POLICY BRIEF
2026-01-062, JANUARY 2026
ISSN # 2094-3342

De La Salle University
AKI
Angelo King Institute
for Economic and Business Studies

The Economics of Corruption in the Philippines: Distorted Incentives, Weakened Institutions, and the Cost to Growth and Freedom

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Key Messages

- Corruption is an economic distortion with measurable costs, not merely a moral lapse. It reduces the social return to public spending, weakens service delivery, and depresses long-run growth.
- Fiscal capacity without institutional discipline magnifies rent extraction. The binding constraint is governance, not spending volume.
- Corruption lowers the effective fiscal multiplier by diverting funds through overpricing, ghost projects, and substandard delivery.
- Transparency is efficiency-enhancing: when information is observable and verifiable, rents shrink and accountability becomes enforceable.
- Durable reform must be institutional, not personality-driven. Integrity must be embedded in rules, systems, and enforcement.
- Reforms must be sequenced to deliver early credibility and lock in long-term institutional change.

1. Rationale

Corruption in the Philippines is not merely a matter of weak regulation; it is deeply rooted in the politics of power, where political dynasties control elections and key appointments. These dynasties subvert accountability and block meaningful institutional reforms, ensuring that political power remains concentrated within a few influential families. According to the Philippine Institute for Development Studies (2025), around 80% of provincial governors, 67% of members of the House of Representatives, and approximately 75% of city mayors come from dynasty-affiliated families. This overwhelming dominance suppresses political competition, weakens checks and balances, and often prioritizes personal and political loyalty over the public good. As a result, public funds are misused, infrastructure and social programs are compromised, and trust in government continues to erode. Recent scandals involving large infrastructure projects under the Department of Public Works and Highways have revealed how corruption distorts development priorities and dilutes the delivery of essential public services. Although successive administrations have introduced transparency and accountability measures—such as performance-based budgeting and digital governance—these efforts are frequently stalled by political resistance and institutional inconsistency.

This policy brief examines the economic and institutional dimensions of corruption in the Philippines, exploring the reasons behind its persistence and its damaging effects on growth and governance. Using established economic theories and recent evidence, it proposes policy reforms to promote transparency, strengthen oversight, and create stronger incentives for integrity and effectiveness in public service.

2. Literature Review: Sectoral Evidence and Developmental Impacts of Corruption

This section synthesizes recent evidence of corruption across major public sectors in the Philippines and situates these patterns within the broader economic literature on institutions, governance, and development. The review highlights how sector-specific vulnerabilities interact with structural weaknesses in accountability systems, ultimately constraining long-run growth and social welfare.

2.1 Sectoral Impacts of Corruption

Table 1

Sectoral Corruption Issues and Their Key Economic Impacts

Sector	Key Issues	Economic Impact
Infrastructure	• National Flood Control Program (2022-2025): 15 contractors cornered ~ 20% (~₱100B) of ~ ₱545B allocation, ₱360M ghost and duplicated works flagged by COA (Morales, 2025). • Ajuy, Iloilo Flood Project (2025): Duplicated entries in national budget (~₱1 B) (Yap, 2025). • Sunog Apog Pumping Station (Tondo, 2020-2025): ₱774M project failed to function after completion in 2020; mismanagement (Chi, 2025).	Corruption in the flood control program alone costs the economy ₱118.5B from non-existent and substandard projects, and overpricing. Corruption-ridden infrastructure projects, which are frequently substandard, not only reflect wastage of public funds but also reduce social returns which suppresses growth and welfare.
Education	• DepEd Laptop Procurement (2022): ₱2.4B overpriced laptops for teachers during the pandemic (Magsambol, 2022). • CHED Research Grants (2018-2020): delayed releases and questionable beneficiary selection (Demayo, 2022).	Misallocation of public funds diverts resources from their intended beneficiaries. The substantial increase in adopted laptop prices led DepEd to procure only 50% of the intended laptop units for teachers. Delayed CHED fund releases resulted in unpaid faculty and staff and indefinite suspension inter-HEI projects.
Health	• PhilHealth Interim Reimbursement Mechanism (IRM, 2020-2021): ₱14 - ₱15 B in questionable COVID-19 disbursements (Senate of the Philippines, 2020).	Poorly spent national emergency funds fail to deliver commensurate social benefits and ultimately impede economic recovery. Misspent funds could have alternatively financed other

	• Pharmally Contracts (2020–2022): ₱12 B pandemic supply overpricing scandal. (Romero, 2021).	social welfare programs benefiting ~1.6 million Filipino families in poverty.
Agriculture	• Fertilizer Fund Scam (continuing cases 2015–2024): misuse of ₱728 M in fertilizer funds (Department of Finance, 2016). • Farm-to-Market Road Projects (2018–2024): incomplete or low-quality infrastructure flagged by COA (BusinessMirror, 2025).	Misuse of allocated funds and substandard agricultural infrastructures dampen growth in the agricultural sector and expose already vulnerable farmers to greater risks and uncertainties.
Environment	• "Shadow" Flood-Control Projects (2025): ₱115 B tagged as climate-related but outside the Flood Management Program (Greenpeace Philippines, 2025). • Illegal Logging Permits (Palawan, 2020–2024): DENR local officers implicated in logging collusion. (Supreme Court of the Philippines, 2023).	The total cost of this "climate corruption" is collectively estimated to be at ₱560B in direct costs and ₱1.8T in hidden costs, which include widespread environmental degradation. These projects exacerbate losses by leaving communities more vulnerable to natural disasters and climate-related calamities.

2.2 How corruption constrains development: Theoretical Perspectives

a. Endogenous growth and rent-seeking

Endogenous growth models incorporating political economy dimensions demonstrate that rent-seeking diverts savings and talent away from productive activities, thereby lowering the economy's steady-state growth path (Villanueva, 1996; Murphy et al., 1991). Corruption reduces public investment in education, health, and infrastructure, curtailing the accumulation of both physical and human capital.

b. Institutional economics and transaction costs

Institutional quality is widely recognized as a fundamental determinant of long-term economic performance (Acemoglu & Robinson, 2012). Corruption erodes institutional credibility by weakening contract enforcement, inflating transaction costs, and increasing policy uncertainty (Rodrik, 2016). These distortions create a "risk premium" that discourages domestic entrepreneurship and deters foreign direct investment. As public funds are siphoned off,

the state's capacity to promote structural transformation and economic diversification is severely constrained.

c. Corruption and economic freedom

Contemporary frameworks emphasize that freedom extends beyond formal liberties to encompass economic security, predictability, and confidence in public institutions. Stiglitz (2024) argued that systemic corruption erodes these foundations by undermining trust, fairness, and the equitable delivery of public goods. In this sense, corruption is not merely a financial inefficiency but a constraint on substantive freedoms and democratic quality.

d. Fiscal policy and welfare loss

Fiscal incidence theory posits that welfare improves when the marginal social return of public spending exceeds the marginal cost of taxation (Kakwani & Son, 2025). Corruption lowers the social rate of return by diluting the effectiveness of expenditure and diverting funds away from productive uses. This misalignment generates persistent welfare loss and undermines fiscal sustainability.

e. Accountability and Governance Failure

Democratic governance relies on three channels of accountability—vertical (elections), horizontal (oversight institutions), and diagonal (citizen participation). Ferraz and Finan (2025) demonstrated that corruption persists where these channels are weak or misaligned. In the Philippine context, limited transparency, selective enforcement, and political patronage continue to constrain the effectiveness of these accountability mechanisms.

3. Economic Mechanisms of Corruption

This section applies three economic frameworks—principal–agent theory, rent-seeking theory, and the corruption-adjusted Keynesian multiplier—to explain how corruption distorts governance and undermines economic performance across key sectors.

3.1 Principal–Agent Problem

Corruption arises when public officials and contractors (agents) hold substantial discretion while citizens and oversight bodies (principals) lack timely information and enforcement capacity. Weak monitoring—such as incomplete data, delayed audits, and political interference—creates conditions where misconduct carries low risk and high reward.

Recent COA findings illustrated these dynamics. In Bulacan, ₱327 million worth of flood control projects were identified as "ghost projects," while another ₱360 million showed duplication, unauthorized site changes, or deviations from approved plans. Engineers and contractors exploited discretion in documentation and project execution, masking noncompliance. These failures highlight the need to reduce discretion, increase real-time transparency, and strengthen independent oversight capable of imposing swift and credible sanctions.

3.2 Rent-Seeking

Rent-seeking occurs when actors secure economic gains—such as contracts or regulatory favors—without contributing value. In the Philippines, political connections, regulatory capture, and opaque procurement processes enable firms to extract rents at public expense.

Flood control spending provides a clear example: of the ₱545.6 billion allocated since 2022, a small group of 15 contractors received roughly 20%, raising concerns about favoritism and limited competition. COA audits uncovered ghost projects, duplicated sites, and pre-dated construction, revealing how joint ventures and subcontracting obscure accountability. Rent-seeking also permeates labor migration, where illegal placement fees and high-interest recruitment loans burden vulnerable workers despite legal prohibitions.

These patterns weaken competition, inflate costs, and erode trust. Effective reform requires stronger competition policies, full disclosure of procurement data, and well-resourced oversight institutions.

3.3 Corruption-Adjusted Keynesian Multiplier

Corruption diminishes the economic impact of public spending by diverting funds away from productive use. In flood control investments alone, inflated pricing, substandard works, and ghost projects significantly reduce the fiscal multiplier.

Between 2022 and 2025, ₱545.64 billion in flood control allocations generated substantial leakage. Senate inquiries revealed systematic overpricing and widespread kickbacks; Bloomberg estimated economic losses between ₱42.3 and ₱118.5 billion during 2023–2025 (Morales, 2025). When only a portion of allocated funds translates into real infrastructure, government spending produces lower output, weaker resilience, and higher long-term costs as defective projects require premature repairs.

Restoring multiplier effectiveness requires verified physical progress, rigorous audits, and credible penalties for fraud and nonperformance. Without these safeguards, public investment will continue to under-deliver relative to its fiscal cost.

4. Regional Governance Context

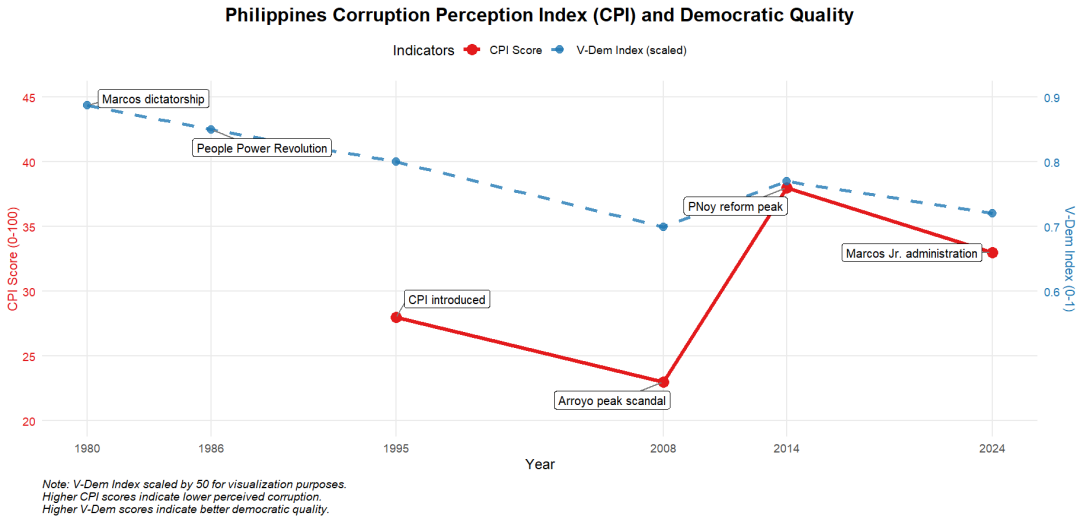
This section evaluates the Philippines' standing in comparison to its regional peers by analyzing data from Transparency International's Corruption Perceptions Index (CPI) and other relevant empirical indicators, highlighting patterns, trends, and areas of concern in the country's anti-corruption efforts.

4.1 Philippines CPI Timeline (1980–2024)

Since the Philippines' participation in CPI and the V-Dem Index in early 1980s and 1990s, the democratic quality of the Philippines has been heavily influenced by politics and governance. In 1980, low transparency during the authoritarian rule of Marcos may have distorted the V-Dem Index. For succeeding administrations, for instance, in 2008, the fertilizer scam and NBN-ZTE deal clearly reflect the low CPI scores and V-Dem index. Under PNoy's administration, reforms that led to high-profile prosecutions have increased confidence in governance, leading to higher CPI scores. In essence, democratic quality is influenced by government reforms.

Figure 1

CPI and Democratic Quality Indicators for the Philippines



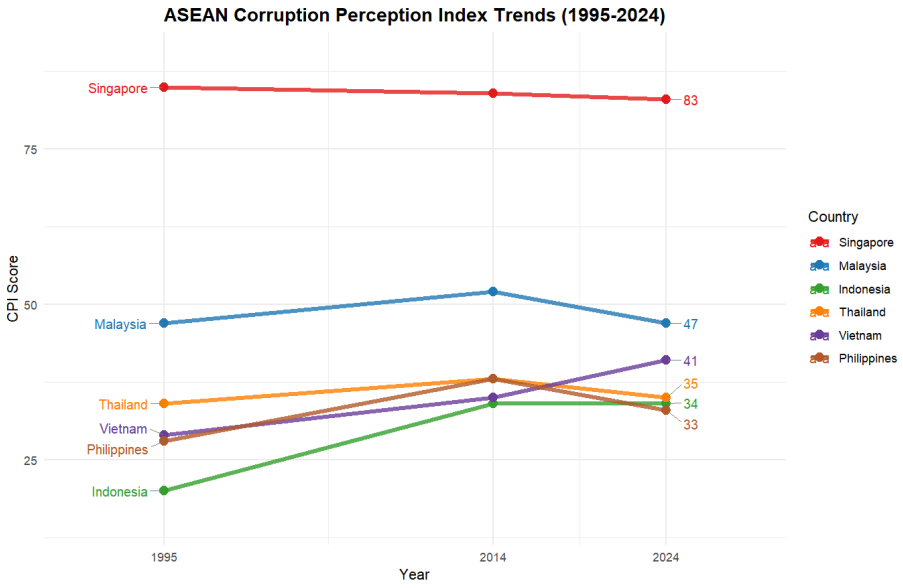
Note. Data from Transparency International (2024).

4.2 Comparative CPI Scores: ASEAN (1995–2024)

Across Southeast Asian nations, there has been relatively weaker improvement in CPI. Table 2 notes notable governance details from 1995 to 2024. The Philippines ranks 114th out of 180 countries in the 2024 CPI, scoring 33/100. It trails behind Indonesia (37/100), Thailand (34/100), and is far behind Singapore (84/100). Entrenched corruption in procurement, health, and local governance continues to undermine reform momentum.

Figure 2

Comparative CPI Trends in ASEAN



Note. Data from Transparency International (2024) and V-Dem Institute (2024).

Table 2

CPI Scores and Governance Notes in ASEAN

Country	1995 CPI	2014 CPI	2024 CPI	Governance Notes
Singapore	85	84	83	Consistently high integrity
Malaysia	47	52	47	1MDB scandal; reform reversal
Indonesia	20	34	34	KPK weakened by political interference
Thailand	34	38	35	Military rule; uneven enforcement
Vietnam	29	35	41	Party-led anti-corruption drive
Philippines	28	38	33	Reform gains under PNoy; post-2016 stagnation

4.3 Governance Erosion in Infrastructure Spending (2022-2025)

- Total Projects (2022–2025): 9,855 flood control projects funded, worth over ₱545 billion
- Economic Losses: Estimated ₱42.3B–₱118.5B lost to corruption, suppressing

GDP growth by up to 0.5 percentage points annually
- Job Losses: Up to 266,000 jobs foregone due to misallocated infrastructure spending
- Contractor Monopolies: 15 firms cornered ₱100B in contracts, with many linked to lawmakers and officials
- Ghost Projects: Over 60% of funds in some regions went to non-existent or substandard works

4.4 Why Good Governance Was Not Sustained

Despite PNoy's progress, several structural and political factors explain the post-2016 stagnation:

- Personality-Driven Reform: Reforms were executive-led, rather than embedded in law or bureaucracy.
- Elite Capture: Political families and entrenched networks regained influence.
- Selective Enforcement: Prosecutions targeted opposition figures more aggressively than allies.
- Weak Local Governance: LGUs lacked capacity for transparent budgeting and procurement.
- Judicial Constraints: The Truth Commission was struck down; discretionary funds re-emerged.

5. A Three-Pillar Framework for Reform

Informed by principal-agent theory, rent-seeking analysis, and sectoral-based evidence on corruption, this section proposes a framework for addressing root weaknesses identified in our analysis. These reforms are aimed at altering the perceived costs and benefits of corruption.

5.1 Science-Driven, Integrated Water Resource Planning

A scientific, watershed-wide approach internalizes the externalities of upstream and downstream flooding, aligning projects with social welfare rather than political rents.

Actions:

- Hydrological modeling to guide project placement, not political lobbying.
- Climate-adaptive design standards reflecting rainfall projections, sea-level rise, and urban sprawl.
- Integrated basin management to avoid duplication across LGUs.
- Public science dashboards with real-time rainfall, river levels, and flood risk maps.

Incentive lever:

- Tie project approval and funding to scientific validation. No hydrological basis, no budget release. LGUs and contractors must submit geotagged feasibility studies that have been reviewed by independent technical panels.

5.2 Radical Transparency and Real-Time Public Tracking

Principal–agent models show that when information is observable, agents' rent-seeking shrinks. Empirically, E-procurement in South Korea and Chile cut collusion by 10–15%, and community monitoring in Indonesia cut missing materials by 20%.

Actions:

- Geotagged project dashboards displaying photos, GPS coordinates,

contractor info, and real-time progress.
- Citizen audit platforms to upload photos, flag anomalies, and rate contractor performance.
- Blockchain-based procurement logs as immutable records of bidding, payments, and milestones.

Incentive lever:

- Introduce a Transparency Score for contractors and LGUs. High scores unlock access to future bids and fast-track permits. Low scores trigger automatic audits and funding freezes.

5.2 Incentive Realignment and Performance-Based Budgeting

Standard procurement rewards spending volume rather than verified outcomes, violating incentive compatibility. Principal–agent theory and empirical studies (e.g., Azuba et al., 2010, on World Bank output-based aid in Uganda) show that payments tied to measurable outputs drastically reduce leakage.

Actions:

- Performance-based disbursement: Funds released only upon verified milestones (e.g., 80% completion with independent and community validation).
- Contractor rotation and de-monopolization to avoid entrenched collusion.
- Social impact bonuses for demonstrable reductions in flood damage or displacement.

Incentive lever:

- Create a National Resilience Fund to reward LGUs and contractors for measurable outcomes—reduced flood incidents, faster recovery times, and improved community satisfaction.

Box 1: An Incentive-Compatible Reform Strategy for Flood Control Infrastructure

Flood control infrastructure has been a persistent hotspot for corruption and inefficiency. This reform package integrates science-based planning, transparency systems, and contract design to realign incentives and strengthen climate resilience.

Pillar 1: Science-Driven, Integrated Water Resource Planning	**Pillar 2: Radical Transparency and Real-Time Public Tracking**	**Pillar 3: Incentive Realignment and Performance-Based Budgeting**
Key Actions • Hydrological and flood-risk modeling to guide project siting • Climate-adaptive engineering and design standards • Integrated basin-level water resource management	**Key Actions** • Geotagged dashboards showing progress, quantities, and completion rates • Citizen audit platforms and open reporting channels • Blockchain-secured procurement and progress logs	**Key Actions** • Performance-based disbursement linked to verifiable milestones • Contractor rotation and anti-monopoly safeguards • Outcome-based evaluation tied to

• Public science dashboards to disclose flood risk, design assumptions, and feasibility studies		resilience and serviceability
Incentive Lever: Funding release contingent on scientific validation and hazard alignment	**Incentive Lever:** Contractor eligibility tied to a **Transparency Score** based on disclosure and compliance	**Incentive Lever:** Budget prioritization based on a **National Resilience Score**

To operationalize these pillars, Table 3 outlines an incentive-compatible, retention-and-performance-based contract design that aligns payments with verified progress, serviceability, and climate-resilient outcomes.

Table 3

Retention-and-Performance-Based Contract Structure for Flood Control Projects

Stage	% of Value	Verification	Notes
Mobilization Advance	10%	Bank guarantee posted	Deducted from progress payments
Progress Milestones	60%	Independent engineer & geotagged evidence	Linked to Bill of Quantities
Retention Money	10%	Post-construction inspection	Released after one flood season
Final Payment	20%	COA audit + citizen scorecard	Paid via escrow to avoid premature payout
Penalties include liquidated damages (0.1%/day), defect rectification at contractor cost, and 5-year blacklisting for fraud. A performance bonus of up to 5% rewards early, defect-free completion, and climate-resilient completion.			

6. Conclusion

Corruption in the Philippines is systemic, historically entrenched, and a persistent drag on economic efficiency, equity, and public trust. This review demonstrates how corruption distorts incentives, weakens public investment, and erodes service delivery across sectors such as infrastructure, education, health, agriculture, and the environment. Long-run evidence from the CPI, combined with the reform gains achieved under the Aquino administration, shows that while decisive leadership can trigger short-term

improvements, durable progress requires institutional—not personality-driven—change.

ASEAN comparisons reinforce this finding. Countries that have institutionalized transparency, automated oversight, and rule-based governance—such as Singapore—sustain high integrity standards, whereas countries with fragmented accountability systems, including the Philippines, remain vulnerable to reform reversals. The erosion of anti-corruption momentum after 2016 illustrates the fragility of gains that rely solely on political will.

A credible path forward demands systemic and sustained reform. This includes embedding transparency and accountability in law, expanding digital governance and real-time oversight mechanisms, strengthening prosecutorial and audit institutions, and enabling citizens to participate meaningfully in monitoring public programs. When the cost of engaging in corruption consistently outweighs its benefits, corruption becomes irrational, unprofitable, and structurally unsustainable.

Achieving this transformation is both urgent and feasible. By institutionalizing integrity, the Philippines can protect public resources, improve service outcomes, and build the foundation for a more inclusive, resilient, and prosperous future.

7. Policy Recommendation

The preceding analysis translates into actionable measures aimed at strengthening transparency, accountability, and institutional resilience. Each recommendation identifies the core reform and addresses the systemic drivers of corruption across sectors.

A. Institutional Realignment

- Establish an independent anti-corruption commission with prosecutorial authority. It should be a politically insulated institution capable of investigating complex, cross-agency corruption cases and ensuring credible enforcement.
- Institutionalize performance-based budgeting and real-time audit systems. Align resource allocation with measurable outcomes and enables continuous verification of expenditures, reducing opportunities for manipulation.
- Mandate proactive public disclosure of procurement contracts, budgets, and project outcomes. Empower citizens and civil society to scrutinize government decisions and enhances transparency throughout the project lifecycle.

B. Digital Governance

- Enhance PhilGEPS with blockchain-based traceability and predictive analytics. Improve procurement integrity by creating tamper-proof contract records and detecting anomalies such as price inflation, bid rigging, or repeated single-bid awards.
- Strengthen digital systems for tax filing, licensing, and subsidy distribution. Build on existing e-governance platforms by reducing manual intervention, improving verification accuracy, and closing loopholes vulnerable to fraud and rent-seeking.

- Develop interoperable, cross-agency data systems. Connect key databases (BIR, DBM, COA, DTI, SEC, LGUs, PhilHealth, DPWH) to enable real-time validation, reduce data silos, and support evidence-based oversight.
- Institutionalize digital audit trails and automated anomaly detection. Enable continuous, technology-driven monitoring of transactions to identify irregularities early and support more effective investigations.

C. Civic and Legal Safeguards

- Enact a comprehensive whistleblower protection law. Ensure anonymity, protect against retaliation, and strengthen incentives for reporting corruption.
- Institutionalize citizen audits and open data platforms. Expand public participation in monitoring government programs and increases the visibility of project performance and spending.
- Strengthen legal protections for investigative journalism. Safeguard media practitioners who expose wrongdoing and reinforce their role as partners in democratic accountability.
- Enforce stringent judicial accountability. Ensure that guilty parties face timely and commensurate sanctions, including imprisonment where warranted. Sustained and transparent enforcement strengthens deterrence against corruption and improves public trust in the rule of law.

D. Sector-Specific Reforms

- Infrastructure: Require geotagging, satellite monitoring, and third-party validation to verify progress, quality, and compliance with specifications.
- Education: Use digital resource tracking and transparent, merit-based teacher appointment systems to reduce diversion and patronage.
- Health: Implement biometric verification and automated claims audits to prevent fraud and strengthen agencies such as PhilHealth.
- Agriculture: Adopt e-permit systems and transparent input distribution to minimize middlemen and protect small farmers.
- Environment: Enforce climate finance audits, maintain publicly accessible permit registries, and support community-based environmental monitoring.

Box 2: Implementation Sequencing

Phase 1 (0–12 months): Mandate geotagged dashboards, disclosure of contractor performance, and retention-based contracts for priority infrastructure.

Phase 2 (12–24 months): Expand performance-based budgeting and interoperable digital oversight systems across agencies.

Phase 3 (24+ months): Codify reforms through legislation and independent prosecutorial institutions to ensure durability.

By realigning incentives, strengthening digital oversight, and empowering citizens, these reforms can make corruption increasingly irrational, costly, and unsustainable—laying the foundation for more resilient, equitable, and effective governance.

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