate and Corruption: Corruption Spoils Investment Climate**
3. **Corruption, Regulation and Red Tape.**
4. **Cutting Red Tape: The Principles and Operational Approaches**
5. **Conclusion**

1. Introduction

1. The timing of this seminar is just right. With some more effort and luck Philippines is on its way to a sustainable fiscal path. Now is the time to move from preserving macro stability to promoting growth. This means creating an Investment Climate that attracts and retains capital and talent necessary for improving standards of living of all citizens.
2. Philippines faces no permanent or fundamental obstacle in generating higher investments and jobs, and in attaining productivity levels comparable to any fast growing economy in the world. Improve the investment climate and you improve economic performance. This has been true at all times and in all countries.
3. Sound economic policies matter. But integrity, equity and transparency of governance and implementation of these policies are as important, if not more so. Corruption constraints growth not only in a narrow cost sense but in a much more lasting and fundamental way --- it damages and corrodes the social fabric, social capital and a shared identity and national vision. If these do not exist growth cannot be sustained no matter how clever the technical solutions.
4. It is from this perspective that I approach the question of reducing red tape. Procedures are at the heart of government regulation. If they are complex, unnecessary, discriminatory and costly then economic agents have a high incentive to engage in what Professor Jagdish Bhagwati, the eminent trade economist called "Directly Unproductive Profit Seeking Activities". In other words bribery and corruption.
5. Survey data in Philippines shows that businesses are very concerned about the cumulative burden of regulation and this remains one of the principal challenges of business.

6. Cutting Red Tape is not unique to emerging market economies. Singapore's 'Cut Red Tape Program' of 2000, the Paper Work Reduction Act in USA, UK's proposed Legislative and Regulatory Reform Bill, Korea's business process simplification and deregulation program launched in the aftermath of the 97 show that developed economies are equally concerned. The overwhelming positive response by a broad array of stakeholders to the World Bank's "Doing Business" Annual Reports reflect an universal view that simplifying the lives of citizens and business' is a good thing and essential for making the country an attractive place to live and invest in. It is interesting to note that Singapore despite being viewed as paragon of good bureaucracy still finds it necessary to cut red tape.
7. In the rest of my remarks I will touch upon what I mean by investment climate, why tackling corruption is important for a good investment climate; the relationship between regulations and corruption and why reducing red tape is important for simplifying regulations and thus reducing scope for corruption. Finally I will talk about principles, practices and approaches to reducing red tape, lessons learnt in other countries and priorities for reducing red tape in the Philippines.

2. Investment Climate and Corruption

1. Investment Climate means Government policies, behavior and processes that influence the environment within which private economic transactions occur. The quality of the investment climate determines transactions costs and risk, the structure of production and the extent of market exchanges. The quality in turn is primarily determined by the legal and regulatory framework, barriers to entry and exit, and conditions in markets for labor, finance, information, infrastructure services, and other productive inputs.
2. Government influences the quality of the investment climates through macro and structural policies and through legal and regulatory institutions. Our focus today is on the institutional dimension of regulation, in particular the administrative procedures that shapes and guides the government's relationship with the private sector.
3. What is the link between corruption and investment climate? The link is via slower growth. Investment Climate Surveys show that the direct cost of corruption can often be as high as 20% of cost of sales. (In Philippines it is estimated to range from 6% - 10%). This cost if avoided would generate higher level of cash flows available for modernization, expansion, technology upgrading and job creation. For example research has shown that in exporting goods, each additional day of delay reduces

trade by 1%. Put differently, each day is equivalent to a country distancing itself from its trade partners by 85 km on average.

4. But even if a corrupt action by does not impose a large direct social cost or a pecuniary cost, as some have argued, there are large social and economic losses of corruption that stem from propping up of inefficient firms and the allocation of talent, technology and capital away from its most productive uses. When profits or potential profits are taken away from firms through corruption, entrepreneurs choose not to start firms or to expand less rapidly. Moreover, if entrepreneurs expect they will be forced to bargain over bribes in the future, they have incentives to adopt inefficient “fly-by-night” technologies of production and easily reversible capital investments so that they can react more flexibly to future demands from corrupt officials.
5. Entrepreneurs may also choose to shift part or all of their activities into the informal sector. Even if entrepreneurs remain in the formal sector they may chose to invest more in what I earlier referred to as the Directly Unproductive Profit Seeking Activities”. Or they may chose to restrict transactions only to related or familiar parties thus foregoing the private and social benefits that can be derived from a greater number and variety of market based exchanges.
6. Thus corruption leads to sub-optimal levels of investments and scale and scope of economic activity, increased informality. Increased informality in turn reduces social cohesion and a sense of national purpose. Corruption thus has a huge cost ---- empirical evidence from many countries is unambiguous in this regard. In Philippines surveys by SWS document the negative impact of corruption in Philippines.

3. Corruption, Regulation and Red Tape: Why reducing red tape is important?

1. Regulations matter and design and administration of regulations even more so. If regulations are good then they facilitate fair competition while mitigating market failures. If they are bad ---- complex, uncertain and costly to comply with, investor time horizons are likely to be short and willingness to take risks lower.
2. Evidence also suggests that increased competition, due to deregulation and simplifications of rules and laws, is negatively correlated with corruption. Deregulation reduces corruption not only by increasing competition, but also by reducing the extent to which public officials have the power to extract bribes.
3. Research shows that in countries where entry is heavily regulated corruption is higher, the unofficial economy is larger, and provision of public and private goods suffers in terms of both quantity and quality.

4. Deregulation matters because compliance costs are not borne by regulators. There is thus a structural bias in favor of costly and excessive regulations and red tape. This in turn causes private firms to seek ways to win regulators or capture them, in other words engage in DUPs!
5. Regulations operate on a day-to-day basis via procedures ---- **the red tape**. The procedures define what is permissible and when, who determines permissibility, and the consequences of engaging in non-permissible activities. I will return to this idea later on because the notion of what is permissible is important and is at the core of any process to reduce red tape.
6. Most anticorruption programs rely on legal and financial institutions— judiciary, police and financial auditors—to enforce and strengthen accountability in the public sector. The tacit assumption is that more and better enforcement of rules and regulations will reduce corruption. However, in many poor countries, the legal and financial institutions are weak and often corrupt themselves. In such a setting, providing more resources to enforcement institutions may not be the right solution to the problem of corruption. Deregulation and process simplification is more important
7. It then follows that deregulation and simple business procedures, i.e. reduced “red tape” could be one of the sharpest swords in the war against corruption and in stimulating private sector investment and innovation.

Cutting Red Tape: Principles and Operational Approaches

I now briefly touch on some core principles that should guide cutting of red tape. I once again emphasize that these have to be aimed at reducing the complexity, uncertainty and high time and monetary costs of regulatory compliance.

1. All activities are permissible unless explicitly prohibited, extensive deregulation is the best way to reduce red tape. The presumption of permissibility should be in favor of the investor actor and not the regulator. Permissibility can have a basis in the operation of natural laws, or can be automatic by consensus or can be delegated to an authority by regulation. Reducing red tape means keeping the list of activities permissible by regulation as small as possible and only in areas where they are necessary to mitigate market failure or ensure fair competition. Thus deregulation to the maximum extent is the best form of reducing red tape. Bear in mind that red tape is the consequence of poor or inappropriate regulation and not its cause.
2. Procedures should not substitute for markets. In markets where competition exists and where procedures governing conduct have been generated, honed and codified over an

- extensive and through extensive interactions between markets, procedures need not be prescribed.
3. Procedures should treat all economic agents as equal and not pick winners. Investors and entrepreneurs do not like procedures that treat companies or sectors differently unless the reasons to do so are debated and transparently agreed upon.
 4. Focus on reducing time and pecuniary costs, uncertainty and not merely paper work or the number of forms. The focus must be on reducing compliance costs and uncertainty.
 5. Adopt a parsimonious approach and prescribe only those procedures that can be enforced over all agents. Sometimes no procedure is better than good procedure not enforced. If a procedure is put in place but not enforced, only some will follow. The ones who do not follow the law cause damage to law abiders and the damage is more than the damage on account of no procedures.
 6. Procedures should follow the “do no harm” principle.
 7. Procedures should be in Plain Language.
 8. Breakdown procedures into categories for reducing them. FIAS a member of the World Bank Group has often been instrumental in reducing administrative barriers. Its approach is to look at four types of administrative procedures: Start-up Procedures, Location Procedures, and Operational Procedures and Reporting Procedures. It could be useful to think along these lines and to focus as much as possible on self-compliance coupled with ex-post monitoring. Start-up procedures in particular need to be made as simple as possible because diversifying the entrepreneurial base in order to reduce concentration of economic power is vital for Philippines economic growth.
 9. Undertake Systematic Impact Assessment. Let regulators and government agencies prove the need for regulation or they lose their powers. This means systematic regulatory impact assessment based on concepts of cost-benefit analysis. Philippines may want to look and adopt guidelines for systematic impact assessment that the US government applies under its Paperwork Reduction Act and for reviewing new regulatory and compliance proposals.
 10. Periodic Review and sunset provisions. This is necessary in order to ensure that procedures reflect changes in technologies, competition, consumer preferences and awareness. Singapore applied this extensively under its red tape reduction program and a significant number of requirements were eliminated.
 11. Apply IT Technologies for reporting and risk management. This is particularly important for addressing red tape and corruption associated with customs and land tilting. In India this has been very effectively used in Andhra Pradesh to drastically reduce the procedures associated with registration of land sales and land titles. In Singapore IT

- accompanied by procedural changes now enables private parties to engage in real property transactions in real time.
12. Re-engineer existing processes. This involves examining the existing flow of processes and documents in the regulatory framework and trying to eliminate the non-value added steps or operations in every aspect of governance. This can then be followed up by computerization from electronic storage and retrieval of data. New Zealand and Australia have applied these approaches to significantly reduce approval and compliance requirements across a broad array of regulations.
 13. Shift to risk based regulation. The procedures should be based around the rigorous analysis of the economic goals and risk that the procedures aim to address, and then ensuring that the required compliance and reporting procedures are proportionate to the risk. UK has decided to adopt this approach as the basis for reducing red tape.

I now want to throw up some ideas on how to apply these principles. The key tasks involve securing a reform mandate politically acceptable and embraced by all key stakeholders, setting priorities with focus on quick wins in few areas; and establishing an implementation entity with sufficient authority, flexibility and technical competency to identify and exploit opportunities as they arise.

1. *Start building ownership.* It is absolutely vital that all stakeholders buy into reforms. The starting point could be a signal of commitment from the highest level. One way to signal this commitment is to prepare and disseminate, quickly, a report that proposes key principles to guide red tape reform, identifies priorities, pinpoints legal and constitutional obstacles and then outlines a legislative and executive path for implementation. After consultations the report could then form the basis of a specific legislation that could confer power and flexibility on the executive to implement reforms while being held accountable to stakeholders. UK has used such a strategy and the red tape reform legislation is now in the final stages of enactment.
2. *Strengthen credibility.* All of us are well aware of the problem of skepticism and cynicism that reform initiatives often encounter. One way of overcoming this could be to implement an innovative approach similar to the one pioneered in Singapore. Singapore in order to give momentum to red tape reduction initiatives announced a “No Wrong Door” Policy. Under this policy, there is no ‘Wrong Door’. An agency that receives a feedback or request that does not fall under its purview must take up the responsibility of finding the correct agency and then link up the citizen with the correct agency. In cases whereby the feedback or request requires the inputs of more than one agency, the

- receiving agency must liaise with all the relevant agencies and provide a coordinated response. Enforcing a similar policy would send a strong signal.
3. *Set priorities.* A modest start with some quick wins is the key. We in the Bank are absolutely convinced about this. Our partnership with Philippines is based on supporting and promoting Islands of Good Governance. We have seen good results and I strongly recommend a similar approach for reducing red tape. A key principle in setting of priorities in my view has to be ensuring that the fruits of reforms go to many different groups. Thus I urge that we start by picking priorities such that some benefit investors and entrepreneurs and some that benefit ordinary citizens. For example, credibility with the business sector could be enhanced by starting with reform of trade related procedures. Credibility with ordinary citizens could be enhanced by simplifying the ability of citizens to avail of benefits under SSS.
 4. *Be fact driven.* Reducing regulations and red tape has to be seen as conferring benefits to all and not as a way for a few to benefit. Thus an emphasis on fact driven cost benefit analysis is absolutely vital. The World Bank's Doing Business Reports show the way. These reports by systematically mapping the time and costs of compliance and clearances has made the reform process less adversarial and more transparent. I urge Philippines to follow a similar process. Data from the Doing Business Reports suggest that Philippines should give priority to simplifying export-import procedures and enforcement of creditor rights.
 5. COA can play a vital role. Its mandate should include efficiency audits and it should have the authority to ask all agencies to as part of such an audit to justify the public policy benefits of retaining regulations and procedures. And if the justification is not compelling, COA should have the authority to recommend and seek changes.
 6. *Delegate monitoring and evaluation tasks to third parties.* The private and non-profit sectors in Philippines have the skills as well as the commitment to undertake monitoring and evaluation of business processes. I urge that the government formally ask such third part entities to review and report on business procedures in a few areas. This is not as novel as it sounds. After all external auditors are bestowed with a similar responsibility by society and regulators.
 7. *Business Associations should shoulder considerable responsibility.* In Singapore under the reform program an "Interested Group Forum" was established. This is a panel comprising of senior public sector leaders and eminent businessmen that receives and evaluates suggestions received from enterprise and follows-up on the action taken by the government. In Korea as part of the deregulation and red tape reforms a "Tutors Program" was established under which highly experienced people guide new enterprises

to navigate thru the compliance system. US has e-law advisors that use web based help desks to navigate thru the compliance system.

8. The private sector can go even further by cutting red tape in the processes and procedures it uses to deliver goods and services to customers. For example private banks can work together to standardize and simplify credit application procedures demanded from small enterprises. Telecom companies can simplify the time and cost of giving broad band connections. Industry associations could set up simple procedures to enable small business to use arbitration and conciliation services. Treating these as red tape simplification exercises could be a good way to put pressure on public sector agencies to in turn reduce red tape.

Conclusion

In conclusion let me once again congratulate PCCI for this timely workshop and for bringing together a rich collection of expertise and stakeholder interest. We all share a common goal of securing an economic, political, legal and governance environment that unleashes and harnesses entrepreneurial energies to provide jobs for the jobless, raises standards of living of the poor and enable all citizens to fully enjoy the benefits of a prosperous and secure nation.

Talking Points
Workshop on Red Tape and Corruption
Marites Danguilan Vitug
Aug. 23, 2006

Introduction:

When I am asked by Philippine observers what they should watch out for when they assess President Arroyo's political will to clean up government, I usually tell them to look out for reforms and results in institutions such as the Office of the Ombudsman. I think that if the President wants to make an impact in her anti-corruption drive, then backing up this government body and respecting its independence will send the signal that she means business.

After all, the Office of the Ombudsman is tasked to go after erring public officials, big and small—and we have about 1.5 million government employees.

We've seen, during Simeon Marcelo's term, how an independent and focused Ombudsman can deliver results (a conviction rate of 42 percent compared to 6 percent when he took over).

I will be very candid and say that things do not appear to be as good today as they were before. But let me start with the good things first.

The Ombudsman

- The current Ombudsman has commendable initiatives. One of them is linking up with barangay officials to train them to spot irregularities in local projects and be vigilant watchdogs. This grassroots graft-busting is one more step in gaining public support to prevent corruption.
- The anti-corruption hot line encourages reporting by citizens.
- As we've heard from Deputy Ombudsman Casimiro, they are working with various sectors and are continually upgrading skills of investigators and prosecutors.

- But there is a creeping problem and that is the perception that the current Ombudsman lacks the independence that the former Ombudsman, Simeon Marcelo, had. The case of the overpriced counting machines has become a celebrated test case. The Ombudsman's Field Investigation Office original report in 2004 saw the "possibility of filing an impeachment complaint against the incumbent Comelec officials" –led by Chairman Benjamin Abalos. But, after a review ordered by Ombudsman Merceditas Gutierrez, only one Comelec official was left to hang: the Ombudsman recommended filing of impeachment charges against Resurreccion Borra since he was the officer in charge of the poll modernization project.
- As Borra has said, the decision was collegial. But the rest of the Comelec officials were spared.
- There are two other test cases: the plunder charge filed against President Arroyo for alleged misuse of the P728-million fertilizer fund; and the bribery charge

against presidential friend and former Justice Secretary Hernando Perez by then Manila Rep. Mark Jimenez.

- The investigation on Perez has apparently been wrapped up, with the help of the Swiss government, during Marcelo's time. This concerns the alleged money laundering by then Justice Secretary Hernando Perez of \$2 million in a Swiss bank. We still have to hear from the Ombudsman about this case.
- On its own, of course, the Ombudsman cannot reduce graft and corruption. Just as reforms are taking place in the Office of the Ombudsman, the judiciary has to be reformed as well. It takes about six years for the courts to resolve one graft case. Among others, the Sandiganbayan needs to be beefed up. We need to see continuous or daily hearings compared to long postponements—which is the norm.
- The media is important, too, in fighting corruption. By serving as watchdog, we help make institutions and officials accountable. We let the sun cast its light on dark corners and bring out secrets to the open.

Procurement

Key issues: **Transparency, Accountability, and the Need for Trained Observers**

- One of the most difficult tasks in tracking down corruption is laying down the paper trail. Even among us, journalists, we need trained and experienced eyes to identify which documents are needed. We learn this through exposure, practice, and through seminars and training programs. Thus, it is critical that public monitoring of the procurement process and the implementation of awarded contracts be done by competent individuals and groups.
- The law provides that the Bids and Awards Committee or BAC shall, in all stages of the procurement process, invite, in addition to the representative of the Commission on Audit, at least two (2) observers to sit in its proceedings, one (1) from a duly recognized private group in a sector or discipline relevant to the procurement at hand, and the other from a non-government organization. There should be no conflict of interest in the contract. Is this working? We need to hear from those who have sat through BAC meetings and find out what their observations and findings are.
- I checked the Procurement Watch Web site and saw a list of groups and individuals who are tasked to sit in BACs. I am not aware of news on this front—as their Web site doesn't give information on what the observers have found out or have observed.

- At the Department of National Defense, the press has been invited to observe BAC proceedings. The problem is, there are no takers. Why? It's a slow-moving story and it appears to be too tedious and technical. We at Newsbreak have been meaning to send our writer there to those meetings but other fast-moving and more sexy stories have filled up our time.
- The first thing that can be done is to hold a seminar or training for journalists—reporters as well as editors and TV and radio producers—on procurement so that we get to appreciate and understand this beast. We will need concrete cases, human faces—not just numbers and laws—so that we can navigate through this process.
- At the end of the day, we in the media belong to the “demand” side of corruption. (Some of you may argue that some members of our profession are on the supply side. But that's another story.)
Like civil society organizations, we demand transparency, access to information, and accountability.