PRIVATIZATION

(492-0428)

PROJECT PAPER

(SUPPLEMENT)

USAID/Philippines
May 1993

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Amendment Number: 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Philippines

3. PROJECT NUMBER: 492-0428

4. BUREAU/OFFICE: ASIA BUREAU — 04

5. PROJECT TITLE (maximum 40 characters): Privatization

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12, DD 31, YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 88 — B. Quarter 3 — C. Final FY 95

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 93 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,000	–	1,000	5,000	–	5,000
(Grant)	(1,000)	(–)	(1,000)	(5,000)	(–)	(5,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country	–	600	600	–	1,750	1,750
Other Donor(s)						
TOTALS	1,000	600	1,600	5,000	1,750	6,750

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDA				3,000	–	–	–	3,000	–
(2) ARDN				2,000	–	–	–	2,000	–
(3) SAI				–	–	5,000	–	5,000	–
(4)									
TOTALS				5,000	–	5,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To reinforce the GOP's privatization policy by supporting the divestiture of selected government-owned-and-controlled-corporations, acquired assets and services.

14. SCHEDULED EVALUATIONS

Interim: MM 12 YY 94; MM YY — Final: MM 09 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[x] 000 [ ] 941 [ ] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ______ page PP Amendment.)

Note: The provisions of the payment verification policy regarding methods of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adquately addressed in this document.

JCStanford, Controller

17. APPROVED BY

Signature: Thomas W. Stukel

Title: Director, USAID/Philippines

Date Signed: MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

PROJECT AUTHORIZATION
AMENDMENT NO. 2

Philippines

Privatization Project
Project No. 492-0428

1. The Privatization Project (the "Project") for the Philippines was authorized on May 8, 1988, and the authorization was amended on September 10, 1992. The authorization is hereby further amended as follows:

> Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, and to the section entitled "Philippine Assistance Multilateral Assistance Initiative" in Title II of P.L. 102-391, the amount of funding authorized for the Project is increased from \$5,000,000 to \$10,000,000. Of the total amount authorized for the Project, \$5,000,000 is authorized pursuant to the section entitled "Philippine Assistance Multilateral Assistance Initiative" in Title II of P.L. 102-391; \$3,000,000 is authorized pursuant to Section 106, and \$2,000,000 is authorized pursuant to Section 103.

2. The authorization cited above remains in effect except as hereby amended.

Clearances:

PESO:BCornelio ________
DRM:JAPatterson ________ 5/14
OFM:JCStanford ________
OLA:LChiles ________
OD:RAJohnson ________

By: Thomas W. Stukel
Thomas W. Stukel
Director
USAID/Philippines

Date: 5/20/93

UNCLASSIFIED

PROJECT PAPER SUPPLEMENT

PRIVATIZATION PROJECT
No. 492-0428

USAID/Philippines
April 1993

UNCLASSIFIED

TABLE OF CONTENTS

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
CCPAPS	Coordinating Committee of Philippine Assistance Program Support
COA	Commission on Audit
COP	Committee on Privatization
CP	Conditions Preceding
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
MBO	Management Buy-Out
NAPOCOR	National Power Corporation
NDC	National Development Corporation
NEDA	National Economic and Development Authority
NIDC	National Investment Development Company
PAD	Privatization and Development
PAL	Philippine Airlines
PDEC	PNOC Dockyard and Engineering Corporation
PESO	Private Enterprise Support Office
PHILSECO	Philippine Shipyard and Engineering Company
PHIVIDEC	Philippine Veterans Investment Development Corporation
PICOP	Paper Industries Corporation of the Philippines

LIST OF ACRONYMS

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

The Privatization Project, implemented by USAID and the Department of Finance since May 1988, was designed to contribute to the national development goal of increasing employment and income. The purpose of the project is to reinforce the privatization policy of the Government of the Philippines (GOP), in order to alleviate the country's deteriorated budget situation. The focus has been support to the privatization of the GOP's 122 government owned and controlled corporations (GOCCs) identified earlier by the government and the 399 non-performing assets transferred to the Asset Privatization Trust. From its inception in December 1986 through year end 1992, the Philippine Government's privatization program has succeeded in privatizing 368 total assets from this portfolio.

The Ramos administration plans to build on the momentum of economic policy reforms started by the previous administration, and to carry further the progress of the privatization program as indicated by the issuance of Executive Order 37 in December 1992. The sale of the remaining GOCCs is expected to reduce further the government subsidies, generate more revenues, emphasize a more dynamic partnership with the private sector, and create attractive business opportunities for foreign investments. The new administration's privatization thrust has a significantly broader and more comprehensive scope than was the case when the Privatization Project was originally designed in 1988. The government seeks to induce at least some of the 81 retained corporations to undertake a range of eligible privatization actions, involving transfer of management and operations from the public to the private sector. Among the techniques of privatization identified are: contracting for service delivery, through mechanisms such as service contracting, franchise agreements, or lease, and the rehabilitate-operate-own/transfer schemes.

An evaluation of the USAID Privatization Project was completed in August 1992, and reflected very favorably on the project's accomplishments. Among the evaluation's recommendations was expansion of the scope of the project design to include privatization studies for a selected group of retained GOCCs and the inclusion of assistance for the private provision of public services. With the extended portfolio of the new administration, there remains ample opportunities for the USAID Privatization Project to intensify and strengthen support to the GOP privatization program. An extension of the current Privatization project is, therefore, being recommended to supplement the efforts under the original project design.

The purpose of the project remains to support the GOP's privatization policies and program in their extended form. The Supplement has identified a four-year, $6.67 million program of activities (FY 93-FY 96) consisting of a $5 million new authorization for obligation in FY 1993-95, and the balance as GOP counterpart funding. The results expected by the end of the Supplement time-frame are: (1) the completion of at least two major divestitures, at least one of which will entail an equity offering on capital markets, (2) the completion of implementation plans for at least 15 sales or liquidations of enterprises or agencies already supported by USAID through studies conducted during FY 86-FY 92, (3) the strengthening of capability for implementing non-traditional modes of privatization in government, (4) developing 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 rehabilitate-own-operate/transfer (ROO/ROT) development of existing public service infrastructure, (5) enactment of new legislation and changes in government rules and regulations to enable the GOP to carry out its privatization efforts, and (6) greater understanding by other parts of government and the public in general regarding privatization and of stock offerings. Primary GOP responsibility for the implementation will remain with the Department of Finance.

I. BACKGROUND

In extending its Privatization Project, USAID wishes to continue to support the Government of the Philippines (GOP) in implementing the GOP's privatization policies and program, and in attaining the goal of increasing employment and income. Activities, such as privatization, have been paid greater attention by the GOP due to many of the macroeconomic constraints the government has experienced. Despite the fact that the economic growth and planned deficit over the years 1988-1992 fell short of established targets (partially 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 the National Power Corporation (NAPOCOR) and Philippine Phosphate Fertilizer Corporation (PHILPHOS), has continued and represents substantial budgetary outlays. As of December 1992, the GOP has set ambitious new target GNP 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 will be 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 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%. Growth for 1992 hovered 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 the 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 a new short-term stabilization program, it also imposed additional constraints on its lending to the Philippines, including the creation of a list of government-controlled corporations to be disposed of which represented a potential drain on the economy. The IMF and the World Bank are both requiring the GOP to take action to control subsidization of these GOCCs as a condition for further funding. By reducing the subsidies of key GOCCs through privatization, the GOP hopes to reduce the deficit to a target of 1% of GNP by 1998.

Based on available information from NEDA, growth may begin picking up in the near term (4.5% in 1993). NEDA is aiming for a 10% annual economic growth rate, along with a $1000 per capita income, by 1998. This averages out to an approximate 7.5% annual growth rate from 1993 to 1998. However, the IMF is not as optimistic and has requested the GOP to scale down its estimates. Unless significant strides are made by the GOP in attracting more foreign investment, promoting exports, and controlling inflation, an average growth rate of 3-4% over the period 1993-1998 is probably more realistic.

Additional pressures on the Philippines to improve its economic situation to become more self-sustaining and export-driven stem from the steady growth and competition from its ASEAN neighbors. Over the last decade, Singapore, Malaysia, and Thailand have avidly embraced privatization, export development, and capital market development programs, resulting in dramatic economic growths which act as magnets to foreign investment. Indonesia, too, is making headway in developing its private sector and capital markets, surpassing the Philippines on many measures for the first time in its history. Outside of ASEAN, China and Vietnam are in the process of opening their economies, which presents ample opportunities for new investment in those countries. All of this activity serves to detract from the lure of the Philippines to investors and heightens the competition for both donor and private capital for development purposes. There exists a real possibility that the Philippines will be left far behind its neighbors if it does not take credible action to address its economic and structural problems.

B. Progress of the GOP Privatization Program

The Government of the Philippines publicly committed itself to the concept of privatization when it adopted an aggressive 5-year privatization program in December 1986, with the issuance of Proclamations 50 and 50-A. These proclamations created the Committee on Privatization (COP) and the Asset Privatization Trust (APT), respectively, which have been two key parties in the privatization process to date.

The COP is a Cabinet-level committee tasked with establishing disposition entities (DEs) to handle the divestiture of GOCCs and acquired assets, identifying non-performing assets and government corporations to be privatized, determining which GOCCs will be transferred to which DEs, establishing guidelines for privatization, and approving the sale and disposition of assets. At this point in time, there are fourteen DEs named by the COP: the thirteen may be line agencies or the GOCC's parent corporation, with the fourteenth being APT. Operating guidelines empower the DEs to (1) transfer non-performing assets to the APT when applicable, (2) establish priorities for asset disposal, (3) develop policies on conservation, rehabilitation, restructuring, mergers and 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 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 substantially 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. The commitment of President Ramos to the privatization program is demonstrated with the issuance of E.O. 37 (see Annex C).

Despite the many obstacles, the program has been effective. The privatization program as a whole had recorded approximately 56 billion pesos in proceeds from privatization by December 1992. Total remittances to the National Treasury from the sale of GOCCs amounted to 15 billion pesos, and by the APT, to 20 billion pesos. The remainder was either retained by the 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 Comprehensive Agrarian Reform Program (CARP). 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 achieved considerable success in disposing of its assets. A total of 73% of the original portfolio has been divested to date, with the remaining 106 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, 75 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.

The privatization program, pursuant to the provisions of Proclamation No. 50 of 1986, should have the tenure of the major implementing entities. The COP and the APT expired on December 8, 1991. Cognizant of the vital privatization activities that needed to be completed, however, the Philippine Congress enacted Republic Act No. 7181 which extended the term of these entities to August 31, 1992 and with the approval of the President for a period until December 31, 1993. 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 time frame designated by President Ramos, due to the size and magnitude of the undertaking, especially in overcoming the problems of deficient capital markets. 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. USAID 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 USAID privatization project was completed by INTRADOS in September 1992, and reflected very favorably on the work which USAID was able to accomplish. According to the evaluation, USAID 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. These transactions have contributed approximately 9 billion pesos or 16% of the total proceeds that the GOP has received from privatization activities. A good deal of USAID's assistance has been directed to the APT.

USAID's technical assistance has been highly praised by the GOP and has been cited as a major factor in moving the privatization process along. Of the 521 transferred assets and selected GOCCs identified for privatization, a total of 368 has already been privatized. With the renewed commitment to privatization by the new government, the portfolio for privatization has been expanded to encompass the retained GOCCs and other GOCCs that have merged. These have been called upon through E.O. 37 to identify actions that will allow for the private provision of traditionally public services. With this expanded portfolio, there remains plenty of opportunities for continued privatization assistance by USAID 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. Please refer to the table below for a summary of the universe of GOCCs for USAID project assistance.

PORTFOLIO FOR PRIVATIZATION

	1986 SELECTED FOR PRIVATIZATION	PRIVATIZED	1993 REMAINING
Transferred Assets	399	293	106
GOCCs	122	75	47
Sub-total	521	368	153
Retained GOCCs	-	-	81*
Other GOCCs	-	-	98**
Total	521	368	332

* Private provision of services and operations
** Sale of assets by dissolved/merged GOCCs

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 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 USAID projects on privatization are possible. Such opportunities exist with the Capital Markets Project, the PAPS 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 Decentralized 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 USAID 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

The World Bank and the Asian Development Bank have developed complementary programs to USAID 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 USAID to take the lead in providing privatization technical assistance.

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 concept for the creation of the Private Sector Infrastructure Development Fund -- a financing tool of interest to USAID and to be jointly funded by World Bank, ADB for BOO/BOT schemes for new infrastructure facilities.

As privatization promises to increasingly become a focal point of donor activity in the Philippines, there will exist many more opportunities for USAID 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 goal is to increase employment and income. The purpose is to reinforce the privatization policy of the GOP by supporting the divestiture of selected GOCCs and acquired assets, thereby improving the GOP's budget situation.

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 buy-outs by existing management or employee buy-outs 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 the government 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 (see Annex C), 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.

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 15 accounts having implementation plans completed with the assistance of USAID, and which were ready for sale 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 improvement in capacity of a unit within the government dedicated to the ongoing process of privatization in all of its applicable forms.

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

6. 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 buy-out, employee stock ownership plan, joint venture development with a private partner, and ROO/ROT for existing infrastructure rehabilitation.

B. Project Activities

In the evaluation of the Philippines Privatization Project (see Annex D), there were several conclusions and recommendations impacting the design of a project supplement:

- 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

- Activities should be coordinated with projects in capital market development and BOO/BOT

- Skills and capabilities offered by IQCs should be reviewed and updated

- Additional training focused on strategies and techniques for conventional and non-conventional privatization modes should be provided.

The design of project activities for the project supplement 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. Under E.O. 37 the government agencies and corporations are called upon to identify their operations and activities which may be more efficiently and effectively tackled by the private sector through such arrangements as leasing of assets, management and maintenance contracts, or build-own-operate schemes. 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.

While the original project has a wide scope of activities by providing technical assistance and commodities to the APT, the Disposal Units of parent Departments/Agencies, and the Technical Office or Secretariat of the COP, the extension will be relatively more focused. In light of the above described considerations, the project extension will be directed to: (1) the completion of divestiture transactions, (2) support to the privatization activities of retained corporations for the private provision of public services, (3) institutional development.

1. Divestitures

This activity will focus on clearing the backlog of GOCCs and Transferred Assets slated for divestiture by the GOP, consistent with the priority for action stated in E.O. 37. There will be three elements of 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 watch-list?

(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?

(4) Public Offering: Does the transaction support capital market development? Could the general public participate in ownership through a stock offering?

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 privatization unit assisted as part of this project supplement (see Institutional Development below).

c. Improving Public Understanding of Privatization: The GOCCs have been besieged by legislators and the public in general, with questions regarding privatization, which indicate the need to provide more information to other parts of government and the public on the advantages of privatizing, on the results that might be expected from it, to discourage unrealistic expectations, to answer the concerns of special interest groups (such as labor), and to inform the public on stock offerings.

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. IQCs would be re-bid to encompass the broader range of required capabilities. Advocacy groups and the non-governmental organizations will be engaged to develop public education campaigns on the meaning of privatization, or to inform the public on specific transactions.

Training/Seminars/Conferences: 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 USAID-list accounts, workshops will be held with the DEs on marketing and implementation, taking advantage of the APT experience in these areas.

2. Support To Private Sector Partnerships by Retained GOCCs <u>for the Private Provision of Public Services</u>

Beyond divestitures, an entire range of techniques is available under the rubric of privatization. Without necessarily relinquishing ownership to the private sector, the public sector can use the private sector for increasing economic efficiency, upgrading and extending levels of services, and repatriating more funds to the treasury. The DOF sees the private provision of public services (i.e., contracting out, leasing, joint venturing, ROO/ROT, management buy-outs and employee stock ownership plans) as an excellent means to introduce privatization to the GOCCs designated for retention.

At the GOCC level, there is demand for advisory services to assist in using the private sector to provide services where appropriate and cost effective. GOCCs, such as the Philippine Ports Authority, the Home Insurance & Guaranty Corporation, the Philippine Post Office, the Philippine National Railways, the Ninoy Aquino International Airport, and the Metro Water & Sewerage System, have already been 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 have not yet considered the idea, like the NEA, have been investigating possibilities to help build operational efficiency.

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 Assets and Operations for Privatization. Through interviews, workshops and seminars, document analysis, brainstorming sessions and site visits, an inventory of existing assets and operations for privatization will be amassed for all of the retained GOCCs. This will complement the inventory being compiled for new assets under the PAPS 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 project and disseminated to other GOCCs.

b. Demonstrations. From the opportunities for privatization of assets and operations identified above, and with the commitment of the

GOCCs management, a series of transactions will be selected and implemented. The transactions will be properly documented to serve as model transactions for use by the other managers throughout the government corporate sector, and could be in any of the following categories:

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

(2) Management Buy-outs: 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 rebuild infrastructure with private investment;

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

(6) ROO/ROT: Private rehabilitation/rebuild of infrastructure under contract to government. Projects selected under this option will be coordinated with other USAID and donor initiatives.

Technical Assistance: USAID 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.

3. <u>Institutional Development</u>

The mandate for the COP and APT both lapse at the end of calendar 1993, yet the privatization program will be incomplete, demanding the development of continuing leadership in this area. The need for institutionalizing privatization is underscored further by the potential expansion of the concept to the private provision of public services. When it is considered that provincial and local governments have just begun to be included in the process under the Local Government Code of 1991, the need for ongoing support of privatization is imperative. Since privatization assistance to local governments falls outside 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. USAID will provide support to the institutional development of privatization in the following ways:

a. Improving Capability of an Entity within the GOP for Privatization. During the life of the project, a government office dedicated to privatization will be assisted to increase its capability to plan, coordinate, and deliver technical assistance to the different disposition entities, and other government corporations who have identified privatization modes to hasten actions and improve their management of implementing these opportunities. Other actions that can be coordinated include training.

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 create an ongoing capacity 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 is weak 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 facto analyses of completed transactions. The project will provide the COP with assistance in organizing its information and developing and maintaining a computerized data base.

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

III. FINANCIAL PLAN

A. Cost Estimate and Financial Plan

The total cost of the project is estimated at $16.53 million. Project funds will be provided by AID and the participating GOP Departments/Agencies.

The estimated life of project costs by source of funds are summarized in Table III-A, Summary of Cost Estimates and Financial Plan (All Years). Summary tables of Expenditure Projections by Fiscal Year and Expenditure Projections for AID Project Funds by Element and Fiscal Year are provided as Tables III-B and

III-C, respectively.

1. <u>USAID/Manila</u>

USAID/Manila will provide an additional $5.0 million in Multilateral Assistance Initiative grant funds. Planned obligations are shown below. The total obligation for life of project, including the supplement will be $10.0 million.

<u>PLANNED YEARLY OBLIGATIONS</u>

FUNCTIONAL ACCOUNT	FY'93	FY'94	FY'95	TOTAL
M A I	1,000	2,000	2,000	5,000
Total	1,000	2,000	2,000	5,000

PRIVATIZATION PROJECT
CURRENT OBLIGATION SCHEDULE
(U.S. $000)

	Original Agreement		*Project Agreement No. 1*	
ELEMENT	**Existing Total AID Obligation**	**Current G O P Contribution**	**Supplement AID Obligation**	**GOP Contribution**
1. Technical Assistance	3,442	0	3,925	0
2. Privatization Units & COP Staff, Equipment & Facilities	470	4,000	100	1,700
3. Trainings/Seminars	80	0	325	50
4. Policy/Operation Studies	612	0	350	0
5. Evaluation and Audit	250	0	150	0
Sub-Total	4,854	4,000	4,850	1,750
Inflation	0	392	0	0
Contingency	146	388	150	0
TOTAL	5,000	4,780	5,000	1,750

2. GOP

The GOP's contribution to the project will primarily be in the form of administrative costs to support the Committee on Privatization, Asset Privatization Trust, GOCC Asset Disposal Units; administrative and logistical support to expatriate and local contractors; and travel support costs for seminars and training activities. The total GOP contribution to the project is estimated at $1.75 million or 26 percent of total project funds.

TABLE III-A

SUMMARY COST ESTIMATES AND FINANCIAL PLAN (ALL YEARS)
(US $000)

	AID Grant FX	AID Grant LC	AID TOTAL	GOP LC	AID/GOP TOTAL
1. Technical Assistance			3,925	0	3,925
a) Local TA	200	925	1,125	0	1,125
b) Expatriate TA	2,400	400	2,800	0	2,800
2. Privatization Units & COP Staff, Equipment & Facilities	80	20	100	1,700	1,800
3. Trainings/Seminars	250	75	325	50	375
4. Policy/Operational Studies	200	150	350	0	350
5. Evaluation and Audit*	100	50	150	0	150
Sub-Total	3,230	1,620	4,850	1,750	6,600
Inflation	0	0	0	0	0
Contingency	100	50	150	0	150
TOTAL	3,330	1,670	5,000	1,750	6,750

* Includes $50,000 as provision for non-federal auditing services of government owned corporations.

TABLE III-B

PROJECTIONS OF EXPENDITURES BY FISCAL YEAR
(US $000)

Fiscal Year	AID Grant	G O P	TOTAL
1993	1,000	600	1,600
1994	1,500	450	1,950
1995	1,300	400	1,700
1996	1,200	300	1,500
TOTAL	5,000	1,750	6,750

TABLE III-C

PROJECTION OF EXPENDITURES OF AID GRANT FUNDS BY FISCAL YEAR AND BY PROJECT ELEMENT
(US $000)

	1993	1994	1995	1996	TOTAL
1. Technical Assistance					
a) Local TA	200	300	435	190	1,125
b) Expatriate TA	620	875	675	630	2,800
2. Privatization Units & COP Staff, Equipment & Facilities	50	50	0	0	100
3. Trainings/Seminars	50	100	100	75	325
4. Policy/Operational Studies	80	100	90	80	350
5. Monitoring, Evaluation and Audit	0	75	0	75	150
Sub-Total	1,000	1,500	1,300	1,050	4,850
Contingency	0	0	0	150	150
TOTAL	1,000	1,500	1,300	1,200	5,000

B. Methods of USAID Financing

The methods of USAID disbursement to be used may be classified as follows:

1. Direct Payments: USAID may make direct payments to suppliers or contractors for goods and/or services delivered.

2. Reimbursement: Under the reimbursement method of financing, the GOP implementing agency or contractor disburses its own funds and is then reimbursed by USAID upon submission of appropriate documentation. An appropriate reimbursement method will be used for reimbursement of outputs upon satisfactory completion of agreed upon work for selected GOCCs.

3. Advance/Liquidation: The advance/liquidation method of financing will be used when appropriate. Liquidation will be based on actual costs. This method is designed to ensure that the entity receiving the advance will have adequate cash flow to carry out activities. The maximum cash advance that USAID can give is for a 90-day cash requirement, and is subject to the Controller's approval. The request must show the monthly breakdown by line item as approved in the Implementation Plan or Project Implementation Letter (PIL). The liquidation report must be treated as a separate report from the Request for Cash Advance. At all points in time, liquidation of a previous cash advance is necessary before USAID can grant an advance for the following quarter. Cash flow and trend analyses are integral procedures within this method of financing.

C. Methods of Implementation and Financing of USAID Funds

INPUT	IMPLEMENTATION	FINANCING METHOD	AMOUNT
1. Technical assistance	AID direct contract Host country contract	Direct payment Direct payment/ Reimbursement	3,925
2. Policy studies	AID direct contract Host country contract	Direct payment Direct payment/ Reimbursement Advance/liquidation	350
3. Training/ seminars	AID direct contract Host country contract	Direct payment Direct payment/ Reimbursement Advance/liquidation	325
4. Commodities	AID direct contract-PSA AID direct procurement Host country procurement	Direct payment Direct payment Direct payment/ Reimbursement Advance/liquidation	100
5. Monitoring, Evaluation/audit	AID direct contract	Direct payment	150
6. Inflation 7. Contingency	(Depending on inputs shown above)		0 150
TOTAL USAID GRANT			$5,000

If the GOP implementing agency cannot advance the necessary funds for the USAID portion under the regular reimbursement method, USAID will be willing to consider the advance liquidation method, subject to USAID regulations.

D. Flow of Funds

1. GOP Implementing Agencies

The GOP will use its standard budgeting, accounting and disbursing system in the implementation of the GOP counterpart contribution funds.

Initially, the agencies' Work and Financial Plan is reviewed and approved by the Department of Budget and Management (DBM). Once approved, DBM will issue Advice of Allotments (AAs). The GOP agencies will submit copies of the AAs and an annual Implementation Plan to USAID. Upon USAID's approval of the Implementation Plan, the GOP may submit requests for cash advances to USAID or may finance an activity included in the Implementation Plan out of GOP funds and subsequently request reimbursement from USAID.

2. USAID (Local and Foreign Currency)

Once funds are obligated for the project, earmarking, commitment and disbursement will follow, depending on the project's pace of activity. Flow of USAID funds will be subject to standard rules and regulations, as indicated in Sections B and C above.

All foreign exchange costs under AID direct contracts or sub-project grants will be paid directly by USAID. At its option, USAID may make direct payments to suppliers/contractors under host country contracting or procurement actions, upon submission of the request to USAID by the implementing agencies.

IV. IMPLEMENTATION PLAN

A. Management

Primary GOP responsibility for the implementation of the project will remain with the Department of Finance (DOF). The Secretary of Finance is the Chairman both of the Committee on Privatization (COP) and the Government Corporate Monitoring and Coordinating Committee. An Undersecretary of Finance is the Chairman of the COP's Technical Committee. The Office of the Undersecretary will coordinate USAID assistance to the asset disposal units and will work with the GCMCC which oversees the retained GOCCs. The GCMCC is provided by the Presidential Management staff with a secretariat and staff support services. The DOF will submit quarterly progress reports to USAID, which will include the following:

1. The status of the privatization program including a listing of all companies approved for privatization; a listing of those already privatized with the price of the sale, method of privatization (e.g., auction) and entity responsible for privatization (e.g., APT); a listing of companies referred to the COP for approval of their sale, and whether referred to the COP by the APT or other entities; and a listing of those companies still with APT or other entities charged with their disposal and undergoing preparation for privatization.

2. A description of project-funded goods or services provided during the quarter, by beneficiary entity (e.g., APT), and showing a relationship to specific privatization actions.

3. A description of requirements for project assistance for the subsequent quarter.

4. A description of problems faced in the implementation of the privatization program.

Project management will remain within USAID's Private Enterprise Support Office. An FSN Program Specialist has been assigned the responsibility for day-to-day management coordination of project activities. The Program Specialist is supported by a USAID Project Team consisting of representatives from the offices of Financial Management, Contract Services, Legal Advisor, Program Economics, Development Resources Management, Office of Natural Resources, Agriculture and Decentralization, and the Office of Capital Projects. This group meets at least quarterly to prepare and review the Quarterly Project Status Report for the project. Progress reviews involving senior USAID management are held semi-annually to discuss the status and rate of project implementation.

B. Contracting Arrangements

Two contracting mechanisms will be employed to provide technical assistance services to the project:

1. An AID direct contract for one long-term specialist intermittently in-country to provide short-term technical services. The contract will be competed openly, and will be complemented, as appropriate, with buy-ins of the current projects of the Bureau for Private Enterprise such as the Privatization and Divestiture Project and the Financial Sector Development Project. Short-term technical assistance will be provided via the Philippine-based Indefinite Quanity Contracts described below.

The GOP groups directing the privatization efforts will require sound management, setting of priorities, and quick response time, while they are faced with transactions and specialized contracting arrangements, along with the possibility of increased legal disputes and political challenges. The contractors will 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;
- 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;
- 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.

Firms should consider such sources for subcontracting as investment banks, engineering firms, the International Executive Service Corps as well as small/disadvantaged firms and Gray Amendment entities.

2. Four to five Philippine-based Indefinite Quantity Contracts to provide short-term 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 will be given to investment banking, legal advisory, and management consulting services, versus auditing, valuation, 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.) The number of person-months of short-term services cannot be estimated at this time. The COP Technical Committee will issue work orders against the IQCs based on the submission by the APT or GOCC of a detailed scope of work and budget for the services desired. USAID will approve the terms of reference, performance criteria and budget for each work order before it is issued.

C. Training/Seminars

In-country workshops or participation in seminars abroad will be implemented by the Department of Finance pursuant to AID concurrence of annual training plans through Project Implementation Letters.

D. Commodity Procurement

The project will fund the acquisition of computer hardware and other related office equipment, and associated installation services, training, spare parts, etc. for the APT, selected DEs and GOCCs, and the COP's Technical Committee. Eligible source/origin countries for project-funded goods are the U.S. and the Philippines. A procurement services agent (PSA) will be utilized to procure commodities from the U.S., under an AID direct contract. However, consideration will be given to procuring U.S.-manufactured computer equipment from local firms, to ensure the availability of maintenance, spare parts and warranty service. If specific requirements are identified for procurement from countries outside the authorized geographic code, a specific waiver request will be prepared for Mission consideration.

E. Implementation Schedule

The following is a list of implementation actions to be carried out by the project, when those action are supposed to occur, and the party or parties responsible for carrying out the action.

Activity Description	Projected Date	Responsibility
CN submitted	May 93	DRM
Project re-authorized	May 93	PESO/DRM
Pro-Ag amendment signed	June 93	NEDA/PESO/OLA/DRM

PIO/T for TA contract completed	July 93	PESO/DOF
PIO/T for IQC contracts completed	July 93	PESO/DOF
TA contract signed	September 93	PESO/CSO
IQC contracts signed	September 93	PESO/CSO
Annual Work Plans submitted	October 93	DOF
Equipment procurement plans submitted for selected DEs and GOCCs	October 93	DOF/DE/GOCC
Approval of work plans	November 93	PESO/DOF
Pro-Ag Amendment signed (additional obligation)	April 94	NEDA/PESO/OLA/DRM
Equipment procured by PSA	November 94	PESO/CSO
Equipment delivered, installed	April 94	DOF/DE/GOCC
Annual Work Plan submitted	September 94	DOF
Approval of Work Plans	October 94	USAID/DOF
Mid-term evaluation	December 94	USAID/DOF
Pro-Ag amendment signed (additional obligation)	April 95	NEDA/PESO/OLA/DRM
Annual Work Plan submitted	September 95	DOF
Annual Work Plan submitted	October 95	USAID/DOF

Annual Work Plan submitted	October 96	USAID/DOF
Final Evaluation	September 97	USAID/DOF
Project Assistance Completion Date	December 97	USAID
Project Assistance Completion Report	June 98	PESO

F. Gray Amendment Considerations

USAID has fully considered the potential involvement of small and/or economically and socially disadvantaged U.S. enterprises for services provided under this project, and has determined that the U.S. technical assistance required under the project can best be provided through open competition. Firms will be required, however, to include a sub-contracting plan in their proposals. Special consideration will be given to proposals from firms or organizations that intend to utilize appropriate 8(a) firms or other Gray Amendment entities as subcontractors or as joint proposers. In addition, for the scheduled project evaluations, efforts will be made to award contracts to Gray Amendment-satisfying firms. Per USAID policy, overseas commodity procurement will be carried out by a Gray Amendment-qualifying procurement services contractor.

G. Monitoring and Evaluation

1. Project Monitoring

The technical assistance contractor will be responsible for day-to-day project monitoring, using as guidance the AID document Guidelines for Data Collection, Monitoring and Evaluation Plans for AID-assisted Projects (AID Program Design and Evaluation Methodology Report No. 9). Additional monitoring will be conducted by USAID's PESO staff. Financial monitoring will be conducted by the staff of USAID'S Office of Financial Management and/or a local accounting firm.

The monitoring procedures will include the collection by the DOF of specified project implementation data on a quarterly basis to determine progress toward meeting project outputs. The contents of this quarterly report are described above in Section A. Management. In addition, on a semi-annual basis, the contractor will gather and, with the DOF and

USAID, analyze information to determine overall project progress toward achieving the project purpose. Specifically, the contractor will quantify the number and value of state-owned enterprises and acquired assets which have been partially or fully privatized and describe how and to what extent the production of under-utilized, idle or non-performing assets have been enhanced as a result of the project's privatization activities.

2. Evaluation Plan

The original Project Paper called for two evaluations of the Project: a mid-term process evaluation focusing on performance and implementation constraints and a final impact evaluation to determine the direct and indirect effects of privatization on the intended beneficiaries. The first evaluation was carried out by Intrados in the summer of 1992. It recommended expanding the scope of project design to include greater emphasis on implementation assistance.

This supplement adds an additional mid-term evaluation to take place in December 1994. This second mid-term process evaluation will assess whether project implementation is occurring as planned and when planned, and will examine and make recommendations for the removal of any impediments to continued rapid implementation.

A final impact evaluation is scheduled for September 1997 just prior to the PACD in December. This final evaluation will focus on whether the project's outputs were achieved and whether the purpose-level objectives were met as well as upon the project's overall developmental impact. The evaluation will also provide recommendations for appropriate follow-up activities after the PACD.

3. Audit

Primary responsibility for audits of AID-funded projects lies with the Regional Inspector General's Office (RIG) in Singapore. However, in the event that the RIG is unable to carry out the audit activities, an external auditing firm will be contracted for the purpose. Fifty thousand dollars ($50,000) is budgeted for non-federal audit services for the mid-point and final audit review. It is anticipated that these reviews will cover the financial and compliance aspects of the project.

V. FINANCIAL ANALYSIS

Since the Privatization Project (492-0428) began in April 1988, both USAID and the GOP have had significant experience in estimating the financial return to expenditures to the cost to the USAID project of technical assistance, showed that the respective net benefit figures were $110 million and $400,000 (see Annex H). 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 -- $1:25 pesos)		78,400	149,800	91,000	50,600
Project Expenditures (AID+GOP)		1,600	1,950	1,700	1,500
Net Benefits		76,800	147,850	89,300	49,100
Net Present Value (15%, $000)	265,368				

Assumptions:

1. The first five identified APT transactions are probably relatively small. These have been estimated each to be worth about 40 million pesos.

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

5. 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.

An unpublished comprehensive World Bank study by Candoy-Sekse and Palmer[1] on 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 listed as being privatized prior to 1988. Only seven of the transactions studied were from developing countries. Although in the foregoing financial analysis similar benefits are not quantified for lack of more precise available data, measures of welfare of these benefits are included in the following economic analysis.

VI. ECONOMIC ANALYSIS

Since the Privatization Project Paper (Project 492-0428) was approved in April 1988 a World Bank funded major 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, the results -- as experienced in Mexico, Malaysia, Chile, and Britain, which were in the scope of the study -- would generally be 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 used, these objectives are measured as welfare gains and losses from divestiture to consumers, government, enterprises, labor and competitors. The basic equation is:

$$\Delta \bar{W} = \Delta S + \Delta \Pi + \Delta L + \Delta C$$

ΔW = change in welfare

ΔS = change in consumer surplus

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[1]Candoy-Seske, Rebecca 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.

$\Delta \pi$ = change in enterprise profits
ΔL = change in labor rents
ΔC = changes in rents (or expenses) to competitors

$\Delta \pi$ 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 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 losses.

The welfare gain is the present value of multiple year flows. The welfare gain is converted 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 25% in the case of the twelve companies in the World Bank study. This is used for a sample of Philippine companies that may be divested under the project supplement. If 10% is used as a conservative estimate (more than 50% of the companies in the World Bank study gained more than 10%), 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, the cited methodology would approximate 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 legislation. They can seek technical assistance to develop and implement their plans through the Department of Finance, acting on behalf of the COP.

The counterpart for the current privatization project is the Department of Finance (DOF) led by the Undersecretary for Privatization. Since the COP and APT may go out of existence on December 31, 1993, the continuity will be the disposition agencies (of which there are now 13) or the Undersecretary for Privatization in the Privatization Office of the DOF. DOF has both the mandate and capability to manage the implementation of this project supplement. Although the GCMCC is the monitoring and coordinating body for all government-owned or controlled corporations attached to the different departments of the executive branch, the DOF is the center for coordinating all government's privatization actions. Under E.O. 37, all government departments, bureaus, agencies and other government corporations seeking partnership with the private sector in the provision of traditional public services are directed to the Department of Finance to avail of technical assistance. These entities are required to inform on a quarterly basis the COP of these privatization activities, such as maintenance of roads, park facilities, collection of receivables, and waste disposal. The Secretary of Finance has currently been designated by the President as Chairman of the GCMCC composed of representatives from 10 agencies in government. The institutional building that has taken place in the existing privatization project has been at DOF's Privatization Office and APT. By being the implementor for the project, the capability of the Undersecretary for Privatization, and DOF in general, as chairperson of the COP Technical Committee, and of the GCMCC, 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 Agreement for this supplement, as it was for the original privatization project.

As part of the project supplement, advisory services will be provided to the DOF to assist them in developing and presenting the post-December 31, 1993 legislation, executive orders, contracting procedures and organization 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.

Project Goal	Objectively Verifiable Indicators	Means of Verification	Assumptions
Contribute to national economic development goal of increasing employment and income	1. Decreased unemployment indicator 2. Increased per capita income 3. Increased GDP	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 and assets.	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 continues to exists 2. Legal impediments to privatization will be overcome 3. 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. Government entity's capability is improved to implement non-traditional modes of privatization 5. Implementation plans for all AID assisted companies 6. Management Information System to track privatization of GOCCs 7. 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. Government unit dedicated to ongoing privatization provides increased coordination for technical assistance 5. New legislation to reduce barriers to privatization transactions 6. 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. Supplemental budget of $5 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

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

By reducing the national budgetary burden of acquired assets and public enterprises on the GOP budget, and by improving the management and efficiency of these enterprises, the project will directly encourage efforts of the country to (a) increase the flow of international trade;(b)foster private initiative and competition;(c)discourage monopolistic practices; and(d)improve technical efficiency of industry, agriculture and commerce.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will serve to encourage U.S. private trade and investment abroad. Private U.S. participation will be encouraged through the U.S. sourcing of technical assistance and through investment in assets to be divested.

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3. **Congressional Notification**

a. **General requirement** (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Congress was notified of the original activity in 1988. Congress will be notified of the additional amount for the project amendment prior to obligation.

b. **Notice of new account obligation** (FY 1993 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes. Financial plans are included in the Project Paper Supplement.

(b) Yes.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

N/A

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (*e.g.*, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

By reducing the national budgetary burden of acquired assets and public enterprises on the GOP budget, and by improving the management and efficiency of these enterprises, the project will directly (a)increase the flow of international trade; (b) foster private initiative and competition; (c)discourage monopolistic practices; and (d) improve technical efficiency of industry, agriculture and commerce. (c) and (f) will not be affected.

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10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will serve to encourage U.S. private trade and investment abroad. Private U.S. participation will be encouraged through the U.S. sourcing of technical assistance and through investment in assets to be divested.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Of the total project cost of $16.53Million, GOP local currency contributions are are expected to amount to at least to $6.53 Million.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. **Separate Account** (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A. Local currencies will not be generated.

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1993 Appropriations Act Sec. 520(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A.

b. **Textiles (Lautenberg Amendment)** (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of

No.

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textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No.

14. **PVO Assistance**

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Assistance is not for a PVO.

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

Assistance is not for a PVO.

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This information will be cabled within the required time period.

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16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes.

17. **Women in Development** (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

No. The project was not designed with that in mind. However, a significant number of women have been and will continue to be both beneficiaries and project implementors.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No.

19. **Abortions** (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):

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a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No.

b. Will any funds be used to lobby for abortion? No.

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? No.

21. **U.S.-Owned Foreign Currencies** N/A

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.

b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section? Yes.

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c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

The Philippines does not discriminate against U.S. Marine insurance companies.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

There are no construction or engineering services to be procured under this project.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

Yes.

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facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
i. **Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	All contracts will contain such a provision.
j. **Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes.
k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest	Yes.

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes.

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

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26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? — Yes.

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes.

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — Yes.

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

31. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

Yes.

32. **Payment of U.N. Assessments** (FY 1993 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

Yes.

33. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Yes.

34. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

35. **Repression of Population** (FY 1993 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes.

36. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

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37. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes.

38. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

39. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

No.

40. **Impact on U.S. Jobs** (FY 1993 Appropriations Act, Sec. 599):

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

No.

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

No.

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(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1993 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Assistance is not for agricultural development activities.

2. **Tied Aid Credits** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

No.

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4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project is directly responsive to the needs, desires and capacities of the Philippine people by privatizing organizations which can be more efficiently and effectively operated by the private sector as well as to utilize more appropriately the country's intellectual resources for the private management of Philippine productive enterprise.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

(a) Through more effective and efficient utilization of productive resources, all elements of the society will benefit including the poor who are either currently employed in the transferred resources or will obtain employment in an expanding private economy.
(b) N/A
(c) N/A
(d) N/A
(e) N/A

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes.

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8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The poor will be the ultimate beneficiaries of a better-functioning private enterprise system.

9. **Abortions** (FAA Sec. 104(f); FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 534):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No.

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to

No.

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methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

N/A

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

11. **Disadvantaged Enterprises** (FY 1993 Appropriations Act Sec. 563): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Consideration will be given to firms submitting proposals which utilize the resources of small and disadvantaged firms as primary or sub-contractors. No fixed amount will be set aside for this purpose.

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

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13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? N/A

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, N/A and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? N/A

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment? Yes.

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases? N/A

15. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A

16. **Deobligation/Reobligation** (FY 1993 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as Yes.

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originally obligated, and have the House and Senate Appropriations Committees been properly notified?

17. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

18. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical

See No. 6 above.

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assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

19. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the

N/A

poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

20. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. N/A

21. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N/A

22. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is: N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

23. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? — N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? — N/A. Not ESF.

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To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

5. **Cash Transfer Requirements** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and

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conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. **U.S. Government use of local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA) or ESF purposes?

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)

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Source: COP

Annex C

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,

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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.

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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

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 Hotels, 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 Pnividec 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

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CORPORATION	AREA OF ACTIVITY
NATIONAL DEVELOPMENT COMPANY	
1 Batangas Land Company Inc.	Land ownership
2 CY 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 Marawi Resort Hotel Inc.	Hotel operation
3 Mindava Coco-Coir Industries, Inc.	Production of coco-coir fiber product
4 Mountain Springs Development Corp.	Swine raising
5 Panson Prawn Development Corp.	Prawn pry 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 1993

	NAME OF CORPORATIONS	OFFICE TO W/C ATTACHED
1	National Food Authority	DA
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	DENR
10	Natural Resource Development Corporation	DENR
11	Philippine Veterans Assistance Commission	DND
12	Philippine Veterans Bank	DND
13	Philippine Veterans Investment Development Corporation	DND
14	Poro vidéc Industrial Authority	DND
15	Veterans Federation of the Philippines	DND
16	Philippine Crop Insurance Corporation	DOF
17	Philippine Export & Foreign Loan Guarantee Corporation	DOF
18	Lung Center of the Philippines	DOH
19	National Kidney Institute	DOH
20	Philippine Children's Medical Center	DOH
21	Philippine Heart Center	DOH
22	Employees Compensation Commission	DOLE
23	Philippine Convention & Visitors Corporation	DOT
24	Philippine Tourism Authority (Including Duty Free Shops, other assets or subsidiaries)	DOT
25	Light Rail Transit Authority	DOTC
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	DPWH
31	Metropolitan Waterworks & Sewerage System	DPWH
32	Ascon Copper Products, Inc.	DTI
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	HUDCC
43	Home Insurance and Guarantee Corporation	HUDCC
44	National Home Mortgage Finance Corporation	HUDCC
45	National Housing Authority	HUDCC

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

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

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(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

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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

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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

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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.

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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.

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.

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

GOCC's by Disposition Entity	Failed Bid	For Disposition	With Impediments	Privatization Study in Progress
	------Ready for Sale------			
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		

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

GOCC's by Disposition Entity	------Ready for Sale------ Failed Bid	For Disposition	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

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.

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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

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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	77
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

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

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

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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To:	Mr. Dario Pagcaliwagan, USAID/PESO
Fax:	632-5215235
From:	Edgar Harrell, PW/IPG
Date:	October 21, 1992
Subject:	Progress Report - Privatization and Development (PAD)

Dario,

Attached is a quick cost/benefit analysis of two buy-ins under the PAD project: the Maricalum and North Davao Mines and PNOC. For a total estimated cost of $448,500 in PW/IPG advisory services, the following benefits resulted:

Sale of Mariculum (Revenue):	$27 million
Sale of PDEC (Revenue):	$27.5 million
Savings to the Government on North Davao (Liquidation):	$38.7 million
Financial Restructuring of Malangas (Investment in new equipment):	$6 million
	$101.2 million

For the overall cost/benefit calculation, you would have to add local currency costs for asset appraisal for the two mines and perhaps some costs incurred by one of the local accounting firms. It's still a very good story when presenting your next budget request to USAID for privatization.

Summary of Recent USAID and PW/IPG Transactions

(As of October 21, 1992)

Philippines I: Asset Privatization Trust

Project 1: Maricalum Mine
Result of study: Mine sold for $27 million.

Project 2: North Davao
Result of study: Mine closed down. Savings to Government: Based on 1991 performance, annual estimated loss $3.87 million. Given a remaining mine life of ten years (according to Pincock, Allen, and Holt), total loss would have been $38.7 million.

Philippines II: Philippine National Oil Company -

Project 1: Malangas Coal Company.
Result of study: Financial restructuring; 6 million dollars injected in operations by PNOC.

Project 2: PNOC Dockyard and Engineering Corporation.
Result of study: Company completely privatized through a direct equity sale.
Amount: P 688 million ($27.5 million at $1=P25 exchange rate).

Financial Analysis of Transactions

Philippine I

The Philippine I buy-in included four projects, namely the North Davao Mine, the Mariculum Mine, Paper Industries Corporation of the Philippines (PICOP), and a toll-road (PNCC). The budgeted and actual expenses for the overall buy-in are as follows:

	Budget	Actual	Remaining
Salary & Wages	$475,725	$343,244	$132,480
Expenses	$191,674	$124,151	$64,524
Total	$667,399	$467,395	$200,004

Based on our estimates, the privatization of the two mines cost $181,229 in salary and wages, and $64,558 in TTA and other direct costs, for a total of $245,787. Since these two projects had the same length, we can estimate the cost of each project to be half of the above total (See below).

Salary and Wages per Project:	$ 90,614
TTA & other costs per Project:	$ 32,279
Total per Project:	$122,893

When compared to the final sale price of the Maricalum mine ($27 million), the cost of the Mariculum transaction in percentages is:

Salary and Wages:	0.34%
Expenses:	0.12%
Total:	0.46%

When compared to the estimated savings to the government ($38.7 million), the cost of the North Davao liquidation in percentages is

Salary and Wages:	0.23%
Expenses:	0.08%
Total:	0.32%

Philippine II

The Philippine II buy-in included the Malangas Coal Mine and the PNOC Dockyard and Engineering Corporation. The overall budget is as follows:

	Budget	Actual	Remaining
Salary & Wages	$153,875	$150,530	$3,345
Expenses	$85,811	$52,190	$33,621
Total	$239,686	$202,720	$36,966

The estimated breakdown between the two projects is as follows:

	Malangas	PDEC
Salary & Wages	$70,271	$80,259
Expenses	$24,372	$27,817
Total	$94,643	$108,076

When compared to the final sale price of the PNOC Dockyard ($27.5 million), the cost of the PDEC transaction in percentages is:

Salary and Wages:	0.29%
Expenses:	0.10%
Total:	0.39%

When compared to the amount injected in Malangas ($6 million), the cost of the financial restructuring in percentages is:

Salary and Wages:	0.12%
Expenses:	0.04%
Total:	0.16%

SUMMARY TABLE

	Benefits to Government:	IPG Cost:	% of Revenues:
Sale of Mariculum (Revenue):	$27 million	$122,893	0.46%
Savings on North Davao:	$38.7 million	$122,893	0.32%
Financial Restructuring of Malangas (Investment):	$6 million	$ 94,643	0.16%
Sale of PDEC (Revenue):	$27.5 million	$108,076	0.39%
Total	$101.2 million	$448,506	

Weighted average percentage cost of IPG transactions: **0.44%**

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
MANILA

April 26, 1993

MR. THOMAS STUKEL
Mission Director
U.S. Agency for International Development
M a n i l a

Re: Privatization Project

Dear Mr. Stukel:

This has reference to the $5 million Privatization Project Grant Agreement, dated June 16, 1988, between the Republic of the Philippines and the United States of America.

We appreciate very much the assistance provided to us by USAID through hiring of local and foreign consultants, acquiring commodities, undertaking policy and operational studies and pursuing training programs, which have all been beneficial in the implementation of our privatization activities. This helped us a lot in achieving our privatization objectives of expanding private economic activity, improving investment climate, broadening ownership base and developing the capital market and generating substantial revenues for Government.

With the expiration of the grant agreement by end - 1993, we would like to to seek your support in exploring the possibility of providing additional assistance to the Government's privatization program. Executive Order No. 37 issued by Pres. Fidel V. Ramos reaffirmed the Philippine Government's commitment towards privatization . This Executive Order expanded the coverage of our privatization program and considered other modes of privatization such as leasing, management and maintenance contracts or build-operate-transfer (BOT) schemes. The privatization of idle government properties was also taken into account. Attached herewith is a copy of the subject Executive Order, for your reference.

In this connection, we are hopeful that the second phase of this grant can include the same type of assistance earlier provided under the grant but with more focus on the actual valuation and marketing of the accounts. In addition, the grant should also provide tapping of in-house consultants for DOF/COP and disposition entities. The coverage should include not only transferred assets or GOCCs for privatization but also privatization activities of all other GOCCs. Likewise, it should also include disposition of assets by government departments, bureaus and agencies, including Local Government Units, in line with E.O. No. 37. We believe such assistance is, indeed necessary to help Government pursue its privatization activities.

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Please allow us to take this opportunity once again to thank you for your continuing support to the Government's policy on privatization.

Very truly yours,

ROMEO L. BERNARDO
Undersecretary of Finance
and Chairman, Technical Committee
Committee on Privatization

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