

The Philippine Bureaucracy: Incentive structures and implications for performance

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THE PHILIPPINE BUREAUCRACY: Incentive structures and implications for performance

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I. Motivation

Institutions are the incentive systems that structure human interaction [North, 2003]. They are the formal rules, informal constraints and their enforcement characteristics, which together generate regularity in behavior and allow people to get on with everyday business. We are interested in institutions because eight decades after the first survey on Philippine education in 1925, and despite repeated diagnoses since, issues of access and quality continue to persist. What can explain the inability of the public education sector to implement reform-oriented plans and programs? Is it a matter of shortfalls in material inputs or is there something else?

More specifically, this paper focuses on the civil service. The quality of the civil service at national and local levels affects the quality of policy advice and development on the one hand, and the quality of policy implementation and service delivery on the other [GOP, 2002]. To help understand why the same fundamental issues continue to plague our education sector therefore, we need to go beyond discussions of funding and consider how formal and informal rules may be impinging on the behavior and performance of agents within the Department of Education (DepEd) and other relevant organizations.

To this end, we are guided by remarks made by former Civil Service Commission Chair Karina Constantino-David who, in her address to the General Assembly of the Human Development Network in 2007, observed that the Philippine government bureaucracy has

¹ With thanks to Blesilda Lodevico and Jinky Jaime, former CSC Compensation Management Project team members, and Mitzi Legal, former HDN associate, for invaluable research assistance. Thanks also to Emmanuel de Dios and Solita Collas-Monsod for helpful insights. All remaining errors are mine alone.

been unable to reach its potential as a “repository of expertise and institutional memory and an efficient implementer of policy” for two reasons.² First, that abuses in the appointment process and “functional concentration” has robbed the bureaucracy of its capacity to think. Second, that an outdated and convoluted compensation structure has dampened any passion to perform.

The objective of this essay is to examine the incentive structures embedded in the Philippine bureaucracy and determine whether and how these have affected agency performance, particularly in the human services sector. The next section discusses distinguishing features of public sector bureaucracies, followed by a description of the Philippine case in the third section. The fourth section presents hypotheses, data and results. The fifth section concludes.

II. Institutions and Public Sector Bureaucracies

As earlier mentioned, institutions are the formal rules, informal constraints and their enforcement characteristics that reduce uncertainty in the world and allow people to get on with everyday business. Formal rules are laws, constitutions, regulations, and the like that have the character of being specific and being defined precisely [North, 2003]. They enable and guide behavior by creating a cognitive and normative understanding of the situation and coordinating behavior within it [Greif, 2006]. Informal or internalized norms, on the other hand, are ways of doing things and in many ways are more important than formal rules; norms and beliefs provide the motivation to follow institutionalized rules [Greif, 2006].

What sort of formal rules, informal norms and enforcement features characterize government bureaucracies? Government bureaucracies are often described as slow moving, procedure-obsessive, and bloated which block rather than facilitate the day-to-day business of citizens. In contrast, private sector organizations are usually known to be lean, hungry, and versatile. Why is this so?

Distinguishing features of government bureaucracies

Public sector bureaucracies may be distinguished from private counterparts on three fundamental counts:³

- 1 *Clarity of primary goals.* The primary goals of public sector organizations are often ambiguous, difficult to interpret in precise operational terms, and even more difficult to monitor or measure. For instance, mandates can read as broadly as “to promote long-range security...”, “to foster and promote the welfare of wage earners...”, “to educate youth...”, “to preserve and enhance culture...”, phrases that reasonable people are likely to disagree on as to interpretation and, even if there was an agreement, on how these are best operationalized and attained. In contrast, private sector organizations, even if they do start off with ambiguously worded primary

² Politics, Perils and Pains of Building Institutions”, 28 March 2007.

³ These next two subsections draw heavily from Wilson 1989.

goals, are usually able to clarify operational tasks through a process of trial and error and internal negotiation which is tested by competitive natural selection. Government agencies do not have the luxury of such a test.

- 2 *Supervision over factors of production.* Unlike their private sector counterparts, government bureaucracies rarely have control over revenues, productive factors, or the definition and prioritization of specific agency tasks. Rather, control is political, with supervision vested in external entities such as congress, the courts, politicians, and interest groups.

To illustrate, only by exception are agencies able to retain earnings, much less devote earnings to the private benefit of staff, thereby weakening links between money wages and observed performance. Further, while few agencies may have financial “bottom lines” (such as the Bureau of Internal Revenue), the hiring, purchasing, contracting and budgeting of productive factors remain governed by political and not bureaucratic rules.⁴ Even the definition and prioritization of tasks may be prescribed in laws that promulgate government programs and budgets, leaving agencies little room to maneuver as regards strategy, programs or targets.

- 3 *Political constraints or “contextual goals”.* The multiplicity of ‘principals’ hovering over government agencies leads to a proliferation of contextual goals. Contextual goals define the parameters within which primary goals can be sought and are usually explicitly or implicitly defined and enforced by powerful interests, such as congressional committees. For instance, budget realignments by a congressional committee to service some local constituent interests represent contextual goals. Contextual goals are also embedded in generic rules and procedures, such as in procurement rules, which seek to not only level the playing field (“hold hearings”, “give notices”) but also, at times, tilt it (“buy Filipino”) at the expense of efficiency.

Behavioral consequences

A bureaucracy without a capacity to think or passion to perform may be explained by the above. For one, political supervision over factors of production creates strong incentives for rational civil servants to worry about constraints versus tasks, rules versus outcomes, or the “top-line” versus the “bottom-line” -- in other words, achieving conformity to the contextual goals within which the agency is enmeshed rather than progress towards primary goals. . Indeed, it makes more sense for civil servants to be more concerned for adhering to processes, which are known, immediate, defined by rules and more easily defensible, rather than achieving outcomes, which are uncertain, delayed and controversial. The greater the cost of non-compliance, the more important the constraint.

That government managers tend to be exasperatingly risk-averse is also explicable. Multiple constraints weaken agency boundaries and allow potential interveners greater access. Particularly, the more the rules, the greater the power third party enforcers have

⁴ For instance, bidding rules value ‘fairness’ or even special access to political constituencies over effectiveness [Wilson, 1989].

over bureaucratic processes. In the Philippine context for instance, this translates to the increased chance of being subject to the Commission on Audit (or “COA-d”), to the Ombudsman, or to Congressional hearings. The more numerous the constraints, the more risk-averse the managers.

Multiple constraints also help explain the red tape and top-heavy/redundant management structures prevalent in government. First, more constraints require more SOPs to reduce the chance that any one of them is violated. Second, more constraints also require more managers to oversee them. Thus one finds more managers performing similar tasks in government than in the private sector.

Finally, a timid rank & file. The more contextual goals and constraints that must be served, the more discretionary authority in an agency is pushed to the top.

How does one motivate staff in such an environment? There is no one formula except to keep in mind that when the marginal effects of monetary incentives decrease, the relative importance of non-monetary incentives increase. A sense of mission - fashioned from a sense of purpose, status and solidarity – is a key source of non-pecuniary incentives and the chief way by which problems of shirking may be overcome [Wilson, 1989]. Professional reputation and/or ideology are other sources of non-pecuniary incentives. Disincentives in turn are actions that undermine the sense of mission, which discourage or ignore professional status, or violate ideology.

Further, the degree to which motivation is a challenge (that is, the degree to which the above behavior is manifested) depends on the type of agency, defined according to whether agency *outputs* (the work the agency does on a day-to-day basis) and *outcomes* (how the world changes as a result of outputs) are more or less observable [Wilson, 1989]. In **production** and **craft** agencies where outcomes are more observable, workers can be rewarded based on their contribution to efficiency or on the results they achieve. When outcomes are less observable, agencies become **procedural** (if outputs are more observable) or, worse, **coping** (outputs are less observable) agencies. Effective management is, in fact, “nearly impossible” in the latter, as demonstrated by public school systems where teachers work on their own on a daily basis, education outcomes are difficult to attribute directly to teacher input, and schools have little control over resources.⁵ In coping agencies, management tends to focus only on the most easily measured or controlled activities, making the likelihood of conflict with staff high and the challenge of motivation greater still.

The DepEd is a case in point. The fundamental management challenge that is the DepEd, as described by Bautista, et. al [2008] and Luz [2008], seems to fit its nature as a ‘coping’ agency as does the relative success of certain pilot reform projects to date (such as School-Based Management or SBM). Using the typology above, the SBM can be viewed as an attempt to shift the Department from a coping into a *craft* organization where the possibility of effective management and motivation is greater [Annex 1].

⁵ In contrast, private schools must survive by attracting clients and face far fewer constraints in use of capital and labor [Wilson, 1989]

Of course, not all management and organizational problems can be attributed to the nature of outputs and outcomes of agencies taken individually. Formal rules and informal practices that apply to agencies across the board play a big part. Such rules and practices as found in the Philippines are now discussed.

III. Rules and practices in the Philippine Bureaucracy

Size and cost of the Civil Service

As of 2004 (the last inventory available), the Philippine civil service comprised almost 1.5 million personnel (including police and uniformed men in the jail- and fire-bureaus but excluding uniformed personnel in the military). This makes the government the single biggest direct employer in the country. Eighty-nine percent were career personnel and 11 percent non-career (Table 1), with the Department of Education accounting for a full third (Table 2). The fiscal implication of such a work force is reflected in the government's wage bill, which averaged one third (33.2%) of national government obligations from 2001 to 2007 (Figure 1).

Table 1: Dimensions of the Philippine civil service

2004			
	Career	Non-career	Total
Executive (National)	966160	50185	1016345
Executive (Local)	304951	104028	408979
Legislative	2317	3521	5838
Judiciary	25734	1197	26931
Constitutional	17004	602	17606
Total	1316166	159533	1475699

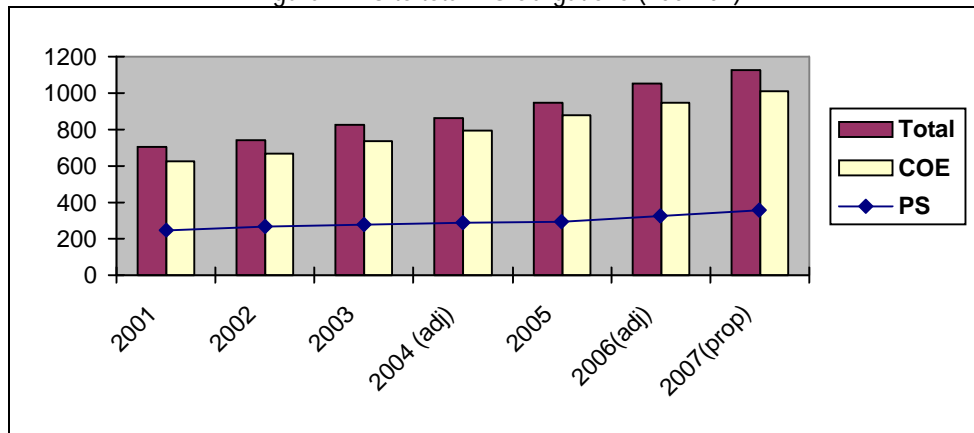
Source: CSC [2004]

Table 2: Top Employers (2004)

Department	Number of personnel
Education	500,951
Interior and Local Government	149,292
State Universities/colleges	59,913
Public Works and Highways	27,270
Judiciary	26,931
Health	26,730
ARMM	25,480

Source: CSC [2004]

Figure 1: PS to total NG obligations (2001-07)



Base data: NEP, various years

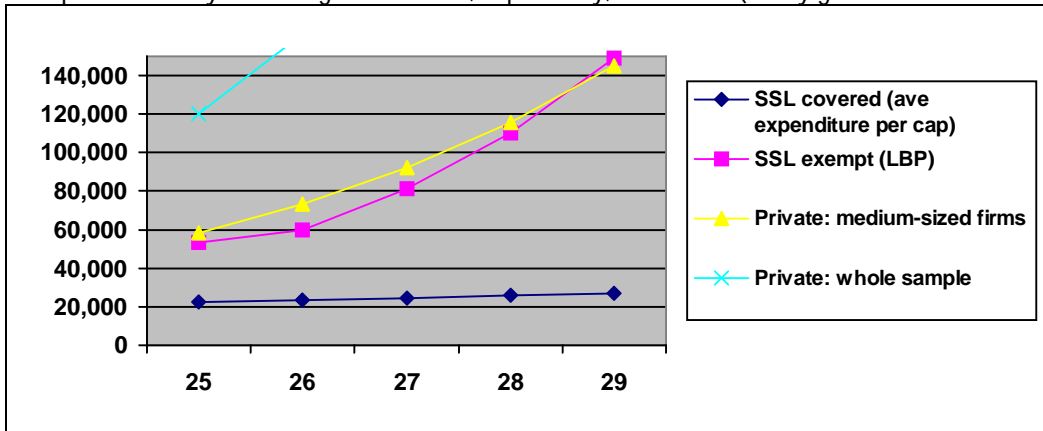
How the civil service corps is motivated and constrained is key to understanding the behavior and performance of government organizations on the whole. What incentive structures are embedded in our government bureaucracy and how are these linked to organization performance?

Monetary Incentives

The structure of wages and other pecuniary incentives in government are prescribed by Republic Act 6758, or the Salary Standardization Law (SSL) of 1987, as well as by Joint Resolution No. 01, s. 1994 of the Senate and House. While the 1987 law was originally motivated by the constitutional mandate to ensure the standardization of compensation, a number of external inequities, internal inequities and performance-incompatible components now characterize the system.

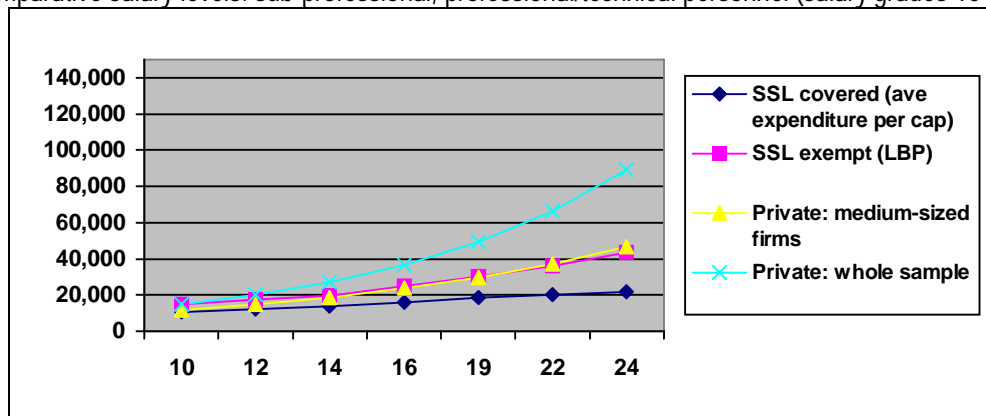
External inequities have to do with how government salaries compare with equivalent jobs in the private sector and other competing markets. (i.e. other governments and multilateral/international donor agencies.) Using ‘medium-sized’ private firms as a benchmark, a compensation and benefits study by the Civil Service Commission found that salaries for senior managers and highly technical personnel in government were 74% below comparable jobs, and that salaries for professional and technical personnel were about 40% below, while clerical and trade personnel were actually 20% above benchmark. These differences are illustrated in Figures 2 to 4. Four sets of salaries are presented to illustrate the divergences in salary schedules. The highest curve represents average salaries in the whole private sector sample regardless of size. The yellow curve represents salaries found in medium sized firms, a subset of the private sector sample and the benchmark group for government. The pink curve represents salaries in government agencies exempt from the SSL, such as Land Bank while the dark blue curve represents salaries in all other regular government agencies.

Figure 2
Comparative salary levels: higher technical, supervisory, executives (salary grades 25 and above)



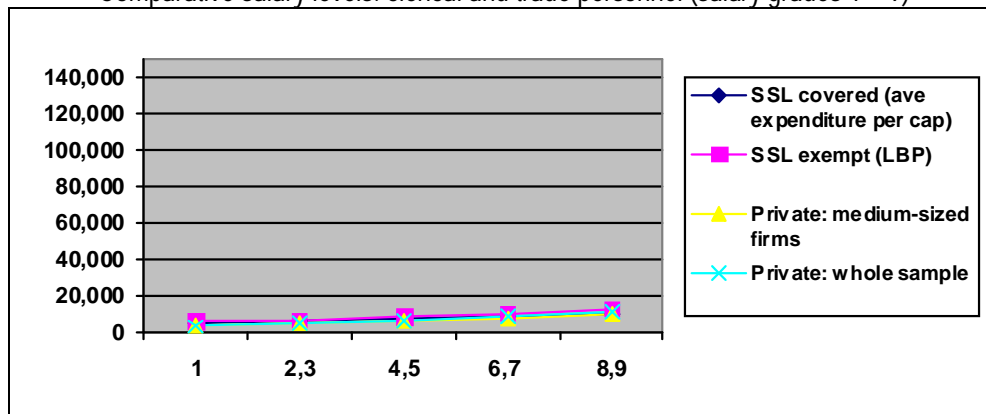
Source: CSC [2006]

Figure 3
Comparative salary levels: sub-professional, professional/technical personnel (salary grades 10 – 24)



Source: CSC [2006]

Figure 4
Comparative salary levels: clerical and trade personnel (salary grades 1 – 9)



Source: CSC [2006]

Which civil servants are most affected by these divergences? Salary grades 25 and above include assistant directors, directors, district engineers, school superintendents, college professors, prosecutors, state auditors, assistant secretaries, undersecretaries and the like, people responsible for policy design, higher-level technical services and the day-to-day management of government. Salary grades 10 – 24 cover division chiefs, public attorneys, school principals, public health nurses, social workers, teachers, election officers, customs examiners, engineers, agriculturists, and others who directly implement public programs at the front line. For government to formulate quality policies and deliver quality services, it must be able to *attract* and *retain* good people for the tasks. The inequities described above clearly make it difficult to do so.

The superior compensation in public sector agencies such as the Land Bank illustrates the sort of *internal inequities* that have crept into the current system. Although the objective of RA 6758 was to consolidate and make coherent the proliferation of special compensation plans that were then existing, a number of government-owned corporations and national government agencies have since been able to secure exemptions from the SSL thru Congress, leading again to a proliferation of salary schedules.⁶ Specific occupational groups have also been able to get benefits not granted to other government personnel thru special laws, such as public health workers thru their own Magna Carta (RA 7305).⁷ Needless to say, the resulting salary distortions have been a source of demoralization across the bureaucracy.

Internal inequities derive not only from SSL exemptions but also from job classification distortions, for instance, when the “same” job is ranked differently across agencies. This is illustrated in Table 3 where, at lower steps of the series, budget and management specialists employed at the DBM are graded one grade higher than economists of the NEDA even though job qualifications and scope of work are comparable. Librarians are graded even lower although they require a certification from the Professional Regulatory Commission (PRC) certification while the DBM and NEDA positions do not.

Table 3. “Same” job, different grade across agencies

SG	Job
10	Librarian I
11	Economist I
12	
13	Budget & management specialist I
14	Librarian II
15	Economist II

⁶ SSL-exempt agencies as of April 2008 include the BSP, LBP, PPC, BCDA, GSIS, NPC, NTC, PSALM, SSS, TIDC, DBP, PEZA, HGC, PTV4, PHIC, PDIC, PAGCOR, SBMA, MWSS, LWUA, ERC, SEC, IPO. Most recently, the University of the Philippines and the Philippine National University. However they do not have the funds to pay for higher salaries

⁷ The Magna Carta for Public Health Workers entitles public health workers to special benefits not granted to other government personnel, such as Hazard Pay, Subsistence Allowance, Laundry Allowance, Remote Assignment Allowance, Housing Allowance, and longevity pay equivalent to 5% of basic pay

16	Budget & management specialist II
17	
18	Economist III; librarian III
19	Budget & management specialist III
20	
21	
22	Budget & management specialist IV; economist IV; librarian IV
23	
24	Budget & management specialist V; economist V; librarian V

Base data: CSC [2006]

There also seems to be a bias against female-dominated positions, such as teachers and nurses, in favor of male-dominated jobs, as well as against professionals in favor of administrative or managerial personnel. On the one hand, Table 4 shows how female-dominated positions requiring a 4-year college degree are generally pegged at SG 10 when the rules provide that a 4-college degree merits SG 11; pharmacists and physical therapists actually require a 5-year course and on this basis should be at SG 12 along with architects and engineers. Moreover, a number of these SG 10 positions also require a PRC license while SG 11 ‘male’-dominated jobs do not. In the case of social workers, which are ranked SG 11, community development officers are ranked equally even if they are not licensed.

Table 4: Possible bias against female-dominated occupations

Female-dominated Positions	SG	Male-Dominated/Neutral Positions	SG
Teacher 1*	10	Agriculturist 1	11
Nurse 1*	10	Forester 1*	11
Nutrition Officer 1*	10	Geologist 1*	11
Pharmacist 1* +	10	Police Inspector 1*	11
Physical Therapist 1* +	10	Traffic Operations Officer 1	11
Librarian 1*	10	Community Development Off. 1	11
Guidance Counselor 1	10	Currency Analyst 1	11
Records Officer 1	10	Planning Officer 1	11
Teller 1	10	Trade Specialist 1	11
Social Worker 1*	11	Architect 1 * +	12
Population Program Officer 1	11	Engineer 1 * +	12
Psychologist 1	11		
Public Relations Officer 1	11		
HR Mgt. Officer 1	11		

Base data: CSC [1997]

Note: * requires PRC license or equivalent
+ Requires a 5-year course. All others require a 4 –year course.

Table 5, on the other hand, illustrates how managers or administrators may rise to salary grade 30 (as undersecretary), while professionals such as professors, prosecutors, attorneys and SUC presidents can only go up to salary grade 29, 28 and 27 respectively. In other words, to be at par with their manager/administrator counterparts, professors and other technical professionals (specifically those classified as “dearth” positions) must become managers themselves.

Table 5. Highest salary grade attainable: managerial vs. professional

Managerial	Professional
Undersecretary (30)	Scientists, Medical Specialists (30)
Assistant Secretary (29)	Professor VI, Prosecutor IV (29)
	Atty VI, Gov't. Corp. Atty IV, Veterinarian (28)
	SUC President (27)
	Foreign Service Officer (25)

Base data: CSC [2006]

Performance among civil servants is further discouraged by the SSL’s compressed salary schedule and longevity policy. The SSL schedule contains 33 salary grades, each with 8 steps. This results in very narrow bands that overlap at the 4th step. Longevity in turn is rewarded with a permanent step increment in base pay (rather than a one-time bonus).⁸ These two policies combined can create a situation where a long-serving subordinate receives a larger salary than his/her newly appointed supervisor, as Table 6 illustrates. This distortion also gives rational employees a greater incentive to *stay* in a position and under-achieve or under-perform, since added responsibilities and longer hours resulting from a promotion will likely outweigh any incremental gains in compensation from superior performance.

Table 6. Consequences of compression of salary schedule:
Subordinate with greater salary level

Position	Grade	Step	salary	Level
HRMO IV	22	7	22,325	Subordinate
HRMO V (Division Chief)	24	1	20,828	Supervisor

Base data: CSC [2006]

Finally, civil service rules provide that a government worker has security of tenure once hired, and can only be removed for serious administrative offenses, such as graft, dishonesty, immorality and others, as well as for poor performance, and only after due process. When performance monitoring and evaluation mechanisms are weak however (and assuming graft or dishonesty are not issues), secure tenure becomes a major source of long-term problems for the bureaucracy. This is demonstrated in the public school system where the Magna Carta for Public School Teachers (enacted in 1966) provides all teachers, good or bad, with security of tenure *starting from the date of hiring*. For a good teacher, this is an incentive. For a poor or under-performing teacher, however, the system is stuck with that individual for an average of over 30 years, the average tenure of

⁸ In the private sector, longevity is usually rewarded with a lump sum or gift that does not affect base pay.

a public school teacher [Luz, 2008].

Incentive effects of established practices

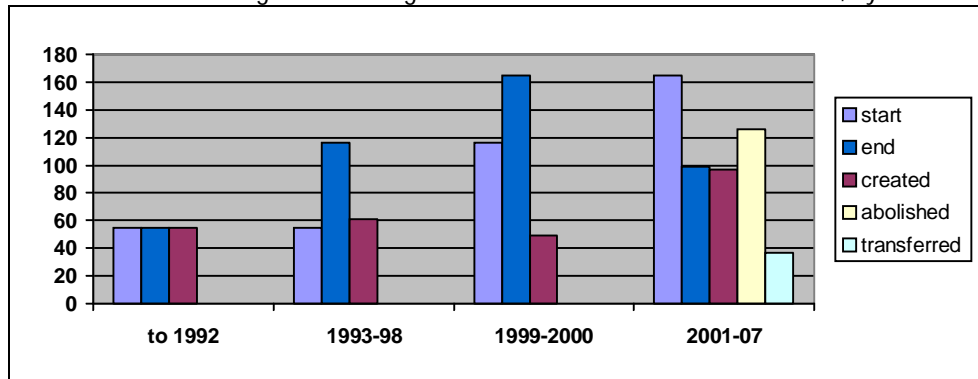
As mentioned, the relative importance of non-monetary incentives increases as the marginal effects of monetary incentives decrease. Non-pecuniary incentives can include a sense of mission, professional status, ideology and the like, where a sense of mission or solidarity is a chief source. Successfully creating a sense of mission however depends on how well managers can define and protect the organization's core tasks and boundaries.

A number of practices have made this task difficult however, particularly in recent years. For one, the practice of creating *ad-hoc bodies* and *presidential consultants/advisers* (PC/PA) whose mandates overlap with that of regular agencies or officials. These actions effectively erode boundaries across agencies, muddling domains or jurisdictions, and diminishing the sense of duty and professional status among agents. Fuzzy boundaries also lend itself to a concentration of power with the appointing authority (i.e. the 'functional concentration' observed by Constantino-David [2007]) Ad-hoc bodies and PC/PA's are unilaterally created by the President who may also reorganize regular government agencies, except those with special charters.

To illustrate overlaps, how are authorities defined between a Presidential Adviser on Foreign Affairs, a Special Adviser for Energy Affairs and two Presidential Assistants for Education, and the official cabinet secretaries for these same portfolios? Or between Presidential Advisers for Trade & Development, Infrastructure, Job Generation, and yet another for Food Security & Job Creation [DBM (b), 2005 and 2008]. There is also a 'Philippine Strategic Oil, Gas, Energy Resources and Power infrastructure Office', a 'Minerals Development Council', and a 'National Organic Agriculture Board', despite the departments of Energy, Environment and Agriculture [DBM (b), 2007]. Overlaps are even apparent among ad-hoc bodies themselves, such as between the 'Presidential Anti-Smuggling Group to Apprehend, Seize, Investigate and Prosecute Acts Involving Smuggling, Unlawful Importation and Other Similar Violation and Providing Measures to Curtail Smuggling and Expedite Seizure Proceedings' and the 'Task Force on Anti-Smuggling'.

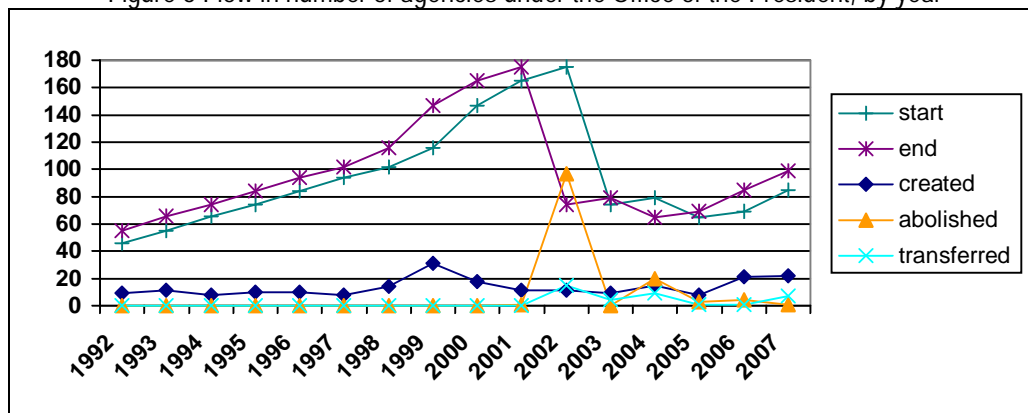
The extent to which these practices have been prevalent may be indicated by the flow of offices and agencies in and out of the Office of the President (OP) as well as the number of PC/PAs attached to it through the years. Overall, there has been a net decrease in the number of agencies under the OP between 1993 and 2007 (Figure 5). This net decrease is due to the sharp decline in the number of agencies during the period 2001-2003, a trend that can be attributed to the work Presidential Commission on Effective Governance (PCEG), whose mandate was to streamline the number of agencies in the Executive. However, the PCEG was abruptly abolished in 2004, after which the number of agencies again began to increase (Fig. 6).

Figure 5 Flow in number of government agencies under the Office of the President, by Administration



Base data: DBM [2007a]. Computations author's own.

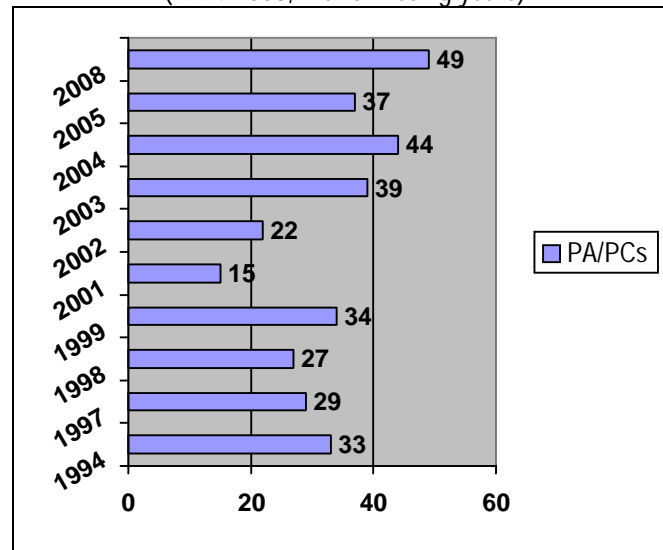
Figure 6 Flow in number of agencies under the Office of the President, by year



Base data: DBM [2007a]. Computation author's own.

A similar trend is observed as regards the number of PC/PA's (Figure 7). The number has risen significantly since 2002, after a steady decline in the period 1994-1998 (the Ramos administration), a slight spike in 1999 (Estrada administration), and a sharp decline in 2001 (Arroyo administration, part I). By the beginning of 2008 however, the number of PC/PAs reached an all-time high of 49.

Figure 7 Number of Presidential advisers/consultants/assistants
(1994-2008, with 5 missing years)



Source: DBM [2007b]

PC/PA's enjoy title and authority without accountability, sowing confusion and diminishing morale across the ranks. When their 'authorities' allow them to undermine established bureaucratic checks and balances, costs are tangible and can be quantified. This is illustrated by the case of the NBN-ZTE broadband project where, among others, 'consultants' of the NEDA Secretary 'informally' participated in the evaluation of the project, a process reserved to the technical bodies of the Investment Coordinating Council [Annex 2]. If the process had continued, the project cost would have been bloated from an original US\$130M to about US\$329 M. While the consultants in this case were hired by the head of agency (despite a whole technical plantilla at his command), the same access and liberties are more than likely to be granted to consultants appointed by the head of state.

Another issue has to do with *political appointments to formal plantilla positions*, to be distinguished from Presidential consultants/advisers discussed above. This practice undermines the constitutional notion of "merit and fitness", leading to demoralization and the destruction of initiative in the regular civil service. "The moment you know that it is not good work that is rewarded it becomes sycophancy. The moment you know that your boss may not like it whenever you try to do something a little bit extra, you kill initiative ... The bureaucracy is so timid, so tame, so domesticated, so fearful and so powerless because of the appointment process that is so open to abuse." [Constantino-David, 2007].

The issue is not trivial. Approximately 10,000 positions (including those at the highest 3rd level career posts as well as highly technical posts) are subject to presidential prerogative, including positions that are based in provinces and cities far removed from the center, and create a wide venue for politicians to intervene in the appointment process

[Constantino-David, 2007].⁹ The problem emanates from what is called the ‘residual powers of the President’, which provides that when there is no stipulation in law as to who the appointing authority is for a certain position, the power redounds to the President. The CSC has no power, whether to veto or to protect, when the subject is a ‘presidential appointee’; a career civil servant in a position subject to presidential appointments is not protected by security of tenure.

Data is not available to determine the flow of political appointments through the years, however one may gauge the extent to which this prerogative has been exercised in recent years by the number of incumbent undersecretaries and assistant secretaries in excess of that prescribed by law, executive order or administrative order (Table 7). Notably, as of December 2007, out of twenty-four (24) departments, thirteen (13) had excess undersecretaries or assistant secretaries, bringing the number of incumbents to 222 when only 131 are prescribed. This is an excess of 81 incumbents or 62 percent. Assuming each of them cost an average of Php 722k/year in salaries, allowances and discretionary funds, then these excess incumbents cost government an extra Php 58 million/year. Moreover, out of the 222 incumbents, around 56% were without CES/CESO eligibility, and thus were technically ineligible to occupy their respective positions. The Office of the President had the most number of excess undersecretaries and assistant secretaries at 31 (or 38 percent of the excess number), of which 89% were ineligible.

Table 7 USEC/ASEC appointees in excess of # prescribed by EO 292/RA/EO/AO
(as of December 2007)

Agency	Total U/A	Occupied	Excess	Rank: Excess	Not Eligible (NE)	% NE	Rank: NE
OP	6	37	31	1	33	89%	3
DND	1	9	8	2	7	78%	5
DAR	2	9	7	3	2	22%	19
DOJ	3	8	5	4	7	88%	4
DILG	5	10	5	4	7	70%	7
DOH	3	8	5	4	2	25%	17
DFA	14	19	5	4	NA		
DSWD	5	9	4	8	2	22%	19
DOT	4	7	3	9	5	71%	6
PMS	3	6	3	9	2	33%	15
HUDCC	1	4	3	9	1	25%	17
DEPED	8	9	1	13	6	67%	9
OPS	3	4	1	13	4	100%	1
DOST	6	6	0		0	0%	23
DENR	12	11	-1		6	55%	10
DTI	10	9	-1		4	44%	13
DOE	6	4	-2		4	100%	1

⁹ Excluded from this account are appointments to the boards of various government councils and commissions, government corporations like Pagcor, and sequestered firms like San Miguel Corp. These directorships, most of which come with generous perks, have traditionally been given as rewards to presidential cronies [Coronel, 1999].

DA	12	10	-2	7	70%	7
DOLE	8	6	-2	3	50%	11
DOTC	12	10	-2	5	50%	11
NEDA	8	6	-2	0	0%	23
DOF	10	7	-3	3	43%	14
DBM	10	7	-3	2	29%	16
DPWH	11	7	-4	1	14%	21
TOTAL	163	222	81	113	56%	

Source: CSC

IV. Quality of bureaucracy and agency performance

Cross country studies by Kaufman et al [2002, 2005] have shown a strong causal link from improved ‘governance’ to better development outcomes, including GDP per capita, infant mortality and literacy, using world governance indicators they developed, consisting of rule of law, control of corruption, regulatory quality, government effectiveness, political stability and voice and accountability. By their estimates, the “development dividend” for good governance is about a 300% increase in incomes per capita in the long run. That is, a one-standard deviation improvement in governance raises per capita incomes nearly four-fold in the long run.¹⁰ The same improvement lowers infant mortality 2.5 to 4 times, and raises literacy by 15 to 25 percent [Kaufman et. al., 2002 and Kaufman, 2005].

With evidence established of a long-term connection between governance and human development outcomes, what of the backward link between incentive structures and agency performance? Specifically, do incentive structures affect the quality of the Philippine bureaucracy and is this, in turn, correlated with agency performance?

The impact of incentives on the quality of a bureaucracy should ideally be measured thru job satisfaction surveys and flow data of personnel by type in and out of agencies; however no such data for the Philippines is available. Quantitative measures of agency performance are likewise difficult to come by.¹¹ To examine the correlation between agency quality and performance in the Philippines therefore, we are constrained to use two proxy variables. Specifically (i) the percentage of CES positions occupied by CES or CESO eligibles (defined in Box below) for quality of bureaucracy, where a high percentage is correlated with higher quality, and (ii) agency public approval ratings, a subjective measure, for agency performance.

¹⁰ Interestingly, the reverse does not hold: higher incomes do not lead to governance improvements [Kauffman and Kraay, 2002; Kauffman et al 2005].

¹¹ One possible measure of performance is the percentage of actual obligations to total appropriations per agency. However, this would not account for differences between original agency budget proposals and what Congress eventually appropriated. Neither would it take into account the possible perverse incentive to agencies not to use all budgeted funds since ‘savings’ may be distributed to staff in the form of bonuses at the end of the year.

Box 1. Definition of terms

Eligibility - refers to the result of passing a merit and fitness test which may be determined as far as practicable by competitive examination or other tests of merit and fitness conducted by CSC and other institutions, such as PRC, CESB, Supreme Court, etc.

Career service – the entrance of employee is based on merit and fitness determined by competitive examinations or on highly technical qualifications. Employees under this category enjoy opportunities for advancement to higher career positions and security of tenure.

Classes of positions in the Career Service:

1st level – clerical, trades, crafts and custodial service positions.

2nd level – professional, technical and scientific positions

3rd level – Covers all positions higher than chief of division (salary grade 25 and up), including positions in the executive and managerial class, and the positions in the highly technical and specialized class such as the foreign service, the scientific, technical, artistic and academic fields.

Non-career service – entrance of employees is based on factors other than the usual test of merit and fitness. Their tenure is limited to a period specified by law, or is conterminous or subject to the pleasure of the appointing authority, or is project based. Eligibility requirements (i.e. the passing a merit and fitness test) are not prescribed for these positions although preference should be given to eligibles. Also, appointees to casual, contractual and coterminous positions that are not primarily confidential must still meet education, training and experience requirements.

Career Executive Service (CES) – executive and managerial 3rd level positions, excluding those specified under NEC. To be eligible to occupy said positions, one must pass a stringent set of tests administered by the CESB or CSC.

Non-Executive Career (NEC) – career positions at the 3rd level including scientists, professionals, Foreign Service officers, judiciary, prosecution service and 3rd level positions in LGUs

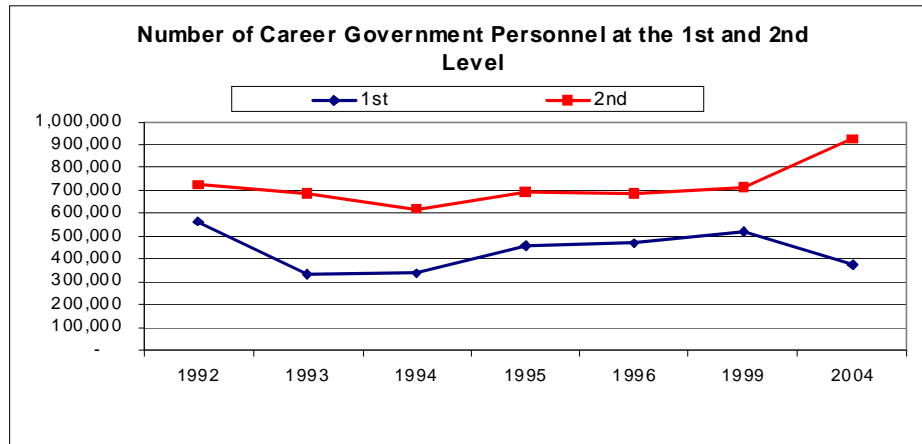
Trends in quality

It is expected that the disincentives from a 20-year old compensation structure as well as from the increasing political intervention into the bureaucracy over the last few years would take its toll on the quality of the career service.

If greater numbers of career service personnel in the civil service corps and greater shares of eligible people occupying 3rd level CES positions indicate a better quality of bureaucracy, then trends from recent years indicate a stagnant or decreasing quality at all levels of the corps. Decreasing quality at the 1st level of the corps (clerical, trade, crafts, custodial) is evident from Figure 8, which also shows an increasing trend at the 2nd level (sub-professional, professional and technical). This increasing trend was likely driven by public school teacher hires, however, which merely reflects the increasing population of

schoolchildren rather than an improvement in the quality of those in previously existing positions.

Figure 8 Trend in 1st and 2nd levels (1992-2004)



Base data: CSC [2004]

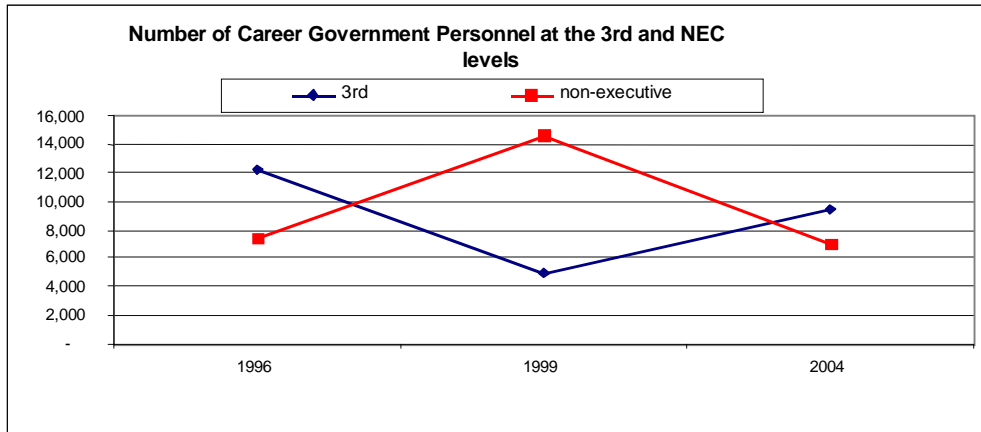
An overall trend of decreasing quality at the 3rd level is also evident in Figures 9-14. Figure 9 shows decreasing numbers of career personnel in NEC positions, indicating that the corps may be losing quality among highly technical positions and among executive positions at the local government level. Further, although there are increasing numbers of career service personnel among CES positions, Figures 10 to 14 indicate that, the share of CESO *eligibles* occupying CES positions has been falling beginning around 2004. This cuts across all types of agencies, including those in the human services sector.¹² A decreasing share indicates that the share of political appointments (that is, of ineligible personnel) is increasing and/or that CESO *eligibles* are leaving voluntarily. Note from the numbers alone that this decreasing share cannot be attributed to a lack of supply of CESO *eligibles* to fill-in CES positions.¹³

As an aside, Figure 15 shows a decreasing trend in share of CESO *eligibles* even in GOCCs that are SSL-exempt. In other words, the monetary incentives in these agencies could be inviting greater political intervention in the hiring of personnel. In turn, such interventions may be causing CESO *eligibles* to leave.

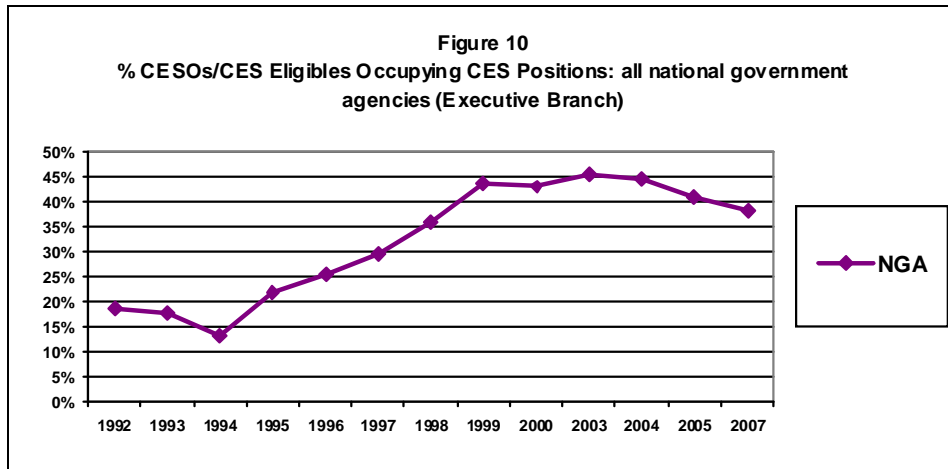
¹² Note that the sharp decrease in 1994 is due to an expansion of the base number of CES positions and not due to an exodus of CESO personnel.

¹³ On the demand side, out of 6388 CES positions, about 40% were occupied - thus 2555 vacancies at the end of 2007. On the supply side, there were 1109 CESOs and 3944 CSEE *eligibles* in the pool as of the 1st quarter of 2008.

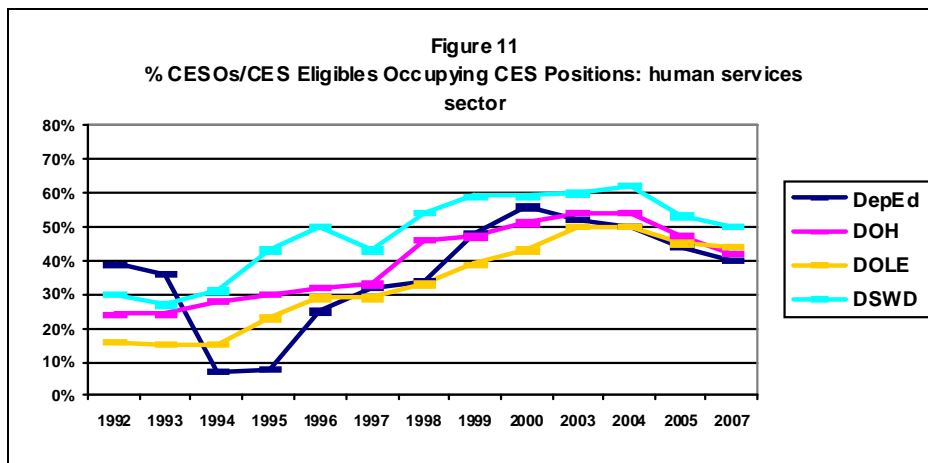
Figure 9 Trend at 3rd level: CES vs NEC (1996, 1999, 2004)



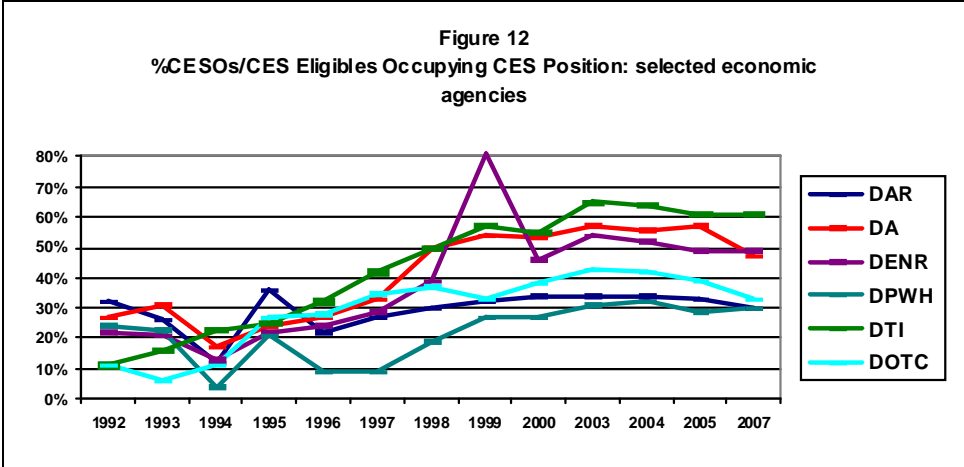
Base data: CSC [2004]



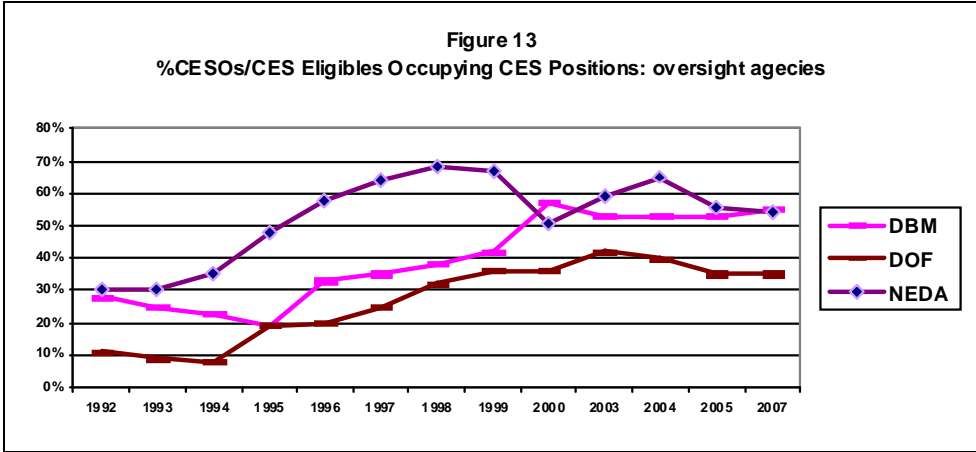
Base data: CESB, various years



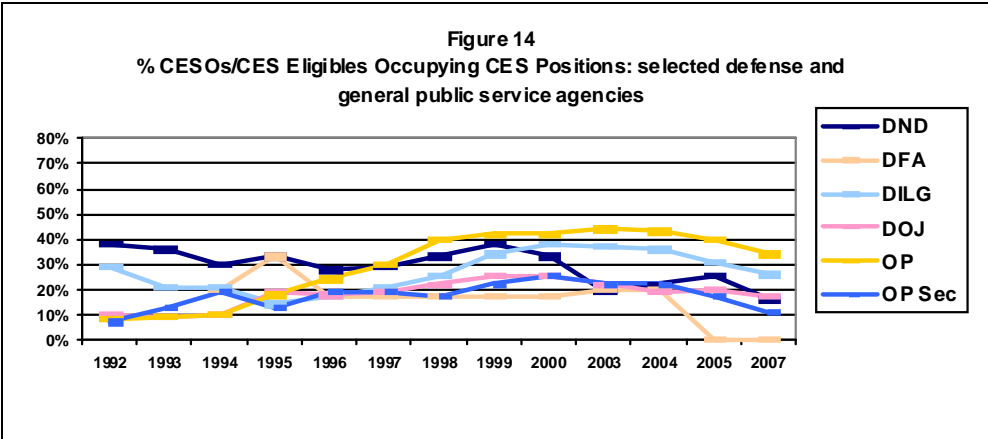
Base data: CESB, various years



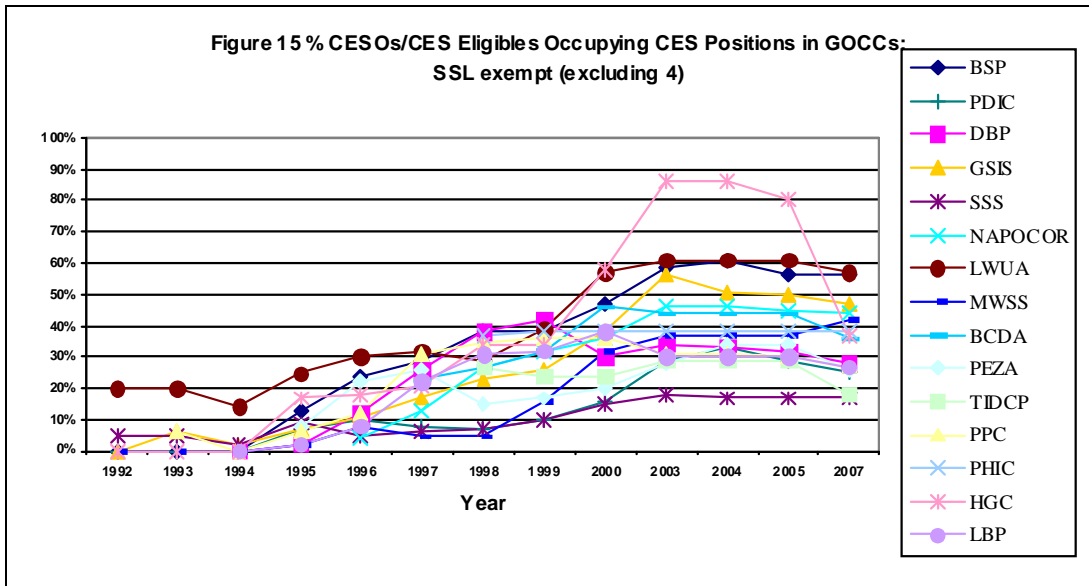
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Base data: CESB, various years



Base data: CESB, various years

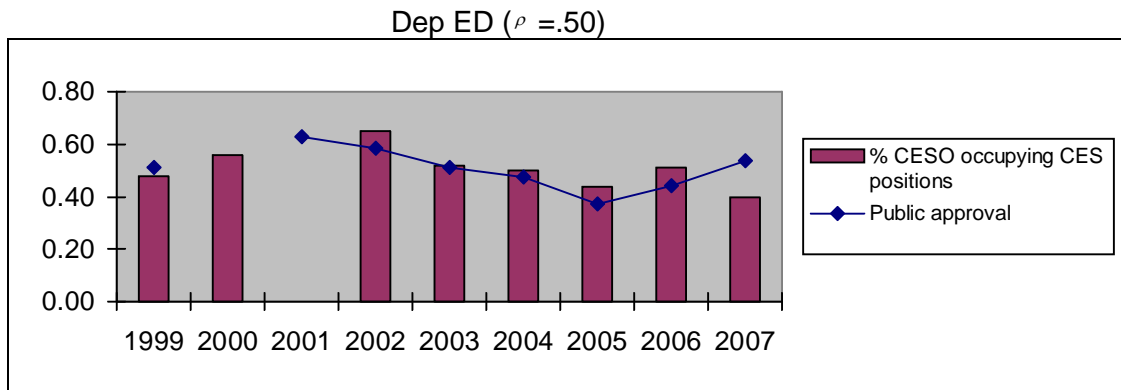


Base data: CESB, various years

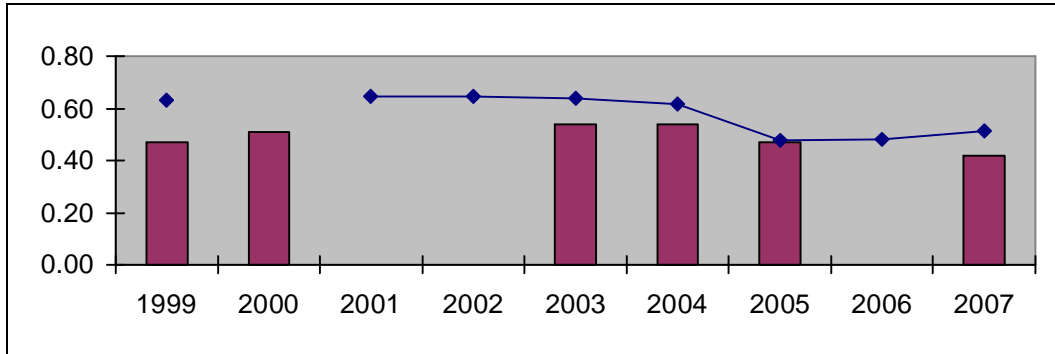
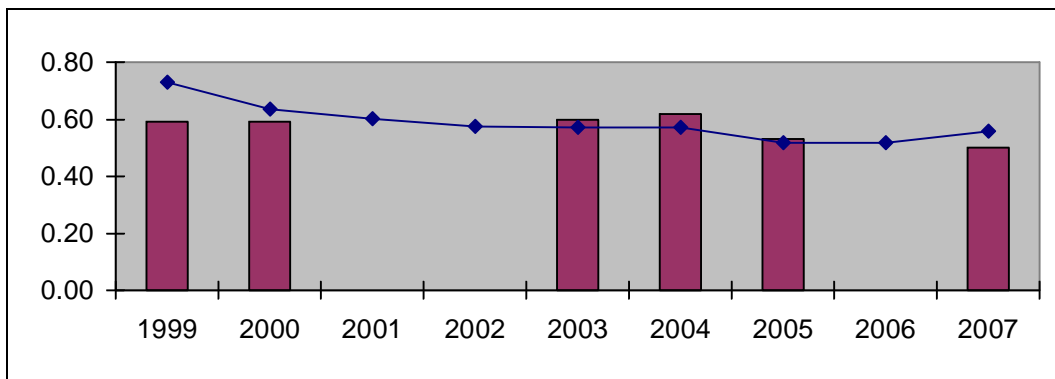
Quality and agency performance

What do these quality trends mean for agency performance? Agency performance is gauged thru user satisfaction or approval surveys, specifically, the public approval ratings of the DepEd, DSWD and DOH from 1999 to 2007.¹⁴ Simple correlations between these and the percentage of CESO occupying CES positions for each agency yield a positive coefficient (Figure 14). In other words, there is some evidence that, at least in the human services sector, a better quality of bureaucracy is associated with better agency performance as evaluated by the public.

Figure 15: Quality of Bureaucracy and Public Approval for the DepEd, DOH and DSWD



¹⁴ Pulse Asia data, 1999–2007. No other civilian agency in the Executive branch had a complete (or nearly complete) series of ratings.

DOH ($\rho = .69$)DSWD ($\rho = .37$)

V. Implications

This essay set out to help illuminate why eight decades after the first of many surveys and diagnoses on Philippine education, the same issues of access, quality, and relevance continue to persist. What could explain the inability of the education sector to get its act together? Is it a matter of shortfalls in material inputs or is there something else?

The essay zeroed in on the civil service in its capacity as “repository of expertise and institutional memory and implementer of policy” and defined institutions as the incentive systems that structure human interaction - the formal rules, informal constraints and enforcement characteristics, which together generate regularity in behavior and allow people to get on with everyday business. Have incentives embedded in the Philippine civil service been impinging on the performance of agencies such as the Department of Education?

It was observed that incentives, both monetary and non-monetary have affected the quality of the bureaucracy in the Philippines, especially over the last several years. External and internal distortions now weigh down the 20-year-old government compensation system. The increasing number of ad-hoc bodies, presidential

consultants/advisers and political appointees is also a source of demoralization. The latter, which pertains to non-monetary disincentives, is far more critical in government than in the private sector because the link between money wages and agent performance in government is, by definition, relatively weak.

On the whole, trends in the profile of personnel across all levels of the corps indicate a deteriorating quality, especially at the 3rd level comprising executive and policy/highly technical personnel. This seems to be accompanied by an increased vulnerability to rent seeking. Positive correlations observed between shares of CESO eligible people occupying executive posts in human services agencies and corresponding agency public approval ratings, also provide some evidence that better bureaucracy quality is associated with better agency performance in the Philippines.

What does this imply? If country shortcomings in human development are to be addressed, then institutions (incentives) impinging on the civil service and on the performance of the bureaucracy need to be reformed or, at the very least, contained. Three proposals are worth considering.

The first is to strengthen 3rd party enforcement as regards personnel hiring in order to reduce or check ineligible, political appointments. This would require clarifying the extent of the Presidential prerogative – identifying which positions are subject to it and which should be based solely on merit and fitness - as well as clarifying the role of the CSC in enforcing the same. Provisions to this effect are currently proposed under House Bill No. 3956 or Senate Bill No. 270 which seek to establish a *Career Executive System*. Third party enforcement as regards the creation of new agencies – which is currently the jurisdiction of the DBM and Congress – also needs to be clarified and strengthened.

Second is the reform of monetary incentives, which is long overdue. The framework of the current SSL is more than 20 years old and there lessons in the field of human resource management should be integrated in order to better link government compensation to agent contribution. The proposed *Government Classification and Compensation Act* designed by the CSC in 2006 tries to innovate in this regard.

Third is an official policy of *transparency* as regards the role and authorities of presidential consultants/advisers. While any president is entitled to his or her advisers, the question is who they are, what their terms of reference are, and whether and how they are held accountable to entities other than the president. Currently, regular Cabinet officials undergo a Congressional confirmation process in order to officially assume office. They are also subject to public scrutiny not to mention administrative laws that (theoretically) help ensure that power is not abused. Presidential consultants/advisers - who are considered “cabinet-level” positions – however undergo no such confirmation process, yet enjoy a great deal of authority.

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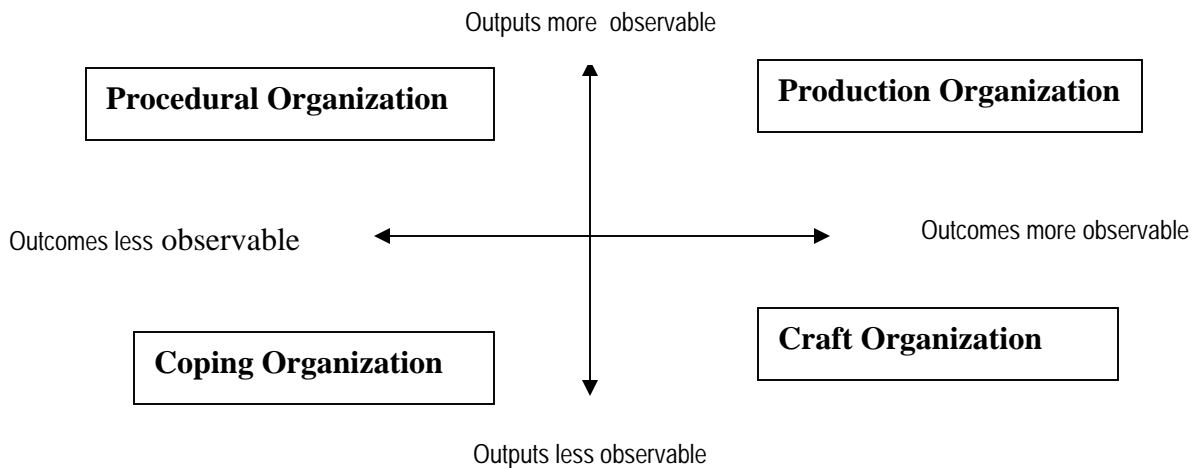
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Annex 1. Types of public agencies and DepEd as “coping” agency

Wilson [1989] discusses four types of government agencies depending on the extent to which outputs and outcomes are observable and a different mix of incentives may be required to motivate staff depending on type of agency (Figure 1). Outputs are defined as the work the agency does on a day-to-day basis while outcomes are the results of the agency work, that is, how (if at all) the world changes because of the outputs. Outcomes may be hard to observe because of the difficulty in gathering information (“with” and “without” scenarios), because they appear after long delays, and because of difficulties in attribution.

For instance, the output of postal workers (letters sorted, delivered) is relatively easy to observe while the output of a physicist (developing a theory) or forester (usually performed out of view of manager) is not. Outcomes of BIR agents are relatively easy to observe while outcomes from police work (changes in level of security, safety and order) are not.

Annex Figure 1: Typology of government agencies



The BIR is an example of a **production** agency. Its outcome is to maximize taxes collected per employee and the activities of clerks and auditors and the amount of taxes collected as a result of those activities can be measured. Production agency workers can be evaluated on the basis of their contributions to efficiency.

Craft agencies include investigative, research or engineering agencies. Although outputs are less observable, outcomes are more so making them goal-oriented rather than means-oriented. Craft agencies are likely to rely heavily on the ethos and sense of duty of staff to motivate and control behavior and can be procedurally self-regulating. Managers can evaluate and reward staff on the basis of results they achieve.

Management becomes means-oriented in *procedural* organizations (juvenile detention centers, barangay health centers). Basically, since activities of staff can be watched (while results appear after long delay), it will be watched all the time. Consequently, morale is likely to suffer and work biased by surveillance.

Finally effective management is almost impossible in *coping* agencies, where both outputs and outcomes are less observable. Public school systems, local police forces, and diplomatic corps are examples. In public school systems, teachers work on their own away from the sight of managers on a daily basis, education outcomes are long delayed and difficult to attribute, and resources are rarely under school's control. Management has a strong incentive to focus effort on the most easily measured and controlled activities of staff (e.g. lesson plans, attendance records, forms completed) and there is likely to be a high degree of conflict between managers and teachers. The same may not hold for private schools since they must survive by attracting clients and they face far fewer constraints in the use of capital and labor.

DepED as a coping agency

The DepEd is an illustrative case. The focus on inputs at the expense of outcomes, or on “standard operating procedures rather than standards” can be precisely explained by the fact that education “outcomes require a long-term time horizon, both in terms of planning and implementation, while the demands are immediate and can be strident” [Luz, 2008].

“Congressional requests and pressure raised by annual budgeting forces the bureaucracy to look at the input-side rather than outputs (much less outcomes). In three years of defending budgets before Congress [from 2002 to 2005] not once have the interpellation by congressmen been on education outcomes. Every year, the attempt by the Department to present school outcomes was cut short by requests of legislators to answer questions on school needs in their own districts.” [Luz, 2008, p. 16.]

The choice of ‘which processes matter?’ is likewise influenced by the nature of outputs and outcomes. Processes include curriculum design, in-classroom teaching, testing, guidance and counseling, student extra-curricular programs, and the like, and the methodology or delivery mechanisms reflect differing interpretation of standards and policy [Luz, 2008].

“In curriculum design, for example, should the Department of Education prescribe a platform of *desired learning competencies* expected of all children or *minimum learning competencies* based on what the average student can achieve? ... For DepED, the debate is often shaped by the pressures of growing enrolments that are straining the system, as a whole, and leading to overcrowding of schools, in particular. In the effort to meet the growing demand for education services (more from population pressure than from actual household appreciation), DepED tends

towards a “one size fits all” rule as the most efficient way to try to address need all over the country. This has tended towards the minimum learning competencies mode.” [Luz, 2008, p.8]

A ‘culture of obeisance’ [Bautista, et. al, 2008] or of “no memo, no action’ is also described. Despite, the Basic Education Act of 2001, which provides for school-based management and principal empowerment, DepED and the public school system is still very much a top-down bureaucracy [Luz, 2008]. In Luz’s account [2008, p19]:

“Instructions flow from the central office to all schools through the time-worn “DepED Memo”, a written set of instructions that may be as important as the announcement of a new direction, policy or program (e.g. on the new Basic Education Curriculum) to the mundane (e.g. dress code of teachers) to the purely informational (e.g. announcement of declared holidays) to the reiteration of past and current policies and practices still in effect (e.g. reminders of existing rules on school fees and the manner and timing of these collections). In a given year, as many as 400 DepED Memos may be issued by the central office either by the secretary of education or one of the undersecretaries, in the name of the secretary.”

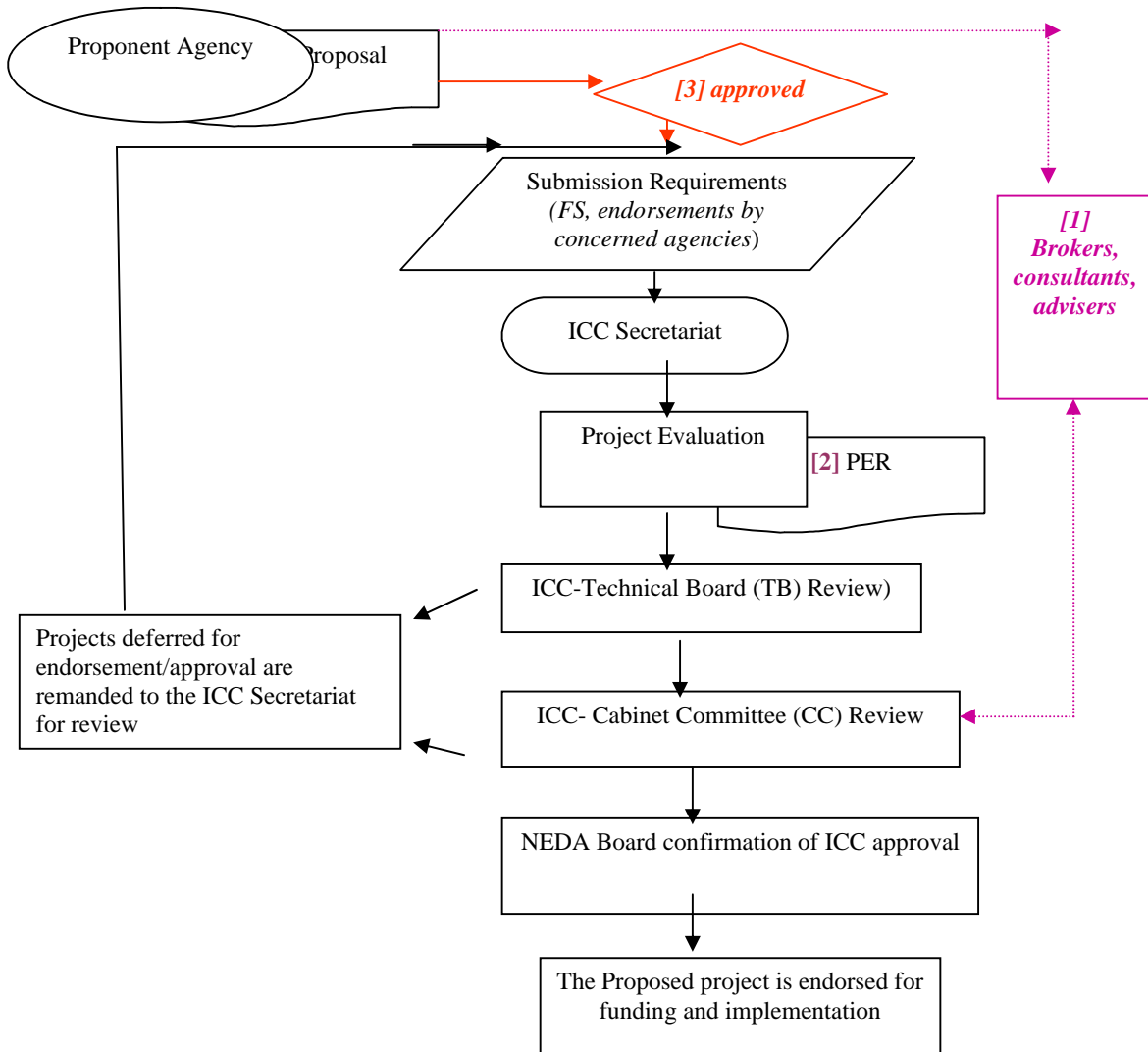
“The DepED bureaucracy lives (and dies) by the DepED Memo and this is so ingrained in the system that administrators and school heads will wait for these rather than act on their own. A common joke: A principal will wait for a DepED Memo on “principal empowerment” before he will act on an issue.”

From coping to craft agency

Luz outlines a way forward based on school based management (SBM) and community involvement. Using Wilson’s framework, making the shift to school-based management (SBM) can be viewed as moving the DepEd and the public school system **closer to being a craft agency** where the possibility of motivation and effective management is greater. Just as craft agencies rely heavily on the ethos and sense of duty of staff, the intention of SBM is to enable and empower all schools with their communities to manage their own affairs for improved delivery of education services in a sustainable manner With SBM the ownership of schools and of education outcomes are given primarily to those at the frontline, primarily principals together with teachers and local communities.

The visible effect or impact of “empowered principals” to effect or observe outputs and outcomes was demonstrated by the relative success of SBM experiments, as described in Bautista et.al. [2008]. For instance, under the JBIC/WB-supported Third Elementary Education Project (TEEP), schools learned how to focus on education outcomes. Among the improvements observed: higher participation and promotion rates, lower dropout rates, narrower gaps in completion rates, more TEEP schools (by proportion) placed among the country’s top 1% schools in terms of the National Achievement Test (NAT), TEEP schools with a larger share of schools at the 75% mastery level and 60% near-mastery level (NAT).

Annex 2: The ICC Process



Consultants and advisers hired represent a “parallel” process of project evaluation, indicated by [1], effectively undermining the ICC process. While this parallel process may not affect the quality of the official project evaluation report produced in [2], what could be the signal that the project is policy, that is, it is already “pre-approved” [3].

Source of base figure: NEDA [undated]