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## **ASSESSING POLICY IMPLEMENTATION SUCCESS: *Observations from the Philippines***

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### **Introduction**

This paper analyzes the establishment and start-up of the One Stop Shop Inter-Agency Tax Credit and Duty Drawback Center in the Philippines. It briefly describes the policy change agenda that was embodied in the creation of the Center, and outlines developments at the Center during the past 18 months. It explores the issue of bureaucratic complexity as this has affected the ability of Center management and staff at the Department of Finance (DOF) to implement the policy reform agenda.<sup>1</sup>

Finally, it examines to what extent the Center's managers actually adopted the principles and techniques of strategic management and if they did, what difference it made to successful implementation of that policy agenda.

Strategic management may be seen as a way to put managers and their organizations in a more constructive and comprehensive relationship with their respective environments, allowing them to respond flexibly to changes in those environments so as to get the policy implementation job done. This involves an assessment of the environment, awareness of the stakes and who the stakeholders are, and adapting actions so that winners will find their roles maximized, while losers are neutralized or coopted as much as possible. A strategic management approach

also involves an ongoing analysis of the political context of the policy change implementation process, and the ability to respond fairly quickly to changes in that context. Further, it is a way of getting a variety of organizational units or whole organizations to see that it is to their benefit to collaborate to achieve implementation targets. Like a number of management approaches, it has usually been assumed that strategic management is essentially culturally-neutral and can be applied with equal success in any politico-bureaucratic environment.<sup>2</sup>

However, as Heginbotham (1975) points out, there are common characteristics of bureaucracies around the world, yet at the same time there are obvious differences in patterns of bureaucratic operations across nations. Proponents of cultural explanations believe that the differences arise from the distinctive cultural and historical settings, which influence individual and group relationships and behavior.

Wilson (1992: 435) states that, "The long-term character of a bureaucracy is not determined by the technical tasks it confronts but by the political and social forces operating on it." The literature on bureaucratic culture attests that linking the cultural orientation of a society to its political structure and patterns of political behavior is difficult, and while cultural explanations enjoyed some popularity in the 1960s and 70s, they are not prominently present on

political science research agendas of today. As sources maintain and as this paper will illustrate, however, culture is still to be considered an important factor in comprehending bureaucratic behavior and policy implementation successes and failures (Gaenslen 1986; Zhao 1990a; Zhao 1990b).

### **The GOP-Donor-IPC Context**

The objective of the GOP-A.I.D. Support for Development II Program<sup>3</sup> is to improve competitiveness of Philippine exports in world markets. This overarching goal is to be met by achieving a number of policy reform targets that are embodied in a negotiated policy matrix (Figure 1).

IPC's technical collaboration role, funded by the GOP through A.I.D. with a portion of the estimated \$60 million cash transfer, has been primarily in the areas of VAT administration with the Bureau of Internal Revenue, and support to the One Stop Shop Inter-Agency Tax Credit and Duty Drawback Center ("the Center") located at the Department of Finance. IPC is also responsible for assisting the National Economic Development Authority (NEDA) in the development of a monitoring and evaluation system for the entire SDP II program and similar performance-based programs.

IPC was to provide both management and technical expertise to facilitate systems and procedures development and to provide training and management support to the Center's operations. IPC staff and consultants were also to participate in the six-month performance evaluation exercise, and to carry out the decentralization study with Center staff.<sup>4</sup>

Over the past 18 months, IPC has provided support from three management trainers, two tax and duty drawback specialists, two management information systems specialists, a senior strategic management specialist, and an evaluation specialist. Two strategic retreats were held with Center and Executive Committee members, as well as a number of training sessions. A study tour was organized to New Zealand to observe other potential systems, and computer hard and software were supplied to the Center.

### **The Policy Change Implementation Task**

#### **Private Sector Lobbying for Policy Change**

Starting several years ago, Philippine exporters began to lobby through the Philippine Chamber of Commerce and Industry (PCCI) and other venues for

the government to reduce the amount of duty they pay on imported materials that become elements of exported products. In other countries where exports are an important economic sub-sector, exporters are allowed to import materials for re-export duty-free.

This is done by using duty-free export promotion zones, systems of bonded warehouses, or a policy of import duty exemptions.<sup>5</sup> In the Philippines, an exemption approach has been recommended by donors and various elements in and outside the GOP, but has so far not been adopted, largely because of fears of serious revenue loss. Instead, the GOP has maintained a fairly complex regime of duty drawbacks and tax credits that are allowed to exporters who can prove that they have paid duties and taxes on imported materials that then became part of goods—and in some cases the packaging of goods—that were exported. There are several systems and sets of procedures involved, mandated by a variety of laws and internal GOP regulations, and previously administered by a variety of GOP agencies, as will be seen further below.

After a considerable lobbying effort, the private sector exporters decided that if they could not persuade the GOP to lower or waive these taxes and duties altogether, their next target should be to get the government to implement the existing systems more effectively. They wanted at least to receive the duty drawbacks and tax credits to which they were entitled by law within a reasonable period of time. They argued that the two-three year lag in payment of duty drawbacks was a significant disincentive to export production and sales, and that for the smaller potential exporters, it was a barrier to entry since it significantly diminished cash flow, and added unbearably high transaction costs. Further, it was argued that the complexity of the regulations for both VAT credits and duty drawbacks was in itself an additional burden on the exporters who had to pay brokers, lawyers, and other middlemen to ensure that they eventually got their money back.<sup>6</sup>

#### **Government Response**

The GOP took two interim steps to respond to the pressure from exporters. First, the Bureau of Internal Revenue (BIR) established a "fast lane" for the partial refund of VAT tax credits for exporters who could prove that they had indeed used the materials on which they had paid VAT (this includes a potentially wide range of materials) in the production of items for export. A credit equal to 40% of the amount

claimed could be received automatically on filing of the VAT return. After post-audit of the entire return, the actual amount of credit due would be recalculated. In fact,

**Figure 1**

**Support for Development Program II  
Policy Implementation Matrix**

Overall Goal: Philippine Exports Competitive in World Markets

<b>Policy Objective/ Implementation Action</b>	<b>Performance Indicators</b>	
	<b>Tranche 2</b>	<b>Tranche 3</b>
<b>A. Strategy: competitive pricing for exports and their inputs.</b>		
1. Market-determined foreign exchange rate.		
Liberalize foreign exchange transactions and holdings	Comprehensive review of foreign exchange rules and regulations  Retention limits for exporters of their foreign exchange earnings substantially expanded	Recommendations of the review acted upon, including: <ul style="list-style-type: none"> <li>■ Participation in the foreign exchange market expanded to other banks and nonbank institutions.</li> <li>■ Revised accreditation system for foreign exchange brokers and dealers operating.</li> <li>■ Test run of off-floor trading among commercial banks and review of experience completed.</li> </ul>
2. Access to inputs at world prices.		
Streamline duty drawback and VAT credit systems.	One-stop duty drawback and VAT center operating effectively. Procedures for prompt approval of 40 percent of VAT tax credit claims implemented.	Length of processing time for 80 percent of completed applications reduced to 60 days or less for at least a three month period.
<b>B. Strategy: Supportive environment for exports</b>		
1. Adequate provision of inter-island line shipping services		
	Action plan adopted to liberalize liner cargo rates.	Agricultural commodities reclassified. Cargo fork tariffs widened significantly.
2. Efficient financial resource mobilization		
Lessen interest rate impact of public debt financing through improved management.	Action program for improving the access of small savers to government securities, including possible use of trust	Mechanism(s) for the access of small savers to government securities designed.

units and/or saving bonds,  
adopted.

most of the final claims still wind up being adjudicated in the Tax Court but at least claimants can get a partial credit fast, which may also serve as an incentive to filing. Applications could only be filed at the BIR Headquarters in Manila, however.

Second, the Bureau of Customs (BOC) established a “One Stop Shop” for Duty Drawbacks at the Port in Manila, which is at the other end of Metro Manila from BIR. This new entity was slow to start up, and there were a number of issues about the kind of documentation required and procedures to be followed that were addressed in a consultants’ study carried out by the University of the Philippines Department of Engineering. The shop had limited staff, and had just begun operations when SDP II was being negotiated.

By the time the final SDP II policy matrix was negotiated in late September 1991, it had become apparent that despite institutional rivalries, the private sector exporters would be better served if there were *one* central fast-lane location where they could apply for and receive both duty drawbacks and VAT tax credits, and that this “One Stop Shop” should be operated along lines that would make corruption and extortion absolutely minimal. The creation and operation of this new “Center” was included as one of the performance targets in the SDP II policy matrix, and it was decided within the GOP that it should be physically located at the DOF, but run by an inter-agency committee representing all the agencies already involved in issuance of drawbacks and tax credits. To ensure tranche release under SDP II, the Center had to be “operating effectively” at the end of six months, which would be measured by speed of claim processing. The matrix required a 60 day turnaround, but as will be seen, Center staff imposed a shorter turnaround time on themselves, which they were able to maintain.

## The Center

Created by Administrative Order 266, signed by President Aquino on February 7, 1992, the One Stop Shop Inter-Agency Tax Credit and Duty Drawback Center (formally known as the Center, but often referred to as the One Stop Shop), began operations on May 6, 1992 at temporary offices at the Department of Finance. Governed by an inter-agency Executive Committee (Excom), it was to be initially staffed by secondment of existing staff of the various agencies involved: the BOC, the BIR, the DOF and

BOI, and the Board of Investments.<sup>7</sup> The Administrative Order (AO), gave the Department of Finance primary implementing authority, but under the terms of the Order, DOF had to act in collaboration with the other agencies. This was particularly true during the first phase, when staff had to be seconded from these other agencies, since the Center had not appeared in the DOF budget submission, and so had neither a staff ceiling allocation nor an operating budget. The Administrator of the Center, responsible for its management, was an Assistant Secretary (ASec) of the Department of Finance, serving as a delegate of the Secretary. Actual day to day operations were managed by a more junior Deputy Administrator from the DOF.

The Center started off its operations with considerable good will from its private sector clients, and a bit of fanfare in the press, but with a number of bureaucratic liabilities. First, the members of the Excom were far from uniformly behind either the purpose or the bureaucratic location of the Center.

This was especially true for the BOC, which had lost in the battle to maintain ownership of the one stop shop concept and function, and the BIR, which had initially refused to collaborate with the Center at all, since it had established what it felt was a “fast-lane operation” that was already operating effectively.

Traditionally, DOF had only been involved peripherally in the tax credit and duty drawback area, although its claimants—major oil companies among others—were certainly among the largest and most powerful. Ostensibly, BOI was eager to get out of the act, because it had a new mandate, and because TCCs were a headache, and an investigation was likely to be undertaken of malfeasance in connection with those formerly issued by BOI. However, not only turf was at stake, but the power base constituted by the ability to grant TCCs, which was considerable. It is not surprising either that secondments to the Center of relevant staff were slow, and that there was never agreement on consolidation and streamlining of procedures while staff from the four original TCC granting agencies were at the Center.

Despite these problems, there was a considerable groundswell of interest in the Center and its performance at higher levels of the DOF, and the private sector lobby continued its effective pressure, so that temporary staffing was virtually complete by June 1992. Facilities, however, lagged behind in part because of the bidding requirements enforced in connection with a proposed A.I.D. grant. By

September 1993, permanent facilities were still not available. Center management tried to make a virtue of necessity, and developed a proposal to create a Trust Fund, to be replenished by proceeds of claimant application fees. The Trust Fund, if approved by the GOP equivalent of OMB, would provide salary incentives to staff based on performance. It was thought that this would go some way toward modifying the “old habits” of seconded staff who were used to exacting rents from claimants. To try to meet the need for basic furnishings and equipment, the Center also appealed through PCCI to its private sector clientele, asking for appropriate donations.

Some donations were initially forthcoming, but then it was decided that this might lead either to conflict of interest or at least its appearance, and the request for donations was rescinded.

The Center began operations as scheduled in May, after a series of training sessions designed and facilitated by IPC, and funded by SDP II. These were specifically requested by the Administrator and Center staff, who were very keen that the syllabus include “values training” to reinforce “good habits” on the part of the staff when dealing with claimants.

The other emphasis of the training sessions was participation of all the staff in the design of new procedures and rules of operation for the Center. This included staff setting their own performance target: processing of completed claims within 30 days of receipt, rather than the 60 days allowed for in the SDP II Policy Matrix.

Following closely on the training sessions, there were two strategic management exercises held with the Executive Committee and with senior Center staff, to refine the mission statement, ratify the procedures, and determine how these would be carried out.

Subcommittees of the Excom were created to undertake further strategic management tasks, and were to meet periodically. During the strategic management sessions, the fundamentals of stakeholder analysis were presented and practiced, as were other aspects of the strategic management approach to policy change implementation. On the whole, the response was positive, and commitment to the Center’s agenda seemed to be high despite inter-agency rivalries and reticence.

This series of IPC-facilitated activities was followed by further elaboration of a management information system (MIS) for the Center. This turned out to be one of the most important aspects of the technical collaboration effort, since computerization of

evaluation and verification of claims, and the ability to check progress against the 30 day target—as well as finding any claim application at any point in time—were all important components of efficiency and the underlying battle against potential corruption.

The other important aspect of a computerized MIS was that, if a local area network (LAN) system were introduced, it would no longer be necessary to move the actual (original) documents provided by a claimant from one agency to another. This had been an important source of problems under previous systems. Either documents were actually lost, or agency staff and/or brokers working for the claimants could claim they were lost, so that additional fees could be charged, and delays multiplied. The Center did not have its own MIS specialist, so IPC hired the local consultant who had been working on the system while he was still a DOF employee, and provided additional U.S.-based expertise. In the end, the MIS and its ability to predict fraud became an important political issue within the DOF.

Inter-agency complexities and collaboration issues were apparent long before the staff were actually in place, but everyone involved asserted that given sufficient political will, and effective computerization, the most important obstacles could be overcome. The Center Administrator and his Deputy continued to rely on pressure from PCCI and its members to get resources flowing to the Center, and on positive publicity from claimants to keep up pressure for budget approval. It is worth noting that the claimants were willing to pay relatively high application fees to keep the Center going so they could, in effect, *get their own money back from the government.*<sup>8</sup>

A subtext of the inter-agency collaboration issue had to do with Standard Rates of Manufacture (SRs).

Some of the private sector companies that lobbied most effectively for faster duty drawback payments asked that standard rates be applied by “industry sector”—textiles, prawns, wood and timber products, etc.—so that each claim could be processed more speedily and more fairly, in terms of a standard rate calculated on the basis of an average of components, content, size, grade, etc. of the product in question.

Others backed the alternative approach, where a rate could be established firm by firm. The latter system means that the “real” composition of goods for export manufactured by that particular firm is calculated, and the firm then can claim for duties and taxes paid on an exact rather than an industry average basis.

Such a system is to the advantage of the larger firms who can afford to wait until this calculation is made.

Establishing SRs by industry has been done for two of the most important export subsectors, textiles and prawns, by the DTI, which is a significant accomplishment.

Although industry-wide SRs are prejudicial to companies at both the very large and very small ends of the scale in a given industry, there was general agreement among PCCI member industries that gains would outweigh losses. That is, since SRs would allow speedier and fairer processing of claims, what was lost in the averaging would be gained in terms of the opportunity cost of money. Also, industry-wide application of standard rates would make it much harder for officials to exact rents from export producers.

Recognition of the importance of the principle of Standard Rates in the calculation and granting of duty drawbacks was demonstrated by including revision or calculation of SRs in the performance targets of the SDP II Policy Matrix initially negotiated. However, when funding was cut, this was one of the targets eliminated. Nevertheless, one of the subcommittees of the Center's Excom was the Standard Rates Committee (Starcom) which met several times, but could not come to much agreement about how to spend its budgetary allocation. A World Bank grant to support calculation of additional SRs has still not been disbursed. What is significant for the purposes of this discussion is that the matter of the Center's jurisdiction over the calculation and application of SRs introduces even more bureaucratic complexity, since this is the province of DTI, the Bureau of Export Trade Promotion (BETP) and the IDTI, an institute that has the technical capacity to determine what something is actually made up of and in what proportions, and which actually calculates the standard rates.

### **How the Center Fared**

What is most interesting about the Center's operations is that despite a number of tangible and intangible obstacles, the organization managed largely to stay on track in terms of the objectives set for it in AO 266, as well as those that the staff set for themselves in the initial participatory training sessions. These internal decisions were codified and amplified in the later MIS development sessions.

Despite the constraints of unfinished, temporary facilities, lack of sufficient computer equipment, reluctantly seconded staff with little or no motivation

to make the new entity succeed, persistent electricity brownouts, bureaucratic obstacles introduced by A.I.D.'s procurement regulations, complaints from private sector clients about fees, and continuing attempts from clients to cut deals with the staff, the Center continued to meet its self-imposed target of a 30 working day turnaround time for a completed claim application.<sup>9</sup>

During its first eight months of operations, the Center developed new procedures and systems, including a computerized MIS. It also trained its staff, acquired resources, got its budget allocation approved, got the Trust Fund mechanism approved, set up a fee structure, and granted a total of 1034 Tax Credit Certificates, representing 1 billion 815 million Pesos in face value, which in turn represented over 18 billion Pesos in exports and inward remittances.

Even though the evaluation revealed that most TCCs are informally realized at a discounted rate of only 40% of face value, this still represents a considerable return to exporters within a very short period of time.

So, by the time the internal evaluation took place, it was clear that the Center was operating effectively both in terms of its own performance criteria and in terms of those embodied in the SDP II Policy Matrix, whose target it outperformed.

Continuing operations and the external evaluation revealed, however, that the GOP— and the DOF itself—are ambivalent about the purposes and very existence of the Center, let alone its visible success.

This first became apparent during the DOF-wide strategic management retreat held in June 1992, during the transition to the Ramos administration. At that retreat, the emphasis was clearly placed on the need for enhanced revenue generation. Even the outgoing Secretary of Finance, who had been seen before as a champion of the Center, stressed revenue generation and indicated a strong desire to eliminate incentive programs of all kinds, including drawbacks and tax credits.<sup>10</sup>

While we had already been aware of the inter-agency rivalries and stakes at the central level, it was only when Center staff and the author went on the SDP II-funded evaluation/decentralization visit to the regions that the real-world impact of this ambivalence became clear to us. Clearly, some if not all of the Center's staff had been aware of these turf and other issues, but most of them were not in very close touch with their clientele at the local level. The DOF staff, who were new to duty drawbacks and tax credits, were understandably least aware of the ways in which



stakes were experienced and protected at this level among exporters themselves and between exporters and the officials with whom they had to deal.

During these visits, we met with local exporters, small medium and large-scale, and with representatives of Customs, BIR, and BOI/DTI, as well as PHILEXPORT.<sup>11</sup> As we met with exporters, and then with Customs and BIR officials, we became keenly aware that they were operating under a system of formal and informal rules that meant that the TCCs issued either by Customs or by BIR through the Center—even if awarded more efficiently than before—were largely useless to the claimants. This was less true for VAT tax credits, which could be applied by those who paid VAT taxes on other goods. But for TCCs for duty drawbacks, the situation was different. In each of the six regions we visited, exporters told us that their local Customs Collectors would only accept a percentage of the face value of the TCC as payment of other duties. When we went to visit the Collectors themselves, they relatively freely verified these allegations, pointing out that they were each given a monthly revenue collection quota by the Commissioner of Customs. If they gave full credit for the face value of the TCCs, then they could not meet their quotas, they said. Therefore, they had arrived, “with the agreement of their exporter clients”, at a discount rate of about 40% of face value. Further, since they were suspicious that TCCs presented might be counterfeit, they requested re-verification from the Center before accepting them.

This in turn, increased the delays and the transaction costs to the exporter, often by several months. This procedure allowed the GOP to borrow the exporters’ money free of interest for at least another quarter.

While VAT tax credits seemed more readily negotiable, they can only be applied for at BIR HQ in Manila. Most of the 100 or so exporters interviewed either had no idea of how to apply, or were completely unaware that VAT tax credits existed.

Further, some didn’t realize that they were paying VAT. (Many were probably dealing with suppliers who were not charging VAT, but we were not able to verify this.) Those who had applied and received credits pointed out that they could not use them since they were not VAT payers, being exempt under a variety of BOI incentive programs. Most of these were large-scale processors or manufacturers, however, who had multiple companies or subsidiaries, so they essentially trades their TCCs to related entities.

Most of what the team learned in the field seemed genuinely to be news to at least some of the GOP representatives on the team. The DOF staff, and some of the BIR staff, seemed truly appalled at the pervasive level of ignorance displayed by even the more sophisticated exporters about the rules and regulations governing manufacturing and trade, as well as taxes and duties. Whether the matter of discounting Customs-related TCCs was news to the BOC representative on the team never became clear to the rest of the team. But what was particularly striking to everyone on the team was the extent to which the exporters were operating in an information vacuum. Those for whom this was least the case were those with offices or brokers in Manila, but even they were often unaware of some of the rules and incentive programs that would have facilitated their business activities. For the smaller operators with only local access, there was virtually no information other than that—often erroneous—provided by local-level officials representing central departments of the GOP.<sup>12</sup> As part of the IPC-inspired MIS/M&E system for SDP II, we initiated an exporter survey.

This has been piloted and is now in the analysis stage. It attempts to get a stratified sample of exporters to self-report on a variety of costs related to the policy reform provision of SDP II, and on some exogenous variables as well. It also includes a section on transaction costs, including those associated with “availment” of drawbacks and tax credits through the Center and through other venues.

### **Did the Center Manage Strategically?**

Under the IPC technical collaboration contract, a considerable amount of local and expatriate consultant time was devoted to working with the Center’s management and staff, including the members of the Excom, to transfer the main tools of the strategic management approach. The most senior manager involved with the Center and with the IPC consultants was an UnderSecretary of the DOF, who from the beginning appeared to believe that some of the elements of strategic management were worth buying into both at the level of the Center and beyond, within the Department. Reaching beyond the compass of the Center itself, at the request of two succeeding DOF secretaries, two strategic retreats were held with senior DOF staff at which major tools were used, including stakeholder analysis and force field analysis. These retreats were largely a result of this manager’s initiative and persuasive powers.

Nevertheless, it is not clear that the elements of the strategic management approach as these were transferred to Center and DOF managers had much to do with the bureaucratic or policy outcomes described here. From the evidence the IPC technical collaboration team has, it seems that these managers were managing strategically, but doing so intuitively.

It seems unlikely that aside from structured seminar situations, they actually sat down and formally analyzed their bureaucratic and political environments in terms of stakeholder analysis, force field analysis, or political mapping, and then took a series of strategic management decisions as a result.

Rather, they assimilated the terminology and the basic steps of these strategic management tools, and then continued to manage strategically, only explicitly using the tools when outsiders were present.

Filipino bureaucrats, like others in societies where the barriers between the civil service and the rest of civil society are highly permeable, are obliged to act in terms of the political and social forces operating on them, and to balance them adroitly (Wilson 1992).

They must calculate and navigate the cross-cutting currents of intra-bureaucratic loyalties and loyalties and obligations that prevail outside the bureaucracy.

And, in the Philippines, it is often the case that a key individual or group is both a major stakeholder, patron or potential champion inside and outside the bureaucracy.<sup>13</sup> Riggs (1964) demonstrates that bureaucratic officials have implicit or explicit agreements with the government, but also have ascribed privileges and duties that derive from personal identity, family and social position. The bureaucrat seeks to maximize the advantages from both systems, and minimize the disadvantages. In doing so, the individual often contributes to the nepotism, clientelistic relationships and corruption often present in bureaucracies. Wilson (1992) concurs with Riggs as he indicates that bureaucracies are not “courageous organizations;” people generally join them to obtain income and status, not to make a political statement (Wilson 1992). At the same time, motivation and control are fundamental to bureaucratic behavior. Significant motivating factors in the actions of bureaucrats, Filipinos included, are the yearning for material gain and status recognition, and the desire to fulfill internalized social and cultural norms (Heginbotham 1975; Gaenslen 1986; Zhao 1990b).

For the Center’s managers, there were several potentially conflicting values at stake: personal career enhancement and income supplementation,

bureaucratic survival and entrenchment, and efficient and effective public service. In the beginning, at least, the Center’s direct managers were not empowered to make the decisions that would critically support the choice of any one or combination of these over the others. As time passed, however, they defined their mission primarily in terms of efficient and effective public service in the interests of their exporter clientele and as a result, parlayed this into bureaucratic expansion which, in turn, at least for the present, has led to possibilities of career enhancement and merit pay. In part, this steady—if perhaps temporary—balancing act was achieved with the help of the clients themselves, who are a strong enough group of stakeholders to lobby successfully for the Center’s continued existence.

If, indeed, strategic management is a way to place managers and their organizations in a more constructive relationship with their respective environments, so that they can respond flexibly to changes and get the implementation job done, then it would appear from the results that the Center’s managers were managing strategically. The fact that they succeeded in maintaining their performance target despite the inter-agency rivalries they faced, and the lack of common basis of support among the bureaucratic stakeholders, seems quite remarkable.

### **What Difference Has it Made?**

Tax credits and duty drawbacks are a compromise between an exemption approach, which would be financially and administratively easier to implement, and maintaining the existing system where drawbacks were more theoretical than real. The drawback system allows the GOP to collect the duty so that revenues are generated, at least for some time. Under the old system, the GOP could then take its own time about paying the drawback, thus getting free loans from exporters. Under the new system, there is a shorter turn-around time, but the “payment” by the government is still in the form of a tax credit certificate, rather than cash, which can then only be used to pay certain types of taxes and duties. Some companies simply “file and forget” their TCCs.

Thus, the policy impact of the Center may be minimal, since the exporters do not receive a workable, negotiable incentive as they were supposed to under the policy reform agenda.

The GOP justifies this approach on the basis that it must generate and retain revenues. When press

stories announced that the Center had given out 1.9 billion pesos in TCCs in its first eight months of operation—a sign that it was in fact doing its job—this was regarded as a hemorrhage of government outflows. An investigation was already underway concerning earlier, BOI-issued TCCS, so this news fell on very receptive ears among those who thought that this kind of “pandering” to exporters was inappropriate to begin with. The policy reform rationale underlying the Center’s creation seemed to be completely lost in the shuffle.

In 1993, there was a change in responsibilities among the UnderSecretaries of the Department of Finance, and a new UnderSecretary took charge of the Domestic Revenue Group under which the Center falls administratively. He was, justifiably, concerned about whether or not the new system in place at the Center was fool-proof in terms of claimant/staff cheating and kickbacks. But beyond this concern, he is one of those in the GOP who does not see the point of the Center insofar as it appears to be giving away revenue when the highest priority of the government is revenue generation. These two objectives, export promotion and revenue generation, while intimately linked logically, are perceived as mutually exclusive in the short term, at least by some key GOP officials.

Those who understand the policy best, the senior officials at BOI and DTI, are viewed at DOF as too soft on exporters and business in general, whose internal representatives they are seen to be. Since most senior officials at these departments come from prominent business families, this is not entirely surprising.

Despite this range of rethinking and reservations, in FY 1992, the DOF budget with the Center’s staffing ceiling and operating budget had been approved, as had been the trust fund to facilitate merit pay. Hiring of new “permanent” staff began in March 1993. A series of staff training activities, facilitated and funded by IPC, took place in July. Further training is being planned to enhance computer skills. The UnderSecretary who had the gravest doubts about the Center is now Acting Secretary. The New USec in charge of the Group under which the Center falls seems on the whole to be in favor of the Center, although it is still too soon to tell if she will maintain that attitude. With all its new and newly-trained staff, the Center is likely to become a more completely “DOF” operation, as was the hope of the Assistant Secretary who is still its acting Administrator. He had argued informally that DOF was the appropriate institutional home for the Center

for two reasons: first because the tax credit and duty drawback functions were originally part of the mandate of DOF, and second, because BOI was now getting “purely” into the export promotion business.<sup>14</sup>

Both DOF and BOI officials interviewed indicated that duty drawbacks and tax credits were somewhat peripheral to the “real” business of export promotion, being a carryover from the bad old days, in some sense. Part of his argument for canceling the details of staff from other agencies was that new, young, “clean” DOF hires will likely be without the “bad habits” of the older, more senior and seasoned representatives from other agencies who already have long-established histories of payoff and kickback relationships, especially at the regional level.<sup>15</sup>

In a sense, the ASec may be right. If all authorities for duty drawback, and VAT credits were finally transferred to the Center at DOF, the amount of bureaucratic complexity would be significantly reduced, at least on the surface. However, the situation with regard to documentation and verification of claims would still involve the other agencies, at least for a period of time. This was one of the more urgent issues during the first training sessions and the establishment of procedures and operating systems for the Center. This was a matter of turf: control over information and documentation, and thus power to “negotiate” with claimants. The technological solutions proposed—a LAN system, faxes, and the like—have never been adopted for at least two reasons which are mutually contradictory and yet mutually reinforcing: 1) all agencies involved want to maintain some “action” in the process by continuing to control the originals of relevant supporting documentation so that they can leverage either the Center staff or the claimants; and 2) those who want the Center to be incorrupt insist that the original documentation be provided to support claims, so that claimants—and Center staff—cannot readily change the figures on the basis of which claims are determined. At some point, the GOP will have to make up its mind on this issue, but doing so would require cooperation and collaboration among the Excom members, and a decision taken to streamline and centralize documentation requirements would have significant repercussions.

### **Concluding Observations**

It seems easy to conclude that the initial stakeholder analysis carried out by IPC consultants was correct; concerned stakeholders in the GOP were lukewarm

on the Center, and some, especially at BIR and BOC, were probably against its creation and success. On further examination, however, other stakeholders who were initially ignored in IPC's analysis, in part due to lack of information from the GOP itself, were really the most important players, especially BOI. Since DOF was the client, inheriting or re-arrogating to itself the functions formerly carried out by BOI, this DOF-centric view is not too surprising. But also, BOI was seen as potentially more facilitating than obstructionist, since it wanted to devolve the TCC granting function which staff saw as troublesome and old fashioned.

What we have learned about the relationship between bureaucratic complexity and policy change implementation is ambiguous. In the literature on bureaucracies, some sources state that is necessary to have some form of bureaucratic structure to run any large complex organization. Other specialists study whether the bureaucracy serves or impedes goals (Zhao 1992a; Pempel 1992a). They emphasize the importance of being aware of complex interrelationships between cultural values and administrative and economic problems in order to understand bureaucracies in non-western cultures (Riggs 1964; Heginbotham 1975; Doner 1992; Emerson 1983). Clearly, successfully developing the Center is a bureaucratically complex task, and yet, the Center has managed to keep to its targets, despite a number of very real disincentives and obstacles. In part, one would expect that this was because there was strong and continuous support from the private sector, but empirically this does not seem always to be the case. PCCI turned to other things, and at least some large firms seemed to be able to be indifferent to the Center since they could afford to use the old, inefficient (and corrupt) system.

What seems to be of greater explanatory value is that the Center is a new organizational unit, and its purpose, at least at the beginning, was regarded as innovative and part of a fight for clean and transparent government. During the IPC design visit, we were warned that there would be considerable competition from senior officials to take credit for the creation of the Center, since it would be a popular move. But unlike the sorts of units that are completely funded by donors or other extra-budgetary sources, the Center had to make its way without an initial budget, and largely with seconded staff. It succeeded, in part, due to the benign neglect of the ASec who was nominally in charge, and due to the hard work and goal-orientation of the Deputy

Administrator, who was also his protege. This result may be attributed to the fact that sources of motivation and attitudes towards authority and control, as well as perceptions of work, influence the behavior of civil servants and are contributing factors to the composition, complexity, and actions of bureaucracies (Heginbotham 1975; Price 1975; Riggs 1964).

In terms of political will and strategic management, the larger part of the Center's success seems to derive from the support it received from the UnderSecretary under whose Group it was placed within the DOF.

She saw the importance of the underlying policy objective, and was able to direct some donor financing toward the Center, while at the same time taking a low-key approach to the disbursement of other donor funding that might have accelerated Center operations and growth beyond the actual management capacity of those directly in charge. She was also able, often by circumventing direct to confrontation on the most difficult turf issues, to keep other agencies on board, if not necessarily enthusiastic, as members of the Center's Excom. Her style, which worked in the Philippine context, was to avoid confrontation and conflict while at the same time keeping the main objectives in mind. One observer states that bureaucratic actors "can be expected to view decision-making situations as opportunities to demonstrate the proper behavior toward their colleagues—perhaps to the neglect of the decision-problem itself" (Gaenslen 1986: 84). Here, success appears to have been equated with postponing difficult decision-problems while maintaining at least the facade of inter-agency consensus (Pempel 1992b).

Keeping the main objectives on the table in this atmosphere of conflict and compromise was probably facilitated by the existence of SDP II. Some of the other SDP II targets, such as liberalization of foreign exchange, were actually over-shot by the GOP. These were the ones that were bureaucratically and administratively least complex. The most political and bureaucratically complex ones, however, namely the targets dealing with VAT tax payments and with inter-island shipping rates, are the ones that were not met and that held up tranche disbursements. So inclusion in a donor-financed policy objective is not a sufficient characteristic for policy change implementation achievement, although it may be a necessary one.

The most important feature of strategic management and the policy implementation process in the

Philippines case is the role, style and power-base of the key policy champion. The main champion, the UnderSecretary first in charge, was seen both within and outside the DOF as professional, skilled, incorrupt and on her way up, as well as an able negotiator with donors. As a result, by keeping an eye on activities at the Center, and by avoiding frequent meetings of the inter-agency Excom, she was able to provide the space for the Center's senior staff to maneuver successfully during the first eight months of operations.

## ENDNOTES

<sup>1</sup> The Implementing Policy Change Project (IPC) is designed to support host country managers in using strategic management approaches to convert policy changes into action. Its overarching goal is to foster positive long-term impacts on socio-economic development through better policy implementation.

<sup>2</sup> The IPC Project Paper indicates that the question of the context of the policy change task is one element to be considered, but the approach is generally proposed as though it were culturally neutral in the various implementation experiments represented by Project buy-ins.

<sup>3</sup> This program is the second phase of a non-project assistance program that began in 1989, and was evaluated in 1993 (see Nathan Associates 1993). An IPC team participated in the design of SDP II in July and August 1991.

<sup>4</sup> These latter two activities are called for in the original SDP II Policy Matrix, negotiated before funding was cut, and were retained in the IPC technical collaboration contract.

<sup>5</sup> Bonded warehouses are used with some success for textiles and some other products in the Philippines, but a number of abuses have been noted, including by Center staff verifying claims. Export promotion zones are also being tried, and the one in Cebu showed considerable success until an apparent downturn in demand for Philippine exports in 1992-93. A variety of government officials interviewed during the design and implementation of SDP II indicated that while they recognized that an exemption policy would be best and easiest to implement, the Philippines was not ready for such a policy, in part because of the great need to generate revenues for the public sector. These same officials also note that in an environment where cheating, extortion and collusion are so common, only the simplest systems can be enforced, such as an exemption of flat rate system.

<sup>6</sup> In fact, under neither the former system nor the new streamlined system do the claimants get money. Instead, they get Tax Credit Certificates (TCCs) which are non-transferable, and only partially negotiable.

<sup>7</sup> The BOI, a parastatal attached to the Department of Trade and Industry (DTI), was initially created to promote import-substitution manufacturing industries. It provides, under various laws and regulations, a broad range of incentives to what are known as "BOI-registered" firms. In fact, many of the firms that are the major claimants at the Center are BOI-registered, benefit from these incentives, and file their claims through their local BOI representative, who forwards them to the Center. They already have experience with Tax Credit Certificates (TCCs), since BOI has been issuing them for many years. This is why the secondment of key BOI staff to the Center became an important issue for the Center's early ability to perform.

<sup>8</sup> In August, 1993, it was reported by the Philippine-based IPC staff that PCCI was now de-emphasizing its efforts regarding the Center, having shifted the responsibility to PHILEXPORT, a smaller group of primarily large exporters. What this might actually signify about the perception of the Center's success rate and viability among its clientele is difficult to determine without more contextual information.

<sup>9</sup> A "completed" application is one that has with it all the requisite original or photocopied backup materials. Thus, even though the Center staff were able to design a simple, user-friendly application process and form, they were still bound by various GOP regulations and had to require voluminous and costly supporting documentation for every claim. While transaction costs were indeed lowered, in part because it was made clear by means of a checklist what had to be in the application and what was still missing, clients still often had to come back more than once in order to complete their claim. Once the claim was marked "completed", the claimant received a numbered and dated stub from the application form, which started the clock ticking for the 30 days.

<sup>10</sup> In fact, during workshops held at that retreat, it became apparent how very many incentive programs there are for all sorts of Philippine-based industries. The impression the outsider is left with is that any incentive program ever put in place has been left in place, and no attempt has ever been made to streamline or group incentives either

by industry or by policy area. Someone who is well plugged in could, it would appear, with minimal capital, develop a thriving business by selectively accessing existing—and legal—incentives.

<sup>11</sup> The author was the IPC member of the team as well as the outside evaluator who was to see whether the Center had met the criterion of effective operation after the first six months. The internal evaluation was completed during a strategic retreat, facilitated by IPC consultants, and a report of the retreat was prepared as the evaluation report. The trip was also used to establish whether or not Center operations could and should be decentralized to several of the regions which are the highest exporters of raw materials or finished products. The conclusion of the team was that decentralization was a good and feasible recommendation, which should be implemented once the Center had received its staffing and budget allocations.

<sup>12</sup> As part of the IPC-inspired MIS/M&E system for SDP II, we initiated an exporter survey. This has been piloted and is now in the analysis stage. It attempts to get a stratified sample of exporters to self-report on a variety of costs related to the policy reform provision of SDP II, and on some exogenous variables as well. It also includes a section on transaction costs, including those associated with “availment” of drawbacks and tax credits through the Center and through other venues.

<sup>13</sup> Riggs (1964) demonstrates that bureaucratic officials have implicit or explicit agreements with the government, but also have ascribed privileges and duties that derive from personal identity, family and social position. The bureaucrat seeks to maximize the advantages from both systems, and minimize the disadvantages. In doing so, the individual often contributes to the nepotism, clientelistic relationships and corruption often present in bureaucracies. Wilson (1992) concurs with Riggs as he indicates that bureaucracies are not “courageous organizations;” people generally join them to obtain income and status, not to make a political statement (Wilson 1992).

<sup>14</sup> Both DOF and BOI officials interviewed indicated that duty drawbacks and tax credits were somewhat peripheral to the “real” business of export promotion, being a carryover from the bad old days, in some sense.

<sup>15</sup> Unfortunately, it is not totally implausible to posit that what is actually at stake here is figuring out how to make sure that DOF staff gain a monopoly on these kinds of payoffs and kickbacks, or at least a lion’s share.

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