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USAID/PESO
Manila, Philippines

FINAL PRIVATIZATION PROJECT PAPER SUPPLEMENT

Project No. 492-0428

Price Waterhouse
International Privatization Group

February 2, 1993

Price Waterhouse

February 2, 1993

Mr. Dario Pagcaliwagan
Project Manager Specialist
USAID/Manila

Dear Dario:

Ref: DEF 0016-Q-00-1002-00, Delivery Order #41

Attached is a revised and expanded final copy of the Price Waterhouse version of the Supplemental Project Paper (PP) to the Privatization Project (492-0428) for which we had sent updates to you via fax.

Our report is based on material provided to us by USAID/Manila, various government offices, interviews with government officials, bankers, and AID staff. We have not independently verified the material presented to us by AID or by Government of the Philippine officials.

We presented the basic elements of our proposal to the Mission Director, Thomas Stukel, and others prior to our departure from Manila on December 17, 1992. We have revised that preliminary draft supplemental project paper in accordance with the verbal and written comments of AID officials who attended the meeting with the Mission Director and who had an opportunity to review the original draft. This is not a complete supplemental PP, in that there is no statutory check list or a face sheet.

We look forward to working with you during the next phase of the privatization project.

Sincerely yours,

Ed Harrell /ACM

Edgar C. Harrell
International Privatization Group

Price Waterhouse

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LIST OF ACRONYMS

ADB	Asian Development Bank
AID	United States Agency for International Development
APT	Asset Privatization Trust
ASEAN	Association of Southeast Asian Nations
BOO	Build-Own-Operate
BOT	Build-Operate-Transfer
CARP	Comprehensive Agrarian Reform Program
CCPAPS	Coordinating Committee of Philippine Assistance Program Support
COA	Commission on Audit
COP	Committee on Privatization
CP	Conditions Precedent
DBM	Department of Budget and Management
DBMS	Database Management System
DBP	Development Bank of the Philippines
DE	Disposition Entity
DOF	Department of Finance
DOTC	Department of Transportation and Communication
EO	Executive Order
ESOP	Employee Stock Ownership Plan
FY	Fiscal Year
GCMCC	Government Corporate Monitoring and Coordinating Committee
GDP	Gross Domestic Product
GNP	Gross National Product
GOCC	Government-Controlled Corporation
GOP	Government of the Philippines
GSIS	Government Service Insurance System
IMF	International Monetary Fund
IPG	International Privatization Group
IQC	Indefinite Quantity Contract
LTA	Long-Term Advisor
MBO	Management Buy-Out
NDC	National Development Corporation
NEDA	National Economic and Development Authority
NIDC	National Investment Development Company
NPC	National Power Corporation
PAD	Privatization and Development
PAL	Philippine Airlines
PDEC	PNOC Dockyard and Engineering Corporation
PESO	Private Enterprise Support Office
PHILSECO	Philippine Shipyard and Engineering Company

LIST OF ACRONYMS

PHIVIDEC	Philippine Veterans Investment Development Corporation
PICOP	Paper Industries Corporation of the Philippines
PIO/T	Project Implementation Order/Technical
PMS	Presidential Management Staff
PNB	Philippine National Bank
PNCC	Philippine National Construction Company
PNOC	Philippine National Oil Company
PP	Privatization Project
PPPS	Private Provision of Public Services
PW	Price Waterhouse
ROO	Rehabilitate-Own-Operate
ROT	Rehabilitate-Operate-Transfer
SEC	Securities and Exchange Commission
SOE	State-Owned Enterprise
TA	Transferred Assets
TTA	Travel and Transportation Allowances
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

USAID/PESO has requested that Price Waterhouse/International Privatization Group (PW/IPG) assist them in the design of a Project Paper Supplement to USAID's Privatization Project (No. 492-0428) and organize a seminar to launch the project supplement. A PW/IPG team of Edgar C. Harrell, David Seader and Alyce Manausa visited Manila from December 2-16 during which time it met with USAID Mission Director, Thomas Stukel, and others in AID, the Committee on Privatization Technical Committee, the Privatization Office of the Department of Finance (DOF) and various other government agencies, ranging from NPC to the Home Insurance Guarantee Program (see Annex H). All appointments were coordinated with the DOF and USAID/PESO. The seminar, originally scheduled for December 4, 1992, has been postponed until the first quarter of calendar year 1993.

The conclusion of the PW/IPG team is that continued USAID support for the privatization efforts of the Government of the Philippines (GOP) is warranted because 1) the GOP program to date, supported by USAID's Privatization Project (PP), has been largely successful and the Ramos government has demonstrated the political will to carry it further and 2) a focussed USAID privatization program will not only be responsive to Executive Order (E.O.) No. 37 of December 2, 1992, but complement other USAID financed projects in capital market development, BOO/BOT advice for new infrastructure investment, and technical assistance in the areas of health, agriculture, rural development and airport modernization. ?

The PW/IPG is suggesting a four-year, $9 million program (FY93-FY96) which will result in: (1) two or three "big ticket transactions," one of which will be divested in part through an offering on the Manila and Makati stock exchanges, (2) the completion of at least 26 sales or liquidations of enterprises or agencies supported by USAID through studies during FY86-FY92, about half of which will be in the Asset Privatization Trust (APT) portfolio, (3) a capability supported by new legislation and changes in government rules and regulations for the GOP to carry out its privatization efforts largely independent of bilateral/ multilateral grant assistance beyond 1996, and (4) retained government-controlled corporation (GOCC) experience in the private provision of public services through service contracting, management buy-outs, employee stock ownership plans, long-term leasing, joint venture development and BOO/BOT development of existing public service infrastructure.

We have attached a PP supplement for USAID's review. Given the accelerated privatization program outlined by President Ramos in E.O. 37, we suggest that the divestiture/transaction part of the program begin immediately with monies yet to be spent in the APT buy-in (PAD Contract Delivery Order No. 3) with the marketing for sale of one "big ticket transaction" and five enterprises previously valued through USAID funding. We also suggest that the seminar be scheduled for March 1993 to coincide with the launching of the project supplement. Presentations would be made not only by PW/IPG, but also such organizations as the Philippine Port Authority and the Asset Privatization Trust who can share their experiences to date in privatization with others in the Philippine government.

The time table suggested in the PP supplement is for authorization of USAID funds in March 1993 and obligation by April 1993. This is a tight schedule since the present government plan is for Committee on Privatization (COP) and APT to go out of existence by December 31, 1993. What happens beyond December 31, 1993 is an important element of the supplemental privatization project.

The team wishes to thank Dario Pagcaliwagan, USAID/PESO, and Neri Sanchez, Privatization Office, Department of Finance, for their insights and able assistance during our short mission.

PW/IPG
December 15, 1992

I. BACKGROUND

In extending its Privatization Project, USAID wishes to continue to support the Government of the Philippines in implementing the GOP's privatization policies and program, and in attaining the GOP's goal of budgetary relief through strengthening the role of the private sector in the national economy. Activities, such as privatization, which lead to savings in the national budget have been paid serious attention by the GOP due to many of the macroeconomic constraints the government has experienced. Despite the fact that economic growth and planned deficit over the years 1988-1992 fell short of established targets (largely due to the world-wide recession at that time), there has been a significant decline in overall government funding of GOCCs over the same period. However, heavy financial support by the GOP of some particularly troublesome GOCCs and non-performing assets, such as NPC, PASAR and Philphos, has continued and represents substantial budgetary outlays. As of December 1992, the GOP has set new target growth rates for the next five years at an average of about 7.5% per year, as well as aiming to reduce the deficit from the present 3% of GNP to 1% of GNP by 1998. Privatization of GOCCs will remain a significant element in meeting this goal.

A. Macroeconomic Conditions

After a slump earlier in the decade, the Philippine economy was experiencing a resurgence in 1988 when the original AID Privatization Project was developed. At that time, the economy was forecasted to grow at an annual real rate of 6.2% over the life of the project. Such growth was nearly achieved during 1988 and 1989, but fell off more sharply in 1990, principally due to several major external shocks, such as the Gulf War and the eruption of Mt. Pinatubo. With much of the world in recession in 1991, GNP growth reached a low of 0.1%. Forecasts reveal that growth for 1992 is hovering around 1%.

Over the period of 1988-1990, the Philippines continued to maintain an import-driven economy, which fueled balance of payments and current account deficits. At the same time, the GOP relaxed both fiscal and monetary policy. As a result, inflation soared, the budget deficit widened, and interest rates rose sharply. The economic situation in the Philippines was nearing crises proportions by the end of 1990.

With economic conditions becoming increasingly unstable in 1991, the IMF suspended its lending to the GOP, which forced the government to take measures to stabilize its economy. As a result, a foreign debt-restructuring scheme was developed, easing the upward pressure on interest rates and inflation slightly in 1991. Unfortunately, little other progress was made. Therefore, while the IMF did agree to issue some structural loans to the GOP under a new short-term stablization program, it also imposed additional constraints on its lending to the Philippines, including the creation of a list of government-controlled corporations which represent a potential drain on the economy. The IMF and the World Bank are both requiring the GOP to take action to control subsidization of the GOCCs as a condition for further funding.

other reorganizations, (4) choose markets for disposition, (5) conduct valuations and sales, (6) address claims by previous owners, and (7) operate and administer assets in their possession

In 1986, the GOP had launched its privatization program with the intent of reducing the budget deficit and increasing national income. It identified 399 non-performing assets and 122 out of 301 GOCCs for potential privatization.

The privatization program encountered several problems in its early stages. Procedural road blocks, such as Commission on Audit (COA) restrictions and legal disputes, along with a lack of understanding of how to access and use donor-funded development and privatization consultants were the primary impediments to the program at that time. These have since been somewhat resolved. However, as the GOP moves into the privatization of larger GOCCs, bureaucratic and political resistance to privatization and the lack of sufficiently developed capital markets in the Philippines must be addressed. Strong commitment on behalf of the GOP to tackle these issues is necessary if continued progress with privatization is to occur. We believe that President Ramos revealed his commitment with the issuance of E.O. 37 (see Annex C).

Despite many obstacles, the program has been successful. The privatization program as a whole had recorded approximately 42 billion pesos in proceeds from privatization by December 1991 -- the end of the five-year program. Of that amount, about 14 billion pesos were remitted directly to the treasury. The remainder was either retained by parent GOCCs, uncollected due to installment payment plans, or remained in escrow pending the resolution of legal disputes. All uncontested proceeds from the sale of APT assets were used to fund the government's CARP program. In the future, the GOP will emphasize cash versus installment sales so as to speed up the remittance of sales revenue to the treasury.

APT has focused primarily on the disposal of non-performing assets, acquired mostly from the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP), and has been hugely successful in disposing of its assets. 72% of its original portfolio has been divested to date, with the remaining 111 assets either ready for sale or locked in legal disputes preventing their immediate disposition.

The other DEs have been responsible for the disposition of their own assets, portfolios and subsidiaries, which tend to be "big ticket" items and highly politicized. Some progress has been made with the sale of PAL, PNB, and Meralco. To date, 72 GOCCs have been wholly or partially sold, some of which belonged to APT. This represents slightly more than half of the 122 GOCCs which had been slated for privatization.

Given these developments, the GOP decided to prolong the life of the program, and thus the mandates of the COP and APT, until December 31, 1993. In addition, current President Fidel Ramos signed Executive Order No. 37 (see Annex C) which reinforced the GOP's commitment to privatization. This order required that all GOCCs pegged for privatization submit privatization action plans to the COP by the end of calendar year 1992. These plans must include strategies to complete privatization within the first six months of 1993.

Realistically, however, the privatization of the GOCCs identified in E.O. 37 will not nearly be completed within the timeframe designated by Ramos, due to the size and magnitude of the undertaking, especially in overcoming the problems of deficient capital markets and political resistance. E.O. 37 served more as a recommitment on the part of the President to privatization for the benefit of the international community, while at the same time sending a powerful message to the management of all GOCCs. Privatization, as a policy of the GOP, therefore, will extend into 1993 and beyond. Part of 1993 will likely be devoted to the development of legislation by the GOP to further institutionalize the practice of privatization, whether through the continuation of the COP and APT or through other entities, in order to continue the privatization program.

C. AID Privatization Assistance

In June 1988, USAID co-funded a $9.8 million privatization assistance project with the GOP, in which AID agreed to contribute $5 million in technical assistance and equipment.

An evaluation of the AID privatization project was completed by INTRADOS in September 1992, and reflected very favorably on the work which AID was able to accomplish. According to the evaluation, AID provided privatization assistance to 80 assets over the course of the project, mostly between 1990 and 1992. Of these 80, 10 were fully or partially sold, 32 were made ready for bidding, 10 were studied with further review being done by the DEs, 1 was liquidated, 5 were transferred to a different government agency, 5 had legal impediments to privatization, and 17 are currently under review for privatization by AID. These transactions have contributed approximately 9 billion pesos of the total proceeds that the GOP has received from privatization activities. A good deal of AID's assistance has been directed to the APT.

AID's technical assistance has been highly praised by the GOP and has been cited as a major factor in moving the privatization process along. With a renewed commitment to privatization by the new government and a GOP portfolio that still consists of over 200 GOCCs and 111 non-performing assets as of November 1992, there remains plenty of opportunities for continued privatization assistance by AID over the next several years. According to the Country Economic Report for the Philippines published by the World Bank in February 1992, further privatization in the Philippines should be able to generate at least another 42 billion pesos. With the implementation of E.O. 37, half of all sales proceeds from privatization would be remitted to the treasury.

D. Other USAID Development Assistance Projects Complementary to Privatization

Privatization has been taking place in almost every single economic sector in the Philippines. At the same time, USAID has many on-going development projects which cover different sectors in the economy as well. The USAID privatization project will finance the majority of USAID-assisted privatization studies and transactions occurring over the next few years. However, the scope of government privatization is much larger than the available funds within the privatization project. Therefore, synergies with other AID projects on privatization are possible. Where these synergies arise, linkage on both the funding and resource levels would maximize the total amount of privatization assistance given by USAID in the Philippines. Such opportunities exist with the Capital Markets Project, the CCPAPS Project, the Decentralized Shelter and Urban Development Project, and the Local Development Assistance Program. Agriculture and health projects promise to provide some overlap as well.

Linkage to other projects can be facilitated by identifying specific project elements where privatization could be a means of achieving project goals and then building privatization strategies and tasks into the project work plans and budgets. In the case of the Capital Markets Project, for instance, a large privatization by way of a stock flotation will greatly impact the Manila/Makati Stock Exchanges both from a capitalization and an operations point of view. Both the USAID projects have vested interests in assuring a successful flotation. The Capital Markets Project could take on elements of the privatization such as legal services associated with registering with the SEC, assisting with securing an appropriate underwriter including fee negotiation, and working with the exchanges and brokers to assure timely clearing of stock sales. Likewise, the Shelter and Urban Development Project may be able to take on the complete privatization of the Home Insurance and Guaranty Corporation and other such housing agencies within the government, given the special expertise associated with this AID Project and the impact that privatization would make on the provision of housing in the Philippines. Each USAID project in the Philippines should be examined to determine if any overlap with the Privatization Project exists and whether synergies between them can be developed.

E. Other Donor Activity

Historically, the United States has been the leading provider of assistance to the Philippines. However, US bilateral assistance to the Philippines is declining along with the US military presence with the closings of the Subic Bay Naval Base and Clark Airforce Base. USAID has experienced steep cuts in its budget as a result of this policy, and so must now carefully allocate its funding to projects with high impact. This has left room for other donors to play a larger role in the Philippines by making up the gap in assistance left by the US.

The World Bank and the Asian Development Bank are the most active donors in the Philippines after AID. Both have developed complementary programs to AID which have centered primarily on infrastructure development, capital markets development, and economic structural adjustment lending. Neither has made privatization a specific focus of their activities in the Philippines as yet, rather allowing AID to take the lead in providing privatization technical assistance.

However, privatization is considered an important means to economic development by the World Bank and ADB, and thus has been a by-product of many of the projects that they have undertaken. For example, the World Bank released the first tranche of assistance under its Economic Integration Program in 1992 based on whether the GOP had privatized 60% or more of an agreed upon set of assets. Likewise, the second tranche of assistance ($75 million), set to be released in the summer of 1993, has been tied to the completed privatization of at least 75% of targeted corporations owned by the government. Similarly, the role of the private sector in infrastructure development projects is increasing as the BOO/BOT method of constructing facilities is being relied on more heavily as a way of relieving government budgetary constraints. This in fact has led to the creation of the CCPAPS Fund -- a financing tool jointly funded by World Bank, ADB, and AID for BOO/BOT schemes for new infrastructure facilities.

Privatization promises to increasingly become a focal point of donor activity in the Philippines, and as such there will exist many more opportunities for AID to work together with the other organizations to reach common privatization goals. Joint project or financing possibilities will most likely emerge in the areas of privatizing existing infrastructure and expanding the capital markets through privatization, since the World Bank and the ADB have been most active in these sectors in the past.

The conclusions and recommendations of the AID evaluation, the conditions imposed on new lending to the Philippines by the IMF and World Bank, and the interest shown by the GOP in expanding privatization to encompass all GOCCs are serving as the basis for the new project elements developed in this supplement.

II. PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal and purpose of the four-year extension of the project remain unchanged from those in the original Project Paper. The sector goal to which this project contributes is national economic development through increasing employment and income.

The GOP has recognized the potential continued contribution of privatization to achieving national economic development goals by extending its five-year program of TA and GOCC divestiture through the end of 1993. The extension of the GOP program looks to take advantage of the significant momentum that has been achieved in the COP's divestiture program, and the significant expertise mobilized by the APT.

The GOP has also recognized that privatization can contribute even more to the achievement of its development aims if a wider range of privatization techniques is employed in the government corporate sector (i.e., retained GOCCs). These techniques include: service contracting; long-term leasing; BOO/BOT for rehabilitation of infrastructure; spinning-off GOCC subsidiaries and activities to private entities, including entities created by management buyouts by existing management or employee buyouts using ESOPs or similar share creation schemes; and greater profit sharing/ownership by employees. Such techniques have been employed by governments worldwide to achieve greater economic efficiency in the public sector and to increase effectiveness of delivering essential public services.

Through the deployment of a greater range of privatization techniques, GOP can (1) reduce the subsidies to the government corporate sector, (2) obtain more dividends from GOCCs for use in development programs, (3) extend the limited resources available to it for infrastructure, and (4) maintain or increase the level and quality of service provided in the face of increasing demands and challenges. In its most recent Executive Order on privatization, E.O. 37, the GOP focuses attention on lessening the drain on the national budget from retained GOCCs through the private provision of public services and through the sale of GOCCs and assets on an accelerated schedule.

Accordingly, the purpose of the project extension remains to support the GOP's privatization policies and program in their extended and expanded form.

At the end of the project's four-year extension, it is expected that the following outputs will be achieved:

1. The completion of at least two major "big ticket" divestitures, that is, divestitures of major national concern and visibility. Such divestitures should be large, complex and complementary to the development of capital markets.

2. The completed divestiture of the 26 accounts having implementation plans completed with the assistance of USAID, and which are ready for sale with or without impediments at the end of calendar 1992 (see Annex E).

3. The completion of implementation plans for the remaining companies benefitting from AID assistance.

4. The identification and/or establishment of an on-going entity within the government dedicated to the ongoing process of privatization in all of its applicable forms.

5. New legislation significantly reducing the barriers to privatization transactions.

6. The establishment of a local institutional repository of expertise, experience and training in privatization, either a not for profit institute or private consulting practice.

7. At least one major transaction with retained GOCCs demonstrating the viability and replicability of each of the following techniques: service contracting, long-term leasing, management buyout, employee stock ownership plan, joint venture development with a private partner, and BOO/BOT for existing infrastructure expansion or rehabilitation.

B. Project Activities

An evaluation of the Philippines Privatization Project was completed by INTRADOS in September 1992 (see Annex D). In the evaluation, there were several conclusions and recommendations impacting project design:

- There should be greater emphasis on implementation of transactions, including the provision of investment banking and marketing technical assistance
- A framework for setting priorities and selecting opportunities for assistance should be created
- The scope should be expanded to include retained GOCCs and the private provision of public services
- Coordinate activities with projects in capital market development and BOO/BOT
- Review and update the skills and capabilities offered by IQCs
- Provide additional training focused on strategies and techniques for conventional and non-conventional privatization modes.

The design of project activities for the project extension has taken into account all of these recommendations.

It is also recognized that privatization becomes an ongoing part of government's implementation of public policy. This is implied by the recent actions of the GOP in privatization, especially in the shift to the private provision of public services. This area of effort is vast, however, and the long-term impact that USAID can have in the Philippines is to institutionalize privatization skills, both in GOP and the private sector, so that in-country resources and expertise can be brought to bear permanently. The skills involved in privatization have many more applications in private sector development than just privatization and as such, institutionalizing these skills would present the Philippines with a valuable asset for the future.

In light of the above considerations, the project extension has three focuses of activity: (1) completion of divestiture transactions, (2) institutional development, and (3) private provision of public services.

1. Divestitures

This activity will focus on clearing the backlog of GOCCs and Transferred Assets slated for divestiture by GOP, consistent with the priority for action stated in E.O. 37. There will be two prongs for USAID assistance:

a. Major Transaction Support. Concentration will be on a small number (2-4) of "big ticket" divestiture transactions. Criteria for selecting a divestiture for support will be:

(1) Political Significance: Is this a transaction with major visibility? Is there an explicit GOP policy pronouncement backing the transaction? Is there political pressure to undertake the transaction? Can the transaction be accomplished in timely manner? Is the GOCC on the IMF watchlist?

(2) Economic Significance: Would the transaction be a major revenue generator for GOP? Is the GOCC a major drain on the GOP? Could the transaction be self-financed or co-financed? Does the transaction promote economic efficiency?

(3) Synergy: Has the transaction previously received USAID assistance? Would the transaction significantly advance national development? Does the transaction support capital market development?

Annex G reflects an illustration of one type of methodology which could be used to select GOCCs for divestiture.

For each transaction supported by USAID, establishment of a special disposition committee will be recommended (similar to the PAL transaction).

b. Completion of USAID Backlog: USAID has provided APT and other DEs with assistance with 80 accounts to date, but only 10 have been fully or partially sold. Another 26 have had completed implementation plans and are ready for sale, have impediments or are still "under study" (see Annex E). These 26 will be the initial focus of USAID assistance under the project extension. In addition, all of the remaining accounts will be targeted for completion of implementation plans and possible sale or disposition, to be undertaken by the on-going privatization entity established as part of this project supplement (see Institutional Development below).

Technical Assistance: Short- and long-term expatriate and local specialized services will be provided for implementation planning, marketing and sales, including management, investment banking, marketing, negotiations, legal, financial and public relations. Present IQCs would be augmented to encompass the broader range of required capabilities, and the IQCs would be rebid.

Training/Seminars: Intensive, short workshops will be held focusing on the specific targeted transaction, including review of worldwide experience with similar transactions, treatment of existing management and employees, ESOP design and action planning. For the AID-list accounts, workshops will be held with the DEs on marketing and implementation, taking advantage of the APT experience in these areas.

2. Institutional Development

The COP and APT both lapse at the end of calendar 1993, yet the privatization program will most likely be incomplete, demanding the development of continuing leadership in this area. The need for institutionalizing privatization is underscored further by the GOP's expansion of the concept to the private provision of public services. When it is considered that provincial and local governments have not yet even been included in the process (except for BOO/BOT in new infrastructure investments under AID's CCPAPS Project) by the GOP, the need for ongoing support of privatization is imperative. Since privatization assistance to local governments falls outside of the realm of USAID's privatization project, the necessity for institutionalizing privatization within the GOP becomes even more clear.

The objective of providing support in this area is to establish privatization as a continuing part of the government's economic program, to transfer expertise to local public and private entities, and to make the process self-sustaining. USAID will provide support to the institutional development of privatization in the following ways:

a. Establishment of an On-going Entity within the GOP for Privatization. An institutional analysis and plan will be completed to help GOP develop an on-going mechanism to complete the current program beyond December 1993 and extend the work of privatization into retained GOCCs in more non-traditional ways. The plan will include recommendations for legislation or executive orders, leadership, organization, staffing, resources and training. Once the GOP's privatization program is complete, the entity can be disbanded.

b. Legal/Policy Review. Streamlining the privatization process and institutionalizing privatization as a part of government will require changes to current laws and regulations, and the promulgation of new laws. Currently, many barriers to effective privatization exist, including the COA valuation and bidding processes, limitations on the use of sale proceeds, and prohibitions on programs to offer shares to employees on deferred terms or at less than full value. In addition, little enabling legislation exists for regularizing the non-traditional forms of privatization, such as joint venturing, or allowing for revolving funds or other forms of self-generation of resources, or encouraging alternative ownership methods (MBOs, ESOPs, etc.). Working with COP, GCMCC, DBM and other government groups, the project will complete a review of legislative and regulatory barriers to privatization and propose legislation or executive orders to overcome them and to make an on-going GOP entity to continue the privatization effort.

c. Management Information System. A tremendous amount of data and information exists on GOCCs, both retained and disposed of, but there doesn't seem to be a computerized information system to organize the data for COP. Also, upon the dissolution of COP and APT, the organized codification and transfer of information will be crucial if future analysis and reporting is to be accomplished. Such data would form the foundation for GOP program evaluation and revision, as well as case studies and post mortem analyses of completed transactions. The project will provide the COP with assistance in organizing its information and developing and maintaining a computerized data base.

d. Local Resource Institute. One key to the institutionalization of privatization is not to lose access to the remarkable amount of expertise and experience amassed locally in the past five years. Development of a permanent non-profit institute or for-profit consulting organization would provide the basis for retaining that talent and expanding local expertise in the future. The project will support the establishment of such an organization, either new or part of an existing body, for consulting, training, case study preparation and other advisory services.

Technical Assistance: Short- and long-term expatriate and local specialized services will be provided for organizational analysis, legal and regulatory review, management consulting, and information system development and management.

Training/Seminars: A focused workshop will be conducted for government staff and legislators on enabling legislation and worldwide experience with regulatory and legislative practices regarding privatization. Training in data base management system design and implementation will be provided to selected government staff.

Commodities: AID assistance will be provided for the procurement of computer software to support the development of the data base management system.

3. Private Provision of Public Services

Beyond divestitures, an entire world of techniques is available under the rubric of privatization. As a set of management tools for government corporate sector officials, non-traditional privatization techniques can use the private sector to serve the government's objectives of increasing economic efficiency, upgrading and extending levels of services, and repatriating more funds to the treasury, without necessarily relinquishing ownership to the private sector. The DOF sees the private provision of public services (i.e., contracting out, leasing, joint venturing, BOO/BOT, management buyouts and employee stock ownership plans) as an excellent means to introduce privatization to the GOCCs designated for retention, and expressed to us on several occasions its wish to expand the GOP's privatization program in this manner.

Pursuant to our conversations with the DOF, PW/IPG raised the issue of private provision of public services in most of our interviews in Manila to gauge the response of the GOCCs to the concept. We were pleasantly surprised to learn that many GOCCs, such as the Philippine Ports Authority, the Home Insurance & Guaranty Corporation, the Philippine Post Office, the Philippine National Railway, the Manila International Airport Authority, and the Metro Water & Sewerage System, were already exploring ways to build partnerships with the private sector. Their use of the techniques, however, is not yet fully developed, documented and disseminated. Those GOCCs which had not yet considered the idea, like the NEA, were very interested in finding out what possibilities were available to help build operational efficiency. At the GOCC level, there will be a demand for advisory services to assist in using the private sector to provide services where appropriate and cost effective.

The objective of this project component, therefore, is to identify promising areas for such techniques, to provide guidance to GOCCs and to demonstrate their applicability through the implementation of major, visible and replicable transactions.

a. Inventory of Privatizable Assets and Operations. Through interviews, workshops and seminars, document analysis, brainstorming sessions and site visits, an inventory of privatizable existing assets and operations will be amassed for all of the retained GOCCs. This will complement the inventory being compiled for new assets under the CCPAPS project. For each such asset, applicable privatization techniques will be devised through discussions with the GOCC management and employees. In cases where a privatization technique has been successfully implemented, it will be documented by the prc GOCCs.

b. Demonstrations. From the opportunities for priva identified above, and with the commitment of the of transactions will be selected and implement properly documented to serve as model transaction throughout the government corporate sector. At le be selected in each of the following categories.

(1) Service Contracting: Long-term contracting of complete facilities or major operations, such as airports or water filtration plants;

No

(2) Management Buyouts: Reorganization of a subsidiary or major corporate function as a private company under the ownership of its current managers;

(3) Employee Stock Ownership Plans: Allocation of a major block of stock (or the entire ownership) to a trust representing the current employees of a subsidiary or reorganized major corporate function;

(4) Long Term Leasing: Long-term leasing of total facility with or without requirement of the lessee to rehabilitate existing assets or build new infrastructure with private investment;

(5) Joint Venture Development: Public-private partnership to create, own and manage a new development or facility;

(6) BOO/BOT: Private development of infrastructure under contract to government. Projects selected under this option will be coordinated with other USAID and donor initiatives.

c. Guarantee Facility. Using USAID resources or the PRE guarantee facility, if available, the project will work with local commercial banks to establish and operate a guarantee program to facilitate non-traditional methods of privatization and alternative ownership forms, such as ESOPs, MBOs, and contracting/leasing concessions. The guarantee facility would guarantee in part commercial loans to support the financing of new corporate ventures undertaking privatization to provide working capital, equipment rehabilitation and/or share purchasing. Commercial banks usually will not lend to new entities without substantial assets as collateral. For instance, when we talked to Roberto Mangligot of PCI Bank, he said he would want more than a 50% guarantee from AID/PRE before making a loan to a new company or an ESOP formed through privatization. Typical initiatives eligible for loan guarantees would include GOCC employees who spin off a subsidiary or function and get a service contract from their former employer; or a group of managers leveraging a management buyout of a GOCC or GOCC function; or a private venture organized to seek government contracts. Limited funds available for this facility will make the support highly selective and dependent upon the quality of the initiative.

Technical Assistance: AID will finance short- and long-term expatriate and local specialized services and advisory consultancies in relevant areas of expertise, with emphasis on implementation assistance for the demonstrations. Local expertise will be called upon to document cases of completed transactions.

Training/Seminars: A series of special mini-workshops will be held with individual GOCCs or small numbers of related GOCCs to "brainstorm" ideas for privatization within their companies. Workshop materials specific to the interests of the GOCC will be prepared in advance as an agenda. Participation of GOCCs in these workshops will be premised on their commitment to produce an action plan based on the ideas generated therein and to submit the action plan to their Board for review. Additionally, a regular series of seminars and workshops will be held for middle managers of GOCCs to disseminate information on the "how-to's" of techniques, worldwide experience, and successful in-country transactions.

III. COST ESTIMATES

Budget obligations and expenditures are summarized in Figure 1. This program calls for a total of $9 million to be obligated equally over the fiscal years 1993-1995, while expenditures are made over the four-year period 1993-1996. The detail and assumptions behind the recommended expenditures are found in Annex I.

IV. IMPLEMENTATION ARRANGEMENTS

A. Implementing Entities

The implementing entities at USAID and the GOP will likely remain unchanged for the duration of the privatization project extension (see discussion under Institutional and Administrative Analysis). Primary oversight for the project remains with the DOF Office of Privatization under the Secretary of Finance (who is the chairman of both the GCMCC and the COP). Besides coordinating USAID assistance to the APT and other DEs, the DOF Office of Privatization will work with the Office of Government Corporations which will oversee the private provision of public services. Even though these two offices report to different Undersecretaries, they already work closely together.

B. Contracting Arrangements

1. Local Technical Services

As stated earlier, IQCs will continue to provide technical assistance to APT, DEs, and retained-GOCCs. However, the types of services needed have changed since the inception of the original privatization project in 1988. More emphasis should be given to investment banking, legal advisory, and management consulting services, versus auditing, valuation, and technical firms, since privatization in the Philippines is reaching the transaction stage. (Besides, these latter services can still be obtained through subcontracting arrangements through the IQCs should the need arise.) Therefore, the existing IQCs should be reexamined based on the services they provide, and rebid if necessary.

One difficulty that USAID will face in obtaining reputable investment banking services is the use of the fixed-rate contracting method. Investment banking firms traditionally work on a success fee basis, and therefore, will be hesitant to work on a fixed fee basis. Because of this, AID may not be able to attract well-known, proven investment banking firms to work on behalf of the GOP. AID may want to consider allowing success fee contracts -- or convincing the GOP to allow success fee contracts.

The roles of USAID/Manila and the GOP remain unchanged in administering projects under the IQCs.

2. Short-Term Expatriate Services

Procurement of short-term expatriate services remains unchanged from the original PP.

3. Long-Term Expatriate Services

Privatization in the Philippines currently has new momentum due to the recent pronouncements by President Ramos, particularly E.O. 37. This momentum carries with it the potential for greater attention being paid to transactions and specialized contracting arrangements, along with the possibility of increased legal disputes and political challenges to transactions. Sound management, setting of priorities, and quick response time will be required by the GOP groups directing the privatization efforts. Therefore, PW/IPG recommends that USAID put in place long-term advisors (LTA) who will assist the GOP with privatization in order to keep the momentum going. The LTA would be responsible for advising the GOP on implementing many elements of the PP Supplement, including but not limited to:

- Working directly with APT to complete its divestiture of assets before December 31, 1993;
- Working with the DOF, GCMCC, and Congress to prioritize privatization initiatives and effect enabling legislation to move the process along;
- Assisting in institutionalizing privatization skills and administration within the GOP in order to prepare for post-December 1993;
- Organizing and/or leading specialized seminars and workshops for target groups needing direction and assistance with privatization; and
- Assisting USAID in identifying special technical services required for individual projects, whether in investment banking, labor negotiations, contracting and leasing, legal advisory services, financial advisory services, marketing, etc.
- Assessing the potential for the private provision of public services and creating a project inventory through interviews and discussions with various government agencies and GOCCs. Identifying and implementing key demonstration projects for USAID assistance;

We envision a need for two separate long-term advisors. The first advisor would specialize in divestitures, while the second would have expertise in the private provision of public services. The two would generally not serve simultaneously, except for perhaps during a short transition period in FY1993-FY1994 when the divestiture phase of the project winds down and the private provision phase starts up. Figure 2 illustrates the timing of the different phases.

The LTA would report to the Office of Privatization and the Office of Government Corporations in the DOF, as well as to a DE or APT as appropriate.

Procurement of LTA services remains unchanged from the original PP, except that AID/PRE's privatization contract is no longer with the Center for Privatization, but is with the International Privatization Group of Price Waterhouse.

C. Training/Seminars

Seminars and workshops will take place upon the request of the GOP with concurrence from USAID. However, training, in general, should become more focused than that previously conducted, given the current stage of privatization in the Philippines. (Refer back to Project Activities for recommended training modules.)

D. Commodity Procurement

The project will fund the acquisition of four personal computers, a local-area-network, and a laser printer, along with data-base programming and training services for the COP. Refer to Project Activities for details on the proposed management information system. Procurement procedures and conditions remain unchanged from the previous PP.

E. Monitoring and Evaluation

Monitoring progress of the project will remain primarily with the Office of the Undersecretary of Finance for Privatization, but will be augmented by oversight from the Undersecretary of Finance for Government Corporations. PW/IPG also suggests the creation of a project monitoring group consisting of the Assistant Deputy of DOF/Privatization, the Assistant Deputy of DOF/Government Corporations, and the Executive Trustee of APT.

The monitoring reports required of the DOF will remain unchanged. The LTA will, however, be responsible for the submission of:

- Quarterly status reports on projects being assisted by the LTA
- Opportunities within the GOP for additional assistance within the scope of this project
- Problems and impediments being encountered in the privatization process, and plausible solutions/recommendations for overcoming them, and how USAID might play a role in their resolution
- Outlook for the following quarter

In addition, two evaluations of the project have been scheduled, both to be conducted by independent, third-parties: 1) mid-term project evaluation at the beginning of FY1995, and 2) end-of-project evaluation at the end of FY1996.

F. USAID Project Management

Project management will be the responsibility of the Private Enterprise Support Office (PESO). The PESO Project Officer will spend approximately 30% of his/her time on the project, while a Foreign Service National Project Assistant will spend about 75% of his/her time on the project. All else remains the same as in the original PP.

G. Project Schedule

The project schedule is presented in Figure 2, and shows the general timeframe in which the various elements of the project would be implemented over the period FY1993-1996.

H. Implementation Plan

The schedule of project milestones is contained in Figure 3. This reflects the timing of administrative events over the life of the project.

Figure 1: Cost Estimates
Planned Yearly Obligations and Expenditures ($1000)

Component\Fiscal Year	1993	1994	1995	1996	Total
Obligations	3,000	3,000	3,000	0	9,000
Expenditures	1,913	3,663	2,181	1,241	8,998
A. Divestitures					
1. Major Transactions	715	358	0	0	1,073
2. APT/NDC List	405	140	0	0	545
Subtotal	1,120	498	0	0	1,618
B. Institutional Development					
1. Permanent Government Organization	61	32	0	0	93
2. Legal/Policy Review	141	91	0	0	232
3. Mgmt. Information System	97	58	0	0	155
4. Local Resource Institute	0	85	150	150	385
Subtotal	299	265	150	150	864
C. Private Provision of Public Services					
1. Inventory of Projects	265	432	432	433	1,560
2. Transactions	169	338	338	338	1,183
3. Guarantee Fund	31	2,000	1,000	0	3,031
Subtotal	464	2,770	1,770	771	5,774
D. Oversight and Evaluation					
1. Monitoring	30	52	52	52	185
2. Evaluation	0	0	100	100	200
Subtotal	30	52	152	152	385
E. Cost Inflation	0	79	110	169	358
Total Expenditures	**1,913**	**3,663**	**2,181**	**1,241**	**8,998**

1[?]

FIGURE 2: PROJECT SCHEDULE

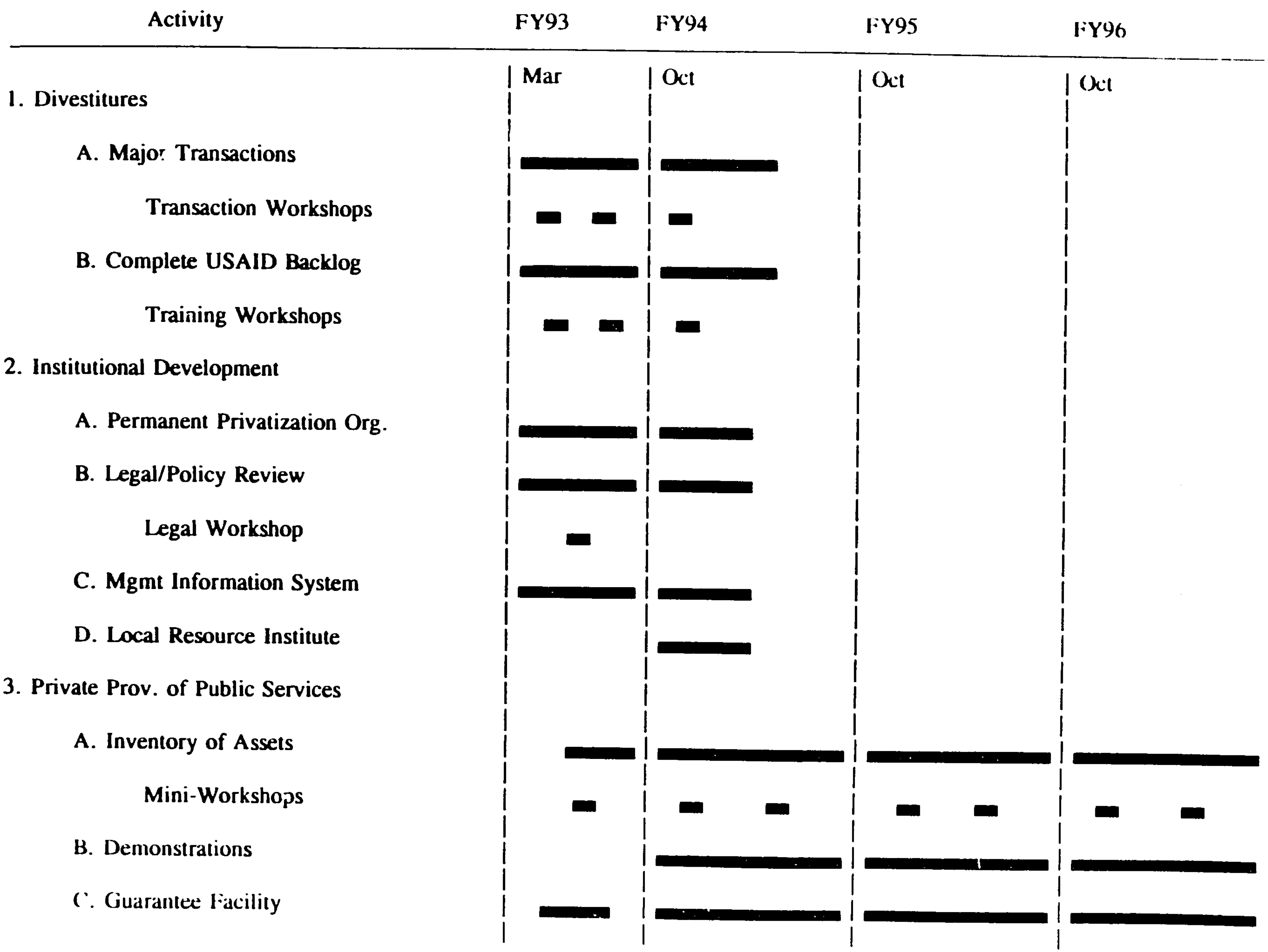

FIGURE 3: IMPLEMENTATION PLAN

FY 1993

--	Authorization of Project	March 1993	USAID
--	Obligation of FY93 Funds	March 1993	USAID/NEDA
--	Submit FY93 Work Plan	April 1993	DOF, APT
--	Satisfaction of CPs	April 1993	NEDA, DOF
--	Long-Term Advisor Contracted	April 1993	USAID, DOF
--	Expatriate Technical Assistance PIO/T Executed	April 1993	DOF/USAID
--	Submit FY93 Work Plan	April 1993	Expatriate Contractors
--	RFP Local IQC Bids	May 1993	DOF/USAID
--	Local IQC awards	July 1993	DOF/USAID
--	Begin MIS Design	July 1993	DOF/Local IQC
--	Equipment Procurement Plans Submitted for COP	August 1993	DOF/COP
--	Submit FY94 Work Plan	August 1993	DOF
--	Equipment Procured by Procurement Services Agent	September 1993	USAID
--	Technical Assistance provided through work orders and AID direct contracts	Throughout 1993	DOF, APT, GOCCs, USAID

FY 1994

--	Approve FY94 Work Plan	October 1993	USAID
--	Satisfaction of CPs FY 94 Funding	October 1993	NEDA, DOF

--	Obligation of FY94 Funds	October 1993	USAID/NEDA
--	6-Month Training Plan Submitted	December 1993	DOF
--	Technical Assistance provided through work orders and AID direct contracts	Throughout 1994	DOF, GOCCs, USAID
--	Reach General Agreement on Guarantee Fund	June 1994	USAID/PESO, USAID/PRE
--	6-Month Training Plan Submitted	June 1994	DOF
--	Submit FY95 Work Plan	August 1994	DOF
--	Sign Guarantee Facility	August 1994	USAID/PESO, USAID/PRE

FY 1995

--	Approve FY95 Work Plan	October 1994	USAID
--	Satisfaction of CPs FY 95 Funding	October 1994	NEDA, DOF
--	Obligation of FY95 Funds	October 1994	USAID/NEDA
--	6-Month Training Plan Submitted	December 1994	DOF
--	Mid term Evaluation	December 1994	Contractor
--	Technical Assistance provided through work orders and AID direct contracts	Throughout 1995	DOF, GOCCs, USAID
--	6-Month Training Plan Submitted	June 1995	DOF
--	Submit FY96 Work Plan	August 1995	DOF

FY 1996

--	Approve FY96 Work Plan	October 1995	USAID
--	6-Month Training Plan Submitted	December 1995	DOF
--	Technical Assistance provided through work orders and AID direct contracts	Throughout 1996	DOF, GOCCs, USAID
--	3-Month Training Plan Submitted	June 1996	DOF
--	Final Evaluation	September 1996	Contractor
--	Project Completion Submission Date	September 30, 1996	

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V. FINANCIAL ANALYSIS

Since the Privatization Project (Project 492-0428) began in April 1988 both USAID and the GOP have had significant experience in estimating the financial return to expenditures on privatization. Annex H of the original project paper estimated that if GOP sold 86 GOCCs at 1.16% of 1985 asset book value or one GOCC for 99% of book value, the original project would be financially justified. Clearly that result was achieved by the GOP during the life of the original project (see Annex D).

PW/IPG analyzed the financial cost benefit of the first four transactions in which it participated in the Philippines. Measured simply as the sales revenue (losses saved by liquidation in one case) compared to the cost of PW/IPG's advisory services, the respective net benefit figures were $110 million and $400,000 (see Annex J). A similar analysis for the type of transactions contemplated under the project supplement would be as follows:

COMPANY	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4
PICOP		1,000			
3 APT HOLDINGS		120			
PHILSECO		840			
NATIONAL STEEL			1,600		
MANILA HOTEL			500		
3 APT HOLDINGS			120		
PRIVATE PROVISION OF PUBLIC SERVICES			1,525	2,275	1,265
TOTAL REVENUE/ COST SAVINGS (million pesos)		1,960	3,745	2,275	1,265
REVENUE/SAVINGS ($000 -- $1:25pesos)		78,400	149,800	91,000	50,600
PROJECT EXPENDITURES ($000)		1,909	3,662	2,157	1,210
NET BENEFITS		76,491	146,800	88,843	49,390
NET PRESENT VALUE (15%, $000)	264,170				

Assumptions:

1. The first five identified APT transactions are probably relatively small. We have estimated each to be worth about 40 million pesos, but we have no data to support this.

2. Sales revenue for National Steel and Philseco was taken from a recent House Committee study which was reported in *The Business Star* (Manila) on December 11, 1992. PICOP and Manila Hotel are based on a review of independent valuation studies. These values assume that the GOP will assume all liabilities except obligations to employees.

3. There will be sales revenue from sales of companies in the APT/NDC portfolio in addition to the four entered as revenue in years 1 and 2 above.

4. Project costs assume 10% loss rate on guarantees outstanding lagged two years or 20 million peso in year 4 and 10 million in year 5. There is no scientific basis for these loss rates.

5. No estimate of increased tax revenue to the government or reduced subsidy payments by the government are included as benefits.

6. Cost savings accrued from the private provision of public services represents a total of 10% of all 1991 expenses incurred by those companies on the IMF Watch-List, which are the likely candidates for this kind of activity.

Altering the assumptions we made would not change the basic conclusion that returns to AID money spent on divesting Philippine state-owned enterprises is high. In our own privatization experience to date in the Philippines, a $400,000 AID expenditure produced over $100 million for the Philippine government, or $275 gained for $1 spent. The analysis provided in the PP Supplement shows a gain of $370 million for an expenditure of $9 million, or $41 per dollar spent. With E.O. 37 we have every reason to expect that AID money will be spent on divesting companies, not studying them. If AID put their money in US Treasury bills at 3% or in Philippine government bills at 17%, an equivalent financial return would be 3 cents per dollar and 17 cents per dollar, respectively. The underlying assumptions of this financial analysis could be grossly off-base, particularly the sale price of companies divested or the amount of Philippine money contributed for each $1 of USAID money required to complete a successful divestiture. But even with very different assumptions, we believe that the financial return would still look very attractive. silly

The only comprehensive study that we have seen of the financial benefits of a cross section of privatized state-owned enterprises documented significant increases in profitability, output per employee, capital spending and total employment. The sample consisted of 41 companies privatized through public share offerings before 1988 taken from the 149 companies *

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listed as being privatized prior to 1988 in a World Bank study by Candoy-Sekse and Palmer[1]. The study has not been published as yet. Only seven of the transactions studied were from developing countries. We have not attempted to quantify these benefits in our financial analysis but welfare measures of these benefits are included in the economic analysis herein.

VI. ECONOMIC ANALYSIS

Since the Privatization Project Paper (Project 492-0428) was approved in April 1988 a major World Bank-funded, three-year study on the welfare benefits of twelve privatization transactions in four countries has been presented[2]. Although the Philippines was not included in the study, there is no reason to expect that the results would not be generally applicable to the type of transactions that are contemplated under this supplemental privatization project.

The methodology of the economic analysis is straightforward. The fundamental trade-off in divestiture is between private objectives, which may be perceived as less desirable socially, and private sector performance in pursuing these objectives more efficiently. In the methodology we used, these objectives are measured as welfare gains and losses from divestiture to consumers, government, enterprises, labor and competitors. The basic equation is:

$$W = S + \quad + L + C$$

W= change in welfare
S= change in consumer surplus
 = change in enterprise profits
L= change in labor rents
C= changes in rents(or expenses) to competitors

 is the split between buyers and sellers of the company to be divested, which is basically the difference between what the buyer is willing to pay for the state-owned enterprise and what he actually pays. If the buyer pays less than he is willing, the government's share is positive. Consumers gain if there is greater efficiency, reduced prices or expanded investment because of divestiture. The basic calculation in terms of measuring welfare on a net present value basis is the difference between the conduct of the government as owners and the conduct

[1]Candoy-Seske, Rebec a and Anne Ruig Palmer, 1988, Techniques of Privatization of State Owned Enterprises: Inventory of Country Experience and Reference Materials (Washington. D.C.: World Bank).

[2]Ahmed Galal, Leroy Jones, Pankaj Tandon and Ingo Vogelsang. Welfare Consequences of Selling Public Enterprises Presented at a World Bank Conference June 11-12, 1992.

of the private sector as owners of the state owned enterprise. The World Bank-financed study is based on applying this methodology on results for five years before and after divestiture of twelve divested state-owned enterprises in four countries, which are then projected in perpetuity and discounted back to the present using an appropriate real discount rate.

The welfare change varied from 1.6% to 155%. Only one company, a privatized Mexican airline where the private owners over invested, showed a welfare loss. The average gain was 26%, which is the figure we used. In more than 50% of the cases the welfare gain was greater than 10%. Labor gained (or never lost) in all cases. Buyers generally gained -- they paid less than they were willing -- but governments generally gained as well because the stream of net profits evaluated at the shadow price of government funds is positive. Society gains more -- stream of pre-tax net profits -- from the private sector devoting its resources to the divested company than to other private pursuits. Consumers and competitors gained in about half the cases and lost in about half the cases. The government has the ability, particularly in the divestiture of regulated industries, to structure the sale in a way to influence who gains and loses.

The welfare gain is the present value of multiple year flows. You then convert this welfare gain to a flow as the annual component of a perpetuity with an equivalent present value. For instance, if the welfare change is 1000, at a real discount rate of 10% its perpetuity equivalent is 100; an annual flow of 100 discounted at 10% has a present value of 1000. The annual flow of the perpetuity equivalent, expressed as a percentage of annual sales in the last pre-divestiture year, is the percentage welfare gain. On average, this was 26% in the case of the twelve companies in the World Bank study. This is what we used for a sample of Philippine companies that may be divested under the project supplement. One could use 10% as a conservative estimate (more than 50% of the companies in the World Bank study gained more than 10%) and the welfare gain would still far exceed the project costs.

In the absence of a linear programming model of the Philippine economy and an in-depth analysis of companies that may be divested, we think this methodology best approximates the cost/benefit of funds expended on divesting Philippine state-owned enterprises.

VII. INSTITUTIONAL AND ADMINISTRATIVE ANALYSIS

Executive Order No. 7181 extended the life of APT and COP until December 31, 1993.

Executive Order No. 37 of December 2, 1992 (see Annex C) states, inter alia, that COP must approve privatization plans of 48 designated corporations. The Executive Order also lists 81 retained corporations which will be reviewed by GCMCC. GCMCC will recommend additional companies, activities and assets from this list for privatization to the COP for approval. In addition, COP has the mandate to review the list of disposition agencies and make recommendations on assigning companies or assets to new disposition entities to speed up the process as required. All departments and bureaus are required to review their activities for opportunities for the private sector to undertake activities now conducted by the government agency and make arrangements to implement such privatization efforts. They are to submit plans to COP only if action is required by the Office of the President or the Legislation. They can seek technical assistance to develop and implement their plans through the Department of Finance, acting on behalf of the COP.

Two administrative issues need to be addressed in implementing this project. First is who will be responsible within the GOP for managing the project. The present privatization project is managed by the Department of Finance (under the Undersecretary for Privatization). Since COP and APT may go out of existence on December 31, 1993, the only continuity will be the disposition agencies (of which there are now 14) or the Undersecretary for Privatization in the Privatization Office of the DOF. The institutional building that has taken place in the existing privatization project has been at DOF's Privatization Office and APT. DOF has both the mandate and capability to manage the implementation of this project supplement. By doing so, the capability of the Undersecretary for Privatization, and DOF in general, as chairperson of the COP Technical Committee, and of the principal staff for the COP and GCMCC, reporting to the Undersecretary for Administration and Corporate Finance, will be further strengthened. Since NEDA is a member of COP, and CCPAPS is not, there is some logic for NEDA to be the GOP signatory of the Project Supplement, as it was for the original privatization project.

The second administrative issue is what happens after December 31, 1993. The expertise of APT, supplemented by staff from DEs, should be institutionalized and made available to a wider group of government agencies, bureaus, GOCCs, etc. Since E.O. 37 has given responsibility to each agency and department to develop and implement its own privatization effort, we are suggesting the incorporation of the *APT staff* (and others) as a cooperative, non-profit or for-profit advisory and training organization. An alternative may be the establishment of the APT staff as the advisory group to GOCCs and SOEs on privatization under the responsibility of the DOF. At that time, the undisposed APT assets could be returned to Development Bank of the Philippines and Philippines National Bank or transferred to another disposition agency. The argument for taking this function outside the government is that it would be made available to non-governmental groups and to governments of neighboring countries, and that the civil service salary limitations would not apply to the staff.

Finally, as part of the project supplement, advisory services will be provided to the COP and the DOF to assist them in developing and presenting the post-December 31, 1993 legislation, executive orders, contracting procedures and organizational structure and responsibilities for a continuing GOP privatization effort. In short, the Project Supplement will provide assistance in preparing the GOP for the post-December 31, 1993 privatization effort.

LOG FRAME

Project Goal	Objectively Verifiable Indicators	Means of Verification	Assumptions
Contribute to national economic development goal of increasing employment and income while decreasing the budget deficit	1. Decreased unemployment indicator 2. Increased per capita income 3. Increased GDP 4. Decreased budget deficit	1. GOP records 2. Project monitoring	1. Short term job losses in public sector from privatization will lead to increased employment in private sector in long term. 2. Private sector will provide higher wages than public sector 3. GOP will not provide support to private sector via excessive tax exemptions and equity holdings. 4. GOP will reduce subsidies to GOCCs

Project Purpose	Objectively Verifiable Indicators	Means of Verification	Assumptions
Reinforce the privatization policy of the GOP through supporting the GOP's divestiture of selected GOCCs, assets, and services to the private sector.	1. Increase in number of retained GOCCs undertaking activities with private groups and companies 2. Increase in number of GOP companies and assets offered for sale	1. GOP records 2. Project monitoring	1. Political will to privatize exists 2. Legal impediments to privatization will be overcome 3. Sufficient skill in the Philippines exists to conduct privatization activities 4. Financing impediments to some forms of privatization will be overcome

Project Outputs	Objectively Verifiable Indicators	Means of Verification	Assumptions
1. Big ticket sales 2. Priority setting process 3. APT list completed 4. Local organization in place to carry on privatization activities 5. Implementation plans for all AID assisted companies 6. Management Information System to track privatization of GOCCs 7. Assistance to a local research, training, consulting institute 8. Establishment of a guarantee facility 9. Enabling legislation formulated	End of Project Status: 1. Two big ticket divestitures completed 2. Completed divestiture of 15 accounts having implementation plans which were completed with AID assistance during 1988-92 3. Completion of implementation plans for remaining companies and assets which received AID assistance during 1988-92 4. Establishment of a permanent government institution dedicated to ongoing privatization 5. New legislation to reduce barriers to privatization transactions 6. Establishment of local not-for-profit institute or consulting group with privatization expertise 7. At least one major transaction with retained GOCCs for each of following techniques: service contracting, long term leasing, management buyout, employee stock ownership plan, joint venture with private partner, and ROO/ROT	1. Project monitoring 2. Technical assistance reports	1. AID financed services prove acceptable to SOE disposition agencies 2. GOP rearranges SOE balance sheets to make them acceptable to potential investors 3. GOP and Congress are prepared to implement change in laws and procedures to broaden the privatization program

Project Inputs	Objectively Verifiable Indicators	Means of Verification	Assumptions
1. Technical assistance 2. Training/ Workshops 3. Equipment/ Software 4. Local Costs	1. Budget of $9 million is spent as itemized in the Cost Estimate	1. Technical assistance contracts 2. Financial reports	1. Incremental funding is available 2. GOP personnel and counterpart funds are available 3. Agreement is reached on terms of the project

MALACAÑAN PALACE

MANILA

EXECUTIVE ORDER NO. 37

RESTATING THE PRIVATIZATION POLICY OF THE GOVERNMENT

WHEREAS, Proclamation No. 50, s. 1986, launched a program for the disposition and privatization of government corporations and/or the assets thereof and created the Committee on Privatization (COP) and the Asset Privatization Trust (APT);

WHEREAS, Republic Act No. 7181, s. 1992, extended the life of the COP and APT from December 8, 1991 up to December 31, 1993;

WHEREAS, Administrative Order Nos. 8 and 9, s. 1992, directed the identification of idle government properties and recommend to the President an action plan for the disposition of such properties;

WHEREAS, 122 government owned or controlled corporations (GOCCs) were approved for privatization while 179 GOCCs were identified for retention, abolition, regularization or other dispositive modes;

WHEREAS, of the 122 GOCCs for privatization, 72 GOCCs were privatized/disposed as of September 30, 1992, generating gross sales proceeds of ₱22 billion;

WHEREAS, 399 transferred assets were entrusted to APT for disposition, of which 288 were privatized/disposed as of September 30, 1992, generating gross sales proceeds of ₱31 billion;

WHEREAS, the privatization program has proven successful and beneficial to the economy in terms of expanding private economic activity, improving investment climate, broadening ownership base and developing capital markets, and generating substantial revenues for priority government expenditures;

WHEREAS, there is still much potential for harnessing private initiative to undertake in behalf of government certain activities which can be more effectively and efficiently undertaken by the private sector;

NOW, THEREFORE, I, FIDEL V. RAMOS, President of the Republic of the Philippines, by virtue of the powers vested in me by law, do hereby order:

Section 1. Restatement of Policy. The National Government hereby reaffirms its privatization policy to promote an orderly, coordinated and efficient program for the privatization of government entities, assets or activities which are better managed, undertaken or owned by the private sector.

Section 2. Privatization of GOCCs Approved for Disposition. - Pursuant to the principles provided in Proclamation No. 50, s. 1986, the COP designated disposition entities shall submit to the COP a privatization action plan for all GOCCs approved for divestment as listed in Annex "A" within one month (1) from issuance hereof; Provided, that said action plan must contain a description of the privatization process to be adopted and a time frame for each step thereof. Said action plan shall include an offer to sell the company's shares/assets within five (5) months from its approval by the COP.

Section 3. Review of GOCCs for Retention. - The Government Corporate Monitoring and Coordinating Committee (GCMCC) shall review the need to retain the GOCCs which were previously approved for retention, including but not limited to those listed in Annex "B" hereof, and submit its recommendation of companies, activities or assets thereof of a second group of GOCCs for privatization, to the COP within two (2) months from issuance hereof.

Section 4. Designation of Disposition Entity - The COP shall review the list of disposition entities designated for the privatization of GOCCs and designate another disposition entity, such as the APT or the National Development Company (NDC) if it is necessary for the effective and expeditious privatization of certain GOCCs.

Section 5. Sale of Idle Government Properties. - The Committees created pursuant to Administrative Order Nos. 8 and 9, s. 1992, shall submit its recommended action plan for the disposition of idle government properties to the President, through the COP, within three (3) months from issuance hereof.

Section 6. Privatization of Other Activities. - All heads of departments, bureaus, agencies and other government corporations shall identify their assets or activities which may be more efficiently, effectively and economically undertaken by the private sector through such arrangements as sale of physical assets, leasing of assets, management and maintenance contracts or build-operate-transfer (BOT) schemes. Where these are within their competence, they shall implement such privatization directly. Where these require actions of the Office of the President or legislation, they shall submit their recommendations to the COP not later than three (3) months from issuance hereof. Where further assistance is needed, they may consult the COP and avail of grants for technical assistance for privatization, administered by the Department of Finance.

Section 7. Distribution of Net Proceeds - Except for subsidiaries of the Government Service Insurance System and the Social Security System, all GOCCs shall remit to the National Government at least fifty percent (50%) of the net proceeds derived from the sale of shares or assets effective October 1, 1992. Net proceeds shall mean gross proceeds less related liabilities and selling expenses.

Section 8. - Implementing Rules. - The COP shall issue the necessary rules and regulations for the implementation of this Order within thirty (30) days from issuance hereof.

Section 9. Effectivity. - This Order shall take effect immediately.

Done in the City of Manila, this 2nd day of December, in the year of Our Lord, nineteen hundred and ninety two.

By the President:

EDELMIRO A. AMANTE
Executive Secretary

REMAINING GOCCs FOR PRIVATIZATION

CORPORATION	AREA OF ACTIVITY
ASSET PRIVATIZATION TRUST	
1 APO Production Unit, Inc.	Printing services
2 Associated Bank	Commercial banking
3 Basin Dredging and Development Corporation	Dredging and reclamation
4 Bicolandia Sugar Development Corporation	Sugar milling
5 East Visayas Agricultural Projects, Inc.	Swine, poultry, farming
6 Leyte Park Hotel, Inc.	Hotel operations
7 Northern Foods Corp.	Tomato paste production
8 Philippine Fruit & Vegetable Industries Inc.	Tomato paste production
9 Philippine Shipyard Engineering Corp.	Ship repair and fabrication of of steel prod.
10 Philippine Sugar Corporation	Finance acquisition, rehab/expansion of sugar mills
11 Phividec Panay Agro-Industrial Corp.	Plantation farming/fertilizer prod'n & trading
12 Ridge Resort & Convention Center, Inc.	Resort and convention facility mgt.
13 San Carlos Fruit Corp.	Fruit puree production
DEVELOPMENT BANK OF THE PHILIPPINES	
1 DBP Data Center Inc.	Dev't and mgt. of DBP computer sys. & personnel
2 Philippine Amanah Bank	Commercial banking
DEPARTMENT OF AGRICULTURE	
1 Food Terminal, Inc.	Food trading, processing, storage, real estate mgt.
2 Republic Transport and Shipyard Corp.	Sugar terminal and shipyard operation
DEPARTMENT OF TRANSPORTATION AND COMMUNICATION	
1 Metro Manila Transit Corp.	Passenger bus operation and leasing
2 Philippine Aerospace Development Corp.	Aircraft mgt., maintenance eng., selling
3 Philippine Helicopter Services Inc.	Maintenance and overhaul of helicopters
GOVERNMENT SERVICE INSURANCE SYSTEM	
1 Manila Hotel Corporation	Hotel operation and management
2 Meat Packing Corporation of the Philippines	Meat processing/canning

CORPORATION	AREA OF ACTIVITY
NATIONAL DEVELOPMENT COMPANY	
1 Batangas Land Company Inc.	Land ownership
2 GY Real Estate Inc.	Land ownership
3 Kamayan Realty Corp.	Land ownership
4 Nadeco Realty Corp.	Land ownership
5 National Steel Corp.	Steel production
6 National Trucking and Forwarding Corp.	Trucking, freight forwarding
7 NDC-Guthrie Estates, Inc.	Palm oil production
8 NDC-Guthrie Plantations, Inc.	Palm oil plantation
9 Philippine Associated Smelting & Refining Corp.	Copper smelting and refining
10 Philippine Phosphate Fertilizer Corp.	Fertilizer production
11 Philippine Plate Mills Company, Inc.	Manufacturing of steel plates
12 Philippine Pyrite Corp.	Production of pyrite concentrates
13 Pinagkaisa Realty Corp.	Land ownership
14 Refractories Corporation of the Philippines.	Production of basic refractories
15 Semirara Coal Corp.	Coal mining
PRESIDENTIAL MANAGEMENT STAFF	
1 Integrated Feed Mills Corp.	Feed production
2 Matabungkay Resort Hotel Inc.	Hotel operation
3 Mindeva Coco-Coir Industries, Inc.	Production of coco-coir fiber product
4 Mountain Springs Development Corp.	Swine raising
5 Panson Prawn Development Corp.	Prawn fry and larvae raising
6 Shoe Technology Corp.	Footwear manufacturing
PHILIPPINE NATIONAL OIL COMPANY	
1 Filoil Industrial Estates Inc.	Land ownership
2 Filoil Refinery Corp.	Oil refining
3 Malangas Coal Corp.	Coal mining
4 PNOC Oil Carriers, Inc.	Int'l Oil Tanker operation
NATIONAL IRRIGATION AUTHORITY	
1 NIA-Consult, Inc.	Consultancy, mgt. & special services of projects

Source: Committee on Privatization
October 31, 1992

LIST OF RETAINED GOCCs
As of 31 August 199?

	NAME OF CORPORATIONS	OFFICE TO W/C ATTACHED
1	National Food Authority	
2	National Irrigation Administration	DA
3	National Tobacco Administration	DA
4	Philippine Coconut Authority	DA
5	Philippine Fisheries Development Authority	DA
6	Philippine Rice Research Institute	DA
7	Quedan and Rural Credit Guarantee Corporation	DA
8	Sugar Regulatory Administration	DA
9	National Electrification Administration	DA
10	Natural Resource Development Corporation	DENR
11	Philippine Veterans Assistance Commission	DENR
12	Philippine Veterans Bank	DND
13	Philippine Veterans Investment Development Corporation	DND
14	Philvidec Industrial Authority	DND
15	Veterans Federation of the Philippines	DND
16	Philippine Crop Insurance Corporation	DND
17	Philippine Export & Foreign Loan Guarantee Corporation	DOF
18	Lung Center of the Philippines	DOF
19	National Kidney Institute	DOH
20	Philippine Children's Medical Center	DOH
21	Philippine Heart Center	DOH
22	Employess Compensation Commission	DOH
23	Philippine Convention & Visitors Corporation	DOLE
24	Philippine Tourism Authority (Including Duty Free Shops,	DOT
	other assets or subsidiaries)	DOT
25	Light Rail Transit Authority	
26	Manila International Airport Authority	DOTC
27	Philippine National Railways	DOTC
28	Philippine Ports Authority	DOTC
29	Postal Services Corporation	DOTC
30	Local Water Utilities Administration	DOTC
31	Metropolitan Waterworks & Sewerage System	DPWH
32	Ascon Copper Products, Inc.	DPWH
33	Center for International Trade & Exposition Mission, Inc.	DTI
34	Cottage Industries Technology Center (Formerly NACIDA)	DTI
35	Export Processing Zone Authority	DTI
36	National Development Company	DTI
37	a. Manila Gas Corporation	DTI
38	a.1 Inter-Island Gas Service, Inc.	DTI
39	a.2 Pagkakaisa Gas Storage Corporation	DTI
40	b. Philippine International Trading Corporation	DTI
41	Small Business Guarantee and Finance Corporation	DTI
42	Home Development Mutual Fund	DTI
43	Home Insurance and Guarantee Corporation	HUDCC
44	National Home Mortgage Finance Corporation	HUDCC
45	National Housing Authority	HUDCC
		HUDCC

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LIST OF RETAINED GOCCs
As of 31 August 1992

	NAME OF CORPORATIONS	OFFICE TO W/C ATTACHED
46	Philippine Deposit Insurance Corporation	NEDA
47	Philippine Institute for Development Studies	NEDA
48	Bases Conversion Development Authority	OP
49	Central Bank of the Philippines	OP
50	a. Philippine International Convention Center, Inc.	OP
51	b. Private Debt Restructuring & Repayment Corporation	OP
52	Cultural Center of the Philippines	OP
53	Development Academy of the Philippines	OP
54	Development Bank of the Philippines	OP
55	Government Service Insurance System	OP
56	Land Bank of the Philippines	OP
57	a. LBP Insurance Brokerage, Inc.	OP
58	b. LBP Leasing Corporation	OP
59	c. Lumang Bayan Realty Development Corporation	OP
60	d. Masaganang Sakahan, Inc.	OP
61	Livelihood Corporation	OP
62	National Agri-Business Corporation	OP
63	National Power Corporation	OP
64	PAGCOR Services, Inc.	OP
65	People's Television Network, Inc.	OP
66	Philippine Center for Economic Development	OP
67	Philippine National Oil Company	OP
68	a. Petron Corporation	OP
69	b. Petron Tankers Corporation	OP
70	c. Petrophil Tankers Corporation	OP
71	d. PNOC Energy Development Corporation	OP
72	e. PNOC Exploration Corporation	OP
73	f. PNOC Shipping & Transport Corporation	OP
74	g. PNOC Tankers Corporation	OP
75	Philippine Retirement Authority	OP
76	Public Estates Authority	OP
77	Social Security System	OP
78	Southern Philippines Development Authority	OP
79	Strategic Investment Development Corporation	OP
80	Subic Bay Metropolitan Authority	OP
81	Technology & Livelihood Resource Center	OP

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EVALUATION OF THE USAID/PHILIPPINES PRIVATIZATION PROJECT
(No: 492-0428)

EXECUTIVE SUMMARY

PURPOSE AND METHODOLOGY

Intrados was approached by USAID/Manila to undertake an impact and process evaluation on the Philippine Privatization Project numbered 492-0428. As part of the requirement, Intrados was expected to provide a three-person team comprising a team leader, a specialist and an assistant professional. The contract required Intrados to subcontract with a local firm to provide the specialist and the assistant professional. Intrados subcontracted with Punongbayan & Araullo, a local auditing and consulting firm, to complete the team.

The team undertook the assignment in July 1992 to assess the relevance and efficacy of the project's design as initially conceived in June 1988 and the status of the Project's implementation as of this date in terms of its efficiency, effectiveness, impact and sustainability. The results of this evaluation will serve as a guide for the USAID in charting the future course and conduct of the project.

The team's findings and conclusions and its subsequent recommendations were derived from documents and reports supplied by and interviews conducted with key officials of the Private Enterprise Support Office (PESO) of the USAID/Philippines, Department of Finance (DOF), the Technical Committee (Techcom) of the Committee on Privatization (COP), the Disposition Entities (DEs), Indefinite Quantity Contractors (IQCs), Beneficiary Accounts (BAs) and other officials of the National Government (NG) of the Philippines directly or indirectly involved in the design and/or implementation of the project. Detailed questionnaires prepared by the team were also distributed to these entities from which additional inputs were generated.

BACKGROUND OF THE USAID PRIVATIZATION PROJECT

Launched in June 1988, the project was initiated to reinforce the privatization policy of the GOP by supporting the GOP's divestiture of selected GOCCs and Transferred Assets (TAs), thereby helping to improve the country's budget situation. The project allowed for the authorization of US$5 million in technical assistance over a 5 year period, with a scheduled completion date of December 31, 1992. The GOP agreed to supplement this assistance by providing an equivalent of US$4.78 million in pesos to fund the administrative and travel costs associated with supporting disposition entities, and undertaking seminars and training activities. The primary responsibility of overseeing the project has been with the Department of Finance

(DOF), Government of the Philippines. Since the Secretary of the Department of Finance is the chairman of the Committee on Privatization (COP) and the Undersecretary of the same Department is the chairman of the COP's Technical Committee, the office of the Undersecretary of Finance has been responsible for coordinating the project assistance to the various beneficiaries.

Taking into account the enormity of the Philippines' privatization program, the limited funding available for the disposition entities undertaking privatization, and the need for expertise in diverse and specific areas of the privatization process, the project was designed to offer short- and long-term expatriate and local technical assistance to the APT, the COP, disposition entities, GOCCs and the transferred assets. Areas of assistance available through the project included: a) information and data management, b) valuation and marketing services, c) operations and policy review studies, d) training/seminars, and e) commodity support.

To provide the above mentioned expertise, USAID/Manila, in conjunction with DOF, undertook a prequalification and competitive bidding process to select five local firms for the provision of technical services. Indefinite Quantity Contracts (IQCs) were issued to four accounting firms and one medium-size investment/merchant bank. The project design also allowed for the accessing of expatriate services on a direct basis by allowing for the USAID privatization project personnel to "buy-in" to centrally-funded USAID/PRE Bureau-financed contracts through the Center for Privatization and the follow-on International Privatization Group in Washington, D.C. Host country contracting procedures could also be deployed if the expertise available under the above mentioned contracts were not deemed satisfactory by the beneficiaries.

FINDINGS AND CONCLUSIONS

The project design as then conceived and formulated in support of the Philippine Government's stated privatization goals was more than adequate and relevant for the needs at the time of the project's inception. The project design's adequacy and relevance are confirmed by the project performance indices as of June 1992 that indicate the following:

o level of earmarks stand at 88.3 % or the equivalent of $ 3.95 million worth of assistance have been earmarked against an obligated grant amount of $ 4.5 million.

o eleven (11) Disposition Entities (DEs) of Government Owned or Controlled Corporations (GOCCs) and Transferred Assets (TAs) as well as the ad-hoc Philippine Airlines Privatization Committee have tapped and are continuing to use the Project's Grant funds.

o 80 GOCCs and TAs have sought and obtained funding for a wide range of technical assistance for policy reviews, asset appraisal/valuation, privatization design and implementation or advisory services.

o Grant funds for training have been fully utilized while level of earmarks for technical assistance, equipment and special studies stand at 95, 87 and 85% respectively.

It is also the consensus among officials of PESO, DOF, the Technical Committee (Techcom) and DEs that the demand for the still unearmarked amounts including the still unobligated amount of $ 527,000 for the remaining life of the Project (December 31, 1992) will more than exceed what is and will be available up to that time.

Since the Philippine Privatization Project was initiated at a time when the basic institutional set-up for privatization was already organized and the DEs like the Asset Privatization Trust (APT) and National Development Company (NDC) had already met initial successes, the phasing in of the project in 1988 (while initially slowed down by a policy impasse) did not encounter bottlenecks at the implementing level of the entities involved.

However, if an assessment is to be made on whether the purpose of the project was achieved in terms of its quantitative contribution to the actual number and value of assets privatized by the DEs; and in terms of objectively verifiable indicators mentioned in the Project summary, then it would be necessary to concede that additional work needs to be done to the fulfillment of these outputs.

Work continues to be performed under the umbrella of the project and the verifiable successes in terms of contribution of the project to the whole Philippine effort will be felt in the near future as these assisted assets are eventually sold.

The recent successful privatization of the Philippine Airlines (PAL)- an effort supported with USAID assistance, is a case in point. The success came in early 1992 and accounts for the single biggest source of revenue for the Philippines among other GOCCs already privatized. Other successes will emerge in the near future as the assisted big ticket items are eventually privatized.

While the project design objectives were realistic, it was not encompassing and far-sighted enough to anticipate the need for establishing a diagnostic framework for sequencing and timing of assistance and establishment of priority areas/accounts for assistance. As a consequence, there is now a heavy build-up of assisted GOCCs and TAs almost ready for sale or still being evaluated.

Even though the project has been successful in achieving its subordinate but nonetheless essential objective of assisting the Beneficiary Accounts readied for sale, there is need for greater interaction among PESO and DOF on the one hand and participating IQCs on the other hand to provide strategic guidance towards meeting bottom-line project goals-actually selling

GOCCs and TAs- as well as carrying out each of the project's main objectives.

There is also keen interest expressed by the officials of DOF involved in the Privatization project to explore the possibility of extending the coverage of the existing Project or evolving an equivalent technical assistance program to apply to retained GOCCs or other government services/activities.

While the past and current demand for technical assistance was and is high, there also appears to be a lack of understanding among the DEs as to the whole range of assistance that was envisioned or is potentially available within the umbrella of the project design.

PROJECT IMPLEMENTATION

Effectiveness

The DOF and DEs are unanimous in conceding that the project's technical assistance served as a catalyst in accelerating interest or intensifying pressure on the custodial or operating managers of the assets to privatize where the political will or motivation was absent or the skills to prepare the asset for privatization were not available.

The IQC mechanism has afforded beneficiaries access to the better consulting firms that otherwise would have been interested if contracting procedures of the Philippine government were utilized. Assurance of prompt payment through the USAID mechanism was also an attraction to the IQCs.

USAID has accommodated almost all requests for assistance of the DEs and/or COP including those requests from managers of GOCCs/TAs whose views on privatization differed from the former. A number of assignments initiated through USAID assistance have failed to move forward because of this problem. This is, however, neither an inherent deficiency in the project design nor a failure of implementation as the factors causing the privatization delays transcend the controllable parameters of the project itself.

While the project reached its steady state status in 1990 when the government had already launched its Privatization Program and generated initial successes principally through APT and NDC, the Project effectively assisted 11 DEs in advancing 80 accounts at various degrees of readiness for sale and, in some cases, resolved the status of the GOCC or TA.

The project's effectiveness and capability has precipitated a desire to expand the scope for privatization to institutions and entities that were retained by the government and excluded from the candidate list of assets for privatization. Although the importance of these studies have yet to be fully ascertained, it is worthwhile noting that this emerging interest to expand the scope of coverage involves such sectors as power, transportation, postal services and others which have traditionally been in the hands of government.

The DEs expressed satisfaction with the kind of resources made available within the project design. However, some benefitted accounts intimated that the kind of services available were limited to the pre-selected IQCs' available skills.

EFFICIENCY

The coordinated activities among USAID/PESO, DOF/Techcom, DEs and IQCs in the implementation of the project were found to be adequate and satisfactory. This is confirmed by the relatively high availment of grant funds and wide range of technical services availed of by the 11 DEs for 80 Beneficiary Accounts.

However, the IQCs as a whole expressed regrets that they were unaware of the reasons for the award of contracts by USAID/DOF to them in particular. They were unaware of the bases or criteria for the specific award. They were also not aware of what the other IQCs were handling and their respective shares of the grant allocations.

The IQCs were generally satisfied with the conduct of contract implementation activities from request for cost proposal to collection stages. One IQC, however, expressed disappointment with the structuring of engagement fees for the level of effort expended for an assignment. All IQCs were, however, unanimous in expressing their desire for USAID to review its policies as they relate to what they perceive as valid reimbursable contract expenses but turned down by USAID.

Though the Project Manager has been very effective in administering this project, the team observed that he was spending an inordinate amount of time handling routine inquiries and paper processing associated with PIO/Ts and buy-ins. A re-organization of the functional roles between the Project Manager and DOF would probably bring about more time for the Project Manager to design and encourage DOF to market and promote viable privatization projects.

Also, there was no internal control mechanism designed by USAID personnel for gauging performance of the IQC firms. The mission personnel received no feedback from the beneficiaries on the quality of the work performed, and also whether the study was deemed as being useful. The feedback, if done at all, was only communicated verbally and indirectly during the progress meetings. However, a formal mechanism would have given USAID a better feel of the performance levels of each firms.

IMPACT

Considering that the effective start of this project was in the second semester of 1990, the final test of its successful impact on the Philippine privatization efforts will only begin to be manifested in the next two years when the assisted assets advanced to a higher level of readiness for sale are eventually bidded out/offered for sale by the Disposition Entities.

Even though the program was off to a slow start and had to overcome some major implementation obstacles, it has been able to provide assistance to DOF in preparing GOCCs and TAs for sale. The assistance provided through the project has helped in achieving the following:

- 10 accounts have been fully or partially sold
- 32 accounts are ready for bidding/rebidding
- 10 accounts studied but for further review by the DEs
- 1 account was identified for dissolution
- 5 accounts were transferred to another govt entity
- 5 accounts have legal impediments
- 17 accounts are under study leading to privatization

Revenues generated through the disposition of GOCCs and TAs assisted by the USAID project have contributed to well over 22% of the total proceeds of privatization accrued to GOP in the last six years. Privatization of PAL has alone accounted for more than 40% of all successful dispositions of GOCCs by the government in the last five and a half years.

Amounts realized in the privatization process have now begun to reach significant levels as in the case of GSIS, APT, NDC and PMS which control over 86% of the accounts in terms of asset book values. Nevertheless, DOF/Privatization Office estimates that barring uncontrollable factors such as lawsuits and injunctions, etc., it forecasts sales to be close to P6 billion in 1992-93.

The economic benefits accrued by virtue of the privatization of USAID-assisted accounts were particularly noticed in the case of those disposed by PMS and APT. Entities that were non-operational prior to their disposition have now been rehabilitated and made profitable by new owners. These owners have also embarked upon expansion plans that will involve acquisition of new equipment. Privatization of PMS accounts is also deemed to be significant because it is providing employment to people in far-flung areas. Although not enough time has passed to measure the actual economic benefits of the PAL privatization, estimates derived from plans and recent initiatives of the new owners indicate that they are further professionalizing the airline, making new investment through acquisition of new aircraft, expanding the international network through additions of new destinations, and introducing cost control measures to reduce operating expenses. The contributions made through these privatizations have/will also help in creating forward and backward linkages throughout the economy.

Attempts to enhance the potential impact of project resources ought also to recognize that there are varying degrees of sophistication within the various disposition entities. Helping these entities to explore non-traditional approaches for looking at privatization and helping them adopt ingenious techniques to handle the problematic accounts can be very instrumental in advancing the process of privatization with the backing of the donor community.

The project has made some initiatives in this area by encouraging ongoing policy review studies in the power, steel and transportation sectors that have generated substantial impact on some of the disposition entities. These studies have added to the clarity of thinking and a valuable input to the discussions, and answers to the strategic questions that the entities will face in privatization. However, the project has a long way to go in supporting some of the disposition entities achieve their broader objectives-- developing the capital market base and broadening ownership of assets in the Philippines.

The emphasis of the project on training programs for the DOF, GOCCs and disposition entities has helped in disseminating substantial knowledge of privatization strategies and methodologies, which has helped to enhance the capability of these institutions to address the vexing issues of privatization.

SUSTAINABILITY

While the project implementation was set in motion only in the second semester of 1990 when a number of Disposition Entities were already organized and successful in privatizing accounts, this Project has succeeded in institutionalizing privatization capability in terms of its seminar/training support as well as commodities principally computers and law books.

While it is difficult to ascertain a cause and effect relationship between this Project and the Disposition Entities' capability to undertake privatization activities, all benefitted Disposition Entities agree that the Project has helped them vis-a-vis budgetary constraints.

The IQCs have also stated that their engagements in the implementation of this project have contributed in enhancing their core competencies to undertake future privatization studies.

RECOMMENDATIONS

A. Project Design

Short-term

1. Maintain project objectives and scope of technical assistance available but with greater emphasis on implementation assistance. Investment banking services for big ticket accounts and implementation assistance in terms of market promotion for smaller accounts should be the emphasis.

2. Develop a diagnostic framework with COP/DOF for sequencing and prioritizing the assistance remaining until the end of the project. The framework should focus on entities that have received project assistance and are ready for privatization.

Medium-term (after 1992, Phase II)

3. Expand the scope of project design and coverage to include privatization studies for selected retained GOCCs and other government activities.

4. Develop and apply an analytical framework for selecting key sectors/areas for USAID to consider for future development assistance as part of the follow-up project. Selection should also take into account promising areas for U.S. involvement.

5. Expand the follow-up project design to include development assistance for the private provision of public services.

6. Coordinate efforts with the Office of Capital Projects towards privatization of some of the above sectors. In the area of BOTs, complement OCP's initiatives by taking a lead in marketing and implementation.

7. Assistance with marketing of sound BOT projects should be initiated by selecting from the list of demonstration projects prepared by the CCPAP.

8. Review and update the skills and capability levels required of local and foreign IQC firms for inclusion in the new project.

9. Provide additional allocation for specially focused training programs but conduct training programs in the Philippines to expand coverage for middle level officials. Training programs should cover conventional and non-conventional modes of privatization. Also, emphasis should be given to training programs focused on strategies and financing techniques for infrastructure development with private sector participation. These programs should include

coverage of areas such as solid waste management, water, power, telecommunications, and transportation.

10. Coordinate activities with the capital markets project to introduce the securities market industry to new instruments and methods for financing privatization. Undertake a policy review in conjunction with the capital markets project to explore the possibility of introducing bonds for infrastructure development.

11. Also, initiate actions and awareness programs among DOF, COP, DEs and the two stock exchanges' personnel on the important linkage between capital market development and privatization.

B. Project Implementation

Short term

12. Encourage the existing six IQCs to secure the services of reputable investment banking experts and legal professionals to carry out specialized work which is needed by the beneficiaries and is allowed under the present design.

13. Modify the contract award process by allowing two or more IQC firms to compete and submit technical proposals listing their approach and quality of professionals that will be used for the particular assignment. This could be the basis for the award but without sacrificing the advantages of speed of award as in the present case.

14. For big ticket items, have one firm carry out the entire process until the eventual disposition takes place.

15. Conduct refresher briefing sessions with IQC on USAID contracting policies and procedures. Simultaneously, conduct one-on-one evaluation of IQCs for feedback and improvement. Also, invite all IQC firms to inform of the status of the program, and the remaining needs for this program.

16. Encourage DEs to apply the "Pareto Principle" in allocating remaining grant funds, i.e. provide funds to the "vital few accounts; not to the trivial many."

17. Prioritize technical assistance to those accounts that can be readily sold in the short-run. Focus on the final disposal of over 50 accounts that have already been readied for sale through project assistance. Re-assess the state of these accounts with the respective disposition entities and direct efforts towards their speedy disposal.

18. Provide assistance to APT in re-assessing its 58 accounts readied for sale. The consultant could draft out a concrete action plan for the prioritization and speedy disposition of these accounts.

19. Assist APT in fulfilling some of its other objectives-- broadening public ownership of enterprises and developing capital markets by linking them to USAID's Proposed Capital Markets Development Project.

20. In view of the new legal requirement to allocate 10% of the assets to small local investors, and the conditionality for no undue dislocation of labor, studies and methods to help address these through Employee Stock Ownership Plans (ESOPs), etc. could be further explored.

21. Conduct a comprehensive Impact Assessment on the Status of Philippine Privatization Efforts in the last five years which will be the basis for determining Philippine needs in the next five years for possible foreign assistance. The findings of this assessment could be presented in a 2-day workshop for all the new senior government officials, and political appointees to expose them to the developments in privatization.

22. Provide consultancy services in the form of seconding professionals to DOF/Techcom and APT as budgetary support to enhance their respective supervision and control of privatization program.

23. Sponsor a Phoenix II Conference during which potential local and foreign investors will be invited to window shop for all GOCCs and Assets available for sale. The conference could be sponsored in coordination with OCP to include the marketing and promotion of BOT projects that will be ready for implementation.

Medium term

24. Continue discussions with World Bank, ADB, and other donors for setting up a privatization fund to rehabilitate assets, improve the financial position of companies, and to finance the feasibility and viability studies to enhance their marketability and value.

25. Dialog and finalize with DOF on the selection and prioritization of a list of retained corporations that this entity is committed to privatizing, and move towards finalizing these in time for the preparation of the new project design.

Long Term

26. Complete the privatization of the remaining GOCCs and TAs by the end of the term of the present administration as a GOP goal to be enforced by COP/DOF .

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LESSONS LEARNED

Project Design Implications

1. In designing technical assistance projects for privatization, it is necessary to consider an approach that will encounter the least resistance in implementation. Therefore, it is important to focus on key players in the privatization of an entity who will eventually influence the pacing of privatization. While the Project targeted the COP/DOF, Techcom and DEs for assistance and, rightfully so; there was hardly any assistance envisioned for the key players of the Benefitted Accounts.

The latter players exercise a very influential role not only in the preparation stages but, more importantly, in the implementation of the whole privatization cycle. The officers in the Benefitted Accounts, if made active participants, in the privatization effort to the same degree as the DEs, can speed up the process.

2. In allocating privatization assistance, the principle of Pareto can be applied in the prioritization of assistance to be given. Given the limited amount of the grant funds, the criteria for selection must be established with the pervasive purpose of maximizing the benefits that can be derived from the assistance. Some of the criteria that can be used to maximize the benefits are: value of the asset (all things being equal, the higher value assets have priority); ease of privatization (e.g. existence or absence of legal impediments); prevailing market demand for the asset; level of politicization of privatization decision; impact on employment etc.

3. As in any effort, the ultimate measure of success is the bottom line. In a privatization program, the bottom line is how much has been sold and how many. There is no other substitute for this measure of success. Studies are good but they must lead to privatization and not simply archived. This is not to minimize studies. They are necessary for any privatization effort. However, they are only tools for privatization. They serve as catalyst to pressure the players to advance to the next step.

4. Privatization goals must clearly state whether the end is to support the generation of studies, being tools for privatization or the actual transactional side of privatization. For either of these goals, both are important. But they must be spelled out clearly in the design so that neither false hopes are unduly raised nor partial successes gloated over or demeaned.

Broad Action Implications

5. In the implementation of Privatization Programs, the wish of the top is not necessarily the command of the bottom in the organization, or even that of the next level down. Unless the entire organization is hyped on privatization, the speed at which actual sale is consummated will be slow.

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This is a universal principle that governs the conduct of any human effort involving more than one individual. In the case of the Philippine Privatization effort, the players are many with multi-level organization tiers and a wide range of technical skills each unwilling to subordinate or defer to the other. Lack of regard for the formal organization structure headed by COP has further delayed privatization efforts. Hence, there is need for a single privatization conductor with strong authority to orchestrate, cajole, police, motivate and threaten all the players.

The privatization of PAL presents an important lesson for all those implementing privatization. The determination displayed by the political elite to reinforce its support for the privatization of PAL has displayed that privatization can still be undertaken in the midst of all the problems mentioned above. The COP designated a special committee, called the PAL Privatization Committee, to be the disposition entity for the said company. The entire responsibility for carrying out this privatization were moved away from GSIS/PAL- originally charged for carrying out this effort. This high powered Committee was composed of key government officials who exerted special efforts to study options and implement the best mechanism for the successful privatization of PAL. This experience has made it clear that even an enterprise with all the ingredients of difficulty-- resistance from the bureaucrats to part with the asset, the political sensitivity, and large indebtedness, etc.,-- can still be sold, if there is a strong resolve to implement privatization. Such privatizations generate an aura of optimism among various other entities in their otherwise bleak privatization scenarios painted by the anti-privatization lobby. It also helps when the Cojuangco, Soriano and Ayala families are all participating in the purchase.

6. Privatization activities must anticipate and face the realities of government bureaucracy. Thus, if the approval of the Commission on Audit is required before values are listed for a bidding activity, then the Program must face this reality and satisfy the constraint. Better yet, the COA can be involved from the initial stages when studies are being generated up to the end when the sale is transacted so that they become an integral part of the privatization effort.

7. When an account is clearly not vendible because it faces legal impediments that have yet to be unravelled, there is no point in preparing that account for sale if it competes with another account for attention.

8. There is also the need for the government to bite the bullet in accounts when vendibility depends on its writing off a large financial claim. The government needs to accept the realities it faces in the market when book values clearly are in excess of what the market will take. If an asset has been dormant and no takers for the last five years, hindsight will tell us that it would have been better to have sold the assets five years ago for a lower rather than ambitious amount today since its opportunity value has already doubled today at the current rate of interest. This is particularly applicable in the case of TAs and some GOCCs whose assets were over-priced to begin with during the era of crony capitalism.

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9. Finally, in implementing a privatization program there is need to pace the pipeline in such a way that there is a steady rate of GOCCs and TAs being sold at any one time. The lumping of assets readied for sale by the Project at the near end of the Project's life has created a bottleneck which is now taxing the selling entities and DEs.

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ANNEX E
AID-ASSISTED GOCC'S WITH IMPLEMENTATION PLANS

	------Ready for Sale------			Privatization
GOCC's by Disposition Entity	Failed Bid	For Disposition	With Impediments	Study in Progress
APT				
1. Apo Production Unit		x		
2. Bagacay Mine		x		
3. Basin Dredging & Dev Corp.	x			
4. Batong Buhay Gold Mines, Inc.				x
5. CCP/Vicor Music Corp.		x		
6. Domestic Satellite				x
7. Manarra Cassava Flour Mills	x			
8. Pantranco	x			
9. Phil. Cellophane		x		
10. Phil. Fruits & Vegetables		x		
11. Phil. Shipyard & Engineering Corp.		x		
12. Phividec Panay Agro-Ind.		x		
13. Paper Ind. Corp. of the Phils.		x		
14. Ridge Resort Convention Ctr.	x			
15. San Carlos Fruit Corp.		x		
NDC				
16. National Steel			x	
PMS				
17. Integrated Feed Mills Corp.	x			
18. Marawi Resort	x			
19. Mountain Springs Dev. Corp.			x	
GSIS				
20. Manila Hotel		x		
DOTC				
21. Light Rail Transit Authority				x
22. Phil. Helicopter Services		x		

ANNEX E (continued)
AID-ASSISTED GOCC'S WITH IMPLEMENTATION PLANS

GOCC's by Disposition Entity	Ready for Sale: Failed Bid	Ready for Sale: For Disposition	Ready for Sale: With Impediments	Privatization Study in Progress
APT/NDC				
23. Phil. Phosphate & Fertilizer Corp.		x		
24. Semirara Coal Corp.		x		
APT/DOTC				
25. Metro Manila Transit Corp.		x		
26. Phil. Aerospace Dev. Corp.		x		

Source: Intrados, Evaluation of AID Privatization Project, September 1992
Asset Privatization Trust, Status of Account & Action Plan for Undisposed Assets, September 1992

BOX 3.1: LIST OF 14 MONITORED GCS AND RESPECTIVE MANDATES

GC	MANDATE
EPZA	Export Processing Zone Authority Operation and management of export processing zones
LWUA	Local Water Utilities Administration Water supply and waste water disposal outside Metro-Manila
LRTA	Light Rail Transit Authority Construction, operation and maintenance or lease of LRT systems
MMTC	Metro Manila Transit Corporation Operation of bus transport services
MWSS	Metropolitan Waterworks and Sewerage Systems Water supply and waste disposal in metropolitan areas
NDC	National Development Corporation Holding company for developmental investments
NEA	National Electrification Administration Financial intermediary and procurement agent for electric cooperatives
NFA	National Food Authority Promotion of local grains industry
NHA	National Housing Administration Provision and maintenance of adequate housing
NIA	National Irrigation Administration Development and maintenance of irrigation systems
NPC	National Power Corporation Generation and transmission of bulk power
PNOC	Philippine National Oil Company Transporting, refining and marketing crude oil and petro products, and development of indigenous energy resources
PNR	Philippine National Railways Operation and maintenance of railways

Source: Department of Finance

Source: The Philippines: Country Economic Report, The World Bank, February 1992

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Ranking Methodology

The ranking of companies was completed in three stages: (1) ranking parent corporations, (2) ranking subsidiary corporations, and (3) combining the two to create the final ranking of 25 companies. All companies were ranked on six different categories: Smallest (or Negative) Net Income, Largest Net Income, Total Assets, Smallest (or Negative) Net Worth, Largest Net Worth, and Total Government Assistance Received. Government assistance includes equity, subsidies, tax credits, and net loans. The categories were chosen as indicators of drain on the economy, size or significance of a company, and profitability of a company.

The sample of firms to be ranked was created by choosing the top 10-15 companies in each category based on balance sheets, income statements, and other financial reports on the firms. Ranking was determined based on comparisons to all other GOCCs in the categories. These companies were then listed on the matrix along with their absolute rank in four out of the six categories. Only one ranking each was awarded for net income and for net worth, whether small or large, so as not to double count a category.

After the listing and ranking by category was completed, weights were assigned to each of the six categories, based on how important the GOP *may* view a category in contributing towards whether a company should be privatized or not. For example, the government may wish to divest of unprofitable firms before profitable ones. Therefore, a small net income would be weighted more heavily than a large net income in making the privatization decision. The weights which were assigned in this matrix are: a) 1 point for Total Government Assistance, b) 2 points for Small Net Income, c) 3 points for Small Net Worth, d) 4 points for Asset Size, e) 5 points for Large Net Income, and f) 6 points for Large Net Worth. The smaller the point value, the more important (or the heavier the weight of) the category.

For each company, the company's ranking in each category was multiplied by the point value of that category. All calculations were then added together for each firm to obtain the Total Points Scored. An aggregate ranking was then made based on total points. Firms with the least amount of points were deemed to be most favorable to privatize.

This methodology favors giving a higher privatization priority to companies which represent the extremes -- very unprofitable or uneconomic firms <u>and</u> very profitable firms -- due to the way total points are tabulated. The idea is that <u>all</u> companies will eventually be privatized. Therefore, middle-of-the-road companies fall low on the matrix and will be privatized last. Privatized first will be those firms which represent a real problem for the government along with those firms which, though they are a source of revenue to the GOP, are very easy to sell due to their profitability and are good demonstrations of political will to privatize.

The financial information on which all rankings were based was incomplete, in that data could not be found for all GOCCs. In some cases where data was found from more than one source, the information was sometimes conflicting, thereby calling for judgments to be made. In addition, this selection process was only based on basic economic information. Other economic factors, such as the ability to self-finance a transaction, may also be included as well. There are non-economic factors which should also be weighed in making the privatization decision, such as political viability, strategic importance of maintaining GOP ownership, or ease of privatization. Therefore, the ranking represented in this matrix is not all-inclusive and should be taken as an illustration of how priorities can be determined.

Top 25 Companies to Privatize (million pesos, fiscal year 1991)

	Government-Controlled Corporation	Net Income**	Total Assets	Net Worth	Total Government Assistance	Total Points Scored
1	Philippine Airlines	(2,312.94)	18,227.62	(6,779.36)	458	23
2	National Power Corp*	(2,930.21)	170,633.63	37,465.50	0	24
3	National Steel Corp	538.22	24,750.84	8,615.09	0	70
4	Philippine Shipping & Engineering Co	Not Available	884.87#	(1,470)#	194	73
5	Philippine Phosphate Fertilizer Corp	(2,636.43)	11,441.90	(16,657.63)	0	75
6	Petron	1,153.55	21,934.69	5,102.55	0	75
7	Social Security System	13,598.23	76,418.97	75,807.44	0	77
8	National Food Authority*	(1,768.57)	11,550.82	(261.65)	995.56	79
9	PNOC Energy Development Corp	394.56	12,980.66	4,009.11	0	99
10	Semirara Coal Corp	(180.65)	5,259.20	(115.55)	0	106
11	National Irrigation Admin*	184.24	27,995.75	15,552.65	215.58	108
12	Light Rail Transit Authority*	(567.35)	6.007.7	(112.12)	17.44	110
13	Metropolitan Waterworks & Sewerage System*	1,069.04	27,307.79	17,997.23	148.81	111

14	Philippine National Bank	4,021.64	93,725.30	12,737.38	0	114
15	Asset Privatization Trust	2.30	8,847.07	(25.62)	160.69	115
16	PNOC Exploration Corp	0	659.82	390.55	0	120
17	Food Terminal, Inc.	(131.50)	653.74	(687.23)	0	122
18	Land Bank of the Philippines	967.21	30,837.10	7251.08	0	124
19	Philippine National Oil Company*	2,035.19	34,288.66	14,171.47	0	125
20	National Electrification Admin*	2,769.81	14,725.89	5,120.93	3,104.49	139
21	PNOC Oil Carriers, Inc.	(141.76)	587.42	(164.2)	0	141
22	Home Development Mutual Fund	1,493.77	17,837.07	17,069.12	0	142
23	Development Bank of the Philippines	1,184.22	27,011.48	7,249.65	0	181
24	PNOC Coal Corp	0.75	984.3	385.81	0	182
25	The Manila Hotel Corp	44.84	483.95	333.55	0	185

* On IMF Watch-List
** After Subsidy
# Estimated based on information in *Business World* (Manila), December 10, 1992

Source of Financial Data: Various Sources

Ranking List

	Parent Corporation	Smallest Net Income (2 points)	Greatest Net Income (5 points)	Asset Size (4 points)	Smallest Net Worth (3 points)	Largest Net Worth (6 points)	Largest Gov't Aid (1 point)	Total Points Scored
1	National Power Corp	1		2		2	2	24
2	Social Security System		1	4		1	50	[illegible]
3	National Food Authority	2		16	3		5	79
4	National Irrigation Admin	17		8		5	12	108
5	Light Rail Transit Authority	3		21	4		8	110
6	Metropolitan Waterworks & Sewerage		6	9		3	27	111
7	Phil National Bank		2	3		7	50	114
8	Asset Privatization Trust	6		18	5		16	115
9	Land Bank of the Phil		7	7		10	1	124
10	Phil National Oil Company		3	6		6	50	125

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11	National Electrification Admin	4		14		12	3	139
12	Home Development Mutual Fund		4	12		4	50	142
13	Development Bank of the Phil		5	10		11	50	181
14	Government Services Insurance System		8	5		15	50	200
15	Metropolitan Manila Transit Corp	8		33	1		50	201
16	Phil National Railway	5		23	34		9	213
17	Phil Ports Authority		13	13		8	50	215
18	National Development Corp		12	11		13	43	225
19	Manila International Airport Authority		11	17		9	50	227
20	Central Bank of the Phil		19	1		16	50	245
21	National Housing Authority		17	20		14	7	256
22	Phil Tourism Authority	16		27		19	18	272

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23	Phil Coconut Authority	7		35	33		19	272
24	Phil Cotton Corp	11		57	2		30	286
25	Lung Center of the Phil	12		58	8		24	304
26	Export Processing Zone Authority		16	24		20	15	311
27	Phil Charity Sweepstakes Office		22	32	9		50	315
28	Local Water Utilities Admin		26	22		17	6	326
29	Technology & Livelihood Resource Center		15	29		23	4	333
30	Sugar Regulatory Admin	9		28		33	11	339
31	Phil Children's Medical Ctr	15		51	28		23	341
32	Phil Heart Center	22		46	32		22	346
33	Home Insurance Guarantee Corp		14	31		27	14	370
34	Pamantasan ng Lungsod ng Maynila	18		64	11		50	375

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35	Phil Retirement Authority	25		67	7		37	376
36	National Home Mortgage Finance Corp		28	15		29	13	387
37	Overseas Workers Welfare Admin		10	36		24	50	388
38	Phil Veterans Assistance Commission	30		66	8		41	389
39	Phil Shippers' Council	31	38	68	6		40	392
40	National Tobacco Admin	10		44		30	17	393
41	Farm Systems Development Corp		30	41	29		10	411
42	National Kidney Institute	13		45		32	21	419
43	Phil Amusement and Gaming Corp		9	39		34	50	455

Ranking List

	Subsidiary Corporation	Smallest Net Income (2 points)	Greatest Net Income (5 points)	Asset Size (4 points)	Smallest Net Worth (3 points)	Largest Net Worth (6 points)	Largest Gov't Aid (1 point)	Total Points Scored
1	Phil Airlines	2		3	2		1	23
2	National Steel Corp		2	1		1	50	70
3	Phil Shipping & Engineering Co	NA##	NA	10	3		2	73
4	Petron Corp		1	2		2	50	75
5	Phil Phosphate & Fertilizer Corp	1		5	1		50	75
6	PNOC Energy Development Corp		3	4		3	50	99
7	Semirara Coal Corp	4		6	8		50	106
8	PNOC Exploration Corp	***	***	11		4	50	120
9	Food Terminal, Inc.	6		12	4		50	122
10	PNOC Oil Carriers, Inc.	5		15	7		50	141
11	Phil International Trading Corp	13		13		8	50	176
12	PNOC Coal Corp	35	35	8		5	50	182

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13	The Manila Hotel		5	17		7	50	185
14	Quedan Guarantee Fund Board	12		22		12	5	189
15	Masaganang Sakahan, Inc.	3		30	5		50	191
16	Center for International Trade Expositions & Mission, Inc.	9		23		13	4	192
17	NDC Guthrie Plantations, Inc.	10		7		17	50	200
18	Phil Exchange Holding Corp		6	21		6	50	200
19	PNOC Shipping & Transport Corp		7	16		10	50	209
20	Malangas Coal Corp	7		14		16	50	216
21	Private Debt Restructuring & Repayment Corp		4	20		11	50	216
22	BLISS Development Corp		9	9		18	50	239
23	Phil International Convention Center, Inc.	8		31		19	3	257
24	Manila Gas		8	33	12		50	258
25	PHIVIDEC Industrial Authority		16	24		15	6	272

26	Refractories Corp of the Phil		14	19		14	50	280
27	San Carlos Fruit	17		41	13		50	287
28	PNB Credit Card Corp	11		29	39		50	305
29	National Stevedoring & Lighterage Corp	19		51	11		50	325
30	Phil Veterans Investment Development Corp		27	40	9		50	372
31	Coco-Chemical Philippines, Inc.	28	42	68	6		50	396
32	NIDC Oil Mills, Inc.	27		67	10		50	402
33	Filoil Refinery Corp		10	39		25	50	406
34	National Post-Harvest Institute for Research	NA	NA	NA	NA	NA	7	1111@@

*** Non-operational, therefore no income being generated.

There are five other companies which are non-operational and which have not been included above because they do not rank on any other count. They are Pagkakaisa Gas Storage Corp., Liquid Gas of the Philippines, Inc., Bislig Coal Corporation, Philippine Rural Development and Services Corp., and Philippine Resource Helicopter, Inc. A sixth company is in the pre-operational stage and therefore not generating any income either. It is Bulawan Mining Corporation.

Assumed a ranking of around 11th given the press that PHILSECO has received regarding its difficulties.

@@ Cannot rank on total points.

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APPOINTMENTS ARRANGED FOR IPG/PW

December 1, 1992 - Tuesday

10:00 a.m.	Dir. Crisanta S. Legaspi Dir. Arturo Samia, Jr. Department of Finance Central Bank Bldg., Manila Tel Nos. 501633/595886

December 2, 1992 - Wednesday

9:00 a.m.	Mr. Josue Polintan Officer-in-Charge National Power Corporation corner Quezon Ave. & Agham Rd. Diliman, Quezon City Tel. No. 9228427
3:30 p.m.	Mr. Eduardo T. Joaquin General Manager Phil. Tourism Authority DOT Bldg. T.M. Kalaw Ermita, Metro Manila Tel. No. 599031

December 3, 1992 - Thursday

9:00 a.m.	Mr. Alfredo C. Antonio Vice Chairman Development Bank of the Phils. Sen. Gil Puyat Ave. Makati, Metro Manila Tel. No. 8187450
10:30 a.m.	Atty. Ramon T. Garcia Chief Executive Trustee and Mr. Juan Moran Associate Executive Trustee Asset Privatization Trust Makati, Metro Manila Tel No. 8159201
3:30 p.m.	Ms. Grace Yenesa Director, Corporate Planning National Electrification Administration D&E Building, Quezon Ave. Quezon City Tel. No. 978454/9212123

December [illegible] 1992 - Monday

8:30 a.m. Mr. Emelito Castro
Asst. General Manager
National Development Company
371 5th Floor Producer's Bank Bldg.
Makati, Metro Manila
Tel. No. 8183284

10:00 a.m. Mr. Fernando Miranda Jr.
President and Gen. Manager
Home Insurance Guarantee Corp.
5th Floor Morning Star Bldg.
347 Sen. Gil Puyat Ave.
Makati, Metro Manila
Tel. No. 8162330/865443

December 8, 1992 - Tuesday

11:30m a.m. CCP Technical Committee
Undersecretary Romeo L. Bernardo, Chairman
Atty. Melpin Gonzaga, Member
Nat'l Treasurer Walfrido Alampay, Member
Mr. Emelito Castro, Member
Tel. No. 595886/501633

2:00 p.m. Atty. Davidica E. Salaya
Chief Executive Officer
Phil. Retirement Authority
2nd Floor, Producer's Bank Bldg.
Sen. Gil Puyat Ave.
Makati, Metro Manila
Tel. Nos. 8158204/8174203

3:30 p.m. Mr. Monico V. Jacob
President
Philippine National Oil Company
7910 PNOC Bldg.
Makati Ave., Makati M.M.
Tel. No. 859061

December 9, 1992 - Wednesday

8:00 a.m. Hon. Juan Flavier
Secretary
Department of Health
San Lazaro Compound
Sta. Cruz, Manila
Tel. Nos. 7116080/7119502

11:00 a.m. Mr. Jorge Sarmiento
Postmaster General
Philippine Postal Corporation
3rd Floor Postal Service Office
Liwasang Bonifacio, Manila
Tel Nos 471411/471413

2:00 p.m. Mr. Teofilo Asuncion
Administrator
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara Q.C.
Tel. No. 9223757

December 10, 1992 - Thursday

9:30 a.m.	Atty. Jose B. Dado General Manager Philippine National Railways Caloocan, Metro Manila Tel. No. 210011/208766

December 11, 1992 - Friday

3:00 p.m.	Atty. Eduardo C. Tolentino Asst. General Manager Philippine Ports Authority 2nd Floor Marsman Bldg., South Harbor Port Area, Gate I, Metro Manila Tel Nos. 479204/408166

December 14, 1992 - Monday

10:00 a.m.	Dir. Crisanta S. Legaspi, DOF Dir. Eleanor de la Cruz, DOF Mr. Juan Moran, APT Terra Cotta Room Central Bank Bldg., Manila
1:30 p.m.	Miss Flordeliza Andres Director, Corporate Planning Office of Energy Affairs Merrit Road, Fort Bonifacio Makati, Metro Manila Tel. No. 857051
3:00 p.m.	Col. Guillermo G. Cunanan General Manager Manila International Airport Authority MIA Building Pasay City, Metro Manila Tel No. 8322938

Budget Detail					ANNEX I
	1993	1994	1995	1996	Total
A. Divestitures					
1. Major Transactions					
Short-term Advisors:					
Salaries	381	191			572
Travel	88	44			132
Communications	6	3			9
Computer	6	3			9
Advertising/Printing	50	25			75
Repro/Supplies/Misc	4	2			6
Legal Assistance	20	10			30
Workshops	10	5			15
Asset Valuations	50	25			75
Local Investment Banking	100	50			150
Subtotal	715	358	0	0	1,073
2. APT/NDC List					
Long-term Advisor:					
Salary	148	64			212
Travel	37	17			54
Communications	7	3			10
Computer	2	1			3
Short-term Advisors:					
Salaries	21	0			21
Travel	8	0			8
Communications	1	0			1
Computer	1	0			1
Asset Valuations	80	30			110
Local Investment Banking	75	25			100
Advertising/Printing	25	0			25
Subtotal	405	140	0	0	545
Total Divestitures	**1,120**	**498**	**0**	**0**	**1,618**

ANNEX I

Budget Detail	1993	1994	1995	1996	Total
B. Institutional Development					
1. Permanent Government Organization					
Short-term Advisors:					
Salaries	42	22			64
Travel	16	8			24
Communications	2	1			3
Computer	1	1			2
Subtotal	61	32	0	0	93
2. Legal/Policy Review					
Short-term Advisors:					
Salaries	110	73			183
Travel	18	13			31
Communications	6	4			10
Computer	2	1			3
Workshops	5	0			5
Subtotal	141	91	0	0	232
3. Mgmt. Information System					
Short-term Advisors:					
Salaries	64	42			106
Travel	17	13			30
Communications	3	2			5
Computer	1	1			2
Commodoties	10	0			10
Materials/Handbooks	2	0			2
Subtotal	97	58	0	0	155
4. Local Resource Institute					
Short-term Advisors:					
Salaries		64			64
Travel		17			17
Communications		3			3
Computer		1			1
Case Studies		0	100	100	200
Training Materials		0	50	50	100
Subtotal	0	85	150	150	385
Total Institut'l Development	**299**	**265**	**150**	**150**	**864**

ANNEX I

Budget Detail

	1993	1994	1995	1996	Total
C. Private Provision of Public Services					
1. Inventory of Projects					
Long-term Advisor:					
Salary	148	254	254	254	910
Travel	39	68	68	68	243
Communications	7	12	12	12	43
Computer	2	4	4	4	14
Local Support	35	60	60	60	215
Workshops S-T Advisors:					
Salaries	21	21	21	22	85
Travel	11	11	11	11	44
Communications	1	1	1	1	4
Computer	1	1	1	1	2
Subtotal	265	432	432	433	1,560
2. Transactions					
Short-term Advisors:					
Salaries	127	254	254	254	889
Travel	34	68	68	68	238
Communications	6	12	12	12	42
Computer	2	4	4	4	14
Subtotal	169	338	338	338	1,183
3. Guarantee Fund					
Short-term Advisors:					
Salaries	21				21
Travel	8				8
Communications	1				1
Computer	1				1
Funding	0	2,000	1,000		3,000
Subtotal	31	2,000	1,000	0	3,031
Total PPPS	**464**	**2,770**	**1,770**	**771**	**5,774**
D. Oversight and Evaluation					
1. Monitoring	30	52	52	52	185
2. Evaluation	0	0	100	100	200
Subtotal	30	52	152	152	385
Total O & E	**30**	**52**	**152**	**152**	**385**
E. Cost Inflation	0	79	110	169	358
Total Expenditures	**1,913**	**3,663**	**2,181**	**1,241**	**8,998**

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BUDGET ASSUMPTIONS

ANNEX I

Advisors

Short-term Expatriate:	Salary/Benefits: \$883/day x 24 = \$21,192/mo. Per Diem: \$132/day x 30 = \$3960/mo. Air Fare: \$3250/trip Ground Transport: \$25/day x 24 = \$600/mo. Communications: \$1000/mo. Computer rental: \$300/mo.
Long-term Expatriate:	Same as short-term expatriate
Short-term Local:	Salary/Benefits: \$640/day x 24 = \$15,360/mo. Ground Transport: \$200/mo.

Assumptions by Component (see budget detail)

A1. "Big Ticket" Transactions: 3 transactions: 2 in FY93, 1 in FY94

Per transaction:
- 3 Short-term Expat Advisors x 3 months;
- 2 months per advisor in country;
- 5 trips per transaction
- Advertising/Printing: \$25,000
- Reproduction/Supplies/Misc.: \$4,000
- Legal Services: \$10,000
- Workshop (Local Support, Materials, etc.): \$5000

Asset Valuations (Local): \$50,000 in FY93; \$25,000 in FY94
Investment Banking/Marketing (Local): \$100,000 in FY93; \$50,000 in FY94

A2. Completion of APT/NDC List:

Long-term Expat Advisor:
- 7 months in FY93;
- 3 months in FY94;
- 2 trips per 6 months in country

Short-term Expat Advisor: 1 advisor: 1 x 1 mo. trip in FY93

Asset Valuations (Local): \$125,000 in FY93; \$50,000 in FY94
Investment Banking/Marketing (Local): \$100,000 in FY93; 25,000 in FY94