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**EVALUATION OF THE USAID/PHILIPPINES
PRIVATIZATION PROJECT**

Project No: 492-0428

Final Report

Prepared By

Intrados/International Management Group

Authors

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PROJECT IDENTIFICATION DATA SHEET

1. Country: The Philippines
2. Project Title: Privatization Project
3. Project Number: 492-0428
4. Project Dates:
- a. First Project Agreement: 16 June 1988
 - b. Most Recent Project Assistance Completion Date (PACD): 31 December 1992
5. Life - of Project Funding (US\$000's)
- a. AID Bilateral Funding (Grant) 5,000
 - b. Host Country Counterpart Funds 4,780
 - TOTAL 9,780
6. Mode of Implementation: Direct USAID and Host Country Contracting
- Major Contractor (local IQCs) are:
- Carlos Valdez & Company
 - Sycip, Gorres, Velayo & Company
 - Joaquin Cunanan & Company
 - Investment & Capital Corporation of the Philippines
 - AYC Consultants, Inc.
- Buy-in:
- International Privatization Group, Price Waterhouse
7. Project Designers: The Government of the Philippines
USAID/Philippines
8. Responsible Mission Officials:
- a. Mission Directors
 - Frederick W. Schieck: 8 May 1988 - 30 June 1988
 - Malcolm Butler: 1 July 1988 - 28 February 1992
 - Richard A. Johnson (Acting): 1 March 1992 - Present
9. Project Officers:
- Michael Hauben: 16 June 1988 - 20 July 1989
 - Bruno Cornelio: 21 July 1989 - Present
 - Dario J. Pagcaliwagan: 16 June 1988 - Present

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

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LIST OF ACRONYMS

APT	Asset Privatization Trust
BAs	Beneficiary Accounts
CARP	Comprehensive Agrarian Reform Program
COA	Commission on Audit
COP	Committee on Privatization
DA	Department of Agriculture
DBM	Department of Budget & Management
DBP	Development Bank of the Philippines
DEs	Disposition Entities
DOF	Department of Finance
DOT	Department of Tourism
DOJ	Department of Justice
DOTC	Department of Transport and Communications
GCMCC	Government Corporate Monitoring and Coordinating Committee
GFI	Government Financial Institutions
GSIS	Government Service Insurance Corporation
GOCCs	Government-owned or Controlled Corporations
HIGC	Home Insurance and Guaranty Corporation
ICCP	Investment & Capital Corporation of the Philippines
IQC	Indefinite Quantity Contract
MERALCO	Manila Electric Company

NDC	National Development Company
NG	National Government
NIA	National Irrigation Administration
NMC	National Marine Corporation
NSC	National Steel Corporation
OCP	Office of Capital Projects
PAL	Philippine Airlines
P__	Pesos
Pasar	Philippine Associated Smelting and Refining Corporation
PCIB	Philippines Commerce and International Bank
PMS	Presidential Management Staff
PNOC	Philippine National Oil Company
PhilPhos	Philippine Phosphate Fertilizer Corporation
PLDT	Philippine Long Distance Telephone Company
PNB	Philippines National Bank
S.No	Serial Number
SSS	Social Security System
TAs	Transferred Assets
Techcom	Technical Committee
TLRC	Technical Livelihood and Resource Center
UBP	Union Bank of the Philippines
USAID/PESO	United States Agency for International Development/Private Enterprise Support Office

EXECUTIVE SUMMARY

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

EXECUTIVE SUMMARY

PURPOSE AND METHODOLOGY

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

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

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

BACKGROUND OF THE USAID PRIVATIZATION PROJECT

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

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

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

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

FINDINGS AND CONCLUSIONS

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

- o level of earmarks stand at 88.3 % or the equivalent of \$ 3.95 million worth of assistance have been earmarked against an obligated grant amount of \$ 4.5 million.
- o eleven (11) Disposition Entities (DEs) of Government Owned or Controlled Corporations (GOCCs) and Transferred Assets (TAs) as well as the ad-hoc Philippine Airlines Privatization Committee have tapped and are continuing to use the Project's Grant funds.
- o 80 GOCCs and TAs have sought and obtained funding for a wide range of technical assistance for policy reviews, asset appraisal/valuation, privatization design and

implementation or advisory services.

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

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

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

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

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

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

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

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

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

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

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

PROJECT IMPLEMENTATION

Effectiveness

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

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

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

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

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

traditionally been in the hands of government.

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

EFFICIENCY

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

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

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

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

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

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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 bidden out/offered for sale by the Disposition Entities.

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

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

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

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

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

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

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

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

SUSTAINABILITY

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

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

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

RECOMMENDATIONS

A. Project Design

Short-term

1. Maintain project objectives and scope of technical assistance available but with greater emphasis on implementation assistance. Investment banking services for big ticket accounts and implementation assistance in terms of market promotion for smaller accounts should be the emphasis.
2. Develop a diagnostic framework with COP/DOF for sequencing and prioritizing the assistance remaining until the end of the project. The framework should focus on entities that have received project assistance and are ready for privatization.

Medium-term (after 1992, Phase II)

3. Expand the scope of project design and coverage to include privatization studies for selected retained GOCCs and other government activities.
4. Develop and apply an analytical framework for selecting key sectors/areas for USAID to consider for future development assistance as part of the follow-up project. Selection should also take into account promising areas for U.S. involvement.
5. Expand the follow-up project design to include development assistance for the private provision of public services.
6. Coordinate efforts with the Office of Capital Projects towards privatization of some of the above sectors. In the area of BOTs, complement OCP's initiatives by taking a lead in marketing and implementation.
7. Assistance with marketing of sound BOT projects should be initiated by selecting from the list of demonstration projects prepared by the CCPAP.
8. Review and update the skills and capability levels required of local and foreign IQC firms for inclusion in the new project.
9. Provide additional allocation for specially focused training programs but conduct training programs in the Philippines to expand coverage for middle level officials. Training programs should cover conventional and non-conventional modes of privatization. Also, emphasis should be given to training programs focused on strategies and financing techniques for infrastructure development with private sector participation. These programs should include

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

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

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

B. Project Implementation

Short term

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

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

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

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

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

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

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

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

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

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

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

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

Medium term

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

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

Long Term

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

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.

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.

INTRODUCTION

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

INTRODUCTION

BACKGROUND AND GENESIS OF THE PRIVATIZATION PROGRAM OF THE PHILIPPINES

The Philippine Government's privatization program officially commenced on December 8, 1986 with the issuance of Proclamation No. 50 by then President Corazon C. Aquino. With this legislation, the Government embarked on a five-year plan to divest itself of various government corporations and assets which could best be managed by the private sector. These included the following:

- o certain receivables and other obligations due to government institutions, and their collateral;
- o real and personal properties of any kind owned by government institutions, whether directly or indirectly;
- o shares of stock and other such investments held by government institutions; and
- o the government institutions themselves, whether parent or subsidiary corporations.

Proclamation No. 50

Proclamation No. 50 defines the general terms of the privatization program's policy and procedural framework. It identifies the two-fold imperatives of the program, namely:

- (1) the judicious use of the corporate form of organization in the creation of government bodies for the production and distribution of economic goods and services to the public, and the need to rationalize and monitor the operations of government corporations to help bring about improved performance, assure more efficient use of resources and, in general, to re-orient their activities and priorities in a manner consistent with national objectives, to the end that the private sector is given primacy and the government assumes a supplemental role in entrepreneurial endeavors under a climate of fair competition; and
- (2) reduction of the number of government-owned corporations which have proliferated to unmanageable proportions, circumscribing the areas of economic activities within which government corporations may operate; and aiming to achieve these goals through the privatization of a number of government corporations, with the disposition and liquidation of the non-relevant and non-

performing assets of retained corporations as the logical first step to their rehabilitation.

Proclamation No. 50 also created the government entities which are responsible for the monitoring of the program's activities and the orderly disposition of government assets identified for privatization. These entities are the Committee on Privatization (COP) and the Asset Privatization Trust (APT). The proclamation further outlines the functions and responsibilities of the COP and the APT, their operational provisions, and their audit requirements.

Pursuant to the provisions of Proclamation No. 50, both the COP and the APT have life spans of five years. Thus, the term of the COP and the APT should have expired on December 8, 1991. However, cognizant of the vital privatization activities that need to be completed, the Philippine Congress enacted Republic Act (R.A.) No. 7181 in January 1992. This legislation provides for the extension of the term of the COP and the APT from December 8, 1991 to August 31, 1992. R.A. 7181 has an added provision allowing the President of the Philippines to extend the term of both the COP and the APT for a period not exceeding 16 months thereafter, or up to December 31, 1993.

Two broad categories of assets are covered by Proclamation No. 50, namely, government owned or controlled corporations (GOCCs), and transferred assets (TAs). At the start of the program, there were 301 GOCCs, of which, 122 entities were approved for privatization. The remaining 179 GOCCs have been earmarked either for retention (79), abolition (59), regularization (18), consolidation (17), or conversion (6).

Those GOCCs targeted for privatization are monitored by the COP, while the other non-privatization transactions are under the auspices of the Department of Budget and Management (DBM), in close coordination with the Government Corporate Monitoring and Coordinating Committee (GCMCC). The 122 GOCCs identified for privatization were originally distributed among 14 disposition entities (DEs), which are responsible for the actual marketing of these GOCCs. The proceeds from the sale of the government subsidiaries directly accrue to their parent entities, while those from the sale of parent GOCCs accrue to the National Treasury.

On the other hand, TAs represent those non-performing assets transferred by government financial institutions (GFIs), such as the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP) to the National Government. Their disposition and actual marketing are handled by the APT. Pursuant to Proclamation No. 82, the proceeds from the sale of TAs, net of fees, commissions, and other reimbursable expenses of the APT, are remitted to the National Treasury to form part of the fund of the Comprehensive Agrarian Reform Program (CARP).

The full texts of Proclamation No. 50 and R.A. 7181 are presented as Appendices I and II, respectively.

The Committee on Privatization

The Committee on Privatization (COP) is a cabinet-level committee under the Office of the President tasked with overseeing the government's privatization program. Five cabinet members comprise the COP, with the Secretary of the Department of Finance (DOF) as its chairman. The COP is supported by a Technical Committee, which is headed by the Undersecretary of Finance and composed of senior officials of the other COP member departments. The other departments represented in the COP are the Department of Budget and Management (DBM), the Department of Justice (DOJ), the Department of Trade and Industry (DTI), and the National Economic and Development Authority (NEDA). From 1986 up to the present, there have been four secretaries and six undersecretaries of the DOF who have been directly involved with the country's privatization program. The names and tenure of these officials are presented in Appendix III.

The COP, among other things, has two main objectives. These are as follows:

1. to divest to the private sector those assets with viable and productive potential as going concerns as soon as possible, and
2. to dispose of transferred assets in order to generate maximum cash recovery for the Government.

The COP is also in charge of formulating the policies and general guidelines regarding privatization issues, approving the sale and disposition of government corporations and assets, and monitoring the progress of privatization activities.

One of the main functions of the COP is to supervise the privatization activities of the APT and the 13 parent government corporations or government departments designated as DEs. The APT was created as the principal disposition entity, acting as trustee for the Government in the implementation of the program. APT was assigned the responsibility of disposing all the 399 TAs which came under government control through the lending operations in previous years of PNB and DBP. These assets were transferred through foreclosure or defaulted loans. Initially, 10 GOCCs were also assigned to the APT for privatization, while responsibility for divestiture of more than a hundred GOCCs was allocated among the 13 other DEs. Subsequently, the task of disposing 16 GOCCS were also transferred from the other DEs to the APT.

A list of all the designated DEs are shown in Table 1 in the next page.

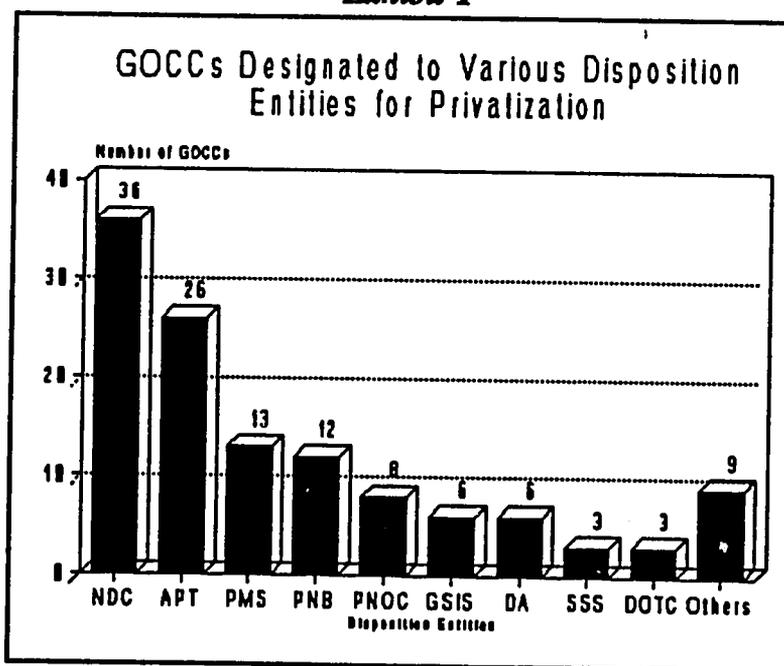
Table 1
List of Disposition Entities Charged With Privatization

S.no	Disposition Entities (DEs)
1.	Asset Privatization Trust (APT)
2.	Department of Agriculture (DA)
3.	Department of Tourism (DOT)
4.	Department of Transportation and Communications (DOTC)
5.	Development Bank of the Philippines (DBP)
6.	Government Service Insurance System (GSIS)
7.	Home Insurance and Guaranty Corporation (HIGC)
8.	National Development Company (NDC)
9.	National Irrigation Administration (NIA)
10.	Philippine National Bank (PNB)
11.	Philippine National Oil Company (PNOC)
12.	Presidential Management Staff (PMS)
13.	Social Security System (SSS)
14.	Technology Livelihood and Resource Center (TLRC)

Of the 122 GOCCs identified for privatization, 80 firms are handled by NDC, APT, PNB and GSIS, representing approximately 87% of the total asset value of the GOCCs earmarked for privatization.

The breakdown of the number of GOCCs handled by each disposition entity is shown in Exhibit 1 below.

Exhibit 1



The COP is continuously examining ways to accelerate the privatization program. It continues to commission the services of several independent consulting firms, which are providing it with technical and advisory assistance in the preparation of valuation studies and/or privatization plans or the actual marketing of TAs and GOCCs to be privatized. The advisory services are made possible through a technical assistance grant from the United States Agency for International Development (USAID).

The Asset Privatization Trust

The Asset Privatization Trust (APT) began its operations in March 1987. It is principally responsible for disposing of assets transferred to it by PNB and DBP as part of the rehabilitation program of these two banks under Executive Order Nos. 80 and 81, and Administrative Order No. 14. The APT initially had a management contract with PNB and DBP wherein the two banks would handle pre-disposal services for the assets until 1989. After July 1989, all conservation and maintenance services of the assets were handled by the APT.

The APT's portfolio consisted of 399 TAs and 26 GOCCs. The recovery target of the APT at the beginning of the program was about P25 billion, to be recouped over its five-year life. This was approximately 20% of the estimated P130 billion aggregate value of the portfolio at that time.

The TAs handled by the APT are classified either as financial form assets (such as loans and other receivables), physical form assets (plant and equipment, and real estate assets), or equity form assets (equity investments). Financial form assets are usually settled through direct debt buyouts (DDBOs). Physical assets, on the other hand, are disposed of through public bidding or negotiated sales. Under the Commission on Audit (COA) rules and regulations, bidding sessions require the submission of at least two qualified bids to be considered successful. In cases where there is only one bid tendered, or if no bids are tendered at all, the public bidding is considered a failure. In case of a failed bidding, a negotiated sale may be subsequently undertaken.

The DDBO is another mode of repayment or restructuring of an asset by the original owners. A fourth mode of disposition is a compromise settlement which may be pursued with respect to assets affected by court injunctions.

STATUS OF THE PRIVATIZATION PROGRAM

Extension of the Privatization Program

As earlier stated, R.A. 7181 was enacted by the Philippine Congress in January 1992 to provide for the continued existence of the COP and the APT, the two major implementing entities of the privatization program, up to August 31, 1992. This tenure may again be extended by the new President of the Philippines for a period not exceeding 16 months.

Aside from the above provisions, R.A. 7181 also contains additional provisions in the sale of government assets. Most significant among these is that all assets are required to be sold for cash. However, pursuant to the provisions of the CARP Law (R.A. 6677), Land Bank bonds may still be an acceptable form of payment for TAs.

In addition to the provision limiting payments to cash or Land Bank bonds, there are several other conditions in R.A. 7181 which include the following:

- o those pertaining to labor issues;
- o the offering of assets to small investors;
- o the sale of assets to former owners; and
- o the requirement of a loss recovery clause for assets sold below their transfer prices.

In the sale of assets in corporate form, R.A. 7181 specifically stipulates that no undue dislocation of labor should occur unless employee benefits as provided by existing collective bargaining agreements or labor laws have been complied with. Furthermore, a minimum of 10% of the total shares for privatization of a corporate form asset should be allocated and first offered to small local investors.

Former owners of assets for disposition are required under R.A. 7181 to present a final judgement from an appropriate government agency or court of law proving that no mismanagement or diversion of an asset's resources occurred under their administration. Moreover, assets can only be retrieved by their previous owners at prices not less than the assets' original transfer prices.

R.A. 7181 also provides that the privatization of GOCCs considered strategic by NEDA will require the approval of the President of the Philippines.

Accomplishments of the Privatization Program

Since its inception in December 1986, the Philippine Government's privatization program has been able to dispose of 346 accounts consisting of 275 TAs and 71 GOCCs. As of June 30, 1992, the cumulative gross revenues from the sale of these assets amounted to P51 billion. Sales of TAs by the APT accounted for P29 billion, while sales of GOCCs contributed P22 billion.

GOCC Dispositions from Inception To Date

The Philippine Government identified and approved 122 GOCCs for privatization. As of June 30, 1992, 85 GOCCs had been offered for sale, 71 of which have been either disposed of or approved for dissolution. The 71 accounts consisted of 27 GOCCs fully sold, 26 GOCCs partially sold and 18 GOCCs approved for dissolution. Thus, to date, 51 GOCCs remain to be privatized.

Of the 27 GOCCs fully sold, 15 were disposed at a premium over their indicative prices. These GOCCs include the National Marine Corporation (NMC) and Usiphil Inc. (Usiphil) which were both sold by NDC. NMC was sold for P168 million or 66% over the indicative price of P101 million, while Usiphil was disposed for P35.5 million or 63% over its P21.8 million indicative price. Other accounts which were sold at premium prices were National Stevedoring & Lighterage (39%); Maunlad Savings & Loans Association (17%); and Marina Properties (17%), which was sold for P1.78 billion.

On the other hand, five GOCCs were sold at par, while three GOCCs were sold below their indicative prices.

On January 30, 1992, the public bidding for 67% of government-held Philippine Airlines (PAL) shares was held. The shares were awarded to the AB Capital consortium for its winning bid of US\$419 million, which was 31% higher than the hurdle price of US\$319 million. This bid was over and above a fixed peso component of P4 billion.

Transferred Assets Sold

As of June 30, 1992, the APT disposed of 275 TAs or about 69% of the 399 accounts in its portfolio. Of these accounts, 225 TAs were fully sold and 50 TAs were partially disposed of. Sales revenues generated from the dispositions of the TAs by the APT amounted to P29 billion. This amount is approximately 15% higher than APT's original target of P25 during its entire five-year term. Full dispositions generated P27 billion, while partial dispositions accounted for P2 billion. This excludes the P270 million of agricultural lands turned over to DA by the APT. Sales proceeds amounting to P19 billion were remitted to the National Treasury for the benefit of CARP.

From 1987 to 1991, the largest sales made by the APT included Nonoc Mining, PNB Complex, and others. The 9 major sales have been listed in Table 2 below.

Table 2
Major Sales By APT (1987-1991)

S.No	Asset	Selling Price (Million Pesos)
1.	Nonoc Mining	7,111
2.	PNB Complex	3,091
3.	Meralco Foundation, Inc.	2,122
4.	First Philippine Holdings	1,210
5.	Delta Motors Corporation	967
6.	Bukidnon Sugar Milling Co, Inc.	730
7.	Floro Cement Corporation	509
8.	Island Cement	503
9.	United Planters Sugar Milling Mfg. Co.	500
	TOTAL	P16,743

The sales value of the above accounts represent about 58% of the total dispositions as of December 31, 1991.

To date, there are 131 TAs remaining in APT's portfolio due to various reasons. These are classified as financial, physical or equity form assets. The number of undisposed financial TAs total 91, physical TAs (25), and equity TAs (15). Among the reasons for their non-disposal are ongoing court litigations and other legal impediments, and a lack of interested investors.

Privatization Plans and Activities in the Future

The privatization activities of the COP and the APT during their extended lives will focus on the divestment of the larger GOCCs and TAs. Big-ticket GOCCs slated for disposition in 1992 include Manila Hotel Corporation, National Steel Corporation (NSC), and further dilution of the government's remaining ownership in the Philippine National Bank (PNB).

The privatization of Manila Hotel involves the sale of at least 40% of the company's shares of stock. This is expected to be implemented once the updated valuation of the shares has been completed.

NDC is also preparing to sell part of its equity in NSC. At least 25% of the steel firm's capital stock is expected to be offered for sale within the year, subject to the removal of a legal injunction pending in the courts.

The second public offering of PNB's shares was held in March 1992, at which time PNB sold 13% of its shares. The performance of PNB's shares has been encouraging since the successful 1989 initial public offering (IPO) of 30% of the bank's capital stock. The issue, which amounted to P1.8 billion, was the largest IPO at the time. To date, 43% of PNB's shares have been sold to the public, and the government's ownership have been reduced to only 57%.

The APT, on the other hand, will continue to market and sell the remaining TAs under its supervision. It projects a conservative sales target of P925 million given the implementing guidelines for R.A. 7181, the political scenario, and the wait- and see- attitude of local and foreign investors. The APT intends to exert its best effort to complete the privatization of the following major assets:

1. Philippine Shipyard and Engineering Corp.
2. Maricalum Mining Corporation
3. Pantranco North Express, Inc.

Projected remittance to the Bureau of Treasury is gauged by the APT at P1.8 billion, which will be sourced from this year's sales, payments due from previous years' sales, loan payments, Land Bank bonds, and other income. Beyond 1992, projected remittance is estimated at around P4 billion, representing receivables from this year's sales and previous sales on deferred payment terms.

Excerpts from the 1991 annual report of the Committee on Privatization (COP) can be found in Appendix IV.

OBSTACLES AND UNRESOLVED ISSUES IN THE PRIVATIZATION PROGRAM

During the last five years, a number of factors have adversely affected the Philippines privatization efforts, thereby hampering the pace of the program. The inability of the program to achieve the stated objectives can be attributed to the following:

a. Economic, Political, and Social Rationale

In the early days of the privatization program, two main arguments against privatization were often voiced by officials managing the GOCCs and the TAs: 1) An enterprise making money should not be privatized, and 2) an enterprise which is losing money must first be restructured before it is privatized. The arguments are indicative of the entrenched bureaucracies in the enterprises and disposition entities, whose interests would be hurt if their respective firms were privatized. It has been observed that the reluctance to sell some of the most lucrative entities, such as Philippines Airlines, Manila Hotel, and the Philippine National Oil Corporation (PNOC), etc., is due to the "turf protection" that has been very much apparent in these entities. Substantial earnings generated by these firms and the extra perks enjoyed by some of the officials have been major factors behind the reluctance to market the most saleable assets. Observers have also commented that the officials controlling these assets have refused to yield the power, influences and benefits of their positions, and are therefore devising ways to delay or forestall the privatization process.

A classic case in point has been that of the Manila Hotel. The previous President, Mrs. Aquino, while making a speech at the hotel three years ago, remarked that it was an ideal candidate for privatization and she would like to see it as one of the first to be sold under the country's privatization program. It is now 1992, and the hotel, despite its attractiveness to interested buyers, is still very much in the hands of the government. It is ironic that GSIS, the disposition entity charged with the privatization of its holdings-- which include the Manila Hotel - has been unwilling to part with this asset.

The privatization of Manila Hotel has been put aside also due to social reasons that have often been espoused by all those opposed to its privatization. The hotel is deemed by these opponents as part of the national heritage, and thus should not be privatized.

b. The Concept of a "Disposition Entity"

As mentioned above, there are 14 disposition entities responsible for formulating and implementing privatization schemes for the GOCCs and TAs. If one were to evaluate these, the APT appears to be the only true disposition entity. The remainder are holding companies with a series of subsidiaries or affiliates earmarked for privatization. As part of the privatization program, these entities were called upon to assume the role of disposition entities in order to dispose of some of their subsidiaries selected for privatization. These entities have been slow to put up for sale companies under their charge due to their inability to detach themselves from

the management of the earmarked companies. Also, since they are not purely disposition entities, the sale of state assets has not been their sole purpose, and their attitude towards the privatization process has tended to differ from those expressed by the government.

c. The Legal Issues

One of the major obstacles to the progress of privatization has been the opposition of prior owners, translated into court injunctions questioning the authority of the disposition entities. Despite the issuance of Proclamation 50, which grants the disposition entities immunity from any law suit arising from the sale of the assets, some debtors and/or owners have still questioned the proclamation on the basis of constitutionality. Such actions have not only been restricted to private owners but also involved some government agencies that have hampered the government's privatization program. A legal system that has allowed for the passage of one injunction after the other, aimed at delaying or totally stopping the privatization of assets, has jeopardized the privatization of a number of companies.

Notable among the list of accounts that have faced legal impediments have been the Manila Electric Company (MERALCO) and the National Steel Corporation (NSC). The privatization of MERALCO was scheduled for 1988 but was only carried out in January 1992. This delay was chiefly due to the differences and struggles between the agency charged with privatization and by the Presidential Commission on Good Government sequestered MERALCO shares. Towards the latter part of 1991, the Supreme Court ordered the lifting of the sequestration by ruling that MERALCO's major shareholders had proper claim to their shares and the transaction structure designed in 1988 by J.P. Morgan was fair to all parties involved. This finally led to the privatization of the electric utility. The proposed privatization of NSC has also been marred by legal repercussions. The sale of NSC is currently being challenged in court by the Jacinto family, the original owner of the company's assets, who claim that the government's foreclosure of the assets was illegal.

The Commission on Audit (COA) Dilemma

As mentioned earlier in the report, COA is the government agency responsible for the auditing of government agencies. In its overzealous attempt to ensure proper disposition values for government entities, it set stringent and non-business like sales requirements and audit procedures. It also went on to consider the valuation of going-concerns to be in line with the audit procedures carried out under its auspices. It totally disregarded and questioned the use of outside consultants, as well as the use of USAID direct and host country contracting. This brought the entire privatization process to a halt for 8 months. The momentum gained prior to this issue was lost and the government retreated from availing itself of all technical assistance from USAID--the primary donor agency providing such services-- until the issue of valuation vis-a-vis auditing was totally resolved with COA.

In March 1990, agreement was finally reached with the government on the above mentioned issue. The role of the COA in the privatization process was clearly defined and the contracting of services of private firms was also deemed as acceptable. However, the requirements of sale stipulated by COA have affected the pace of the privatization program. To ensure transparency, COA regulations require that all government corporations and transferred assets be sold through an auction process. The auction must attract a minimum of two bidders, and the winning bid must be higher than the minimum base price previously established. Often, the base price is recommended by COA. In cases where there is only one bidder, or if no bids are received at all, the auction is considered a failure. The COA requires a failed bid before allowing the disposition entity to negotiate with the interested buyer.

In a number of cases, the disposition entities have been aware that the auction would fail because of an unrealistic initial asking price set on the basis of a valuation procedure deemed unacceptable by buyers. The requirement set forth by COA has forced them to go through a bidding process that would result in a failure. The disposition entities would institute a valuation study through funds available internally or through donor assistance to get a realistic range of values that would allow them to effectively negotiate with the buyers. This whole exercise has led to delays in the disposition of a number of enterprises and accounts.

Custodianship

As mentioned earlier, disposition entities such as the APT were entrusted with the responsibility of disposing of assets transferred to it from the DBP and the PNB. Limited funding was made available to APT to conserve the values of the assets that were in physical form. The APT was given an initial appropriation of P100 million for capital acquisitions, administrative expenses and conservation costs. This, and subsequent funding, has fallen short of requirements. Lack of financial resources for maintaining the unsold assets has led to further deterioration in their condition, and hence further reduction in their value, and difficulties in disposition. It is ironic that none of the proceeds of assets sold by APT have been used towards enhancing the marketability and value of the unsold assets. APT has been mandated by law to transfer all the sales proceeds of the privatization towards financing the government's Comprehensive Agrarian Reform Program (CARP).

Likewise, a number of other disposition entities also hold accounts that need physical rehabilitation and improvement in their financial position before they can be deemed as ready for sale. Other disposition entities have no obligations towards remitting proceeds of privatization to the government, however, there are few cases in which these proceeds have been used to rehabilitate the non-privatized accounts. Either the proceeds have been channelled by these entities for different uses, or the amount generated is too low to finance the rehabilitation.

The remaining list of corporations and accounts earmarked for privatization in the Philippines includes a number of accounts that need rehabilitation to enhance their marketability and value.

Attitude Towards Foreign Buyers

The government's stand on the role of foreign investors in the privatization process has been perceived as contradictory. Though the government has openly declared its commitment to attract the maximum foreign investment possible, until recently, the policy makers have limited foreign ownership of entities to 40% of outstanding stock.

Frequent Turnover of Personnel

From its inception, the privatization program has been adversely affected due to frequent changes in senior officials in-charge of the process. It is unfortunate that some of the vocal proponents of privatization had limited tenure as heads of entities/organizations that were charged with the implementation of the privatization program. The COP, a cabinet level committee headed by the Secretary of the Dept. of Finance and comprising secretaries of the Department of Budget and Management (DBM), Department of Justice (DOJ), Department of Trade & Industry (DTI), and the Director General, National Economic and Development Authority (NEDA), has to date had four different finance secretaries heading the COP. Moreover, the technical committee-- in-charge of day-to-day implementation and reporting to the COP-- headed by the Undersecretary, Department of Finance has had six different finance undersecretaries who have headed the technical committee since its inception in 1987.

The Privatization Legislation

The R.A. 7181 was instrumental in extending the term of the COP and the APT which was due to expire in 1991. However, the amendments were not limited to the extensions but also included some provisions that have had an adverse impact on the pace of the privatization process. Particularly, the statutes of the amendment that have particularly caused discontent are:

- a. The amendment mandates that disposition of any and all assets, including sales by installments, shall be exclusively for cash. This cash requirement is constraining the ability of local investors to purchase assets. Also, the preference for full cash payments over instalment terms has also seriously left out small- and medium-scale entrepreneurs, thereby making it questionable whether the government's objective to disperse ownership to low income individuals can really be achieved.

- b. The requirement set forth under the amendment that a loss recovery provision be included in the terms and conditions of the sale of any asset sold below the transfer price, is likely to create additional obstacles to the privatization process.

c. The amendment also stipulates that for disposition of assets in corporate form, there shall be no undue dislocation of labor unless all retrenchment benefits as provided by existing laws or the Collective Bargaining Agreement (CBA) shall be complied with. Even though this has not posed a major problem, it will definitely affect negotiations with buyers of firms that might have excessive employees.

Political Turmoil and Other Unforeseen Problems

The six year term of the Aquino government was faced with a series of problems that have had an indirect impact on the process of privatization in Philippines. Failed coup attempts and instability in decision making brought about by frequent changeover of key cabinet personnel have contributed to the lack of interest from investors. Natural calamities like the Mt. Pinatubo eruption have also had a heavy toll on the overall development of the nation's economy.

USAID PROJECT EVALUATION

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

**USAID PROJECT
EVALUATION**

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 for a specialist and the assistant professional. Intrados subcontracted with Punongbayan & Araullo, a local auditing and consulting firm, to complete the team.

The three person team was composed of Messrs. Baljit S. Vohra, team leader, Raul T. Guerrero, specialist, and Marilou Untalan, assistant professional. 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 short and medium-term 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. A list of people interviewed and copies of all the questionnaires generated for this purpose can be found in Appendix V & VI respectively.

A preliminary draft report was submitted to and discussed with PESO on July 15, 1992 after completion of the Team's major field work. PESO's comments on the preliminary report and subsequent field work and data gathering/analysis by the Team members were then incorporated into this final report.

TEAM FINDINGS AND CONCLUSIONS

48-

THE USAID-FINANCED PRIVATIZATION PROJECT

No: 492-0428

TEAM FINDINGS AND CONCLUSIONS

PROJECT DESCRIPTION

Assistance offered by USAID, through its PESO office, has been a mainstay of the Philippines privatization program. In the words of one senior government official involved in the privatization program, "We would not have reached this stage of privatization if it were not for the timely technical assistance provided by the USAID privatization project."

Project Background

1. The USAID privatization project dates back to the period when the Philippines government officially implemented its privatization program. 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 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 provisioning for an equivalent of US\$4.78 million in pesos to:

- i) fund the administrative costs associated with supporting the COP, APT, GOCCs and other disposition entities, ii) provide administrative and logistical support to expatriate and local contractors, and iii) fund travel support costs for seminars and training activities.

2. The primary responsibility of overseeing the project has been with the Committee on Privatization (COP), Government of the Philippines. Since the Secretary of the Department of Finance is the chairman of the 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. A director in-charge of privatization in the office of the undersecretary, is responsible for the day-to-day coordination of technical assistance between the beneficiaries, USAID personnel, and consultants.

3. 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. Assistance to be provided included the following areas:

- a) **Information and Data Management:** computer hardware and office systems for the disposition entities undertaking privatization, and training of personnel in the use of computer and relevant software applications;
- b) **Valuation and Marketing Services:** valuation, prospectus preparation, identification of prospective investors, information dissemination, public stock offerings, investment proposal evaluation;
- c) **Operations and Policy Review Studies:** studies to guide disposition entities in assessing privatization options to best-use studies and corporate strategy development.
- d) **Training/Seminars:** in-country workshops and participation in privatization training programs abroad for those officials directly involved in privatization; and
- e) **Commodity Assistance**

To provide the above mentioned expertise, USAID/Manila, in conjunction with the 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 services provided by these firms included the full range of privatization requirements, ranging from policy reviews and asset appraisals, to privatization plans, valuation, and implementation. 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 was not deemed as satisfactory by the beneficiaries.

Project Evolution

4. The evolution of the project from its inception until now has been a function of a number of interrelated factors that have impacted upon the privatization process in the Philippines. Though the project was initiated in June 1988, it only became active two and a half years after its inception. This slow start were mainly due to factors outside the control of those responsible for the successful execution of this project. As discussed earlier, structural impediments, and inter- and intra-organizational politics that formed the backdrop of the country's privatization program dealt a significant blow to effective implementation of the project in its earlier years. Some of the impediments still prevail, and are responsible for the failure of the government in making major decisions regarding privatization.

5. It should be noted that the project was initiated at a time when the Philippines privatization program had already been underway for over one year. The institutional set-up for undertaking privatization was already in place, and the various disposition entities responsible for privatization had undertaken privatization exercises on their own. The privatization project was geared towards assisting in the establishment of an institutional base for privatization-- through formation of disposition units, etc-- there was no need for such assistance.

6. At the time of project inception, USAID project personnel submitted to DOF a list of accounts that they would prefer to assist under the auspices of this project. However, the DOF was not very open to granting those accounts to USAID; rather, they suggested that the project should focus on a different set of accounts. Understandably, since the "easier to privatize" accounts could be handled by the DEs, they influenced DOF to seek assistance for only those accounts that were difficult to privatize, and needed financial and physical rehabilitation.

7. The inability of USAID personnel to identify, prioritize, and sequence the desired project assistance can be explained by the factors discussed above. As a result the project took a reactive stance in the privatization process.

The delay in undertaking project assignments was also due to indecisiveness on the part of some of the government beneficiaries to quickly carry out the privatization of the entities. The project found itself trapped between the so-called "turf battles" among disposition entities over the method and manner in which the entities would be sold, and the inherent unwillingness among disposition entities to sell subsidiaries or affiliates earmarked for privatization. In a number of instances, project personnel found themselves in an embarrassing position where the COP had granted them approval to proceed with providing assistance to an entity that still had not come to terms with the concept of privatization. Ironically, even though the COP had a mandate to oversee and make final decisions regarding what would be privatized, the disposition entities paid little regard to the mandate enjoyed by COP. Instead, they took steps to delay or forestall the privatization of the accounts directly under their responsibility. The case of the Manila Hotel mentioned earlier can perhaps best describe the dilemma faced by project personnel. The project was approached by COP to provide technical assistance for the hotel's privatization, even though GSIS-- the disposition entity responsible for its privatization-- had not been willing to give up its control of the hotel. The project found itself in a position where the approval for carrying out the assignment was granted and withdrawn on more than one occasion.

8. What does this mean for those implementing privatization? Even though the Philippines privatization program is viewed by the outside world as being comprehensive and well structured in terms of achieving the objectives, the refusal of the disposition entities and privatization implementation agencies to work within the formal structure-- due to reasons previously mentioned-- can significantly impact on the success of a privatization exercise.

9. In the wake of this background shrouded by "turf battles, lack of political commitment, disregard by disposition entities and individuals towards the privatization program,

and other reasons described earlier under the "Constraints and Unresolved issues" section of the report, the project groped its way through the first year and a half with limited utilization of funded-assistance.

10. To further complicate matters, the project found itself trapped by the "COA dilemma." As mentioned earlier, the DOF had to temporarily suspend all project activities until its issue of concern with the COA was full resolved. Within the organization structure designed to implement privatization, nowhere was there a mention of COA's role and significance in the entire privatization process. All those responsible for designing the implementation structure for privatization had overlooked the political clout that this organization would have on the future of privatization in Philippines. Though the intentions of COA in being an important player in the privatization program appear clear-- ensure that there is no corruption and the price for the disposed asset is fair--, the entity went overboard in exercising due caution. It began to disregard business valuation procedures, and went on to object to the use of outside consultants provided by the project. It questioned DOF and COP on the use of USAID project assistance for undertaking privatization. This impasse also built up the frustrations of the USAID project personnel. They started to issue letters to the coordinating authorities in the DOF indicating that funding for this project would be withdrawn if the resources available through it were not used quickly. Perhaps, these letters and a serious push from the privatization proponents to resolve this issue finally began to take hold. The COA issue remained unresolved for over ten months until March of 1990.

The problem with COA--leading to a temporary suspension of project assistance for over ten months-- further contributed to making this project totally passive until August 1990. A mid-term evaluation of the project carried out in the latter half of 1990 revealed that the project had total commitments of only US\$300,000, which was only 6% of the total project funding available until the end of 1992.

11. It may be argued that while the level of utilization of technical assistance was low, there was a fair degree of activity in the Philippines' privatization program. According to the annual report of COP, a copy of which has been enclosed in the Appendices, a considerable amount of revenues had been generated in 1987-89 through the sale of a number of accounts of APT and other disposition entities. What does this say about the usefulness of the project? First, a number of accounts had either been privatized prior to the initiation of the project, or necessary actions taken before the privatization project got off the ground. Second, a number of disposition entities, due to the COA issue, failed to make use of project assistance when it was most needed. Therefore, they took upon themselves the burden of going through the process without assistance. Third, in spite of all the overtures made by project personnel to encourage the big accounts to make use of project assistance, these entities decided to go their own way. Finally, the lack of an effective strategy for marketing this project to all the beneficiaries also proved to be responsible for low utilization of the services offered. The project personnel chose to concentrate on just the APT accounts, with less attention being paid to others. It should also be noted from the COP annual report that privatization activity in the Philippines in 1990 was at its lowest level, mainly due to the differences in the valuation

approach between the implementing agencies and the COA. This makes it all the more clear as to why the project had limited activity in 1990.

12. The progress of the project was also affected by the frequent turnover of personnel responsible for coordinating the program on behalf of the government. As mentioned earlier in the report, project personnel had to deal with four secretaries of finance, six undersecretaries, and several trustees for APT over the life of this project. Such frequent changes resulted in significant time and effort on the part of project personnel in terms of re-building a working relationship with these key individuals.

13. After the issue with COA was resolved in the latter half of 1990, the privatization process began to gather momentum. There was a renewed sense of commitment displayed by agencies to quicken the pace of the privatization program. In its attempt to display commitment to privatization, the government started to introduce a series of measures to further enhance the credibility of the program. Most notably, it was able to convince Congress that the objectives of the privatization program were far from finished, which led to the extension of the terms of the COP and the APT to August 1992 and allowed the President to further extend their terms up to December 1993. The government realizing that its term was expiring in 1991, started to look for some quick successes in privatization. There was a serious effort to conclude several transactions that had been underway. The successful privatizations of PNB, MERALCO, PAL, and others, restored credibility to the outgoing government and provided a badly needed thrust to the privatization program. Significant results were achieved between the latter half of 1990 and early part of 1992, when the government announced the elections. The first half of 1992, however, was lost to the election fever and the uncertainty that engulfed the political landscape of the country.

14. 1990-1992 proved to be a very eventful period for the privatization project. It recovered from its dormant stage and started to gain momentum. The changes discussed above encouraged the disposition entities to seek all the assistance available in disposing of their accounts. The complex nature of these accounts, and the need for specific technical expertise that was readily accessible through this project grant, further generated interest among the beneficiaries. Also, the DOF and project personnel had by now started to further market this project among the beneficiaries. Emphasis was placed on the broad areas of assistance available and the relative ease with which the project could be accessed.

15. The ability of the project to support the successful privatization of a complex account such as PAL, increased interest among the beneficiaries as they gained confidence in the quality of assistance that this project could provide. A measure of this sudden interest is the dramatic increase in the utilization of project-funded assistance. Project commitments increased from 6% of project funding in June 1990 to over 88% in the same period in 1992. The total number of accounts assisted increased from 16 to a total of 80 during the same period. Also, USAID's privatization policy-- which was more limited in 1988 when the project was designed than in January 1991, when it recognized the evolving nature of privatization-- helped to further expand the activities of the project.

16. The DOF, and major disposition entities like the APT, PMS and others view the USAID project as an integral part of their privatization initiatives. The capability of the project to provide them quickly with the assistance desired, has helped the project achieve a position of significance in the country's privatization program. As an illustration of this point, USAID project assistance was sought to prepare the 1991 COP annual report later submitted to Congress.

17. Even though there have been some significant successes in the privatization program, problems with regards to its speedy implementation still remain. This is something that the project personnel will have to contend with as the privatization program moves on further. There is still a great deal of resistance from some of the disposition entities to sell their subsidiaries earmarked for privatization. Some of the statutes in the amendment to the legislation described earlier on in the report will prove to be a major deterrent to the program. The frequent turnover of privatization professionals, and uncertainty over the existence of COP and APT, and major decisions with regards to the privatization of "big-ticket" items, etc., will have their repercussions on the future of the privatization program.

Having discussed the background of the privatization program in the Philippines, the climate for privatization, the obstacles and initiatives, and the background and evolution of the USAID-financed privatization project, we will now move on and specifically discuss the performance of this project under areas that include: a) project design, b) implementation, c) efficiency, d) impact, and e) sustainability.

PROJECT DESIGN

1. 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 following project performance indices as of June 1992:

- 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) DEs of Government Owned or Controlled Corporations (GOCCs) and Transferred Assets (TAs) as well as the ad hoc Philippine Airlines Privatization Committee tapped and are tapping from the Project's Grant funds
- o 80 GOCCs and TAs have sought and obtained funding for a wide range of technical assistance as encompassed in the Project Design covering Policy Reviews, Asset Appraisal/Valuation, Privatization Design and Implementation or Advisory Services.
- o Grant funds for training have been fully utilized while level of earmarks for technical assistance, equipment and special studies stand at 95, 87 and 85% respectively

2. It is also the consensus among officials of PESO, DOF, 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.

3. The structure of the project design allows for effective complementation among the components to service a wide range of support required in the entire activity cycle of privatization. Hence, the Project allowed the tapping of grant funds to finance any one or any combination of:

- o appraisal and/or valuation of assets or whole companies
- o marketing services/ promotions
- o operational studies
- o advisory services
- o training for institutional building
- o commodity support
- o formulation of privatization strategies including their implementation

All the above have been possible due to the properly orchestrated efforts of PESO's project personnel and DOF's Privatization Office to anticipate the real needs of the privatization effort in the context of the Philippine scenario and address those needs effectively within the range of assistance menus allowed by the project design. There was unanimity in the approach towards implementing privatization as specified under the project design among USAID, DOF, DEs and other key players in the privatization process.

4. Since the Philippine Privatization Project of USAID 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 implementation bottlenecks at the implementing level of the entities involved because of the relevance of the Project Design and its components to the then prevailing needs.

5. 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.

However, work continues to be performed under the umbrella of the project and the verifiable successes-- in terms of contribution of the project to the revenues generated by 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 it is too early to assess the impact of PAL's privatization in terms of employment generation, tax revenues to government, influx of tourism, better transport services and other economic parameters; the successful buyers are already looking at implementing programs to upgrade the fleet, setting up additional routes, improvement of services, and other programs which will invariably impact for the better for the country at large.

6. 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 so that a steady state of successfully privatized accounts was coming out of the Project pipeline. As a consequence, there is now a heavy build-up of assisted GOCCs and TAs almost ready for sale or still being evaluated.

The PESO staff confirms that it maintained a reactive rather than a pro-active stance in priority setting and left the allocation and sequencing to the COP. The discussion under "Project Evolution" section will reinforce the reasons behind this stand adopted by project personnel.

7. Even though the Project has been successful in achieving its subordinate but nonetheless essential objectives of assisting the Beneficiary Accounts readied for sale, there is need for greater interaction among PESO and DOF on the one hand and participating IQCs on the other hand to provide strategic guidance towards meeting bottom-line Project goals-actually selling GOCCs and TAs- as well as carrying out each of the Project's main objectives.

This has become more apparent and compelling at this time as the needs of the privatization program have become more complex and a more orchestrated effort is required. This could be attributable to the reactive nature of the project design as it did not allow for a more conscious interchange between the GOCCs and TAs targeted for privatization and USAID personnel. Furthermore, it did not give the IQCs an opportunity and a vehicle to articulate some of their concerns and in turn receive guidelines from COP/DOF on how they could help in accelerating the privatization efforts.

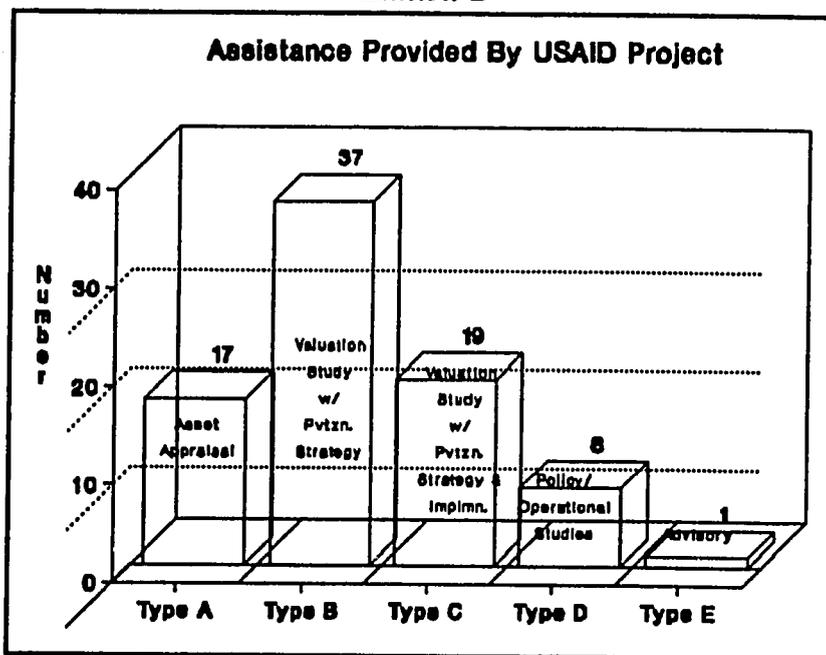
8. Due to the limitations that were inherent in the design, the project was limited in its ability to proceed beyond the preparation stage and involve itself with the transactional activities in the privatization process. The design was heavily focused towards the procedural aspects of carrying out the privatization effort. Less emphasis was given to the practicalities of implementing and carrying out the privatization program.

The pacing of the actual transactional aspects of the privatization efforts would have accelerated if the equivalent focus was given to the buying private sector, utilizing part of the grant funds to equivalently " privatize the privatization process ," generating awareness among the public, eliciting a more proactive stance among the benefitted GOCCs and TAs.

9. While the project design was flexible enough to provide a wide range of services required by 11 DEs, out of the 80 requests for assistance using the Project funds, only one (1) sought assistance for Advisory Services and eight (8) for policy review or operational studies.

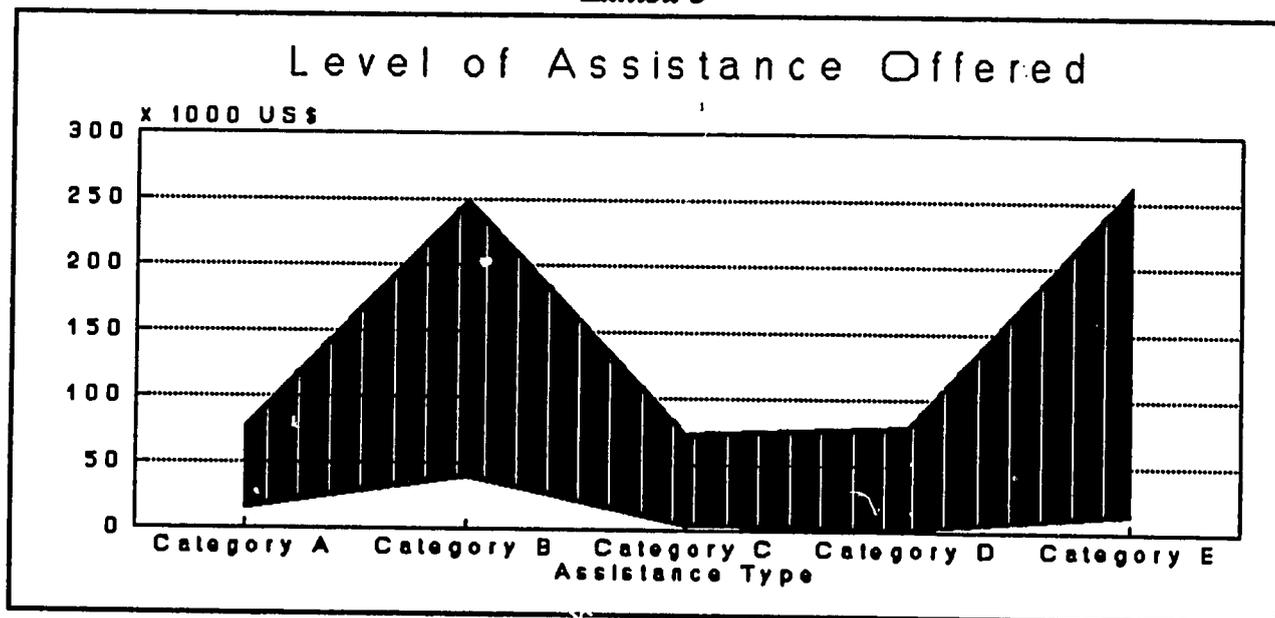
The 82 requests and subsequent grants provided involved the types of assistance as shown in Exhibit 2 in the following page.

Exhibit 2



10. It also appears that the DEs and/or Beneficiary Accounts were utilizing the funds for simple to most complex types of assistance requiring a wide range in levels of efforts required. This can be seen from the low and high levels of delivery orders issued for the type of assistance, and as seen in Exhibit 3 below.

Exhibit 3



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The dollar amounts for the delivery orders are listed in Table 3 below.

Table 3

Dollar Values of Levels of Assistance Provided By USAID Project

S.No	Category	Type Of Assistance	In U.S. Dollars	
			Low	High
1.	A.	Studies	14,700	77,600
2.	B.	Policy Review	39,000	250,000
3.	C.	Asset Appraisal	3,200	73,800
4.	D.	Valuation and Privatization Plan	1,500	79,800
5.	E.	Valuation, Privatization Plan & Implementation	13,100	262,000

11. As more of these assisted GOCCs and TAs have been brought to a higher or more advanced level of readiness for sale, the APT and NDC which maintain or hold the majority of the assets for sale have expressed their desire to utilize the remaining funds and other equivalent funding for activities related to actual sale of assets already readied for sale.

Specifically, this assistance will involve investment banking services for the big ticket items and marketing activities for the lesser valued accounts.

12. Both APT and NDC have also expressed the need for assistance in developing alternative but more innovative strategies for the disposition of assets readied for sale but difficult to liquidate-- due to heavy debt burdens which the government is not willing to write-off-- or those with chronic legal impediments.

13. 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 that lend themselves readily to the private sector.

14. 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. While the project was flexible in terms of scope of services and methodology of accessing to the whole range of skills required in the privatization effort, it appeared that the users of the funds were not sufficiently aware of the Project's flexibility. Or alternatively, if they were aware of the project design's flexibility, they were indifferent to using this to advantage.

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PROJECT IMPLEMENTATION

Effectiveness

Objective assessment

15. The Project has been successful in helping DOF and DEs carry out their privatization program effectively. The beneficiaries have found this project as an ideal mechanism to help them carry out high quality assistance work towards the privatization of their assets/entities.

Except for a few exceptions, the benefitted accounts have lauded the quality of work and assistance given to them by the six (6) IQCs.

16. The DOF and DEs are also unanimous in conceding that the project's budgetary support for the technical assistance which have made the assets advance to a level of readiness for sale 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.

17. The IQC mechanism and the prequalification of the six IQC firms-- five Filipino and one international-- initiated by USAID to help in privatization work have relieved the entities in going through the cumbersome procedure prescribed by the government in the engagement of consultants and also in going beyond the resource available through government contractors.

Further, this mechanism has afforded beneficiaries access to the better consulting firms that otherwise would not have been interested if contracting procedures of the government were utilized. Assurance of prompt payment through the USAID mechanism was also an attraction to the IQCs.

18. The success of this project in assisting the various beneficiaries is attributed to particular sets of relationships that have had a significant impact on the Project's effectiveness:

- o The interaction among PESO, DOF, DEs and BAs were vital to the success of the project. The commonality of agenda and unity of purpose directly brought about the effective use of the resources.

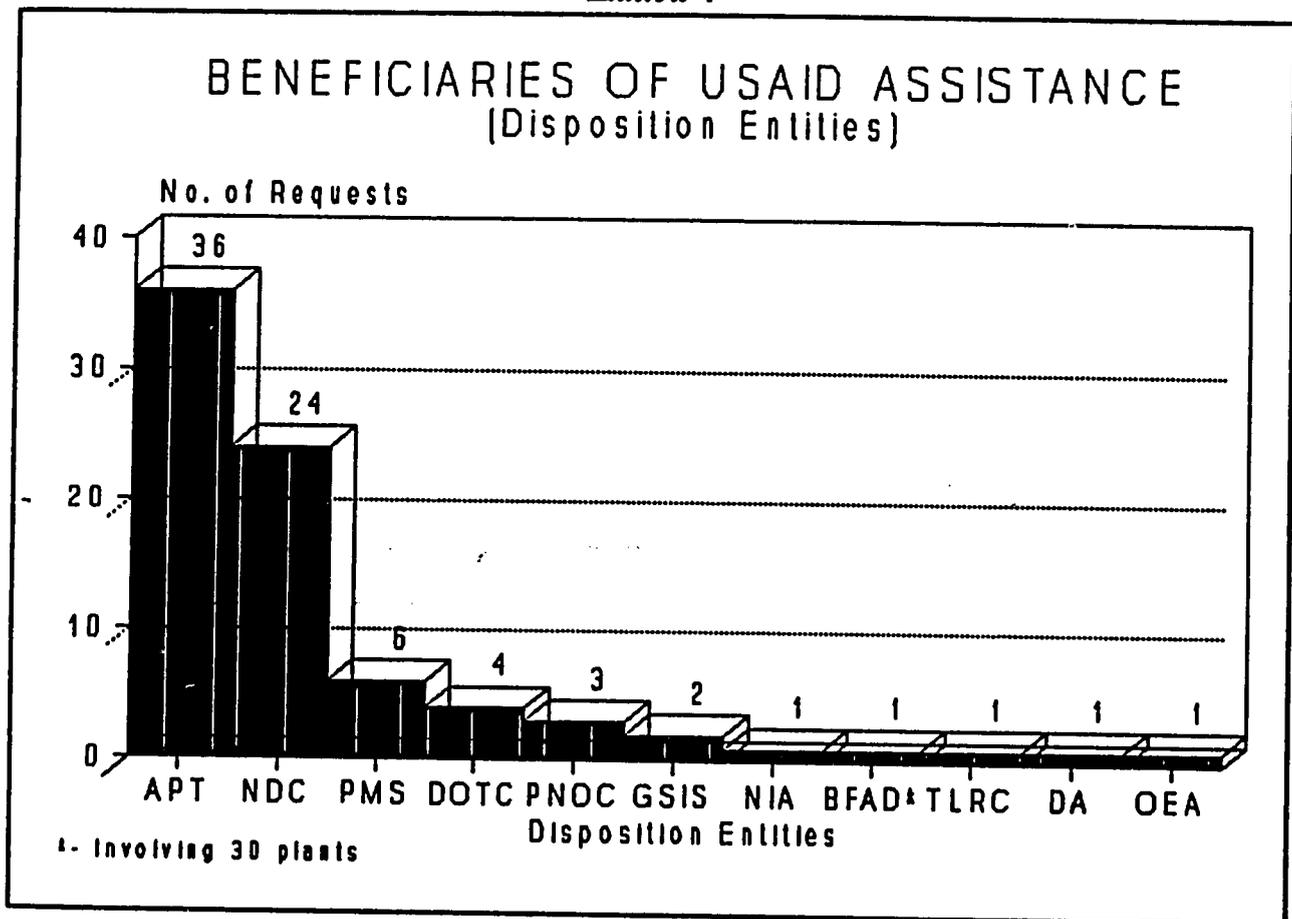
- o The nature of the interaction among the staff of PESO, the six(6) IQCs and DOF contributed to the initial successes of the Project.

19. The technical assistance mechanism available through this project was extremely attractive to the DOF as it increased its programming flexibility through easy and rapid access to funds and technical assistance. The DOF and the majority of the DEs had limited funding for personnel services which the Project addressed directly.

20. 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 identified earlier in the report under the "Project Evolution" section transcend the controllable parameters of the project itself.

21. During the early months of the project, only APT availed of technical assistance under the project. However, during the middle and latter stages, 10 other DEs tapped the consultants under the project. This resulted in a sharp increase in project utilization. In a number of accounts, the requests for assistance given to various DEs have been shown in Exhibit 4 below:

Exhibit 4



A detailed description of the status of GOCCs and TAs assisted under the USAID project can be found in Appendix VII & VIII.

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

23. 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 defined by the limitations of the pre-selected IQCs' available skills.

24. Notwithstanding the foregoing, some of the areas pinpointed by the DEs for possible variation in the kind of assistance were:

- o for APT: disposition of entities with legal impediments or financial encumbrances although, in the case of the latter, the project design did not envisage a financial component to the scope of assistance

- o for NDC: specialized valuation skills for plantation not readily available within the resource capability of existing IQCs; this should not pose an impediment to NDC in using "host country contracting " for this specific need

- : also singled out are marketing and financial skills, investment banking skills for big ticket accounts like Pasar, Philphos, NSC, etc

- o for PNOC: investment banking skills for big ticket also like their shipyard, coal mining and refinery businesses

Since the original project design did not envision a financial type of assistance for the privatization effort, this does not impugn the results of the program thus far generated. Requirements for investment banking services for big ticket items which appear to be the emerging future needs could potentially be provided in the event a second phase of this privatization program is evolved after December 1992.

25. Though some initiatives were made following the mid-term evaluation of the project, the level of understanding and knowledgeability with respect to the project varied from one DE to another. It was understandable that this problem of varying perceptions among DEs was not a priority concern either of PESO or DOF since the demand far exceeded the supply of services available within the financial limitations of the project.

Considering that PESO could only field one(1) man to coordinate the project amongst DOF, six IQCs and some 80 accounts as in the case with other USAID projects, it is a credit to the personnel involved in the implementation of the Project that the activities flowed with no major impediments or bottlenecks.

Firm output level assessment

26. 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 including the PAL ad-hoc Privatization Committee in advancing 80 accounts at various degrees of readiness for sale and, in some cases, resolved the status of the GOCC or TA.

Of the 80 accounts assisted:

<p>6 were fully sold 4 were partially solved 8 were bidden out without success 24 are for future bidding 1 is for dissolution 5 were transferred to another government unit 10 are for further review by DE 5 have been identified as having impediments 17 have on-going assisted studies awaiting completion</p>

The successful privatization (67 % of government interest) of the Philippine Airlines accounting for over \$ 400 million in liquified government assets which were assisted under this grant embodies the effectiveness of the Project as it was conceived and implemented. The revenues generated by the government on this GOCC alone accounted for more than 40% of all GOCC dispositions in the last five and a half years.

The PAL project itself was multi-sectoral, highly politicized, complex in financial structure and asset mix. The immediate prospects for value additions to the Philippine economy as a consequence of the privatization effort will become more apparent as the company starts investing substantial funds for fleet upgrading, opening new routes, improving cost effectiveness, attracting more tourists and generating other direct and indirect benefits for the Philippines.

As a consequence of this success, an equivalent multi- sector effort to duplicate this assistance but tailor-made for other big ticket items such as PASAR, Philphos, NSC and others is now possible and has been validated in PAL.

27. The demand for the Project resources can be used as a measure of it's success in being effective in providing technical assistance in diverse areas that included policy reviews, simple or complex asset appraisals, privatization plan and strategy, valuation and

implementation. Also, the ability of the project to cover a wide range of industry sectors such as commercial, banking, mining, agriculture, transportation, tourism, health and others contributed to the success.

The project has enlarged the USAID, DOF and the DEs' capabilities to work on privatization by allowing for flexible access to personnel skills not usually available in these entities and otherwise difficult to source through regular government channels.

28. The reports have been of a quality useful and acceptable to USAID, DOF and the DEs. The assistance were well- carried out and received . There were isolated cases where there were differences experienced between the consultant's approach and that deemed acceptable by the client. However, these cases were occasioned more by the hesitancy of the client to adopt innovative or bold valuation levels as suggested by the consultants perhaps in deference to possible objections of the Commission on Audit (COA). The apparent impasse slowed the pacing of the privatization activity.

29. The level and quality of assistance have also been commendable based on feedback of the main users of the project. However, if one were to measure the level of output with the objectives as laid down in the project paper, limited success has been achieved thus far in terms of assisting in the ultimate privatization, i.e. sale of the assets. The inherent weakness of the Design has precluded USAID personnel from introducing measures and strategies to finally implement the sales transactions. Therefore the results in effectiveness of implementation seem to be tilting towards the average side if one were to gauge the firm output level exclusively from this vantage.

30. It is the consensus of the Team that as assistance requests are now becoming more technically specific and as the DEs are now confronting the complex privatization issues for big ticket items, the majority of the six IQC firms may not be able to fulfill the tasks required for such items. Either the IQCs engage requisite personnel with the demanded skills or the list of six IQCs need to be expanded to cover investment banking transaction skills.

EFFICIENCY

31. 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.

32. The USAID organizational structure was well adapted to implement its strategy. Even though there was only one USAID personnel controlling and processing all the technical assistance from USAID/PESO end and notwithstanding his involvement in two other USAID projects, the Project Manager performed credibly in directing and coordinating activities with COP/DOF, 11 DEs , six IQCs and 80 Beneficiary Accounts . The Project Manager also received on-going strategic guidance on the Project's direction from his superior, the Chief of the Private Enterprise Sector Office of the USAID mission.

33. As elicited from interviews with various key players, the project was considered as integrally linked to the GOP's initiatives to carry out the designated privatization program efficiently. The project did not get involved until it was specifically asked to do so by COP/DOF. Therefore, the implementing personnel at USAID considered its relationship extremely important to the resources it made available to the process of privatization. That relationship gradually evolved as the privatization program started to take shape and all the key players became better informed about the value and contribution that the project could provide. Respecting the nature of this evolving relationship has been very critical to the efficient handling of the relationship between the project personnel and host country officials.

34. In the course of its field work, the Team observed a very close and efficient working relationship between the PESO personnel and DOF staff in carrying out the Project. The extreme cordiality of this relationship extended to the 11 DEs and beneficiaries. In almost all cases, the client firms expressed satisfaction with the relationship.

35. The Project Manager was very effective in controlling the work performed by the six IQC firms. All the IQC firms expressed their over-all satisfaction in their dealings with the Project Manager. These firms provided a strong institutional base for the Project. They effectively and efficiently executed their contract responsibilities.

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.

Subsequent consultation with PESO indicated that the choice of the specific pre-qualified IQC for a given assignment was on the basis of the IQC's expertise in a given sector or

industry, e.g., transportation, agriculture, utility or in an applicable technical skill, e.g., appraisal, valuation, investment banking. Such an arrangement allowed for orderly and fair distribution of work. However, it remains to be seen whether such a categorization would preclude an IQC from being able to provide assistance in an area for which there will be difficulty in locating specific expertise.

All these consulting firms have pulled in personnel to perform some or all of the work awarded to them. A majority of these firms have access to the outside world through their tie-ups with consulting firms abroad.

36. 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.

Subsequent discussion with USAID on this subject indicate that the IQC requests are governed by universal policies dictated by USAID standard operating procedures.

37. The Project Manager was responsible for all the aspects related to the administration of the six IQC firms. These included finalization of the scope of work for the assignments given out by COP/DOF, backstopping and quality controlling of the IQCs, providing inputs during progress meetings. He was also helpful in endorsing the consultants' recommendations to the Beneficiary Accounts.

It appears that the workload unduly burdened the Project Manager and it would have been better to assign some of these coordinated tasks to other personnel at the DOF Privatization Office.

The Project Manager also experienced difficulty in receiving the proper inputs from the DEs with respect to type of assistance they needed and also the methodology in drafting proper requests for assistance. Decentralizing these tasks to the DEs where they properly belong would have streamlined the process and reduce the lead time in the movement of paper.

The Project Manager was also 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.

A similar over-load appears to exist at the DOF Privatization Office. For example, the Director is spending a lot of time preparing for Techcom meetings, status reports for the Cabinet, meeting with the DEs, attending briefing sessions on the Consultants works, etc. There

was an appreciation of this shortcoming by DOF personnel but they are constrained from hiring additional or replacement personnel due to the government's budgetary restrictions.

The DOF has now expressed its desire to avail of personnel services through the grant to bolster their staffing requirements.

38. Start-up delays in some of the cases has also hampered the efficiency of the project in allowing faster turnaround of consultants to the project beneficiaries. The team received and noted some significant comments about the PIO/T contract processing time between the DOF and PESO personnel and also others in the USAID mission. The Project Manager experienced difficulty with the beneficiaries pertaining to their ability to adhere to the time period that they had laid down to access project assistance. Also, the Project Manager had to go back and forth to the beneficiaries to make several amendments to the contract. There were times when the people in the government who had initiated this project were no longer available or had been transferred to some other job. As earlier noted, since the Philippine privatization effort was launched, the positions of Secretary of Finance (which chairs the COP) and the Undersecretary of Finance (which heads the COP Techcom) have been occupied at various times by four and six different officials respectively.

39. Also, interviews with IQC firms seemed to indicate that they have experienced delays in getting notifications to proceed with the consulting assignment. On a number of times, they found themselves in the embarrassing situation wherein the beneficiary was pushing them to get started on the job, and the notification to proceed from USAID was days or a month away because the DE involved had not completed the required paper work.

In the earlier days of their work under this Project, the IQC firms found themselves advancing a considerable amount of their time and effort even before the actual date of the implementation as approved by Project personnel. In their efforts to accommodate the beneficiaries' target dates, these firms ended up putting in a considerable amount of work for which there was no compensation since USAID rules do not allow payment for work performed before the signed contracts come into effect. The Project personnel did instruct firms not to initiate work until they received the delivery order. However, this issue still remains as a cause of concern. In the interests of keeping their clients happy, a number of the IQC firms absorbed this additional input that could not be accounted for under the project.

In its efforts to identify a solution for these start-up delays, the team initiated some discussions with DOF, the IQC firms and others. However, the team concluded that the system is not easily correctable. Nonetheless, this subject should be pursued by Project personnel in an effort to identify allowable procedural short-cuts to ease the IQCs' concerns.

40. 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.

Instead, the USAID left this task to COP/DOF. It should be noted that no complaints from DOF or any DEs were received by USAID on the performance of the six IQCs. Subsequent investigation by the team from questionnaire responses of selected Beneficiary Accounts confirm the latters' satisfaction with the work of the IQC.

IMPACT

40. 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 bid 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 results through this project have up to now yielded the following:

Table 4
Summary of Results of the USAID Privatization Project

A total of 80 accounts have been assisted to date under this project of which:
 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

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 liquidation values. The revenues generated by GOP from successful dispositions, and the contributions from USAID-assisted accounts, are shown in Exhibit 5 and 6 below.

Exhibit 5

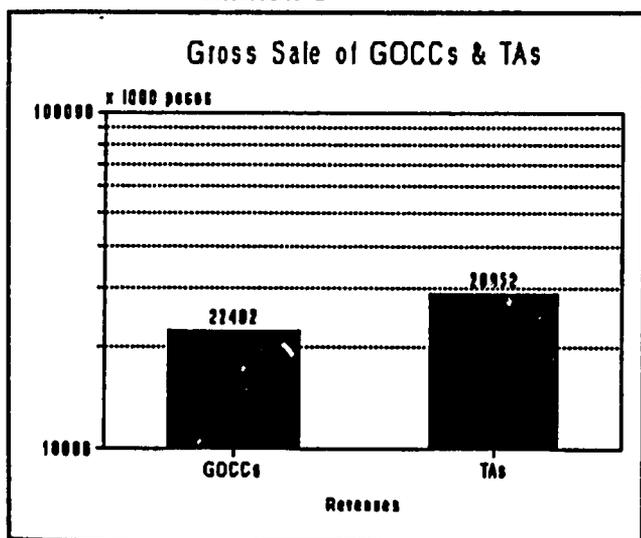
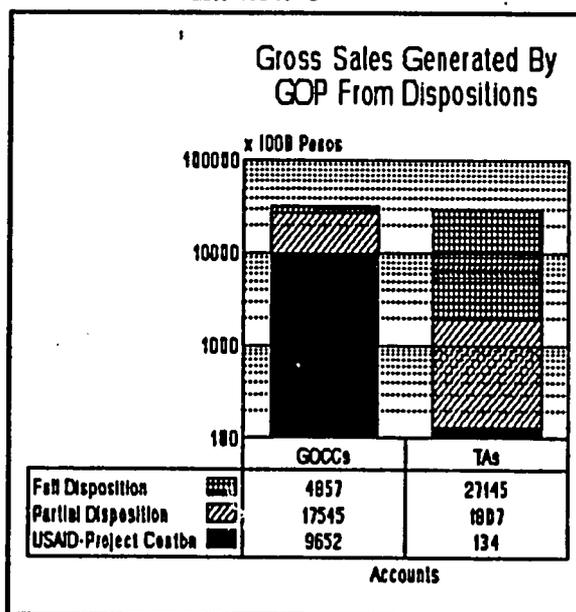


Exhibit 6



Total GOP sales - Pesos(000) - 51,354

USAID project contribution - 9,786

Project contribution as a % of total GOP sales - 19.1%

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42. In evaluating the impact of the accounts privatized through USAID assistance, the following are to be noted:

PAL

The privatization of PAL was the largest single privatization transaction that has taken place under the auspices of the country's privatization program. Though not as far reaching in terms of broadening ownership among the local populace, it helped in assuring all those holding a pessimistic view; that an entity having all the possible ingredients of problems, can still be privatized if the determination is strong among those carrying out privatization programs.

The background under which this process was initiated and then finally accomplished presents an interesting story to all those implementing privatization in the developing world. A description of this transaction, the role of various players, including USAID and others, etc., is presented in Appendix VIII.

The immediate benefits accrued to the government by virtue of this privatization are significant. It was the largest transaction undertaken and yielded a total profit of P2.17 billion (US\$82 million) through the sale of a liquified asset. Sales revenues generated through its disposition have alone accounted for more than 40% of all successful dispositions of GOCCs by the government in the last five and a half years.

Although not enough time has passed to measure the actual economic benefits of this privatization, estimates derived from plans and recent initiatives of the new owners indicate the following:

- o Privatization is helping in professionalizing the airline as the new owners have a tie-up with Korean Air which is an efficient and well run airline.
- o The owners are making new investment in the airline through acquisition of new aircraft.
- o Expansions in the international network through additions of new destinations namely to Japan and elsewhere has been taking place.
- o Cost control measures recently adopted by the firm have begun paring down operating expenses.
- o New fiscal revenues will be generated for the government through taxes.
- o Even though the results of this may not be immediately apparent, the privatized airline will help in boosting the tourism industry by gaining access to international tour

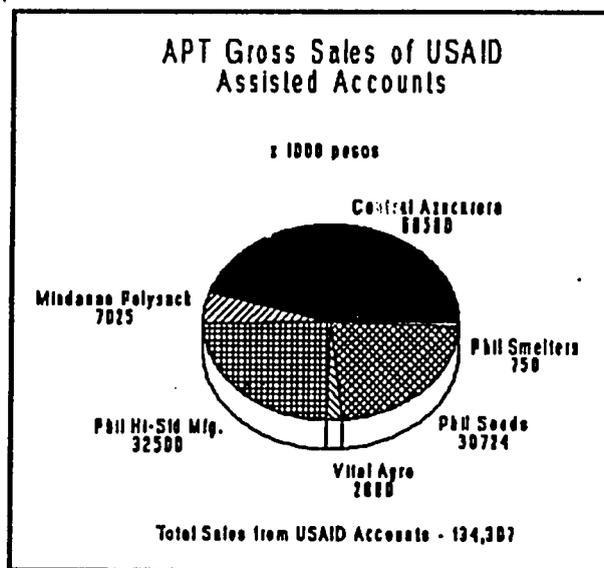
organizations and globalized ticketing networks. The airline has already embarked upon promoting itself aggressively, an important characteristic for being successful in this highly competitive industry.

Finally, the successful privatization of PAL with all the ingredients of difficulty- large asset value; large indebtedness; complexity of operations; need for mobilizing consortium-type potential buyers; political sensitivity - has generated an aura of optimism among various Disposal Entities in their otherwise bleak privatization scenarios for big ticket but very difficult accounts like NSC, Philphos, PASAR, Metro Rail Transit and others.

APT

Revenues generated from APT sales of USAID assisted accounts have thus far totalled P151 million. A break down of these accounts can be found in Table 5 below.

Exhibit 7
APT Gross Sales of USAID-assisted Accounts



While in terms of revenue generation, the contributions might appear insignificant at this time, it would be important to mention that the full realization of USAID assistance will be felt in the next one and a half years as DOF Privatization Office expects revenues of P 3.0 billion for eight (8) TAs slated for bidding which are classified as big ticket items which previously remained dormant due to complex issues involved: Some of these accounts include:

- o Philippines Shipyard
- o Maricalum Mining Corporation
- o Pantranco

PMS

Privatization of accounts by PMS through USAID project assistance have yielded revenues that would be deemed as being negligible. However, privatization of Mindeva Ref. Industries and Mt. Maria Poultry Farms have had a particularly positive impact. The privatization of Mindeva has helped turned a non-operational entity into one that is being fully rehabilitated to become operational towards the end of the year. The new owner has embarked upon an expansion plan by replacing all the old and obsolete cold storage machinery with a new and modern set of equipment. Once operational, this plant will solve a number of problems and extra expenses borne by fisherman in that region who have to traverse long distances to access a cold storage plant, as this was the only one in the vicinity.

The cold storage plant is deemed as attractive to fisherman as it is located right by the port, thereby, making it all the more attractive for all those exporting fish. Furthermore, prior to privatization, this plant was lying idle for six months, the employees had been asked to leave with severance pay, and was also incurring custodial costs for the disposition entity. Privatization has helped in the elimination of these costs, and is also likely to generate employment for the local people.

In the case of the poultry farm, PMS sold its majority stake to its joint venture partner that happened to be the private sector operator. The buyer assumed all the debts of the enterprise by agreeing to pay this back on an installment basis. According to recent reports, the owner has expanded poultry farm capacity and has introduced new technology and methods for breeding poultry. After privatization, the owner made an investment of 3 million pesos to upgrade the facilities. This has helped him increase capacity by over 30% and has also helped in further mechanization of poultry operations. The owner has been honoring his debt payments.

The contributions made through these privatizations have/will also help in creating unquantifiable forward and backward linkages as a result of the operation of these entities. However, as seen in the case of APT and PMS, the direct impact in terms of revenues generated through sale as a result of USAID project assistance is minimal. USAID project assistance to APT has been for accounts that have made a small contribution to the government in its primary objective of revenue generation.

Some of the other big-ticket items under APT which are now ready for sale, and will be sold this year have all received USAID project assistance. However, it remains to be seen whether they will be privatized before the end of the year. Two of these have already been unsuccessfully bid before.

Even though APT has been able to fulfill its major objectives, however, the entity has done little towards achieving its broader objectives of developing the capital market base in the country. The project assistance has also not touched at all this very objective. Some efforts could have been made to expose APT to different methods for disposition that could have helped in addressing these objectives if COA and other constraints did not exist.

43. Similarly, there are major accounts that fall under NDC, GSIS and are ready for disposition. These could also generate major revenues for the govt. However, it still remains to be seen if they will be privatized on schedule.

44. Nevertheless, DOF/Privatization Office estimates that barring uncontrollable factors such as lawsuits, etc it forecasts the following values from the second semester of 1992 up to 1993 through sales of USAID accounts:

Table 5
Revenues Expected from Sales of USAID-assisted Accounts in 1992-93

GOCCs & TAs	Expected Revenues
Sales of 23 GOCCs	Pesos 3 billion
Sales of TAs	Pesos 3 billion
TOTAL	Pesos 6 billion

45. 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, and other beneficiaries relative to privatization. Helping these entities to explore non-traditional approaches for looking at privatization, 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.

46. The Project has made some initiatives in this area by encouraging ongoing policy review studies 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. Some valuable studies done through this project include: NPC- a study on the various options for the privatization of the power sector which has led to the OEA giving a serious look into the privatization of power, NDC- privatization options for National Steel suggested by USAID consultants have induced the disposition entity to take up the privatization of the entity, LRTA- a study looking at restructuring options for this entity has result in the disposition entity seriously looking at its possible privatization, etc. The project has integrated itself very well with other development initiatives of the mission. For example, the Privatization Project and the Office of Capital Projects have coordinated their efforts to commission a study in the power sector. The OCP with its technical expertise seems to complement very well with the privatization initiatives of the Privatization Project and PESO with OCP's " build, operate and transfer " (BOT) program.

47. The emphasis of the project on training programs for the DOF, DEs and disposition entities has helped in disseminating substantial knowledge on the implementation of privatization strategies and methodologies, thereby further enhancing capability of these institutions.

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SUSTAINABILITY

48. While the Project implementation was practically 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 supply- principally computers and law books. APT has specifically cited the assistance rendered in their installed computerized information system. DOF has also cited the contribution of the Project to its management information system.

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

50. The IQCs have also stated that their engagements in implementation of this Project have contributed in enhancing their core competencies in undertaking future privatization studies.

TEAM RECOMMENDATIONS

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

TEAM RECOMMENDATIONS

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 timing of assistance to the various beneficiaries and also the conduct of privatization assistance assessments. The diagnostic framework would be based on a pre-set criteria that the beneficiaries will have to meet before they avail assistance. The framework should focus on entities that have received project assistance and are ready for privatization.

The pre-set criteria should include, among others, the following factors:

I. Ease of Privatization

- Prevailing market demand of the account
- Intrinsic viability of the account
- Stock Control
- Legal Obstacle
- Level of politicization of privatization decisions

II. Potential Impact

- Value of total assets (as higher value assets have priority)
- Financial Exposure
- Budgetary Impact
- Impact on employment

A classification system could be developed based on the order of importance of the above factors to USAID and DOF.

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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 in areas such as:

- a. Power
- b. Transportation
 - Buses
 - Railways
- c. Roads
- d. Ports
- e. Water Supply
- f. Sewerage & Solid Waste Disposal
- g. Postal services
- h. Tourist resorts
- i. Duty Free
- j. Export promotion zones

The design should allow the flexibility for considering various options of allowing for private provision of the above mentioned sectors and 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:

- a. Marketing and implementation of feasible BOT projects to potential investors in the region and the U.S.
- b. Seeking and evaluating most competitive financing sources for BOTs
- c. Preparation of financial plans
- d. Raising finance through domestic and foreign markets

It is strongly advised that this recommended privatization action would only be to the extent that it does not violate local or U.S. securities acts.

7. Assistance with marketing of sound BOT projects should be initiated by selecting from the list of demonstration projects prepared by the CCPAP. CCPAP personnel have expressed their interest in having PSEO help them in marketing and transacting BOT projects.

8. Review and update the skills and capability levels required of local and foreign IQC firms for inclusion in the new project. A new offer for solicitation emphasizing the capability to provide services in areas being addressed by the present project, and those such as listed above. The capability to draw from internationally known firms should be a condition.

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 all different modes of privatization, namely:

- a. Contracting out
- b. Equipment leasing
- c. Franchising
- d. Joint ventures
- e. Leasing & Management Contracts
- g. BOTs

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 proposed 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.

Project Implementation

Short term

12. Encourage the existing five local 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. Conduct with COP/DOF briefing sessions with Disposition Entities to enable them to understand the flexibility of the existing Project in terms of scope of services and accessing a whole range of foreign and local expertise which the Project allows. 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. The firm can make modifications and changes to the privatization strategy for the enterprise based on the level of interest from the market to acquire such an asset, and in what form.

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

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

18. Provide assistance to APT in re-assessing its 58 accounts readied for sale. The consultant could draft out a concrete action plan for the prioritization and speedy disposition of these accounts. Due to the uncertainty that prevails with regards to its future, APT would appreciate as much assistance could be provided. It is not sure whether it will have the right people in-house to assist in the remaining privatizations. The entity also envisages further transfer of some accounts from other DEs to its fold.

19. Assist APT in fulfilling some of its other objectives, that it has not been able to address, i.e. 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 ESOPs, etc. could be further enlarged.

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 IFC, World Bank, ADB, and other donors for setting up a privatization fund to rehabilitate assets, improve the financial position of these 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

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

LESSONS LEARNED

Introduction

The process of privatization is a complex set of activities that involve key players principally the seller and buyer. In the specific case of the Philippine Privatization Program which was assisted by the USAID "Privatization Project" the seller in its simplistic generic nomenclature is the Philippine Government.

But the Philippine Government as seller is represented by an aggregation of inter-agency officials who must make privatization decisions on the basis of a wide range of parameters that impact on their respective spheres of control. Theoretically, the perception of public good or interest is coincident at the apex of the organizational pyramid but, in reality, the perceptions become conflicting or diametrically opposed as these are interpreted at the lower echelons of the organization. It is only when an equilibrium point by consensus that satisfies these concerns is reached can actual privatization take place.

Even if there is the political will at the apex of the organizational hierarchy--a condition sine quo non for privatization--this is not sufficient unless such political will permeates down in the organization even to the lowest accounting clerk of a GOCC or TA that is to be privatized. Thus, to emphasize this point, the accounting clerk of a GOCC could easily derail privatization efforts if he/she withholds vital accounting information that will impugn the integrity of an asset appraisal or valuation.

Worse, if the Chief Operating Officer or Custodial Manager/Conservator of an ASSET for privatization is de-motivated by an impending privatization of his unit. Invariably, loss of job is a de-motivating factor when the Manager in Charge is adversely affected. Once the head is uninspired, the others in the lower echelons of the organization will be infected. This leads to a total deceleration in the pacing of that unit's privatization.

There are also no standard formulae for privatizing assets. Each GOCC or TA is unique in its simplicity or complexity. An asset may be low or high value; operating or idle; obsolete or modern; clean or subject to financial lien; etc. In certain cases, assets are valuable or sellable only to a unique set of limited buyers such as rotary kiln for cement clinker or are attractive to a wider base of target markets such as shares of stock of a very profitable bank. It is probably

correct to observe that nowhere in the world can one find a very wide range of assets available than found in the Philippine government's portfolio.

Viewed against this background, some lessons that can be learned from the Design and Implementation of the USAID Privatization Project are as follows:

Project Design Implications

1. In designing technical assistance projects for privatization, it is necessary to consider the path of least resistance. The path of least resistance is the line of key players in the privatization of an entity from the top to the lowest in the echelon 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.

The Project Design could have incorporated training and commodity support for the Beneficiary Accounts' officials who would have been able to perform their own asset valuation, generate their own privatization strategies and, in some case, even implement the transactional activities under the umbrella of their DE pursuing the privatization strategy they themselves devised. Combined with the specific technical skills they are equipped with that are unique to the industry they belong to, these officers would have been very instrumental in the achievement of probably earlier successes.

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.

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 a next step.

Hence, privatization goals must clearly state whether the objective is to support the generation of studies, being tools for privatization or the actual transactional side of

privatization. For either of these objectives, both are important. But they must be spelled out clearly in the design so that neither false hopes are unduly raised nor partial successes demeaned.

Broad Action Implications

4. 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.

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. Hence, there is need for the single privatization conductor to have strong authority in order 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.

5. 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.

6. 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.

7. 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.

8. 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.

If the activities leading to privatization had been spaced out more or less as evenly as was practical among the accounts, then there would have been an equal dose of assets already sold and readied for sale rather than a lumping at the end of the latter with very little of the former.

APPENDICES

APPENDIX I

Philippines Privatization Legislation: Proclamation 50

PROCLAMATION NO. 50

PROCLAIMING AND LAUNCHING A PROGRAM FOR THE
EXPEDITIOUS DISPOSITION AND PRIVATIZATION OF
CERTAIN GOVERNMENT CORPORATIONS AND/OR THE ASSETS
THEREOF, AND CREATING THE COMMITTEE ON PRIVATIZATION
AND THE ASSET PRIVATIZATION TRUST

RECALLING that the reorganization of the government is mandated expressly in Article II, Section 1(a), and Article III of the Freedom Constitution;

HAVING IN MIND that, pursuant to Executive Order No. 5 (1986), there is a need to effect the necessary and proper changes in the organizational and functional structures of the government, its agencies and instrumentalities, in order to promote efficiency and effectiveness in the delivery of public services;

TAKING INTO ACCOUNT that the government considers imperative the formal launching of a program for the rationalization of the government corporate sector calculated to create and sustain a legal, socio-political and economic environment conducive to the cultivation of a high degree of dynamism and performance motivation among government-owned or controlled corporations under a regime of relative autonomy, flexibility, visibility and continuing accountability to the people in their operations;

CONSIDERING that the government has decided to adopt, as the twin cornerstones of the program, the following parallel imperatives for the attainment of national policy:

(a) The judicious use of the corporate form of organization in the creation of government bodies for the production and distribution of economic goods and services to the public, and the need to rationalize and monitor the operations of government corporations to help bring about improved performance, assure more efficient use of resources and in general to re-orient their activities and priorities in a manner consistent with national objectives, to the end that the private sector is given primacy and the Government assumes a supplemental role in entrepreneurial endeavors under a climate of fair competition; and

(b) Reducing the number of government corporations which has proliferated to unmanageable proportions; circumscribing the areas of economic activities within which government corporations may operate; and aiming to achieve these goals through the

privatization of a good number of government corporations, and the disposition and liquidation of the non-relevant and non-performing assets of retained corporations as the logical first step to their rehabilitation.

TAKING NOTE that there has already been created, in pursuit of the first imperative, an inter-ministerial body called the Government Corporate Monitoring Committee under Executive Order No. 936 issued on February 29, 1984, and reconstituted into the Government Corporate Monitoring and Coordinating Committee under Memorandum Circular No. dated May 19, 1986;

REALIZING that it is now necessary to constitute the inter-ministerial body to pursue the second imperative, the latter to function as the counterpart of the above-mentioned Government Corporate Monitoring and Coordinating Committee in the implementation of the remedial aspect of the program for the rationalization of the government corporate sector under the integrative control and direction of the President of the Philippines;

CONVINCED that it is necessary, expedient and advantageous to centralize the disposition and privatization process in a public trust entity which shall on its own and, where necessary, by engaging the services of qualified professionals, institutions, syndicates, and consortia of institutions in the private sector, whether domestic or foreign, undertake the dispositive aspect of the program for the Rationalization of the Public Corporate Sector;

COGNIZANT that the transfer and prompt disposition of the larger non-performing assets of certain government financial institutions are central to the rehabilitation of these institutions and the economic recovery program, and that in the execution of this task it is essential to devolve such responsibility upon a specialized entity external to the government financial institutions themselves so that the latter will not be distracted and their energies diverted from the vital concerns of inherent and substantive financial operations:

NOW, THEREFORE, I, CORAZON C. AQUINO, President of the Philippines, do hereby order:

ARTICLE I. STATEMENT OF POLICY AND DEFINITION OF TERMS

SECTION 1. Statement of Policy. It shall be the policy of the State to promote privatization through an orderly, coordinated and efficient program for the prompt disposition of the large number of non-performing assets of the government financial institutions, and certain government-owned or controlled corporations which have been found unnecessary or inappropriate for the government sector to maintain.

SEC. 2. Definition of Terms. As used in this Proclamation and unless the context otherwise requires, the term:

(1) Assets shall include (i) receivables and other obligations due to government institutions under credit, lease, indemnity and other agreements together with all collateral security and other rights (including but not limited to rights in relation to shares of stock in corporations such as voting rights as well as rights to appoint directors of corporations or otherwise engage in the management thereof) granted to such institutions by contract or operation of law to secure or enforce the right of payment of such obligations; (ii) real and personal property of any kind owned or held by government institutions, including shares of stock in corporations, obtained by such government institutions, whether directly or indirectly, through foreclosure or other means, in settlement of such obligations; (iii) shares of stock and other investments held by government institutions; and (iv) the government institutions themselves, whether as parent or subsidiary corporations.

(2) Government institutions shall refer to government-owned or controlled corporations, financial or otherwise, whether organized by special charter as in the case of a parent corporation, or under general law as in the case of a subsidiary corporation.

(3) Committee shall refer to the Committee on Privatization constituted under this Proclamation.

(4) Asset disposition entity shall refer to any government agency, including government banks, specifically designated or contracted by the Committee to perform the disposition of assets.

(5) President shall mean the President of the Republic of the Philippines.

(6) Trust shall mean the Asset Privatization Trust created under Sec. 9 herein.

ARTICLE II. COMMITTEE ON PRIVATIZATION

SEC. 3. Committee on Privatization. There is hereby constituted a Committee on Privatization to be composed of the Minister of Finance as Chairman, with the Minister of Trade and Industry, the Director General of the National Economic and Development Authority, the Minister of Budget and Management, and the Minister in charge of the Presidential Commission on Government Reorganization, as members. Whenever any member of the Committee is unable to attend a particular meeting, he may designate any of his

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immediate subordinates with the rank of Deputy Minister or its equivalent to attend in his stead.

The Committee shall exist for a term of five years counted from the effectivity date of this Proclamation unless sooner terminated or superseded by another body by the President.

SEC. 4. Responsibilities and Objectives. It shall be the duty and responsibility of the Committee to use the powers granted to it under this Proclamation to achieve the objectives of (a) divesting to the private sector in the soonest possible time through the appropriate disposition entities, those assets with viable and productive potential as going concerns, taking into account where appropriate the implications of such transfers on sectoral productive capacities and market limitations, and (b) disposing of such other assets as may be transferred to it, generating the maximum cash recovery for the National Government in the process. These objectives are to be pursued within the context of furthering the national economic recovery through a strengthened and revitalized private enterprise system.

SEC. 5. Powers and functions. The Committee shall have the following powers and functions:

(1) To identify to the President of the Philippines, and arrange for transfer to the National Government and/or to the Trust and the subsequent divestment to the private sector of (a) such non-performing assets as may be identified by the Committee, and approved by the President, for transfer from the government banks for disposal by the Trust or the government banks, and (b) such government corporations, whether parent or subsidiary, and/or such of their assets, as may have been recommended by the Committee for disposition, and approved by the President; Provided, that no such identification, recommendation or approval shall be necessary where a parent corporation decides on its own to divest of, in whole or in part, or liquidate a subsidiary corporation organized under the Corporation Code; Provided, further, that any such independent disposition shall be undertaken with the prior approval of the Committee and in accordance with the general disposition guidelines as the Committee may provide; Provided, finally, that in every case the sale or disposition shall be approved by the Committee with respect to the buyer and price only;

(2) To determine which of such assets shall be transferred to the Trust or referred to other government institutions, whether financial or otherwise, for disposition and, pending disposition, for conservation and management;

(3) To establish mandatory as well as indicative guidelines for the conservation, rehabilitation and disposition of such

assets, whether by the Trust or any other government institution;

(4) To approve or disapprove, on behalf of the National Government and without need of any further approval or other action from any other government institution or agency, the sale or disposition of such assets, in each case on terms and to purchasers recommended by the Trust or the government institution, as the case may be, to whom the disposition of such assets may have been delegated; Provided that, the Committee shall not itself undertake the marketing of any such assets, or participate in the negotiation of their sale;

(5) In its discretion, to approve or disapprove, subject to the availability of funds for such purpose, the rehabilitation of assets pending disposition by the Trust or any other government agency authorized by the Committee, or the Trust with the approval of the Committee; Provided that, the budget for each rehabilitation project shall be likewise subject to prior approval by the Committee;

(6) To exercise on behalf of the National Government rights of ownership with respect to such assets, including the right to vote, whether directly or through duly authorized nominees, shares of stock held in the name of the National Government, and which have not been transferred to the Trust;

(7) To issue necessary guidelines to all government agencies to govern ongoing negotiations on the disposal of government corporate assets;

(8) To approve the organization and financial requirements of the Trust, including its annual budgets for operations, conservation, and the administration of assets entrusted under its care;

(9) To monitor and review as necessary from time to time the entire privatization and divestment program, including those which are being undertaken by parent government corporations, and the status of its implementation; and

(10) To appoint, transfer, remove, and fix the remuneration of personnel of the Committee; provided that the Committee shall hire its own personnel only if deemed absolutely necessary for the discharge of its responsibilities and, as far as practicable, it shall avail itself of the services of the personnel seconded or detailed from other government offices.

SEC. 6. Meetings. The Committee shall meet as frequently as is necessary to discharge its responsibilities; Provided, that it shall meet at least once every month. The presence of a majority of the members of the Committee shall constitute a quorum, and the

concurrence of a majority of the members present at a meeting at which a quorum exists shall be adequate for any decision by the Committee; Provided that, where the matter involves the approval of any disposition or rehabilitation proposal, the unanimity of the entire Committee shall be necessary.

The Committee shall act on any recommendation for disposition submitted to it not later than thirty (30) days from date of receipt thereof, failing which such recommendation shall be deemed approved.

SEC. 7. Funding. The amount of Ten Million Pesos to cover expenses of the Committee in connection with the discharge of its responsibilities under this Proclamation, is hereby authorized, said amount to be charged against the One Hundred Million Pesos (P100,000,000) appropriation intended for the capitalization for the Asset Disposition Trust under Presidential Decree No. 2030.

SEC. 8. Legal Counsel. The Minister of Justice shall be the ex officio legal adviser to the Committee.

ARTICLE III. ASSET PRIVATIZATION TRUST

SEC. 9. Creation. There is hereby created a public trust to be known as the Asset Privatization Trust, hereinafter referred to as the Trust, which shall, for the benefit of the National Government, take title to and possession of, conserve, provisionally manage and dispose of assets as defined in Section 2 herein which have been identified for privatization or disposition and transferred to the Trust for the purpose, pursuant to Section 23 of this Proclamation.

SEC. 10. Purposes and Objectives, Domicile, Term of Existence. The principal purpose of the Trust shall be to effect or cause to be effected, directly or through other external agencies, the disposition within the shortest possible period of assets transferred to the Trust for the purpose.

The Trust in its divestment program should seek in the soonest time possible, to restore existing physical facilities involved into viable and productive operations under private sector management and ownership, and thus to contribute towards national economic recovery within the context of a private enterprise system. Within the context of this major purpose, the Trust is expected to generate maximum cash recovery for the National Government.

The Trust shall have its principal place of business in Metropolitan Manila.

The Trust shall exist for a period of five years from the date of this Proclamation, and all assets held by it, all moneys and other property belonging to it, and all its liabilities outstanding upon the

expiration of such period shall revert to and be assumed by the National Government.

SEC. 11. Sourcing and Application of Funds by the Trust: The capital and working funds of the Trust shall consist of:

(1) The amount of Ninety Million Pesos (₱90,000,000) chargeable against the One Hundred Million Pesos (₱100,000,000) appropriation intended for the Asset Disposition Trust under Presidential Decree No. 2030, which shall be used for capital acquisitions approved by the Committee, and to cover administrative expenses, including those for the hiring of appraisers as may be necessary for its effective and efficient operations; as well as to advance for expenses of securing, conserving, and maintaining assets, and where necessary, operating the asset prior to its disposal;

(2) Amounts authorized under Section 34 of this Proclamation to be excised from the proceeds of disposition and retained by the Trust, as agreed upon with the Committee;

(3) Subsequent annual appropriations under the General Appropriations Act, as well as funds which may be authorized by the President in accordance with law from unused or available balances in the General Appropriations Act;

(4) External funding assistance, whether in the form of loans, grants or otherwise, which the Trust with the approval of the Committee may source or obtain from appropriate institutions, domestic or foreign, bilateral or multilateral, government or private, such as the International Bank for Reconstruction and Development, Asian Development Bank, United Nations Development Program, and commercial banks and investment houses; and

(5) Where necessary and subject to the prior approval of the Committee, service fees levied on the trusted assets in such amounts as may be appropriate and reasonable.

SEC. 12. Powers. The Trust shall, in the discharge of its responsibilities, have the following powers:

(1) To formulate and, after approval by the Committee, implement a program for the disposition of assets transferred to it under this Proclamation, such program to be completed within a period of five years from the date of the issuance of this Proclamation;

(2) Subject to its having received the prior written approval of the Committee to sell such asset at a price and on terms of payment and to a party disclosed to the Committee, to

sell each asset referred to it by the Committee to such party and on such terms as in its discretion are in the best interest of the National Government, and for such purpose to execute and deliver, on behalf and in the name of the National Government, such deeds of sale, contracts and other instruments as may be necessary or appropriate to convey title to such assets;

(3) To take title to and possession of and to take such steps as may be necessary to conserve assets transferred to it by the Committee, including, without limitation, to oversee the management and operation of corporations or other businesses constituting such assets, and to file suits and institute proceedings on behalf of and in the name of National Government for the recovery and protection of such assets;

(4) Subject to the prior approval of the Committee, to undertake the rehabilitation of such assets in instances where such rehabilitation is necessary to conserve the value of such assets or permit their sale.

(5) To engage such external expertise as may be necessary for it to fulfill its task;

(6) To lease or own real and personal property to the extent required or entailed by its functions; to borrow money and incur such liabilities as may be reasonably necessary to permit it to carry out the responsibilities imposed upon it under this Proclamation; to receive and collect interest, rent and other income from the corporations and assets held by it and to exercise in behalf of the National Government and to the extent authorized by the Committee, in respect of such corporations and assets, all rights, powers and privileges of ownership including the ability to compromise and release claims or settle liabilities, and otherwise to do and perform any and all acts that may be necessary or proper to carry out the purposes of this Proclamation: Provided, however, that any borrowing by the Trust shall be subject to the prior approval by the majority vote of the members of the Committee;

(7) To adopt its internal rules and regulations, to adopt, alter and use a seal which shall be judicially noticed; to enter into contracts; to sue and be sued; and

(8) To submit periodic reports to the Committee on the status of the disposition program under its responsibility, and such other reports as may be required by the Committee.

SEC. 13. Essentiality of Trust Functions. The rationalization of the government corporate sector is deemed to be a critical concern of the government; and the Trust in undertaking the tasks of divestment

and privatization must give due and pragmatic regard to the preferences and motivations of the market for investible private capital both in the Philippines and overseas, act with dispatch on all problems and opportunities which may come before it to the end that the objectives of the Trust are completed within the five-year period mandated in Section 10 hereof. Accordingly, the Trust shall be and is hereby accorded the widest latitude of flexibility and autonomy in its operations, particularly in the areas of accounting, auditing, procurement, contracting, asset management and disposition, and personnel, subject however to the provisions of this Proclamation.

SEC. 14. Trustees. The powers and functions of the Trust shall be exercised collegially by a group of Trustees which shall be composed of a Chief Executive Trustee and four other Associate Executive Trustees. All of the Trustees shall be appointed by the President, upon recommendation of the Committee. The Trustees shall serve on a full-time basis for a term of up to five years, but in no case longer than the term of existence of the Trust, or unless sooner relieved by the President.

SEC. 15. Qualifications. — No person shall be appointed a Trustee unless he is of good moral character, of unquestionable integrity and responsibility and of recognized business competence. No director, officer, consultant or stockholder of corporations constituting or having an interest in assets held by the Trust may be appointed Trustee. Except as may be considered necessary to achieve the objectives of this Proclamation, the Chief Executive Trustee and the Associate Executive Trustees shall not sit on the board of directors or otherwise participate in the direct management of corporations constituting assets transferred to the Trust.

SEC. 16. Removal. The President of the Philippines may remove any Trustee for acts that are fraudulent, unlawful or manifestly opposed to the purposes of this Proclamation or if the member ceases to be qualified to become a Trustee under Section 14 of this Proclamation.

SEC. 17. Vacancies. Any vacancy created by the death, resignation or removal of any Trustee shall be filled by the appointment by the President of the Philippines of a new member, who shall serve for the unexpired portion of the term of the previous member.

SEC. 18. Meetings, Quorum. The Trustees shall meet as frequently as is necessary to discharge its responsibilities, but shall meet at least every two weeks. The presence of a majority of the Trustees shall constitute a quorum, and the concurrence of a majority of the Trustees present at a meeting at which a quorum exists shall be adequate for any decision by the Trust; Provided that, where the matter involves a proposal for disposition or rehabilitation of

any asset, the unanimity of all the Trustees shall be necessary.

SEC. 19. Compensation. The basic compensation and other emoluments of the Chief Executive Trustee and his other benefits shall be negotiated between himself and the Committee. The emoluments of the Associate Executive Trustee shall be fixed by the Chief Executive Trustee with the approval of the Committee. In both instances, it shall have the approval of the President.

In view of the limited life of the Trust and the nature of its functions, the pay scales of the Trustees and other officers and employees of the Trust shall be exempt from the standardized salary scale and position classification prescribed by the Office of Compensation and Position Classification and the eligibility and other requirements of the Civil Service Commission.

All directors' fees and other income accruing to a Trustee, officer, or employee of the Trust, resulting from his membership on the board of any of the corporations under the administration or control of the Trust shall accrue to the Trust, without prejudice to the Trust providing supplemental remuneration to other than Trustees for such additional responsibilities entailed by such membership.

SEC. 20. Exercise of Authority. In the exercise of the authority granted to it under this Proclamation, the Trustees shall:

- (1) Issue such internal rules and regulations as the Trustees may deem necessary or convenient for the proper discharge of the functions of the Trust;
- (2) Enter into management and such other contracts as may be appropriate; and
- (3) Develop its own staffing requirements, and for this purpose, appoint, remove and fix the remuneration of personnel of the Trust; provided that as far as practicable it should rely largely on secondment from government entities undertaking related functions, and on qualified external expertise in an advisory capacity and on a contractual basis.

SEC. 21. Legal Counsel. The Minister of Justice shall be the ex-officio legal adviser to the Trust.

ARTICLE IV. OPERATIONAL PROVISIONS

SEC. 22. Transfer of Assets. The Committee shall:

- (1) Arrange for the transfer to, and eventual disposition by, the National Government of certain non-performing assets of

government financial institutions, as may be determined under terms mutually acceptable to all the parties concerned, and

(2) Arrange for the disposition of certain government owned or controlled corporations which have been approved for divestment by the President of the Philippines; Provided, that the matter of appropriate valuation procedures for such transfers of assets shall be determined by the Committee.

The terms of transfer of assets may include appropriate arrangements for the consideration thereof, including but not limited to the assumption by the National Government of such liabilities of the government financial institutions and/or other government corporations, whether real or contingent.

The National Government, through the President, is hereby authorized to assume the obligations of government institutions including those due to the National Government on terms and to the extent determined by the President, on the recommendation of the Minister of Finance, to be warranted by the transfer of assets from such institutions pursuant to this Proclamation.

The President is likewise authorized, in the implementation of the program of privatization of certain government corporations created under special law, whether parent or subsidiary, to amend the corporate charters thereof so as to terminate their corporate existence; Provided, that such specially chartered corporations shall be specifically identified and approved for divestment, dissolution, consolidation, merger or regularization into a regular line agency within six months from date of issuance of this Proclamation, and Provided, further, that this authority to terminate the corporate existence of such corporations created under special law shall be exercised within five years from date of this Proclamation and in no case beyond the lifetime of the Committee or the Trust.

SEC. 23. Mechanics of Transfer of Assets. As soon as practicable, but not later than six months from the date of the issuance of this Proclamation, the President, acting through the Committee on Privatization, shall identify such assets of government institutions as appropriate for privatization and divestment in an appropriate instrument describing such assets or identifying the loan or other transactions giving rise to the receivables, obligations and other property constituting assets to be transferred.

The Committee shall, from the list of assets deemed appropriate for divestment, identify assets to be transferred to the Trust or to be referred to the government institutions in an appropriate instrument, which upon execution by the Committee shall constitute as the operative act of transfer or referral of the assets described therein, and the Trust or the government institution may thereupon

proceed with the divestment in accordance with the provisions of this Proclamation and, the guidelines issued by the Committee.

Nothing in this Proclamation shall:

(1) Affect the right of the National Government to pursue the enforcement of any claim of a government institution in respect of or in relation to any asset transferred hereunder;

(2) In relation to any debt hereby assigned and transferred to the National Government of which a government institution is the original creditor, give rise to any novation or requirement to obtain the consent of the debtor; and

(3) In relation to any share of stock or any interest therein, give rise to any claim by any other stockholder for enforcement of rights of pre-emption or of first refusal or other similar rights, the provision of any law to the contrary notwithstanding.

Where the contractual rights of creditors of any of the government institutions involved may be affected by the exercise of the Committee or the Trust of the powers granted herein, the Committee or the Trust shall see to it that such rights are not impaired.

SEC. 24. Deeds of Assignment. Each government institution from which assets are to be transferred pursuant to this Proclamation shall and is hereby directed to execute, promptly and in no event later than thirty days after the issuance by the President of the relevant instrument referred to in Section 23 hereof, a deed of assignment in favor of the National Government, which shall, in annexes thereto, describe, account by account, the nature and extent of such assets and to deliver to the Committee such agreements, instruments, records and other papers in respect of such assets as may be deemed by the Committee to be reasonably necessary or appropriate. Each such deed of assignment shall constitute the Minister of Finance in representation of the National Government as attorney-in-fact of the government institution empowered to take such action and do such things as may be necessary or desirable to consolidate and perfect the title of the National Government to such assets, exercising for the purpose, any and all such rights and privileges appertaining to the transferor-government institution, pursuant to the provisions of applicable law or contract.

A copy of such deed of assignment, together with excerpts from its annexes describing particular property to be transferred, duly certified to be true by the appropriate official before a notary public or other official authorized by law to administer oaths, shall provide sufficient basis to registers of deeds, transfer agents of corporations and other persons authorized to issue certificates of titles, shares of stock and other evidence of title to issue new

certificates, shares of stock or other instruments evidencing title to the assets so described to and in the name of the National Government or its duly authorized agent.

The transfer of any asset of government institutions directly to the national government as mandated herein shall be for the purpose of disposition, liquidation and/or privatization only, any import in the covering deed of assignment to the contrary notwithstanding. Such transfer, therefore, shall not operate to revert such assets automatically to the general fund or the national patrimony, and shall not require specific enabling legislation to authorize their subsequent disposition, but shall remain as duly appropriated public properties earmarked for assignment, transfer or conveyance under the signature of the Minister of Finance or his duly authorized representative, who is hereby authorized for this purpose, to any disposition entity approved by the Committee pursuant to the provisions of this Proclamation.

SEC. 25. Reorganization of Trusteed Corporations. In order to align the organizational and manning structures of parent government-owned or controlled corporations as well as corporations established through the Corporation Code which are transferred to the Trust, with the centralization of the exercise by the government of its ownership role over such corporations through the Trust, this Proclamation proclaims and mandates that:

(1) As of the effective transfer of title over such corporations to the Trust, non-stock parent government-owned or controlled corporations transferred to the Trust may, if affirmed by the Committee, be converted into stock corporations and their various charters are hereby expressly amended for this purpose: each such corporations to have their respective networks, after due adjustment pursuant to Section 13 hereof, divided into common shares of stock at par values as determined by the Trust;

(2) Except as may be otherwise determined by the Trust, the number and composition of the different boards of directors or trustees of trusteed corporation shall be fixed at five (5), the provisions of their respective charters or articles of incorporations to the contrary notwithstanding: Provided, that this sub-section shall not apply to government corporations with minority private shareholders; and Provided, further, that the board membership seats and officership positions, as well as the incumbents thereof, may continue until such time as the Trust shall have decided on each of the trusteed corporations.

(3) The chairman and members of the board of directors or Trustees and the presidents or chief executive officers of the trusteed corporations shall be appointed: (a) in the case of parent corporations, by the Committee; and (b) in the case of subsidiary or affiliate corporations, by the Trust. In both instances, it shall have the approval of the President.

(4) The Trust may require any one or more of the trustee corporations to adopt and implement cost-reduction measures to enhance the viability, and therefore the disposability of such corporations, to potential buyers; and such measures may include personnel retrenchment plans;

(5) The Trust may direct any one or all of its trustee corporations to submit to it within realistically fixed time-tables, such reports and other information as the Trust may require in the exercise of its ownership and dispositive roles over such corporations; and

(6) The Trust may cause trustee corporations organized through the Corporation Code to undergo reorganizations, mergers, consolidations, spin-offs and other corporate acts of similar nature as the Trust may deem necessary or desirable to hasten disposition or privatization, provided that such major corporate acts shall conform with the provisions of the Corporation Code where applicable, and shall in any case have the prior approval of the Committee.

SEC. 26. Committee to Determine Transfer Value. The Committee is hereby vested with full and complete powers and prerogatives to determine the values, other terms and conditions, at which government corporate assets and liabilities shall be transferred and conveyed to the Trust pursuant to the mandate of this Proclamation: Provided, that, any valuation approved by the Committee for purposes of the transfer to the Trust shall not be deemed as a condonation of any obligation by any third party involved.

SEC. 27. Automatic Termination of Employer-Employee Relations. Upon the sale or other disposition of the ownership and/or controlling interest of the government in a corporation held by the Trust, or all or substantially all of the assets of such corporation, the employer-employee relations between the government and the officers and other personnel of such corporations shall terminate by operation of law. None of such officers or employees shall retain any vested right to future employment in the privatized or disposed corporation, and the new owners or controlling interest holders thereof shall have full and absolute discretion to retain or dismiss said officers and employees and to hire the replacement or replacements of any one or all of them as the pleasure and confidence of such owners or controlling interest holders may dictate.

Nothing in this section shall, however, be construed to deprive said officers and employees of their vested entitlements in accrued or due compensation and other benefits incident to their employment or attaching to termination under applicable employment contracts, collective bargaining agreements, and applicable legislation.

SEC. 28. Trust Succession to Powers and Functions of Attaching Ministries. The powers and functions of the relevant ministries over corporations respectively attached to them under the Integrated Reorganization Plan insofar as these powers and function pertain to corporations transferred to the Trust, shall devolve upon and shall be exercised by the Trust over such transferred corporations. The unexpended balance of appropriations if any, earmarked for the support of the operations of the transferred corporations remaining in the control of the aforesaid ministries, shall also be transferred to the Trust to form part of its Operating Funds as specified in Section 11 of this Proclamation. From the date of the transfer of a government corporation to the Trust, all the requests for budgetary outlays from the General Fund by such corporation shall be subject to the prior approval by the Trust.

SEC. 29. Interim Responsibility for Transferred Assets. During the period prior to receipt by a government institution of notice from the National Government through the Committee that arrangements for the management of assets transferred from such government institution under this Proclamation have become effective, such government institution shall be responsible for administering such assets for and on behalf of the National Government under such terms and conditions as may be agreed upon by the National Government and the government institution.

SEC. 30. Incontestability. The determination by and decision of the Committee that the terms on which an asset is to be sold or otherwise disposed of are consistent with the objectives in this Proclamation and in the best interest of the National Government shall be conclusive. The validity of any sale or disposition concluded by the National Government acting through the Trust its authorized agent or entity under this Proclamation shall, except for fraud, breach or material misrepresentation on the part of the purchaser, be incontestable and be binding and enforceable against the National Government and all third parties:

SEC. 32. Immunity and Indemnity Provision for Committee Members and Trustees.

(1) No civil action shall lie against the Committee and/or the Trust and no civil or criminal action shall prosper against a member of the Committee or a Trustee in its or his discharge of the tasks and functions contemplated by this Proclamation, unless: (a) the act or omission complained of clearly relates to a mandatory provision of this Proclamation the performance of which is expressly devolved or delegated to the concerned defendant as a ministerial duty rather than a discretionary or judgmental function, and (b) the act or omission is attended by fraud, bad faith, gross negligence, or violations of the provisions of the Anti-Graft Law;

(2) In the event that any member of the Committee, or a Trustee, or any member of their respective staffs during or after his incumbency, is called upon to defend his actions, related to the performance or non-performance of an act, or the execution of a transaction contemplated by this Proclamation, before any administrative, judicial or legislative proceeding, the government shall provide him with counsel without cost, or shoulder and pay the cost of a counsel of his choice, as well as other costs of litigation for which he may be held liable: Provided, that where the civil or criminal action is based on (a) and (b) of the preceding paragraph, and the member of the Committee or Trustee or of their respective staffs is found guilty of the acts complained of, such member shall be fully liable to and reimburse the Government for all sums advanced by the Government in accordance with the provisions of this Section to cover cost of counsel and other costs of litigation.

SEC. 33. Receiverships. Without prejudice to any other remedy or course of action available to the Trust, the Securities and Exchange Commission shall, in addition to the jurisdiction and powers conferred on it by Presidential Decree No. 902-A, upon petition filed ex-parte by the Trust, appoint a receiver nominated by the Trust to take over the management and custody of the properties of a corporation referred to the Trust or whose obligations have been referred to the Trust under this Proclamation, or which holds assets subject to liens in favor of the Trust, in cases where such equity, obligations or liens have been referred by the Trust to external agencies for conservation and disposition and there is imminent danger of dissipation, loss, wastage, or destruction of assets or other properties or paralización of the business operations of such corporation which may be prejudicial to the interest of its stockholders, creditors, the general public or the National Government or where the appointment of a receiver has been stipulated by the parties to a real or chattel mortgage or other agreement as an aid to foreclosure thereof. Such receiver shall have all powers of a regular

receiver under the provisions of the Rules of Court and of a management board or body under Section 6 (d) of Presidential Decree No. 902-A.

SEC. 34. Proceeds from Sales of Assets. All proceeds from the sale or other disposition of assets net of fees, commissions and other reimbursable expenses of the Trust shall form part of the General Fund of the National Government and be remitted to the National Treasury immediately upon receipt of such proceeds: Provided, however, that the Trust shall be entitled to retain, upon approval by the Committee, such portion of the proceeds as may be necessary to maintain a revolving fund to be utilized for the payment of fees and reimbursable expenses and meeting the costs and expenses incurred by the Trust in the conservation and disposition of the assets held by it, or otherwise in the performance of its responsibilities under this Proclamation, including such amounts as may be required to service borrowings incurred by the Trust pursuant to the authority and for the purposes provided in this Proclamation.

In respect of the proceeds from the sale or other disposition of corporate subsidiaries of parent government corporations, such proceeds shall accrue to the parent corporation. The proceeds shall be net of fees, commissions and other reimbursable expenses of the Trust as approved by the Committee, where the disposition was undertaken by or through the Trust.

SEC. 35. Exemption from Taxes, Fees, and Other Charges. The provisions of any law to the contrary notwithstanding, the Trust as well as the corporations and assets held by it, shall be exempt from all taxes, fees, charges, imposts, and assessments arising from or occasioned by the passing of title over such corporations or assets from the government institutions to the Trust and/or from the Trust to private acquirer or buyer imposed by the National Government or any subdivision thereof including but not limited to stock transfer taxes, capital gains taxes, documentary stamps, registration fees and the like: Provided, that in case the said government institutions required the said assets by foreclosure, the non-payment of similar taxes, fees, charges, imposts, and assessments shall not be a bar to consolidation of title in the foreclosing institutions and the subsequent passing of title to the Trust or the corporations held by the Trust.

The sale or transfer of such corporations or assets shall not be impeded or hindered by the existence of any liens by way of taxes, charges or other assessments in favor of the government at the time of sale or transfer: Provided, that the proceeds from such sale or transfer shall be subject to a tax lien and first be applied to satisfy such obligations secured by said liens.

SEC. 36. Audit. Generally accepted accounting principles shall be observed in the recording of the transactions of the

Committee and the Trust, of the corporations trusted to the National Government or to the Trust, or of transactions related to assets similarly trusted. For the purpose of insuring the regularity and integrity of financial transactions of aforementioned entities, and of transactions related to the assets with which they official deal, and to facilitate the disposition of assets to private entities, such entities and assets may be audited as follows:

(1) The Committee and the Trust shall be subject to audit by the Commission on Audit; Provided, however, that consonant with the flexibility criterion mandated on its operations under the provisions of Section 13 of this Proclamation, the Trust at its discretion and option may utilize the services of reputable private auditors reputable private auditors if authorized by the Commission on Audit;

(2) The non-performing assets of government financial institutions trusted to the National Government directly or through the Trust for disposition or privatization may continue to be subject to audit by private auditors; and

(3) Government owned or controlled corporations approved for disposition and transferred to the National Government directly or through the Trust shall continue to be audited by the Commission on Audit for as long as they have not yet been disposed of; and, if considered necessary by the Trust for facilitating the divestment thereof to prospective private sector buyers, may also be audited by private auditors.

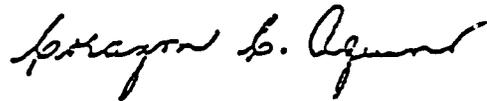
SEC. 37. Such sum or sums as may be necessary for the transfer of assets and liabilities, including liabilities of government financial institutions due the National Government, to the National Government as well as servicing thereof are hereby appropriated subject to the availability of funds in the National Treasury.

SEC. 38. Reporting Requirements. The Committee shall at least on a semi-annual basis submit to the President of the Philippines and to the legislative body a report on the status of its asset disposition program, which report shall include a description of the individual assets disposed of, the purchasers thereof, the consideration received therefor and the agreed terms of payment.

The Trust shall report on a quarterly basis its performance and financial condition to the Committee; and within three (3) months from the closure of books at the end of each fiscal year, submit a comprehensive annual report through the Committee, to the President, and to the legislative body on the status of the privatization efforts and its asset disposition program, which report shall include a description of the individual corporations privatized and assets disposed of, the purchasers thereof, the consideration received therefor and the agreed terms of payment.

pursuant to this Proclamation. Nor shall such order or injunction be issued against any purchaser of assets sold by the Trust to prevent such purchaser from taking possession of any asset purchased by him."

Done in the City of Manila, this 15th day of December in the year of Our Lord, nineteen hundred and eighty-six.



By the President:



JOKER P. ARROYO
Acting Executive Secretary

APPENDIX II

Amendment to the Proclamation 50- RA 7181

No. 1899
H No 34766

Republic of the Philippines
Congress of the Philippines
Metro Manila

Fourth Special Session

Begun and held in Metro Manila, on Monday, the sixteenth day
of December, nineteen hundred and ninety-one.

[REPUBLIC ACT NO. 7181

AN ACT EXTENDING THE LIFE OF THE COMMITTEE ON
PRIVATIZATION AND THE ASSET PRIVATIZATION
TRUST

*Be it enacted by the Senate and House of Representatives of the
Philippines in Congress assembled:*

SECTION 1. The term of the Committee on Privatization and the Asset Privatization Trust created by Proclamation No. 50 "Proclaiming and Launching a Program for the Expeditious Disposition and Privatization of Certain Government Corporations and/or the Assets thereof, and Creating the Committee on Privatization and the Asset Privatization Trust" is hereby extended from December 8, 1991 to August 31, 1992 and thereafter may be again extended by the President of the Philippines for not more than sixteen (16) months.

During the said extension period, the Committee on Privatization and the Asset Privatization Trust shall continue to exercise the powers, duties and responsibilities provided under Proclamation No. 50: *Provided*, That all disposition of any and all assets shall be exclusively and solely for cash, including sales by installments, subject to the provisions of the Comprehensive Agrarian Reform Law.

All assets held by the Asset Privatization Trust, all moneys and other properties belonging to it, and all its liabilities outstanding upon the expiration of its term shall revert to and be assumed by the National Government. The President of the Philippines shall designate by an executive order the government office or entity to which the assets and liabilities of the Asset Privatization Trust shall be transferred.

All cash advances and all unsettled obligations owed to the Government by the officers and employees of the Committee on Privatization or the Asset Privatization Trust, as finally determined by the proper agency or court of law, must be liquidated on or before August 31, 1992.

SEC. 2. The following conditions shall be adhered to in privatization:

a) In the disposition of assets in corporate form, there shall be no undue dislocation of labor unless all benefits as provided by existing laws or Collective Bargaining Agreement (CBA) shall be complied with.

b) Assets for disposal shall not revert to previous owners who after final judgment by the proper agency or a court of law have been found to have mismanaged or diverted the resources of the assets which resulted in loss and bankruptcy: *Provided*, That if assets are to be reverted back to the previous owners, the price shall not be less than the original transfer price.

c) Privatization of government assets classified as a strategic industry by the National Economic and Development Authority shall first be approved by the President of the Philippines.

d) A minimum of ten (10) percent of the sale of assets in corporate form shall first be offered to small local investors including Filipino Overseas Workers and where practicable also in the sale of any physical asset.

e) Sale of all assets shall be published in at least three (3) national newspapers of general circulation for three (3) consecutive days: *Provided*, That the first publication shall occur at least ten (10) days prior to the scheduled bidding date or date of negotiation.

f) A loss recovery provision must be included in the terms and conditions of the sale of any asset sold below the transfer price.

SEC. 3. In line with paragraph 1 of Article IX (d) of the Constitution, the Commission on Audit shall impose or adopt temporary pre-audit and such measures that are necessary and appropriate to correct such deficiencies in the control system of the Asset Privatization Trust as may be found by the Commission on Audit.

SEC. 4. Lawsuits pending at the termination of the existence of the Asset Privatization Trust shall be pursued by the Office of the Government Corporate Counsel until their proper termination in the name of or on behalf of the Government.

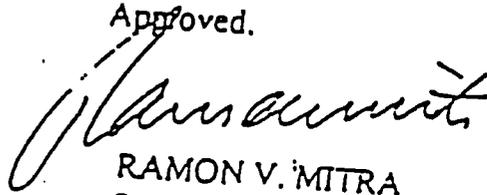
SEC. 5. Any officer or employee who fails to comply with the provisions of this Act, after having been found guilty by the proper agency or court of law shall be barred from holding any position in the Government including government-owned or -controlled corporations, without prejudice to other sanctions as may be provided by existing laws.

SEC. 6. The provisions of Sections 3 and 10 of Proclamation No. 50, in particular, all other provisions of the Proclamation as well as other laws, orders, promulgations, rules and regulations or parts thereof, which are inconsistent herewith are hereby amended, repealed or modified accordingly.

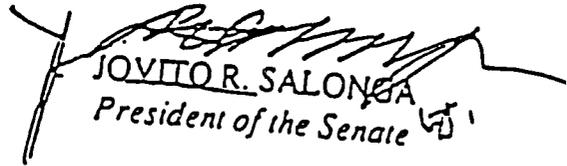
SEC. 7. Implementing guidelines and regulations shall be issued by the Committee on Privatization to fully implement this Act within forty-five (45) days from date of approval of this Act.

SEC. 8. This Act shall take effect immediately upon its publication in at least one (1) national newspaper of general circulation. The effectivity of this Act shall retroact and relate back to December 8, 1991.

Approved.



RAMON V. MITRA
Speaker of the House
of Representatives



JOVITO R. SALONGA
President of the Senate

This bill which was a consolidation of Senate Bill No. 1899 and House Bill No. 34766 was finally passed by the Senate and the House of Representatives on December 18, 1991.



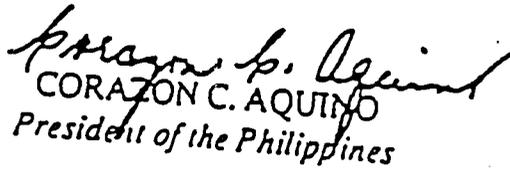
CAMILLO L. SABIO
Secretary General
House of Representatives



EDWIN P. ACOBA
Secretary of the Senate

ES up

Approved: January 17, 1992



CORAZON C. AQUINO
President of the Philippines

REPUBLIC OF THE PHILIPPINES
COMMITTEE ON PRIVATIZATION

GUIDELINES AND REGULATIONS TO IMPLEMENT R.A. 7181

Pursuant to Republic Act No. 7181 entitled "An Act Extending the Life of the Committee on Privatization and the Asset Privatization Trust," dated January 17, 1992, the following guidelines and regulations are hereby promulgated to carry out the provisions of said Act:

SECTION 1. DEFINITIONS

As used in these guidelines and regulations, the term/phrase:

- (a) "Original Transfer Price" shall refer to the price at which the assets were transferred to the National Government pursuant to Proclamation No. 50, including related contingent liabilities;
- (b) "Cash" shall refer to currency and manager's/cashier's checks;
- (c) "Sale of Assets in Corporate Form" shall refer to sale of shares of stocks owned by the Government; and
- (d) "Small Local Investors" shall refer to Filipino Overseas Workers, and other individual Filipino investors.

SECTION 2. COVERAGE

These guidelines and regulations shall cover any divestment or disposal, whether total or partial, of transferred assets of Government Owned and/or Controlled Corporations (GOCCs) approved by the President of the Philippines for privatization pursuant to Proclamation No. 50.

SECTION 3. GUIDELINES

The following guidelines shall be observed in privatization:

- (a) All sale of assets shall be paid in cash, either in lump sum or by installment or deferred payments. Land Bank bonds can also be accepted as payment, in accordance with the provisions of the Comprehensive Agrarian Reform Law (R.A. 6637).

In the sale of assets, transfer of ownership or title shall be allowed only upon full payment of the purchase price. In the sale of assets in installment terms, transfer of ownership or title may be allowed provided the balance shall be fully secured by a mortgage on the assets or by standby letter of credit issued or confirmed by a bank acceptable to the seller.

(b) Disposition entities shall report to the Committee on Privatization (COP) the settlement of employee benefits in compliance with existing Collective Bargaining Agreements or existing labor laws. Such report shall be submitted to the COP prior to approval of sale. This section shall apply only to sale of assets in corporate form.

(c) Sale of transferred assets to former owners shall not be allowed unless former owners could show documentary proof from the proper government agency or court of law that they have not been found by final judgment, to have mismanaged or diverted the resources of the subject assets.

In the sale of transferred assets to former owners, the sale price shall not be less than the original transfer price plus accrued interests less recoveries at the time of sale.

(d) The COP shall submit the list of GOCCs for privatization to the National Economic and Development Authority (NEDA) which shall certify whether such assets are classified as strategic. The GOCCs certified as strategic by NEDA shall be submitted by COP to the President of the Philippines for approval.

(e) In the sale of assets in corporate form, at least 10% of the total shares for privatization shall first be offered to small local investors. Employee Stock Ownership Plans (ESOPs) and public offerings shall count towards compliance with this provision. The maximum allowable investment for small local investors, other than through ESOPs or public offerings, shall be one fourth of one percent of the total shares for privatization or ₱50,000.00, whichever is lower.

The offer for sale to small local investors shall be published in a newspaper of general circulation by disposition entities, specifying the mechanics and terms and conditions of the offer. Notice shall also be forwarded to the Overseas Workers Welfare Administration. Whenever practicable, the offer for sale to small local investors shall be published prior to or concurrently with the publication of the offer for sale of block shares.

In case the assets have been bid out before, the price at which the assets are offered for sale to small local investors shall be equal to the winning bid received at the latest bidding

date for sale of subject assets provided said bidding date is within a 60-day period prior to the offer for sale to small local investors. If the assets have not yet been bid out, the price at which the assets are offered for sale to small local investors shall be at the minimum bid price approved by the COP, with the award being given to the small local investors offering the highest bid prices.

In the event the purchase of shares by small local investors does not reach the 10% allocation, the remaining shares can then be sold to any interested party, in accordance with the usual guidelines in the disposition of assets.

This section shall not apply in the sale of physical assets if such assets are not divisible, or if divisible, will impair the value or utility of the assets.

(f) Disposition entities shall furnish the COP a copy of the certificate of publication of sale of assets. Disposition entities shall also furnish COP a copy of the bids or offered prices submitted by interested investors at the time of bidding or negotiation.

(g) Whenever transferred assets are sold below the original transfer price less recoveries, if any, the disposition entity shall include a loss recovery provision in the sale of subject assets.

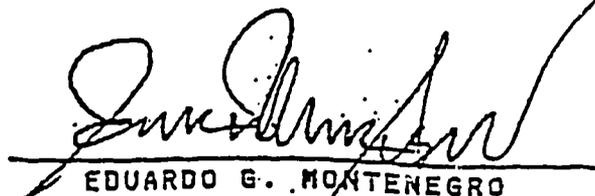
SECTION 4. MISCELLANEOUS PROVISIONS

(a) These guidelines and regulations may be amended or changed by the Committee on Privatization provided that any such amendment or change shall also be published in at least one newspaper of general circulation.

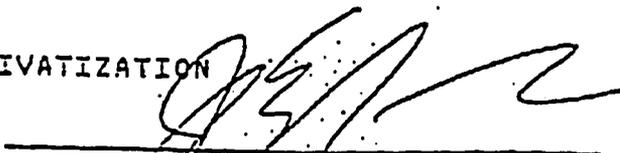
(b) These guidelines and regulations shall take effect immediately upon its publication in at least one newspaper of general circulation.

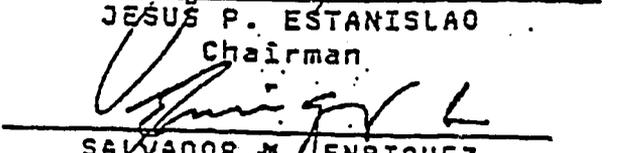
APPROVED: February 20, 1992

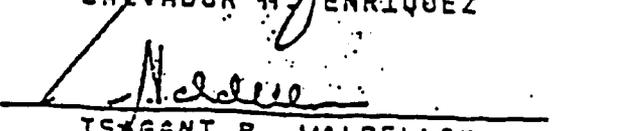
COMMITTEE ON PRIVATIZATION


EDUARDO G. MONTENEGRO


LILIA R. BAUTISTA


JESUS P. ESTANISLAO
Chairman


SALVADOR M. ENRIQUEZ


ISAGANI B. VALDELLON

APPENDIX III

List of Department of Finance Secretaries and Undersecretaries Involved in the Privatization Program

DEPARTMENT OF FINANCE

SECRETARIES & UNDERSECRETARIES INVOLVED IN THE PRIVATIZATION PROGRAM

NAMES	TERM	
	From	To
A. Secretaries		
1. Jaime V. Ongpin	March 26, 1986	Sept. 14, 1987
2. Vicente R. Jaime	Sept. 15, 1987	Dec. 31, 1989
3. Jesus P. Estanislao	January 1, 1990	June 30, 1992
4. Ramon R. del Rosario, Jr.	July 1, 1992	Present
B. Undersecretaries		
1. Edgardo M. del Fonso	Sept. 3, 1986	May 31, 1988
2. Diosdado M. Macapagal, Jr.	August 1, 1988 Dec. 1, 1991	April 30, 1990 Feb. 10, 1992
3. Ernest C. Leung	May 1, 1990	Oct. 31, 1990
4. Tomas V. Apacible	Nov. 1, 1990	Nov. 30, 1991
5. Juanita D. Amatong	Feb. 11, 1992	Present (Currently Abroad)
6. Romeo L. Bernardo	August 4, 1992	Present

APPENDIX IV

**Excerpts from the Committee on Privatization (COP) 1991
Annual Report**

COMMITTEE ON PRIVATIZATION

1991 ANNUAL REPORT

December 1991

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EXECUTIVE SUMMARY

Over the five-year period 1987 to 1991, the privatization program generated cumulative gross revenues of ₱37.15 billion from the disposition of 336 accounts, made up of 266 transferred assets (TAs) and 70 government-owned and/or -controlled corporations (GOCCs). Gross revenues from disposition activities of the Asset Privatization Trust (APT) during the five-year review period amounted to ₱36.61 billion, inclusive of revenues derived from GFI collections and other income. Total remittances to the National Treasury from these activities during the same period reached ₱17.94 billion. These remittances will constitute part of the fund for the Comprehensive Agrarian Reform Program (CARP), in accordance with Republic Act No. 6657 and Proclamation No. 82. In the case of GOCCs, 85 were offered for sale between 1987 and 1991. The combined value of the 85 GOCCs offered for sale from 1987 to 1991 represented 62% of the total asset value of GOCCs slated for privatization. Gross revenues from the sale of 70 GOCCs actually sold during the five-year period totalled ₱8.92 billion. At the end of 1991, there remains a total of 185 accounts for disposition, consisting of 133 TAs and 52 GOCCs.

Among the larger GOCCs successfully privatized during the years 1987 to 1991 were the following:

<u>GOCC</u>	<u>Sale Price (Billion Pesos)</u>	<u>Percent of Government Interest Divested</u>
Philippine National Bank	₱1.8	30%
Marina Properties, Inc.	1.8	100%
Philippine Plaza Holdings, Inc.	1.5	100%
Union Bank of the Philippines	1.0	70%

The privatization activities of the Philippine Government for the year 1991 yielded gross revenues amounting to ₱7.59 billion, of which ₱5.09 billion was derived from gross revenues generated by the APT's privatization activities and another ₱2.54 billion from the full or partial sale of GOCCs. Total remittances to the National Treasury arising from the APT's privatization activities reached ₱3.58 billion for 1991. There were 70 accounts sold in 1991, consisting of 63 TAs and seven GOCCs.

The Philippine privatization program officially commenced in December 1986 with the issuance of Proclamation No. 50, which, among other things, created the Committee on Privatization (COP) and the APT. Under this Proclamation, the term of the COP and APT expired on December 8, 1991. Republic Act No. 7181 enacted in January 1992 provided for the continued existence of the COP and APT up to August 31, 1992, with an added provision allowing the President of the Philippines to extend the term of the COP and APT for a period not exceeding 16 months thereafter.

FOREWORD

This annual report summarizes the achievements of the Philippine privatization program during its original five-year term, with a special focus on the activities that occurred in 1991. The report also includes a summary of the program's privatization activities projected to be undertaken during its extended life. Some background information on the Philippine privatization program is also presented in the latter section of the document.

PERFORMANCE HIGHLIGHTS FOR 1991

Privatization activities in 1991 resulted in the disposition of seven GOCCs and 63 TAs, which accounted for combined gross revenues of ₱6.73 billion. About ₱4.23 billion was derived from TA sales by the APT. Details of these dispositions are presented in this section.

Disposition of GOCCs

A GOCC's privatization is undertaken by a designated disposition entity, which may be a line agency or the GOCC's parent corporation. Proceeds from the sale of a subsidiary accrues to its parent corporation while proceeds from the sale of a parent GOCC accrue to the National Treasury.

Full Dispositions

There were three GOCCs fully disposed of during the year, namely: (1) Philippine Plaza Holdings, Inc. (PPHI), the holding company of the Philippine Plaza Hotel; (2) Mindeva Refrigeration Industries, Inc. (MRII), a subsidiary of the Southern Philippines Development Authority (SPDA); and (3) Republic Planters Bank (RPB).

PPHI was sold by the Government Service Insurance System (GSIS) in February 1991 to Allied Kajima Ltd. (AKL), the Hong Kong-based subsidiary of Kajima Corporation, a Japanese construction conglomerate. Consummated at a price of ₱1.5 billion, this was a negotiated sale involving all of GSIS's equity interest in PPHI. AKL's offer matched the minimum bid price set by GSIS for the shares. The negotiated sale followed two failed bidding sessions in July and November 1990. The sale was limited to the hotel company, which had the hotel building as its major asset. GSIS retained ownership of the land on which the Philippine Plaza Hotel is situated.

The Presidential Management Staff (PMS) successfully disposed of MRII's assets through a public bidding held in May 1991. The assets of the Mindanao-based refrigeration company were offered to the public at an indicative price of ₱6.0 million. The winning bidder was Totco Credit Corporation, which offered a bid of ₱6.3 million, or a 5% premium above the indicative price.

Republic Planters Bank (RPB) was privatized in November 1991, with government's full divestment of its 96.3% equity interest in the bank, made up of the Sugar Regulatory Administration's 85.5% equity interest and a 10.8% stake held by the APT. The bank's 50-branch network was also included in the disposition. The winning bidder was PNB with a tender of ₱150

million which matched the minimum price set for the bank. The sale was undertaken by the APT, RPB's disposition entity.

Partial Dispositions

There were also four GOCCs whose shares or assets were partially sold during the year. These GOCCs were PNOC Coal Corporation (PNOC Coal), Union Bank of the Philippines (UBP), National Sugar Refineries Corporation (NASUREFCO), and Negros Occidental Copperfield Mines (NOCOMIN).

In February 1991, Philippine National Oil Company, the disposition entity of PNOC Coal, entered into a negotiated sale of two of the latter's 17 coal projects for ₱11.3 million with DMC Construction Equipment Resources, Inc. The two projects--located in Junction Open-Cut, Surigao del Sur and Mekoupe, Surigao del Sur--were offered at a combined indicative price of ₱5.7 million. Another 13 coal projects had previously been bidded out, but all these were unsuccessful. Plans to offer these projects again for sale are being considered.

The Social Security System (SSS) sold a 30% equity interest in UBP in March. This disposition was among the most-awaited privatization transactions of the year. The Government had already effected an earlier partial disposition of its interest in the bank in 1988, when the Land Bank of the Philippines sold its 40% shareholding for ₱518.6 million. The SSS's partial divestment in March involved the sale of 2.1 million shares of UBP's common stock at a minimum bid price of ₱232.32 per share. Two investor groups successfully acquired the shares through a public bidding for a combined price of ₱493.5 million, or an average of ₱236.00 per share. This average bid represented a 2% premium over the minimum offer price. Insular Life Assurance Company Ltd. purchased a 20% equity stake in the commercial bank, while the remaining 10% interest was awarded to Ramcar Inc.

The Department of Agriculture offered NASUREFCO's Bukidnon refinery for sale to investors also in March at a base price of ₱360.5 million. The asset was awarded to Eastern Sugar Corporation Limited, a Hong Kong-based firm, for its bid of ₱380 million. This represented a 5% premium over the base price. With the sale of its Bukidnon facility, NASUREFCO is now left with two more refineries--located in Batangas and Iloilo--for disposition.

NOCOMIN effected three partial dispositions of its physical assets in 1991 amounting to ₱2.5 million. These dispositions occurred in May (₱300,000), September (₱1.9 million) and October (₱300,000). Inclusive of these dispositions, partial sales of NOCOMIN's assets effected from 1987 to 1991 amounted to ₱164.8 million, or approximately 20% of NOCOMIN's total asset value. The disposition entity for this GOCC is the National Development Company (NDC).

A tabulation of the GOCCs which were fully and partially sold during the year is presented in Table 1.

In December, the National Government offered for sale 67% of the share of Philippine Airlines. By year-end three bidding groups had been pre-qualified and were conducting due diligence on PAL. The actual bidding took place on January 30, 1992.

TABLE 1. GOCC Dispositions In 1991				
GOCC	Disposition Entity	Sale Price (PMM)	Indicative /Minimum Price (PMM)	Buyer
FULL DISPOSITIONS				
Philippine Plaza Holdings, Inc.	GSIS	1,500.0	1,500.0	Allied Kajima, Ltd.
Mindeva Refrigeration Ind., Inc.	PMS	6.3	6.0	Totco Credit Corporation ✓
Republic Planters Bank	APT	150.0	150.0	Philippine National Bank
PARTIAL DISPOSITIONS				
Union Bank of the Philippines	SSS	493.5	485.6	Insular Life Assurance Co., Ltd.; Ramcar, Inc.
National Sugar Refineries Corp.	DA	380.0	360.5	Eastern Sugar Corp., Ltd.
PNOC Coal Corporation	PNOC	11.3	5.7	DMC Construction Equipment Resources, Inc.
Negros Occidental Copperfield Mines	NDC	2.5	2.5	various parties
TOTAL		2,543.6		

Transferred Assets Sold

The sale of TAs is undertaken by the APT. These assets are usually disposed of through one of three methods, namely, (1) a public bidding, (2) a negotiated sale, or (3) a direct debt buy-out. Public bidding and negotiated sales are normally employed in selling off TAs in physical form, such as real estate, machinery and equipment, and other physical assets. At least two qualified bids have to be submitted for a bidding to be considered successful. In cases where only one or no bid is tendered, or when none of the bids meets the minimum price, the bidding is deemed a failure. A negotiated sale may follow a failed bid.

The direct debt buy-out (DDBO) is another mode of asset disposition applicable to TAs, usually limited to financial form assets (such as loan obligations and receivables). A DDBO is only allowed if the financial form TA is to be retrieved by the debtor company itself.

Unlike the disposition of GOCCs, the net proceeds derived from the sale of TAs are remitted to the National Treasury. There were 63 TAs disposed of by the APT in 1991, generating sales of ₱4.23 billion. Of these TAs, 39 were fully sold for a total value of ₱4.09 billion, while another 24 were partially sold for a combined value of ₱140.5 million. Table 2 lists the fully and partially disposed TAs sold by the APT in 1991.

TABLE 2. Transferred Assets Sold in 1991

TRANSFERRED ASSET	GFI	SALE PRICE (Million Pesos)	MANNER OF DISPOSAL	BUYER
A. FULLY SOLD				
1 Agretronics, Inc.	DBP	0.9	Negotiated	Pacific Resources Corp.
2 Alinsu Group of Companies	DBP	8.1	Bidding	Alinsu Steel Corp
3 Apparel Worldwide	PNB	0.3	Negotiated	Pangilinan General Merchandise
4 Argonaut Mineral Exploration	PNB	1.0	Negotiated	Immanuel Coal Inc.
5 Cagayan de Oro City	DBP	12.7	Negotiated	Cagayan de Oro City
6 Central Azucarera de Pilar	DBP	60.5	Negotiated	La Filipina Uy Gongco Corp.
7 Club Solviento, Inc.	DBP	15.4	Negotiated	Ekson Realty & Dev't Const.
8 Eastern Visayas Telephone Co.	PNB	84.7	DDBO	Eastern Visayas Telephone Co.
9 First Philippine Holdings Corp.	DBP	730.6	Negotiated	Land Bank of the Philippines
10 Government Service Insurance System	DBP	0.0	Negotiated*	
11 Hotel Mirador, Inc.	DBP	132.0	Negotiated	VHF Philippines, Inc.
12 Integrated Circuits	DBP	0.1	Negotiated	Reynaldo Diaz
13 Interland Chemicals 1a	PNB	83.0	Negotiated	Interland Chemicals
14 Lederloide Products	PNB	1.2	Negotiated	Mikuni International Corp.
15 Mabalacat, Pampanga	DBP	16.7	Negotiated	Mabalacat, Pampanga
16 Marbella Club (Manila)	PNB	237.2	Negotiated	Marc Rich/PHIBROS
17 Mayon Telephone Corp.	DBP	15.4	DDBO	Mayon Telephone Corp.
18 Mejia, Cirilo & Milagros	DBP	11.0	Bidding	Match Well Commercial Inc.
19 Meralco Foundation Inc.	DBP	1,913.3	DDBO	Meralco Foundation Inc.
20 Mindanao Plywood Corp.	DBP	37.0	Negotiated	ETE Enterprises
21 Mirad Multifoods, Inc.	DBP	6.4	Bidding	Countryfair Food Corp.
22 Misamis Oriental Rural Electric Co.	DBP	20.9	Negotiated	Misamis Oriental Rural Electric Co.
23 Municipality of Mariveles, Bataan	DBP	25.3	Negotiated	Municipality of Mariveles, Bataan
24 Municipality of Tarlac	DBP	46.1	Negotiated	Municipality of Tarlac
25 Orma Industries Corp.	DBP	6.0	Negotiated	DKC Industrial Corp/Master Color
26 Pamintuan Ent., Inc.	DBP	23.0	Negotiated	Pamintuan Ent., Inc.
27 Passi Sugar Central, Inc.	PNB	211.2	DDBO	Passi (Iloilo) Sugar
28 Peggy Mills 1b	DBP	149.2	Negotiated	Peggy Mills
29 Philippine Blooming Mills 1c	PNB	2.1	Bidding	Sovena Diesel Parts Supply

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TRANSFERRED ASSET	GFI	SALE PRICE (Million Pesos)	MANNER OF DISPOSAL	BUYER
30 Philippine HI-Standard	DBP	5.5	Negotiated	ECE Realty & Dev't Corp.
31 Phil. Integrated Leather	DBP	14.0	Negotiated	Hsing Nan Tannery (Phils), Inc.
32 PNB Complex 1d	PNB	1.2	Negotiated	Central Bank of the Phils.
33 San Fernando, Pampanga	DBP	30.0	Negotiated	San Fernando, Pampanga
34 Southwest Cargo Shipping, Inc.	DBP	10.9	Negotiated	Southwest Cargo Shipping, Inc.
35 Tropical Philippine Wood Industries, Inc.	DBP	0.1	Negotiated	Reynaldo Diaz
36 Universal Cement Corp.	DBP	42.1	Negotiated	Lloyds Richfield Management Co.
	DBP	108.7	Bidding	Lloyds Richfield Management Co.
37 Visayan Box Factory	DBP	3.8	Negotiated	Dugenios family
38 Wright Patterson	DBP	0.7	Negotiated	Dept. of Agrarian Reform
	DBP	0.1	Bidding	Virginia Chua
	DBP	0.9	Negotiated	Alfredo Paguio
39 Zamboanga Alta	PNB	22.0	Negotiated	Sakata Mindanao Traders, Inc.
<i>Subtotal</i>		<i>4,091.3</i>		
B. PARTIALLY SOLD :				
1 Achievers Const. & Dev't Corp.	DBP	0.8	Bidding	Achievers Const. & Dev't Corp.
2 Alfa Foods	DBP	0.3	Negotiated	Fibertex; Van Melle
3 American Phil. Fiber Ind., Inc.	DBP	1.1	Bidding	Mike Junkshop
4 Basay Mining Corp. (A)	DBP	2.5	Bidding	F.F. Cruz; Emmanuel Caballero
5 Basay Mining Corp. (B)	PNB	0.1	Bidding	F.F. Cruz; Petri Trading; Emmanuel Caballero
6 Central Santos Lopez	PNB	27.0	Negotiated	Bacolod Metal Corp.; Renato Baltazar; Arcam & Co.
7 Computer Electronics	DBP	0.9	Negotiated	Reynaldo Diaz
	DBP	0.2	Bidding	Ruben Nepomuceno
8 Dacongogon Sugar & Rice Mill	PNB	0.0	Negotiated**	Jorge Algarme; Dacongogon Prod.
9 Delta Motors Corp.	PNB	1.0	Bidding	R.R. Prats Ent.; Pacific Frontiers
	PNB	9.9	Negotiated	various
10 Durano Trading Corp.	DBP	3.3	Negotiated	Mahayhay Home Settlers Association; Antonio Baysa; Nestor Geronimo
11 D. B. Teodoro Dev't Corp.	PNB	5.7	Negotiated	various
	PNB	26.3	Bidding	various

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TRANSFERRED ASSET	GFI	SALE PRICE (Million Pesos)	MANNER OF DISPOSAL	BUYER
12 D. G. Sanchez Coal Mines	DBP	4.4	Bidding	Charles Mancao
13 Golden Country Farms, Inc. (A)	DBP	2.3	Negotiated	AFI International; Roberto J. Cruz
14 Greater Manila Land Corp.	DBP	0.0	Negotiated***	Larry Pamin; Fernando de Guzman; Willie Maranan
15 Marinduque Mining & Industrial Corp.	PNB	3.2	Bidding	Abella Metal Craft
16 Merchants Investment Corp.	DBP	1.2	Negotiated	Redentor Romero
	DBP	2.7	Bidding	Bryan Villanueva
17 Oriental Media, Inc.	PNB	0.6	Negotiated	Focus Phils., Inc.; Evelyn Tiongco; Prutas Pilipinas
18 Panay Railways	DBP	2.6	Bidding	various
	DBP	2.6	Negotiated	various
19 Paragon Paper Industries, Inc.	DBP	0.1	Negotiated	Panfilo Vergara
	DBP	1.8	Bidding	Mike Junkshop; Labrador Realty Development Corp.
20 Philippine Knitting Mills, Inc.	DBP	1.5	Negotiated	Amador Buenaceda
21 Selectra Electronics	DBP	8.3	Bidding	Homeowners Dev't Corp.; Prado & Sons Industries, Inc.
22 Sta. Clara Lumber	DBP	26.5	Negotiated	Nordy Diploma Company
23 Tropical Phil. Wood Ind., Inc.	DBP	0.2	Negotiated	Reynaldo Diaz
24 United Cathay Industries	DBP	3.3	Negotiated	Rodrigo Campos
<i>Subtotal</i>		<i>140.5</i>		
TOTAL		4,231.8		

- This consisted of National Government guarantees on GSIS loans from DBP. These loans have since been paid.
- ** Sale price is P 21,000.00 only
- *** Sale price is P 8,000.00 only

- 1a Interland Chemicals had already submitted its bid deposit to the APT. As such, APT considered it a sold asset.
- 1b This reflected the prepayment of Peggy Mills' lease contracts with DBP.
- 1c The sale was the last partial disposition of PBM's physical assets, culminating in its full disposition.
- 1d This reflected the sale of minor physical assets of the PNB Complex to the Central Bank of the Philippines.

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ACCOMPLISHMENTS OF THE PRIVATIZATION PROGRAM FROM INCEPTION TO DATE

Since its inception, the Government's privatization program has been able to dispose of 336 accounts consisting of 266 TAs and 70 GOCCs. The cumulative gross revenues from the sale of these assets amounted to ₱37.15 billion. TA sales by the APT accounted for ₱28.25 billion, while GOCCs contributed ₱8.9 billion.

GOCC Dispositions From Inception To Date

There were 122 GOCCs approved for privatization by the Government, of which 85 have been offered for sale and 70 actually disposed of or approved for dissolution to date (Figures 1 and 2). The combined value of the 85 GOCCs offered for sale represented 62% of the total asset value of the GOCCs identified for privatization. A breakdown of these GOCCs for the five-year period 1987 until 1991 is presented below in Table 3. Detailed tabulations by individual GOCC and by disposition entity are shown in Exhibits 1 to 4.

TABLE 3. GOCCs Disposed Of Or Approved For Dissolution, 1987-1991

	<u>Number</u>	<u>Percent of Total</u>
Fully sold ¹	27	22.1%
Partially sold ²	25	20.5%
Approved for dissolution	18	14.8%
Total GOCCs disposed	70	57.4%
Remaining GOCCs approved for privatization	<u>52</u>	<u>42.6%</u>
Total GOCCs approved for privatization	<u>122</u>	<u>100.0%</u>

There were 15 GOCCs which were fully disposed at a premium over their indicative prices. Thus far, the ₱168 million sale of National Marine Corporation by NDC fetched the highest premium, at 66% over the ₱101 million indicative price. Another GOCC, Usiphil Inc., was also sold by NDC for ₱35.5 million, or 63% over its ₱21.8 million indicative price. Other accounts which were disposed of at premium prices include National Stevedoring & Lighterage (39%), Maunlad Saving & Loans Association (17%), and Marina Properties (17%), the last sold for ₱1.78 billion. Five GOCCs were sold at par with their indicative prices. A comparison of the selling and indicative prices of GOCCs is presented in Table 4.

¹Including four GOCCs sold prior to the creation of the COP.

²Includes nine subsidiaries of the Philippine National Bank (PNB) and two subsidiaries of Union Bank of the Philippines (UBP) sold with their respective parent companies.

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TABLE 4. Comparison of Selling Prices Of Disposed GOCCs Versus Indicative Prices (1987-1991)

	<u>No. of GOCCs</u>
Sold over indicative price	15
Sold at par with indicative price	5
Sold below indicative price	<u>3</u>
Total	<u>23</u>
Average premium	11%

Table 5 summarizes the gross revenues collected from the full and partial GOCC dispositions effected from 1987 until 1991 while Exhibit 5 presents disposition revenues by GOCC on a year-to-year basis.

TABLE 5. Gross Revenues From Full and Partial GOCC Dispositions, 1987-1991

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>TOTAL</u>
<i>Values (in Million Pesos)</i>						
Full dispositions	653.7	2,436.7	45.3	64.7	1,656.3	4,856.7
Partial dispositions	<u>543.2</u>	<u>718.6</u>	<u>1,841.4</u>	<u>65.2</u>	<u>887.3</u>	<u>4,055.7</u>
Total Revenues	<u>1,196.9</u>	<u>3,155.3</u>	<u>1,886.7</u>	<u>129.9</u>	<u>2,543.6</u>	<u>8,912.4</u>
<i>Number of GOCCs</i>						
Full dispositions ³	9	5	3	7	3	27
Partial dispositions ⁴	5	5	4	7	4	25

Summaries of the remaining GOCCs for privatization classified by disposition entity, as well as the respective contact person in each disposition entity, are presented in Exhibits 9 and 10.

Transferred Assets Sold From Inception To Date

There were 266 TAs disposed of by the APT as of year end 1991, representing almost 57% of APT's original portfolio of 399 accounts (Exhibits 6 and 7). Sales revenues generated from TA dispositions by the APT amounted to ₱28.25 billion, which is 13% more than the APT's original target of ₱25 billion for its entire five-year term. Full TA dispositions generated ₱26.69 billion, while partial TA dispositions accounted for ₱1.57 billion. Proceeds amounting to ₱11.80

³The figure for full GOCC dispositions for 1987 includes the four GOCCs sold prior to the creation of the COP.

⁴This count reflects the number of partial dispositions undertaken on a year-to-year basis. The five-year total reflects some double-counting, inasmuch as some GOCCs undertook partial sales in two or more years during the five-year period.

billion from these dispositions were remitted to the National Treasury for the Comprehensive Agrarian Reform Program (CARP). Additional proceeds of ₱6.14 billion from GFI collections and other income were also remitted to the National Treasury during the five-year period. APT gross revenues and remittances for the five-year period 1987-1991 from TA dispositions are shown in Table 6.

TABLE 6. APT Gross Revenues and Remittances From TA Dispositions, 1987-1991
(In Billion Pesos)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>TOTAL</u>
<i>Revenues</i>						
APT/GFI Sales	3.83	3.70	1.99	14.50	4.23	28.25
GFI Collections	2.94	0.97	0.69	nil	nil	4.60
Other Income	<u>0.01</u>	<u>0.49</u>	<u>1.51</u>	<u>0.89</u>	<u>0.86</u>	<u>3.76</u>
Total Revenues	<u>6.78</u>	<u>5.16</u>	<u>4.19</u>	<u>15.39</u>	<u>5.09</u>	<u>36.61</u>
<i>Remittances</i>						
APT/GFI Sales	0.80	3.58	2.23	2.55	2.64	11.80
GFI Collections	0.38	1.16	0.58	0.18	0.08	2.38
Other Income	<u>0.01</u>	<u>0.49</u>	<u>1.51</u>	<u>0.89</u>	<u>0.86</u>	<u>3.76</u>
Total Remittances	<u>1.19</u>	<u>5.23</u>	<u>4.32</u>	<u>3.62</u>	<u>3.58</u>	<u>17.94</u>

There are 133 TAs remaining in the APT's portfolio which remain undisposed due to various reasons. These TAs are classified as financial, physical or equity form assets. The financial TAs total 93, while the physical and equity TAs number 25 and 15, respectively. Among the reasons for their non-disposal are ongoing court litigations and other legal impediments, and a lack of interested buyers. A list of the remaining TAs for disposition by the APT is presented in Exhibit 8.

PROGRAM EXTENSION

Pursuant to the provisions of Proclamation No. 50 of 1986, the tenure of the major implementing entities of the privatization program, the COP and the APT, should have expired on December 8, 1991. Cognizant of the vital privatization activities that need to be completed, however, the Philippine Congress enacted Republic Act No. 7181. This legislation provides for the extension of the term of the COP and the APT from December 8, 1991 to August 31, 1992 and thereafter may be again extended by the President for a period not exceeding 16 months.

R.A. 7181 contains additional provisions in the sale of government assets. Most significant among these provisions is that requiring all assets to be sold only for cash. Pursuant to the provisions of the Comprehensive Agrarian Reform Law (R.A. 6677), however, Land Bank bonds may still be an acceptable form of payment for TAs. In addition to the provision limiting payments to cash or Land Bank bonds, there are other conditions in R.A. 7181 which may also be found restrictive in nature, such as those pertaining to labor issues, the offering of assets to small

The second public offering of PNB's shares is targeted for March 1992. PNB intends to sell at least 10% of its shares during the March stock offering. An additional 11% is expected to be offered for sale, also within 1992. PNB's shares have registered an encouraging historical performance since the successful 1989 initial public offering (IPO) of 30% of the bank's capital stock. The issue, which amounted to ₱1.8 billion, was the largest IPO at the time. The government will be reduced to a minority ownership position of 49% in PNB after the subsequent 1992 offerings.

The Philippine Equities Market

The past two years witnessed a proliferation of new equity issues brought to market. There were eight IPOs undertaken in 1990, beginning with the offering of Kuok Philippines Properties, Inc. (KPPI) in February of that year. This was followed by the IPO of Sanitary Wares Manufacturing Corporation (Saniwares) and Manila Bulletin Publishing Company in March, Metro Drug, Inc. (April), and Mabuhay Holdings Corporation (June). KPPI's ₱1.0 billion IPO was considered the largest single issue for the year and, together with the subsequent Saniwares offering, served to test the stock market's absorptive capacity for sizeable stock issues. Both KPPI and Saniwares were the only oversubscribed issues among the IPOs launched in 1990.

The series of new equity offerings continued in 1991 with more corporations entering the market, including the IPO of First Lepanto Corporation in February that year. After this were those of Interphil Laboratories (March), RFM Corporation's rights offering (April), and Shangri-La Properties, Inc. (SLPI) and Ayala Land, Inc. (ALI) in May. Three offerings were launched in June, namely, JR Garments, Inc., Mariwasa Manufacturing, Inc., and Saztec Philippines, Inc. Far East Bank and Trust Company undertook a secondary offering in October, and the long-delayed IPO of the Manila Electric Company (Meralco) was finally undertaken in December 1991. Meralco's ₱2.6 billion issue was the largest yet to enter the stock market, surpassing PNB's ₱1.8 billion and ALI's ₱2.5 billion issues. The power distribution company's listing on the Makati and Manila Stock Exchanges in January 1992 proved successful, with its share price closing at a premium over the offer price. As of the writing of this document, Meralco's stock continues to trade at a premium on the two exchanges.

Only a few of the abovementioned equity issues were oversubscribed during their offering periods, suggesting the domestic capital market's limited capability to absorb a continuous, and sometimes simultaneous, offering of large equity issues. Both KPPI and Saniwares were deemed attractive issues and introduced when market competition was minimal, but seemed large enough to consume a substantial portion of the market's liquidity at the time. Successive offerings, while smaller in size and also possessing good fundamentals, were not fully subscribed. The poor performance of KPPI at the exchanges after the offering period may have prevented its initial subscribers from selling their holdings and shifting to the subsequent offerings. This not only serves to confirm the limitation of the local equities market, but also the prevalence of subscribers with an orientation towards short-term investments.

The almost simultaneous offerings of SLPI and ALI in 1991 resulted in the former's undersubscription. ALI's ₱2.5 billion issue, which was heavily sought after by investors, appeared to have had a draining effect in the liquidity of the capital market. Again, this situation supported the notion about the limited absorptive capacity of the local equities market. While it may also be that the underperformance of SLPI was due to pure investor preference and the uncertainty

spawned by the Mt. Pinatubo eruption, the good fundamentals of the SLPI issue nevertheless suggest that such an outcome was largely due to investors' commitment of funds to the more attractive ALI IPO. Perhaps in a larger equities market the two issues could have attracted sufficient investor interest in spite of their simultaneous offering.

The privatization plans of PNB, NSC and the Manila Hotel all involve the potential sale to the general investing public of a portion of the shares for disposition. Preliminary signals for 1992 indicate the possibility of an improved market performance during the first semester, considering the listing of Meralco, the sale of PAL and the anticipated second public offering of PNB. Notwithstanding this expectation, the local stock market's past experiences with successive, let alone simultaneous, offerings of large equity issues must be considered in determining the proper timing and spacing of the offerings.

While the sale of these shares is not limited to Filipino investors, the limitation on foreign participation in Philippine companies still constrains access to foreign equity funds. This has been partially addressed by the passage of the Foreign Investments Act of 1991. Under the Act, the ceilings on foreign participation in specific industries have been modified to allow for increased equity investments by foreign nationals. However, foreign equity participation in strategic and other targeted industries will still be restricted to those levels stipulated in the Philippine Constitution.

APPENDIX V

List of Persons Interviewed

LIST OF PERSONS INTERVIEWED

DEPARTMENT OF FINANCE (DOF)

1. **Ms. Juanita D. Amatong**
Undersecretary, Corporate Affairs Group
2. **Mr. Romeo L. Bernardo**
Undersecretary, International Finance Group
3. **Ms. Crisanta S. Legaspi**
Director IV, Privatization Office, DOF and
Executive Officer, Committee on Privatization
4. **Ms. Eleanor dela Cruz**
Director IV, Corporate Concerns Office, DOF and
Secretariat Head, Government Corporate Monitoring & Coordinating
Committee (GCMCC)

TECHNICAL COMMITTEE ON PRIVATIZATION

1. **Ms. Juanita D. Amatong**
Undersecretary, DOF
2. **Ms. Crisanta S. Legaspi**
Director IV, Privatization Office, DOF
3. **Mr. Josefino R. Angeles**
Director, Department of Budget & Management
4. **Ms. Margarita Songco**
Director, National Economic & Development Authority
5. **Atty. Melpin Gonzaga**
Asst. Chief State Counsel
Department of Justice
6. **Ms. Sotera C. Umali**
Asst. National Treasurer, Bureau of Treasury
7. **Mr. Virgilio Tatlong-hari**
Asst. National Treasurer, Bureau of Treasury
8. **Ms. Cathy Molas**
Representing Atty. Jose Mari P. Trenas
General Manager
National Development Company

DISPOSITION ENTITIES

1. **Asset Privatization Trust (APT)**
Atty. Ramon T. Garcia
Chief Executive Trustee

Mr. Juan W. Moran
Associate Executive Trustee
2. **National Development Company (NDC)**
Atty. Jose Mari Treñas
Officer in-Charge
3. **Philippine National Oil Company (PNOC)**
Mr. Fredesuendo G. Ong
Vice President/Controller/Treasurer

Ms. Wilma G. Rodriguez
Planning Manager

GOCCs/TAs

1. **Mr. Edgardo del Fonso**
Chief Financial Officer
Philippine Airlines
(Former Managing Director of ICCP)
2. **Mr. Gerundio C. Madueño**
Manager
Southern Philippines Development Authority
3. **Mr. Arthur N. Aguilar**
Former Chairman
Maricalum Mining
Nonoc Mining
4. **Mr. Edgardo C. Crisostomo**
Conservator
North Davao Mining Corporation
5. **Ms. Louella E. Sanchez**
Bank Executive Officer
Philippine Amanah Bank
6. **Mr. Alberto J. Arevalo, Jr.**
Administrator
Light Rail Transit Authority
7. **Mr. Florendo R. Garcia, Jr.**
Vice President
Cultural Center of the Philippines
8. **Mr. Rolando S. Narciso**
President & Chief Operating Officer
National Steel Corporation

OTHER GOVERNMENT AGENCIES

A. Department of Public Works & Highways (DPWH)

1. **Mr. Teodoro Encarnacion**
Undersecretary
2. **Ms. Chona Dimayuga**
Executive Director, Toll Regulatory Board
3. **Mr. Godofredo Galano**
Project Manager III, Urban Roads Projects Office
4. **Mr. Emerson L. Benitez**
Legislative Liaison Specialist
5. **Mr. Saviniano M. Perez, Jr.**
BOT Legal Specialist

B. Department of Transportation and Communications (DOTC)

1. **Mr. Ramon Dumauual**
Project Director, Transportation Program Management Office
2. **Mr. Jorge Bernardo**
Deputy Commissioner, National Telecom Commission

C. Coordinating Council for the Phil. Assistance Program (CCPAP)

1. **Mr. Rogelio Singson**
Undersecretary

D. Office of Energy Affairs (OEA)

Ms. Flordeliza Andres
Director, Planning Services

Ms. Marcia Gesmundo
Division Chief, Energy Supply Division

IQCs

1. **SGV Consulting**
Ms. Cynthia A. Manlapig
Partner

Ms. Ma. Aurora Geotina-Garcia
Partner
2. **Joaquin Cunanan & Co.**
Mr. Jose P. Lavares, Jr.
Managing Principal
Management Consulting Services
3. **Carlos J. Valdes & Co.**
Ms. Minda O. Ledesma
Partner
4. **AYC Consultants, Inc.**
Mr. Peter L. Wallace
President
5. **Investment & Capital Corp. of the Philippines**
Mr. Rommel M. Leuterio
Vice President

Ms. Maria Paz K. Fabella
Assistant Vice President
6. **International Privatization Group/Price Waterhouse**
Mr. Edgar Harrell
Director, Finance & Administration

Ms. Peggy Norgrin
Manager

DONOR AGENCIES

USAID PHILIPPINES

1. **Mr. Bruno Cornelio**
Chief, Private Enterprise Support Office (PESO)
2. **Mr. Dario J. Pagcaliwagan**
Project Management Specialist, PESO

ASIAN DEVELOPMENT BANK

1. **Mr. Yamamura**
Deputy Director
Private Sector Development
2. **Mr. Arvind Mathur**
Merchant Banking Specialist

INTERNATIONAL FINANCE CORPORATION

1. **Mr. S. Rajkumar**
Investment Officer

APPENDIX VI

Copies of Questionnaires Used By the Evaluating Team

- a. Sample letter to interviewees*
- b. Questionnaire/agenda for discussion with USAID/PESO*
- c. Questionnaire/Agenda for discussion with DOF*
- d. Questionnaire/Agenda for discussion with DEs*
- e. Questionnaire/Agenda for discussion with GOCCs & TAs*
- f. Questionnaire/Agenda for discussion with IQC firms*

SAMPLE LETTER TO INTERVIEWEES

INTRADOS, WASHINGTON/PUNONGBAYAN AND ARAULLO, MANILA

July 8, 1992

Atty Ramon T. Garcia
Chief Executive Trustee
Asset Privatization Trust
BA Lepanto Building
Paseo de Roxas, Makati

RE: Evaluation Study- USAID Privatization Project

Dear Atty Garcia,

Further to Undersecretary J. Amatong's letter to you on the above mentioned subject, we would like to furnish you attached an agenda of the various points we would like to discuss with you and/or your staff during our scheduled meeting this week.

We would appreciate if this questionnaire/agenda is completed and handed over to us at the time of our meeting.

Thank you very much for your cooperation.

Baljit S. Vohra
Team Leader

**FINAL EVALUATION OF THE USAID-FINANCED PRIVATIZATION
PROJECT**

**QUESTIONNAIRE FOR THE PRIVATE ENTERPRISE SUPPORT OFFICE (PESO),
USAID/MANILA**

Intrados/Punongbayan & Araullo have been contracted by your office to conduct the final evaluation of the USAID-financed privatization project. In order to conduct a performance review, we would be eager to have your views on the questions we are raising below. The evaluation is aimed at evaluating project performance and making recommendations for the design of a follow-on project. Thank you very much in advance for your cooperation.

1. Were the USAID mission's outputs designed to meet the government's goals as stated by it under its policy on privatization

2. The elements of the project paper defined the key inputs that the project would address to achieve the objectives set in the paper. Were all these elements duly addressed, and taken into account.

3. What parts of these elements were the most used and what was it that was least considered. Explain the reasons for the emphasis on one over the other

4. During the course of the project was there an exchange of implementation letters between DOF/COP and the mission regarding the modification of the project paper goals

5. Do you agree with the project elements of the project paper. Were these realistic given the time and budget constraints, if any. If not, please explain?

6. Has a diagnostic framework for project personnel use in identifying the potential opportunities for sequencing and timing of assistance to the various beneficiaries been designed and used in the conduct of privatization assistance assessments

7. Was it possible to carry out the tasks of the project paper in a coherent and effective manner

8. In your opinion, were the demand requirements for accomplishing each of the tasks adequately met by the resources that were available under the aegis of the project? If not, identify any additional resources needed to accomplish these tasks

9. Has there been effective collaboration between project personnel and the participating IQC firms to provide strategic guidance towards meeting the project goals as well as carrying out each of the project's main objectives

10. Were there problems associated with effective implementation of the project as an AID/Manila activity, with its own goals and objectives, while also serving the needs of the Philippines/Dept. of Finance and the ultimate beneficiaries

11. How well was the project organized to implement the mission's strategy

12. How well was the project's organizational structure adapted to implement its strategy

a) How effectively were the responsibilities divided

b) Did the job positions match their responsibilities

c) If available, please provide an organizational and functional chart for the division of PESO office handling the Privatization Project

13. To what extent did the project carry out its overall strategy. Specifically,

a. How effectively did you control the work of your staff and the subcontractor, i.e. the IQC firms

b. Did the IQC firms effectively and efficiently manage their contract responsibilities

c. How was the selection process for the IQC firms initiated. Please describe how the following was carried out:

i. IQC pre-qualification process

ii. IQC contract award process

d. What were the contract values of technical assistance given to the IQC firms. We would need the following information:

Amount (Indicate amounts below)	Strategy	Scope of Work and level of assistance provided			Others
		Infmn./data mgt.	Valuation/ Marketing	Opn. Studies	

Highest amount					
Lowest amount					
Average amount					
Modal amount					

e. Were all the IQC firms actively involved in carrying out the respective assignments, or were there only 1-2 that did almost all the work

f. Has the USAID privatization project office, during the course of this project, using any ongoing internal evaluation mechanisms for gauging performance of the IQC firms

g. Specifically, mention 1-2 key areas of expertise that you found in each of the IQC firms that participated in this project

h. Were there any major problems with the above in the execution of the assistance activity to the beneficiaries. Were there any inherent weaknesses/lack of a particular functional/sectoral expertise that you found as missing in these firms

14. What have been the major obstacles to progress towards achieving the project's objectives

15. Has this project integrated well with other private sector initiatives of your office/mission and does it point to possible new areas for mission involvement

16. Please describe the list of other mission programs/sub-programs now being implemented or contemplated for future implementation which can be supportive of the Privatization project. Also indicate the amounts earmarked for each of these programs

17. If available, please provide the organizational and functional charts of other USAID entities which provide staff support or may have current or future synergistic/complementary support to the privatization project.

18. Has the work of the USAID project demonstrated satisfactory progress in advancing privatization in the Philippines
Specifically, to what extent has the assistance provided by it helped

a. The primary privatization/disposition entities understand the process of privatization

- b. The disposition entities and GOCCs become more interested and involved in privatization**
- c. the government produce a more favorable climate to privatization through its efforts and also through some of the policy reviews carried out under the auspices of the project**
- d. GOCCs and others understand what is involved in designing and implementing a privatization strategy**

19. Finally, in the follow-up project, what are some of the areas that USAID sees itself as assisting the Philippines government in.

20. Until now, what has been the primary focus of the project in the area of training those responsible for implementing privatization. Is there a need for further specialized training programs as the future areas for privatization become more far-reaching and complex.

**FINAL EVALUATION OF THE USAID-FINANCED PRIVATIZATION
PROJECT**

**QUESTIONNAIRE FOR THE PRIVATIZATION OFFICE,
DEPARTMENT OF FINANCE**

Intrados/Punongbayan & Araullo have been contracted by USAID/Manila to conduct the final evaluation of the USAID-financed privatization project. In order to conduct a performance review, we would be eager to have your views on the assessment of this project. The evaluation is aimed at assisting USAID in evaluating project performance and designing a follow-on project that will be closely geared to serve your forthcoming needs. Thank you very much in advance for your cooperation.

1. In your opinion, how consistent are the objectives, goals, strategies in the mission's privatization policy? How consistent are they between USAID and those of the government of the Philippines
2. To what extent did the project's scope of work translate the Government's objectives into specific USAID project objectives and goals
3. How did the project interpret its objective and goals. How did it interpret its scope of work as laid out under task elements of the project paper
4. Was your office fully aware and in agreement with the project's interpretation of the tasks to be carried out
5. Were the USAID mission's outputs designed to meet the government's goal as stated by it under its policy on privatization
6. Were these output expectations realistic given the time and budget constraints, if any. If not, please explain
7. Was the project's strategy approved by the government.
8. At the time of approval were there any concerns that your office had about some of the task elements, and if so, how were they addressed.
9. How well was the project organized to implement the mission's strategy

10. How well was the project's organizational structure adapted to implement its strategy
11. How effectively were the responsibilities divided
12. Did the job positions match their responsibilities.
13. To what extent did the project carry out its overall strategy, Specifically,
 - a) How did the project control the work of its staff and the subcontractors
 - b) How did the project deal with its subcontractors
 - c) How did the project manage the long term projects, if any
14. What has been the quality of the project's outputs
15. How have the project's outputs compared to those foreseen by its strategy and the task elements. Specifically,
 - i. The technical assistance provided by it to your office
 - ii. Technical assistance to all the other beneficiaries-- DEs, GOCCs, COP, and others etc.
 - iii. How was the quality/quantity/timing of its output appreciated by all the recipients
 - iv. How responsive was the project to the inquiries of all the clients
 - v. Did the project personnel understand their needs and fulfill them
16. Has the work of the USAID project demonstrated satisfactory progress in advancing privatization in the Philippines
Specifically, to what extent has the assistance provided by it helped
 - a. You and other primary privatization/disposition entities understand the process of privatization
 - b. You, disposition entities and GOCCs become more interested and involved in privatization
 - c. The government produce a more favorable climate to privatization through its efforts and the policy reviews carried out under the auspices of the project
 - d. GOCCs and others understand what is involved in designing and implementing a privatization strategy
17. Please indicate the various kinds of equipment, facilities, and staff made available to your office through the USAID project. Also illustrate the distribution of these resources to each of the beneficiaries (disposition entities, and others etc.)
18. Has the software/hardware provided helped in streamlining the information flow in/between your office and in/between the various disposition entities. What kind of applications are being carried out through the software, etc. and illustrate the reports that are now being generated with such assistance.

19. What kinds of training programs were made available under the auspices of the project. Please indicate the personnel and the agencies that availed these various training programs. How helpful have these programs been in helping the beneficiaries carry out their responsibilities under the privatization program
20. What were the various operational/policy studies carried out under this project. If possible, please provide a general statement of the scope of work for each of these studies
21. Were the policy reviews for APT, COP and others initiated primarily by USAID project personnel, or was there a strong interest on part of the beneficiaries in having the study and its recommendations
22. Did these entities initiate actions to carry out the recommendations, and if not, what were the barriers
23. Do you believe studies of this breadth and scope were useful or were they duplicative or overlapping with studies done by other
24. How would you comment on the contracting procedure deployed by USAID for accessing services of consultants that were provided to assist you. Was there a quick turnaround of consultants from USAID to help your beneficiaries, or did it take a long time to get the assistance.
25. Please comment on the quality of assistance provided by the consulting firms that came through the USAID's IQC umbrella. Did they have all the capabilities that you were looking for, or were there instances where the type of assistance was not available through any of them. How often did this happen.
26. In the new project design, what kind of new areas do you see your privatization program moving into, and what would you need the project to assist you in. Also, indicate the type of functional expertise you would like to see as coming from this project.
27. Does the privatization project, as it stands today, have the resources and the capabilities to answer to the changing needs of your offices
28. Finally. on a scale of 1-5, how would you respond to the following. Note the weighting of the scale is as follows:
- A rating of 1 denotes-Excellent
 - A rating of 2 denotes-Very Good
 - A rating of 3 denotes-Satisfactory
 - A rating of 4 denotes-Fair
 - A rating of 5 denotes-Poor

PROJECT CHARACTERISTICS

NUMERICAL RATING

1. Responsiveness

- a. Ability to understand your needs
- b. Understanding of the technicalities of the request
- c. Timeliness of the project's response to your query
- d. Quantity and quality of the response

Average score (to be filled by the evaluating team)

2. Relationship

- a. Level of interest from project personnel in your work
- b. Frequency of contact
- c. Level of communication
- d. Level of integration

Average Score (to be filled by the evaluating team)

3. Others

FINAL EVALUATION OF THE USAID GRANT FOR PRIVATIZATION

QUESTIONNAIRE/AGENDA FOR DISCUSSION WITH DISPOSITION ENTITIES

Intrados/Punongbayan & Araullo have been contracted by USAID/Manila to conduct the final evaluation of the USAID-financed privatization project. In order to conduct a performance review, we would be eager to have your views on the assessment of this project. The evaluation is aimed at assisting USAID in evaluating project performance and designing a follow-on project that will be closely geared to serve your forthcoming needs. We would appreciate your giving some thoughts to the items below before our meeting with you. We thank you very much for your cooperation.

Questions for discussion:

1. This questionnaire is aimed at seeking your opinion and comments on the quality of work performed by consultants to assist you in the process of privatization. The Appendix enclosed at the end of this questionnaire indicates the type of assistance provided to your corporation or transferred asset. Is this assistance indicative of all that you received through the USAID grant?

Yes: _____ No: _____

If the answer is no, please explain if there was anything extra that was provided, or not provided even though it is mentioned in the appendix.

2. Did the consultants provided by the USAID grant adhere to the scope of work of the assignment in all of the assignments.

Yes: _____ No: _____

If no, please explain

3. For areas of privatization pertaining to strategy development and marketing, did the consultants provide a clear and practical implementation plan to the organization

Very clear and practical: _____
Somewhat clear and practical: _____
Not clear and practical: _____

Comments:

4. In the area of valuation, how realistic were the values recommended by the consultants

Within the selling price range: _____

Well above the selling price range: _____

Well below the selling price range: _____

Comments:

5. How would you rate the caliber and level of analysis upon which the implementation plans and valuation methodologies suggested by the consultants were based

Excellent: _____ V. Good: _____ Good: _____ Satisfactory: _____

Unsatisfactory: _____

Comments:

6. What was the caliber of personnel provided to you to carry out the above mentioned assignments

Excellent: _____ V. Good: _____ Good: _____ Satisfactory: _____

Unsatisfactory: _____

Comments:

7. How were the recommendations received by your organization. Did you initiate actions to adhere to all the recommendations as laid out in the report.

Yes: _____

No: _____

If no, what were the barriers

8. How useful were these studies in assisting you in carrying out the privatization of the corporations/assets. If not privatized yet, how useful will the USAID financed assistance be in helping you privatize the entity/asset being assisted.

Very useful: _____

Moderately useful: _____

Maybe useful: _____

Less useful: _____

Comments:

9. How would you rate the time lapse between request for assistance and start-up?
30-60 days: _____ 60-90 days: _____
More than 90 days: _____

Was the above acceptable Yes: _____ No: _____

Comments:

10. How would you rate the time lapse between start-up and receipt of final report

Studies/Time in days—>	30-45	45-60	60-90	90 & more
1. Policy review studies				
1. Valuation Studies				
2. Privatization Strategy Study				
3. Marketing Study				
4. Others				

Was this acceptable, if not, what would you have preferred:

11. How would you comment on the contracting procedure utilized by USAID for accessing services of consultants that were provided to assist you.

Simple: _____	Complicated: _____
Efficient: _____	Inefficient: _____
Short: _____	Lengthy: _____

Comments:

12. Please comment on the quality of assistance provided by the consulting firms that came through the USAID's IQC umbrella.

Excellent: _____	V. Good: _____	Good: _____
Acceptable: _____	Unacceptable: _____	

Comments:

13. Did these consulting firms have all the capabilities that you were looking for.

Yes: _____

No: _____

If no, please mention instances where the type of assistance was not available through any of them. How often did this happen.

Comments:

14. How well has the assistance related to further streamlining the functioning of the privatization entity been.

Extremely well: _____

Very well: _____

Moderately well: _____

Not that well: _____

Comments:

15. What has been the most useful contribution made to your entity by the assistance provided through USAID grant

Categories of assistance/areas

Indicate, by placing a tick mark (/)

- Policy review
- Privatization strategy
- Asset Appraisal
- Valuation (going concern)
- Marketing
- Others

Please describe any specific contribution(s) that was noteworthy

16. What kind of reporting procedures, systems, internal capability, etc. have been developed as an outcome of the USAID assistance provided to you through commodities like computers, hardware, software, books, periodicals, etc.

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Material Assistance	Type & Qty.	Indicate by a tick mark if provided by USAID	Changes by way of this assistance provided
Computers			
Software			
-for analysis			
-for databases			
-for reporting			
-others			
Books			
Periodicals			
Others			

17. Has the USAID assistance enhanced your capability to undertake the various capabilities required of privatization from preparation to actual sale. Enumerate the activities where USAID assistance has enhanced your ability to do any or all of the following:

Activities

Place a tick mark (/) for those applicable

- a. Valuation
- b. Due-diligence and auditing
- c. Legal audits
- d. Marketing
- e. Sale

Comments:

18. Have you accessed other forms of technical assistance made available through World Bank, IFC, UNDP, ADB or others, relative to privatization

Yes _____

No: _____

If yes, indicate the source and the type of assistance received

Source

Type of assistance

19. What was the reason for choosing assistance from these agencies over that provided through the USAID project.

20. How would you rate assistance provided through USAID with assistance provided from other agencies that might have helped you in your privatization efforts

Much better than others: _____

Slightly better than others: _____

Same as others: _____

Less better than others: _____

If it was less better than others, please explain why?

21. If given an opportunity, would you once again use the technical assistance provided under this project

Yes: _____

No: _____

22. What are some of the future needs that you see for your organization/entity/asset in carrying out its privatization. What kind of assistance would you be looking at acquiring from USAID in the future.

Please indicate by placing a tick mark against the areas that you would need assistance

Areas	Indicate here by placing a (/)	Brief description of need
Legal	_____	
Custodial Support	_____	
Financial Restructuring	_____	
Policy Studies	_____	
Valuation	_____	
Privatization strategy	_____	
Marketing	_____	
Industry specialists	_____	
Investment bankers	_____	
Others	_____	

Comments:

23. Have any of your staff attended workshops/training programs/conferences on privatization to acquire some of the implementation skills necessary while undertaking a privatization effort.

Yes: _____

No: _____

If yes, indicate the programs attended

**24. To help you address the remaining privatizations, and your other future needs, what kind of skill would you and your employees be looking at acquiring in the near future
Please indicate the skills:**

25. If given an opportunity, would you once again use the technical assistance provided under this project

Yes: _____

No: _____

26. What are some of the future needs that you see for your organization/entity/asset in carrying out its privatization. What kind of assistance would you be looking at acquiring from USAID in the future.

27. Have any of your staff attended workshops/training programs/conferences on privatization to acquire some of the implementation skills necessary while undertaking a privatization effort. What kind of skill would you and your employees be looking at acquiring in the near future

FINAL EVALUATION OF THE USAID GRANT FOR PRIVATIZATION

QUESTIONNAIRE FOR MAJOR CORPORATIONS/TRANSFERRED ASSETS

Intrados/Punongbayan & Araullo have been contracted by USAID/Manila to conduct the final evaluation of the USAID grant on privatization. In order to conduct a performance review, we would be eager to have your views on the assessment of this project. The evaluation is aimed at assisting USAID in evaluating project performance and designing a follow-on project that will be closely geared to serve your forthcoming needs. We would very much request your assistance in completing the following brief questionnaire and returning it to us no later than July 13, 1992. Please call the following as soon as the form is completed.

*Malu Untalan
Punongbayan & Araullo
Tel: 810-9741*

We appreciate your allocating some time to this questionnaire and we thank you very much for your cooperation.

Name of the institution:

Disposition entity:

1. Did the consultants provided by USAID grant adhere to the scope of work of the assignment:

Yes: _____

If no, please explain: _____

2. For areas of privatization pertaining to strategy development and marketing, did the consultants provide a clear and practical implementation plan to the organization

Very clear and practical: _____

Somewhat clear and practical: _____

Not clear and practical: _____

Comments:

3. In the area of valuation, how realistic were the values recommended by the consultants

Within the selling price range: _____ Well above the selling price range: _____

Well below the selling price range: _____

Comments:

4. How would you rate the caliber and level of analysis upon which the implementation plans and valuation methodologies suggested by the consultants were based

Excellent: _____ V. Good: _____ Good: _____ Satisfactory: _____
Unsatisfactory: _____

Comments:

5. What was the caliber of personnel provided to you to carry out the above mentioned assignments

Excellent: _____ V. Good: _____ Good: _____ Satisfactory: _____
Unsatisfactory: _____

Comments:

6. How were the recommendations received by your organization. Did you initiate actions to adhere to all the recommendations as laid out in the report.

Yes: _____ No: _____

If no, what were the barriers

7. How useful were these studies in assisting you in carrying out the privatization of the corporation/assets. If not privatized yet, how useful will the USAID financed assistance be in helping you privatize the entity/asset being assisted.

Very useful: _____ Moderately useful: _____
Maybe useful: _____ Less useful: _____

Comments:

8. How would you rate the time lapse between request for assistance and start-up?

30-60 days: _____ 60-90 days: _____
More than 90 days: _____

Was the above acceptable Yes: _____ No: _____

If no, please explain

9. How would you rate the time lapse between start-up and receipt of final report

|Studies/Time in days—> 30-45 45-60 60-90 90 & more

1. Valuation Studies
2. Privatization Strategy Study
3. Marketing Study
4. Others

Was this acceptable, if not, what would you have preferred:

10. Have you accessed other forms of technical assistance made available through World Bank, IFC, UNDP, ADB or others relative to privatization

If yes, indicate the source and type of assistance provided

Source

Type of assistance provided

11. What kind of assistance was received. Please list some of the areas where this assistance was provided

12. What was the reason for choosing assistance from these agencies over that provided through the USAID project.

13. How would you rate assistance provided through USAID with assistance provided from other agencies that might have helped you in your privatization efforts

Much better than others: _____

Slightly better than others: _____

Same as others: _____

Less better than others: _____

If it was less better than others, please explain why?

14. If given an opportunity, would you once again use the technical assistance provided under this project

Yes: _____

No: _____

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15. What are some of the future needs that you see for your organization/entity/asset in carrying out its privatization. What kind of assistance would you be looking at acquiring from USAID in the future.

Please indicate by placing a tick mark against the areas that you would need assistance

Areas	Indicate here	Brief description
Legal	_____	
Custodial Support	_____	
Financial Restructuring	_____	
Policy Studies	_____	
Valuation	_____	
Privatization strategy	_____	
Marketing	_____	
Industry specialists	_____	
Investment bankers	_____	

Comments:

15. Have any of your staff attended workshops/training programs/conferences on privatization to acquire some of the implementation skills necessary while undertaking a privatization effort.

Yes: _____

No: _____

If yes, indicate the programs attended

16. To help you address the remaining privatizations, and you other future needs, what kind of skill would you and your employees be looking at acquiring in the near future
Please indicate the skills:

**FINAL EVALUATION OF THE USAID-FINANCED PRIVATIZATION
PROJECT**

QUESTIONNAIRE FOR IQC FIRMS

Intrados/Punongbayan & Araullo have been contracted by USAID/Manila to conduct the final evaluation of the USAID-financed privatization project. In order to conduct a performance review, we would be eager to have your views on the assessment of this project. The evaluation is aimed at assisting USAID in evaluating project performance and designing a follow-on project that will be closely geared to serve forthcoming needs of the Philippines privatization program. We would very much request your assistance in completing the following brief questionnaire and returning it to us no later than _____. We appreciate your allocating some time to this questionnaire and we thank you very much for your cooperation.

Before answering the questionnaire, please provide us with the following information:

Name of the firm:

Total annual revenues

Total number of full-time staff

Full-time staff devoted entirely to USAID contract

 Professionals -

 Non-professionals-

% of total revenues earned from USAID-privatization contract

Questions

1. How and when did your firm get involved with this privatization project
2. How many assignments has your firm performed under the IQC contract?
3. How were you contacted by the Project personnel to fill each of the project assignments?
4. Did you compete with the other subcontractors to field the team
5. How would you comment on the selection process deployed by USAID project personnel

for selecting the IQC firm for a particular assignment. Was the selection process fair and reasonable.

6. Were the project personnel forthcoming in explaining to you the reasons for not having being successful for a particular project assignment that you failed to win
7. How many of the project assignments carried out by you were done by full time staff and how many by associates or intermittent employees?
8. How effective has your relationship been with the project personnel?
9. Have they been responsive to your comments and recommendations, and needs, etc.
10. How would you comment on the contracting procedure deployed by USAID for accessing your services. Were the procedures simple and streamlined or were they too complicated and time consuming.
11. Please describe the normal procedure when the project personnel received a request for a team. How did you get involved
12. What benefits have you gained by being part of this IQC arrangement and the USAID project.
13. Has this project helped you develop some core competencies, besides revenues, etc.
14. Was there an ongoing interaction between the project personnel, other IQC firms and you? What concrete actions have you suggested that directed the activities of the project and the role it has played
15. As a subcontractor, were you requested to provide an action plan for services which you feel were necessary and to defend the budget allocated to you.
16. Finally, explain the most notable consulting assignments that you undertook for the assisted company and what were some of the significant results that came out by virtue of your assistance provided to them.
17. What are your observations of the role that this project has played in assisting in privatization. Does it fulfill the needs of the Philippines government? USAID?
18. Do you think the project should continue after the lapse of its current life. Do you think there is sufficient demand from the beneficiaries for the kind of assistance that this project

has, and can, provide

19. What kind of needs does the country's privatization program have for the disposition of the remaining assets in the list of companies to be privatized, and does this present project have the capability to address those needs

20. As a consulting firm specializing in privatization, what are some of the new possible areas where privatization will be expanded to, under the auspices of the country's privatization program.

21. In the wake of the new areas that are likely to be opened up for privatization, will your firm be capable to take on further new and challenging assignments

22. What kind of activities should the USAID project focus on in the coming future?

23. How can it best be used to further the advancement of technical assistance and privatization of enterprises

APPENDIX VII

**Status of GOCCs and TAs assisted under the USAID Privatization
Project, classified by Disposition Entity**

READY FOR SALE

NOT READY FOR SALE

TYPE OF ASSISTANCE

DISPOSITION ENTITIES/ COMPANIES	READY FOR SALE						NOT READY FOR SALE		TYPE OF ASSISTANCE							
	Fully Sold	Partially Sold	Failed Bidding	For Disposition	For Dissolution	Transferred to other Dept.	For Re-Assessment by DE	With Impediments	Privatization Studies In Process	IOC FIRM	Policy Review (1)	Asset Appraisal (2)	Privatization Plan (3,4)	Valuation Study (3,4)	Impimn Plan (4)	Advisor to GOP (5)
A.APT																
1 Asiatic Integrated Corp.								x		CValdes	x					
2 Bagacay Mines									x	IPG			x	x		
3 Batong-Buhay Gold Mines									x	JCunanan	x					
4 CCP/Mcor Music Corporation				x						AYC			x	x	x	
5 Central Azucarera del Pilar x										CValdes	x					
6 DBP Data Center			x							CValdes	x					
7 Delta Motor Corp.									x	CValdes	x					
8 Domestic Satellite									x	JCunanan			x	x	x	
9 Hacienda Loco				x						JCuna	x					
10 Hercules Minerals and Otis Inc.				x						CValdes	x					
11 Independent Realty Corp.										CValdes	x					
12 Lung Center										JCunanan			x	x		
13 Manarra Cassava Flour Mill				x						CRC/	x	x				
14 Maricalum Mining			x							SGV/IPG			x	x	x	
15 Mindanao Potysack Mfg. C x										CValdes	x					
16 National Kidney Institute										JCunanan			x	x		
17 North Davao Mining				x						JCunanan/IPG			x	x		
18 Northern Foods Corporation									x	AYC			x	x		
19 Pamintuan Dev. Corp.									x	CRC	x					
20 Pantranco			x							JCunanan			x	x		
21 Phil. Amanah Bank				x						SGV			x	x		
22 Phil. Cellophane				x						CValdes	x					
23 Phil. Children Medical Center										JCunanan			x	x		
24 Phil. Fruits & Vegetable Ind., Inc.				x						AYC			x	x	x	
25 Phil. Heart Center										JCunanan			x	x		
26 Phil. Hi-Standard Mfg. Inc. x										CValdes	x					
27 Phil. National Construction Corp.								x		IPG	x					
28 Phil. Seeds Inc.		x								CValdes		x				
29 Phil. Shipyard & Engineering Corp.				x						AYC			x	x		
30 Phil. Smelters Inc.		x								CRC	x					
31 Phivideo Panay Agro-Indl Corp.				x						AYC			x	x	x	
32 PICOP				x						JCunanan/IPG			x	x		
33 Retired Servicemen Ent.				x						CValdes	x					
34 San Carlos Fruit Corporation				x						AYC			x	x		
35 Sta. Cruz Agro-Industrial Corp.								x		CValdes	x					
36 Vital Agro-Ind. Corp. x										CRC	x					
37 Ridge Resort Convention Center			x							ICCP			x	x	x	

STATUS OF GOCCs AND TAs ASSISTED UNDER THE USAID PRIVATIZATION PROJECT
CLASSIFIED BY DISPOSITION ENTITY

DISPOSITION ENTITIES/ COMPANIES	READY FOR SALE					Transferred to other Dept.	For Re- Assessment by DE	With Impediments	NOT READY FOR SALE	TYPE OF ASSISTANCE					
	Fully Sold	Partially Sold	Failed Bidding	For Disposition	For Dissolution				Privatization Studies in Process	IOC FIRM	Policy Review (1)	Asset Appraisal (2)	Privatization Plan (3,4)	Valuation Study (3,4)	Implemn Plan (4)
B. NDC															
1 Apo Production Unit				x											
2 Basin Dredging & Dev Corp			x							ICCP			x	x	
3 Batangas Land Co., Inc.										ICCP			x	x	
4 Energy Corp.									x	ICCP			x		
5 Equitable Venture Capital Corp. (VCC)									x	SGV			x		
6 FarEast VCC							x			ICCP			x		
7 GY Real Estate Inc.							x			ICCP			x		
8 Interventure VCC									x	ICCP			x		
9 Kamayan Realty Corp.							x			ICCP			x		
10 Metrobank VCC									x	ICCP			x		
11 Nadeco Realty Corp.							x			ICCP			x		
12 National Steel Corp.				x					x	ICCP			x		
13 NDC-Guthrie Estates, Inc.									x	SGV			x	x	
14 Philbancor VCC									x	ICCP			x		
15 Phil. Assoc. Smelting & Ref. Co.							x			ICCP			x		
16 Phil. National Bank VCC								x		ICCP	x				
17 Phil. Phosphate Fertilizer Corp.							x			ICCP			x		
18 Pinagkaisa Realty Corp.									x	SGV			x		
19 Producers VCC									x	ICCP			x		
20 Prudential VCC							x			ICCP			x		
21 Refractories Corp.				x						ICCP			x		
22 Republic Planters Bank VCC										SGV			x		
23 Semirara Ccal Corp.		x								ICCP			x		
										JCunanan			x	x	
C. PMS															
1 Integrated Feed Mills Corp.			x												
2 Marawi Resort			x							SGV/ICCP			x	x	
3 Mindeva Coco			x							SGV			x	x	
4 Mindeva Refrigeration Ind. x										SGV			x		
5 Monte Maria Poultry Farm x										SGV/ICCP			x	x	
6 Mountain Springs Dev Corp.								x		SGV			x	x	
										ICCP			x	x	
D. GSIS															

STATUS OF GOODS AND TA ASSISTED UNDER THE USAID PRIVATIZATION PROJECT
 CLASSIFIED BY DISPOSITION ENTITY

SGV/IPG
 AYC/ICCP

DISPOSITION ENTITIES/ COMPANIES	READY FOR SALE						NOT READY FOR SALE			TYPE OF ASSISTANCE						
	Fully Sold	Partially Sold	Failed Bidding	For Disposition	For Dissolution	Transferred to other Dept.	For Re-Assessment by DE	With Impediments	Privatization Studies in Process	IOC FIRM	Policy Review (1)	Asset Appraisal (2)	Privatization Plan (3,4)	Valuation Study (3,4)	Impmn Plan (4)	Advisor to GOP (5)
E. PNOG																
1									x				x	x		
2				x						IPG			x	x		
3				x						IPG			x	x	x	
F. DOTC																
1				x						JCunanan			x	x		
2									x	IPG			x	x	x	
3				x						JCunanan			x	x	x	
4				x						JCunanan			x	x	x	
G. NIA																
1				x						SGV			x	x		
H. BFAD																
1										CValdes	x					
I. TLRC																
1										CValdes			x	x		
J. DA																
1									x	CValdes	x					
K. National Power Corp.																
									x	IPG	x					
TOTAL = 80 COMPANIES																
	6	4	8	24	1	5	10	5	17		8	17	37	37	19	1

APPENDIX VIII

**Status of GOCCs and TAs assisted under the USAID Privatization
Project, classified by Indefinite Quantity Contractors (IQCs)**

INDEFINITE QUANTITY CONTRACTORS/ COMPANIES	DE	READY FOR SALE					FOR SALE			TYPE OF ASSISTANCE						
		Fully Sold	Partially Sold	Failed Bidding	For Dispn	For Disaln	Transferred to other Dept.	For Re-Asmnt by DE	With Imped-ments	Pvzn Studies In-Process	Policy Review (1)	Asset Appraisal (2)	Pvzn Plan (3,4)	Vain Study (3,4)	Implmn Plan (4)	Advisor to GOP (5)
1. AYC CONSULTANTS, INC. (AYC)																
1 AYC	CCP/Moor Music Corporation	APT				x							x	x	x	
2 AYC	Northern Foods Corporation	APT							x				x	x		
3 AYC	Phil. Fruits & Vegetable Ind., Inc.	APT				x							x	x	x	
4 AYC	Phil. Shipyard & Engineering Corp.	APT				x							x	x		
5 AYC	Phivideo Panay Agro-Indl Corp.	APT				x							x	x	x	
6 AYC	San Carlos Fruit Corporation	APT				x							x	x		
7 AYC/IC	Philippine Airlines	PAL Priv. Com.		x									x			x
2. CFP																
1 CFP	Phil. Assoc. Smelting & Ref. Co.	NDC								x			x			
3. CENTER FOR RESEARCH AND COMMUNICATION (CRC)																
1 CRC/CV	Manarra Cassava Flour Mill	APT				x							x	x		
2 CRC	Pamintuan Dev. Corp.	APT								x			x			
3 CRC	Phil. Smelters Inc.	APT		x									x			
4 CRC	Vital Agro-Ind. Corp.	APT	x										x			
4. CARLOS J. VALDES & CO. (CVALDES)																
1 CValdes	Asiatic Integrated Corp.	APT									x			x		
2 CValdes	Central Azucarera del Pilar	APT	x											x		
3 CValdes	DBP Data Center	DBP			x									x		
4 CValdes	Delta Motor Corp.	APT									x			x		
5 CValdes	Hercules Minerals and Oils Inc.	APT				x								x		
6 CValdes	Independent Realty Corp.	APT							CARP					x		
7 CValdes	Mindanao Polysack Mfg. Corp.	APT	x											x		
8 CValdes	Phil. Cellophane	APT				x								x		
9 CValdes	Phil. Hi-Standard Mfg. Inc.	APT	x											x		
10 CValdes	Phil. Seeds Inc.	APT		x										x		
11 CValdes	Retired Servicemen Ent.	APT				x								x		
12 CValdes	Sta. Cruz Agro-Industrial Corp.	APT								x				x		
13 CValdes	Philippine Fisheries Devt. Authority - 30 Cold Storage Plants	BFAD				x								x		
14 CValdes	Food Terminal Inc.	DA									x			x		
15 CValdes	People's Livelihood Enterprises Inc.	TLRC					x							x	x	

STATUS OF GOCCs AND TAs ASSISTED UNDER THE USAID PRIVATIZATION PROJECT
CLASSIFIED BY INDEFINITE QUANTITY CONTRACTORS

INDEFINITE QUANTITY CONTRACTORS/ COMPANIES	DE	READY FOR SALE						NOT READY FOR SALE			TYPE OF ASSISTANCE					
		Fully Sold	Partially Sold	Failed Bidding	For Dispn	For Disln	Transferred to other Dept.	For Re-Asmnt by DE	With Imped-ments	Pvzn Studies In-Process	Policy Review (1)	Asset Appraisal (2)	Pvzn Plan (3,4)	Valn Study (3,4)	Implm Plan (4)	Advisor to GOP (5)
5. INVESTMENT & CAPITAL CORP. OF THE PHILIPPINES (ICCP)																
1 ICCP	Apo Production Unit	APT														
2 ICCP	Basin Dredging & Dev Corp	APT											x	x	x	
3 ICCP	Batangas Land Co., Inc.	NDC											x	x	x	
4 ICCP	Equitable Venture Capital Corp. (VC)	NDC										x	x			
5 ICCP	FarEast VCC	NDC						x					x	x		
6 ICCP	GY Real Estate Inc.	NDC						x					x	x		
7 ICCP	Interventure VCC	NDC										x	x			
8 ICCP	Kamayay Realty Corp.	NDC						x					x	x		
9 ICCP	Metrobank VCC	NDC											x	x		
10 ICCP	Nadeco Realty Corp.	NDC						x					x	x		
11 ICCP	Philbancor VCC	NDC											x	x		
12 ICCP	Phil. National Bank VCC	NDC						x					x	x		
13 ICCP	Pinagkaisa Realty Corp.	NDC											x	x		
14 ICCP	Producers VCC	NDC											x	x		
15 ICCP	Prudential VCC	NDC						x					x	x		
16 ICCP	Republic Planters Bank VCC	NDC						x					x	x		
17 ICCP	Ridge Resort & Convention Center	APT											x	x		
18 ICCP	Mountain Springs Dev Corp.	PMS											x	x	x	
19 ICCP/AYC	Philippine Airlines	PAL Priv. Com.											x	x	x	
																x
6. IPG																
1 IPG	Begacay Mines	APT											x	x		
2 IPG	Phil. National Construction Corp.	APT							x				x	x		
3 IPG	Metro Rail Transit Corp.	DOTC											x			
4 IPG	National Power Corp.												x	x	x	
5 IPG	Malangas Coal	PNOG											x			
6 IPG	PNOG Marine Corp.	PNOG											x	x	x	

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READY FOR SALE

NOT READY FOR SALE

TYPE OF ASSISTANCE

INDEFINITE QUANTITY CONTRACTORS/ COMPANIES

7. JOAQUIN CUNANAN & CO. (JCUNANAN)

	DE	Fully Sold	Partially Sold	Failed Bidding	For Disp	For Dissin	Transferred to other Dept.	For Re-Asmnt by DE	With Imped-ments	Pvzn Studies In-Process	Policy Review	Asset Appraisal	Pvzn Plan	Vain Study	Implm Plan	Advisor to GOP
											(1)	(2)	(3,4)	(3,4)	(4)	(5)
1 JCunan	Batong-Buhay Gold Mines	APT								x		x				
2 JCunan	Domestic Satellite	APT								x			x	x	x	
3 JCunan	Hacienda Looc	APT			x						x					
4 JCunan	Lung Center						DOH						x	x		
5 JCunan	National Kidney Institute						DOH						x	x		
6 JCunan	North Davao Mining	APT			x								x	x		
7 JCunan	Pantranco	APT		x									x	x		
8 JCunan	Phil. Children Medical Center						DOH						x	x		
9 JCunan	Phil. Heart Center						DOH						x	x		
10 JCunan	PICOP	APT			x								x	x		
11 JCunan	Metro Manila Transit Corp.	DOTC			x								x	x		
12 JCunan	Phil. Aerospace Dev. Corp.	DOTC			x								x	x	x	
13 JCunan	Phil. Helicopter Services Inc.	DOTC			x								x	x	x	
14 JCunan	Semirara Coal Corp.	NDC	x										x	x		

8. SGV CONSULTING (SGV)

1 SGV/IPG	Mericalum Mining	APT		x									x	x	x	
2 SGV	Phil. Amanah Bank	APT			x								x	x		
3 SGV/IPG	Manila Hotel	GSIS			x								x	x	x	
4 SGV	Energy Corp.	NDC								x			x	x		
5 SGV	National Steel Corp.	NDC			x								x	x	x	
6 SGV	NDC-Guthrie Estates, Inc.	NDC								x			x	x		
7 SGV	Phil. Phosphate Fertilizer Corp.	NDC								x			x	x		
8 SGV	Refractories Corp.	NDC			x								x	x		
9 SGV	N/A Consult	N/A			x								x	x		
10 SGV/ICCP	Integrated Feed Mills Corp.	PMS		x									x	x	x	
11 SGV	Marawi Resort	PMS		x									x	x	x	
12 SGV	Minda Coco	PMS		x									x	x		
13 SGV/ICCP	Minda Refrigeration Ind. Inc.	PMS	x										x	x	x	
14 SGV	Monte Maria Poultry Farms, Inc.	PMS	x										x	x	x	
1	Filfil Industrial	PNOC								x			x	x		

TOTAL = 80 COMPANIES	6	4	8	24	1	5	10	5	17	8	17	37	37	19	1
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APPENDIX IX

Summary of Team Findings

SUMMARY OF TEAM FINDINGS

S.NO	ANALYSIS CRITERIA AND FINDINGS	OBJECTIVELY VERIFIABLE INDICATORS
1.	<p>ECONOMIC & FINANCIAL ANALYSIS</p> <ul style="list-style-type: none"> - The project has reinforced the GOP's privatization policy by assisting the GOP in the process of divesting or moving to the point of sale selected GOCCs & TAs. This has helped the government earn revenues and improve the budget position. - GOP has been able to realize significant financial gains from the project. - Proceeds from divestiture have now far exceeded the project's financial cost of US\$ 9.78 million (approximately P2.5 billion) <p>Though the immediate economic benefits of some of the recently privatized USAID-assisted accounts may not be visible, in the long run they will help in creating unquantifiable forward and backward linkages as a result of the operation of these entities.</p>	<ul style="list-style-type: none"> - The Project effectively assisted 11 DEs including the PAL ad-hoc Privatization Committee in advancing 80 accounts at various degrees of readiness for sale and, in some cases, resolved the status of the GOCC or TA. - Of the 80 accounts assisted: <ul style="list-style-type: none"> * 6 fully sold * 8 bidded out without success * 1 is for dissolution * 10 are for further review by the disposition entities * 5 have been identified as having impediments * 17 have on-going assisted studies awaiting completion * 4 partially sold * 24 are ready for bidding * 5 transferred to another government unit - Out of a total of P51.3 billion of revenues generated by the country's privatization program, USAID project has assisted in the privatization of accounts worth P9.7 billion. This amount is more than 4 times the financial costs of implementing the project. - Total USAID project contribution as a % of total GOP sales - 19.1% - Project provided assistance for the successful privatization of PAL- the largest privatization transaction undertaken by the government. The transaction yielded a total profit of US\$82 million to the government. - Revenues generated by the government on the privatization of PAL alone have accounted for more than 40% of all GOCC dispositions in the last five and a half years. - Revenues expected from sales of USAID-assisted accounts in the latter half of 1992 and 1993 are expected to be close to P6 billion . - Indicators to verify these benefits include: <ul style="list-style-type: none"> <u>for PAL:</u> <ul style="list-style-type: none"> * New investment in the airline through acquisition of new aircraft. * Expansions in the international network through additions of new destinations * Cost control measures adopted to bring down operating expenses thereby increasing profitability and enhancing return on equity. * New fiscal revenues that will be generated for the government through taxes. * Increase in foreign exchange earnings through boost in tourism industry brought over by gaining access to international tour organizations and globalized ticketing networks. <u>for PMS Accounts-Mindeva Refrigeration</u> <ul style="list-style-type: none"> * Privatization is helping turn a non-operational entity into a fully operational one. * Savings in custodial costs being realized by PMS. <u>Maria Poultry Farms</u> <ul style="list-style-type: none"> * Buyer assumed all the debts of the enterprise. * Investment of 3 million pesos to upgrade facilities has led to 30% increase in capacity.

SUMMARY OF TEAM FINDINGS

S.NO	ANALYSIS CRITERIA AND FINDINGS	OBJECTIVELY VERIFIABLE INDICATORS
2.	<p>ADMINISTRATIVE ANALYSIS</p> <ul style="list-style-type: none"> - Properly orchestrated efforts undertaken by PESO's project personnel and DOF's Privatization Office to anticipate the real needs of the privatization effort in the context of the Philippine scenario and address those needs effectively within the range of assistance menus allowed by the project design. - Increasing number of disposition entities that have sought the assistance available through the project. - High level of utilization of assistance available through the project. 	<ul style="list-style-type: none"> - 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 - 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. - 11 out of a total of 14 DEs of Government Owned or Controlled Corporations (GOCCs) and Transferred Assets (TAs) as well as the ad hoc Philippine Airlines Privatization Committee tapped and are tapping from the Project's Grant funds. - Major assistance efforts rightly focused on APT, GSIS, NDC and PMS as they control over 86% of the accounts-- to be privatized-- in terms of liquidation values. - 80 GOCCs and TAs have sought and obtained funding for a wide range of technical assistance as encompassed in the Project Design.
3.	<p>SOCIAL SOUNDNESS ANALYSIS</p> <ul style="list-style-type: none"> - Majority of the privatizations carried out have involved very little or no employment dislocation. - Inability of the project to assist DEs in their objectives of allocating assets to small scale investors, and allowing for a broader distribution of ownership. 	<ul style="list-style-type: none"> - None of the accounts assisted by the USAID project have been privatized through the capital market setting. - Privatization of PMS accounts - Mindeva Ref. Industries and Mt. Maria Poultry Farms have had a particularly positive impact on employment. Privatization of Mindeva has helped turn a non-operational entity into one that is being fully rehabilitated to become operational towards the end of the year, thereby providing for jobs. Expansion of plant capacity in Maria Poultry has led to more jobs. The total number of new jobs created are not known at this time.

S.NO	ANALYSIS CRITERIA AND FINDINGS	OBJECTIVELY VERIFIABLE INDICATORS																				
4.	<p>TECHNICAL ANALYSIS</p> <p>- The project allowed for the provision of a wide range of support required in the entire activity cycle of privatization.</p> <p>* The beneficiaries were utilizing funds for simple to the most complex types of assistance requiring wide range in levels of effort required.</p> <p>* Project assistance has included the provision of technical assistance to some of the recently privatized big ticket accounts as well as those likely to be privatized soon.</p> <p>* The IQC mechanism and the pre-qualification of the six IQC firms-- five Filipino and one international-- has afforded beneficiaries access to the best consulting firms in the Philippines that otherwise would not have been interested if contracting procedures of the government were utilized.</p> <p>* Though the Project has been successful in achieving its subordinate but nonetheless essential objectives of assisting the Beneficiary Accounts readied for sale, there is need for providing strategic guidance towards actually selling GOCCs and TAs- as well as carrying out each of the Project's main objectives.</p>	<p>- The 82 requests and subsequent grants provided involved the following types of assistance:</p> <ul style="list-style-type: none"> * asset appraisal - 17 * valuation study w/privatization strategy - 37 * valuation study w/privatization strategy and implementation - 19 * policy/operational studies - 8 * Advisory - 1 <p>- Dollar values of level of assistance provided by the USAID project:</p> <table border="1" data-bbox="940 571 1632 817"> <thead> <tr> <th rowspan="2">Studies/Type of Assistance</th> <th colspan="2">In US Dollars</th> </tr> <tr> <th>Low</th> <th>High</th> </tr> </thead> <tbody> <tr> <td>a. Studies</td> <td>14,700</td> <td>77,600</td> </tr> <tr> <td>b. Policy Review</td> <td>39,000</td> <td>250,000</td> </tr> <tr> <td>c. Asset Appraisal</td> <td>3,200</td> <td>73,800</td> </tr> <tr> <td>d. Valuation and Privatization Plan</td> <td>1,500</td> <td>79,800</td> </tr> <tr> <td>e. Valuation, Privatization Plan & Implementation</td> <td>13,100</td> <td>262,000</td> </tr> </tbody> </table> <p>- Privatized Big-ticket Accounts - Philippine Airlines</p> <p>- Big-Ticket Accounts to Be Privatized in the Future - Petron, NSC, Philphos, and PASAR, etc.</p> <p>- The IQC firms (5 local and 1 U.S. based) providing assistance on this project have been: a) SGV Consulting, b) Joaquin Cunanan & Co., c) Carlos J. Valdez & Co., d) AYC Consultants, Inc., e) Investment and Capital Corporation of the Philippines, and f) International Privatization Group, Price Waterhouse.</p> <p>- Only 10 accounts have been fully or partially sold, whereas 32 accounts are ready for bidding/rebidding.</p>	Studies/Type of Assistance	In US Dollars		Low	High	a. Studies	14,700	77,600	b. Policy Review	39,000	250,000	c. Asset Appraisal	3,200	73,800	d. Valuation and Privatization Plan	1,500	79,800	e. Valuation, Privatization Plan & Implementation	13,100	262,000
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SUMMARY OF TEAM FINDINGS

S.NO	ANALYSIS CRITERIA AND FINDINGS	OBJECTIVELY VERIFIABLE INDICATORS
S.No	ANALYSIS CRITERIA AND FINDINGS	OBJECTIVELY VERIFIABLE INDICATORS
	<p>TECHNICAL ASSISTANCE (Continued)</p> <p>- 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 defined by the limitations of the pre-selected IQCs' available skills.</p> <p>- Since the original project design did not envision a financial type of assistance for the privatization effort, this does not impugn the results of the program thus far generated. Requirements for investment banking services for big ticket items which appear to be the emerging future needs could potentially be provided in the event a second phase of this privatization program is evolved after December 1992.</p>	<p>- Notwithstanding the foregoing, areas pinpointed by the DEs for possible variation in the kind of assistance were:</p> <p>* for APT: disposition of entities with legal impediments or financial encumbrances although, in the case of the latter, the project design did not envisage a financial component to the scope of assistance</p> <p>* for NDC: specialized valuation skills for plantation not readily available within the resource capability of existing IQCs; this should not pose an impediment to NDC in using "host country contracting " for this specific need : also singled out are marketing and financial skills, investment banking skills for big ticket accounts like Pasar, Philphos, NSC, etc</p> <p>* for PNOC: investment banking skills for big ticket items also like their shipyard, coal — mining and refinery businesses.</p>

APPENDIX X

PAL Privatization- A Case Study

PRIVATIZATION OF THE PHILIPPINE AIRLINES (PAL): A CASE STUDY

Background

The privatization of PAL was one of the earliest and most prominent entities on the list of GOCCs that were selected by COP for privatization when the privatization program was launched in December 1986. GSIS, the parent corporation of the airline, was given the task of developing and executing a privatization plan for PAL. PAL was among a list of six GOCCs under GSIS designated for privatization. The first in the series of efforts towards privatizing the airline was initiated in the early part of 1988 when GSIS and board members of PAL commissioned a privatization feasibility study of the airline funded by the Asian Development Bank.

GSIS & Its Role As a Disposition Entity

GSIS was initially charged with the responsibility of disposing of PAL. As a disposition entity, it was asked to draw the privatization plan for the company and undertake the actual marketing of the said account.

GSIS lacked the political commitment to go ahead with the privatization. It was a parent corporation, not a disposition entity; therefore, GSIS personnel found it difficult to detach themselves from the management of the airline. For years, they had controlled and directed the functioning of an enterprise that worked under monopolistic conditions and was part of a very strategic industry. Privatization of PAL would remove all the authority that these officials exercised as board members and managers. GSIS, as an entity, was very influential, and used all possible political, ideological, and social reasons to forestall the privatization process. GSIS authorities expressed total dissatisfaction with the decision to open up the airline industry to the private sector, and therefore, took all steps to challenge and undermine the entire apparatus for the country's privatization program.

This stalemate continued for over three years, when the privatization program had completed more than half of its stipulated life. Also, the government, riddled by a heavy debt burden, started to look for alternate ways to ease the debt overload for the company.

Accessing IFC Services: The First Sincere Step Towards Privatization

In early 1990, the board of PAL hired the services of IFC to undertake the Phase I work program that would provide the basis for developing the Privatization Action Plan. This review would draw on the information already gathered by previous studies done under ADB auspices and within PAL and would expand the analytical base on the prospects of the airline industry in the region.

Over the years of its operations, PAL had acquired a wide range of problems, particularly relating to its large asset base and high level of indebtedness that included about P12 billion equivalent of government-guaranteed foreign loans. IFC was asked to address key financial and business issues relating to its highly leveraged capital structure and negative net worth, its regulatory environment, fleet structure and operational efficiency, and comparative operating costs, among others. Specifically, IFC's responsibility was to develop an Action Plan that would provide the board of PAL with the following:

- a. A fair market value of all the assets owned outrightly by PAL, or over which the company had specific rights.
- b. A viable strategy for restructuring and reducing the company's debt obligations. The Action Plan would include the presentation of a debt restructuring and reduction strategy most likely to enhance the total value of the airline, conform to the government's debt-management goals and protect present shareholders' interests.
- c. Recommendations on a suitable corporate structure and its associated implementation plan.
- d. Review of PAL's operating assumptions and plan.
- e. Review of regulatory and tax policies affecting competitiveness and profitability of airline operation.
- f. A strategy for attracting investors, which also included the study of the feasibility of ESOPs.
- g. Recommendations on the kind and level of government participation in a privatized airline.

IFC performed an exhaustive study of the airline in 1990-91, that provided a detailed review of all the aspects of airline operations and made specific recommendations to the board of PAL. The recommendations included an outline of the major tasks that would have to be performed in Phase II at a later date. These tasks constituted a practical blueprint for how to proceed with the privatization of PAL. Among IFC recommendations, for PAL to be deemed as attractive by investors, the airline's US\$500 million debt exposure would have to be assumed by government.

Tackling the Debt Issue

The government started to take the PAL privatization seriously. In view of the huge debt problems associated with PAL, and the stalling tactics used by GSIS towards its airline's privatization, the government decided to deal with this issue first hand. The magnitude of this whole exercise called for a more forceful initiative than that enjoyed by COP in executing privatization. The COP decided to move the responsibility of disposing of PAL from the GSIS to the PAL Privatization Committee.

The PAL Privatization Committee

The possibility of transferring PAL to another disposition entity, such as APT, would not have been possible because of the high level of intervention needed. A transfer could be made if PAL creditors could persuade GSIS to dilute its stake in exchange for debt forgiveness. Recognizing that the Central Bank and the DOF held huge claims against PAL, the government set up a high powered committee composed of the Secretary of Finance, the Governor of the Central Bank, and the President of the GSIS to work out a plan for the resolution of the debt issue. The committee's objective was to find a way to convince GSIS to dilute its ownership of PAL in exchange for government assuming its debt obligations of over US\$512 million. The committee was given the responsibility to oversee the implementation of PAL's privatization.

The airline had a negative networth; therefore, there was little that GSIS could do to keep its hold on PAL. As remarked by a senior official in the Department of Finance, "it was really a creditors' game, and GSIS really had no claim on the assets of PAL." Realizing that there were no convincing arguments it could make, the board of PAL and GSIS executives finally yielded to the overtures of the committee.

The committee and GSIS adopted a proposal in which the government shall assume US\$ 512 million face value of the airline's debts owed by GSIS/PAL in exchange for 80% of the control of the airline. Pursuant to Proclamation No. 50, the COP endorsed the proposal to the President's office for the grant of an administrative order authorizing the approval of the transfer of PAL debt to the government in exchange for PAL shares. The Department of Justice (DOJ) was also consulted for its legal opinion on the transfer before signing of the administrative order. Finally, the concurrence was given by the President's office.

JP Morgan, which was earlier chosen as the financial advisor to PAL/GSIS, was charged with handling the block sale to foreign and local investors.

The Role of the USAID Project

In order to ascertain the validity of PAL's privatization plan, and also to provide recommendations to PAL for the implementation of the transaction, COP chose to seek the assistance of the USAID privatization project. ICCP, an investment banking firm holding an IQC contract with USAID, was called upon to offer the required assistance to COP. The person leading the ICCP team was an ex-undersecretary in the Department of Finance, who had earlier been closely associated with the country's privatization program. His experience working in privatization on behalf of the government, followed by his work in this field as a private sector investment banker, brought in the added dimension to the PAL transaction. He understood the intricacies of the privatization process, as well as the relationships between all the major players in this effort. His contributions were useful not only to COP, but also to the PAL management implementing the transaction. He brought with him considerable amount of experience in implementing privatization transactions in the context of the Philippines. On his behest, many of the implementation activities, as suggested by JP Morgan-- advisor to PAL/GSIS-- were fine tuned to cater to the local market in the Philippines.

This individual not only demonstrated extraordinary capability to see through the intricacies of a transaction, but also displayed the ability to efficiently deal with the members of the special privatization committee and other government officials. His presence in the implementation and execution of the privatization transaction was very valuable. Had there been no USAID project, it would have been difficult for COP to access the services of a firm that had a significant role to play in the PAL privatization.

The role of the USAID project was not restricted to providing the above-mentioned assistance. Once the mode of privatization was determined, it became necessary that a due diligence review be carried out for the airline to assist the Government in authenticating PAL's records. As this was also necessary for the interested investors, DOF approached USAID for this crucial assistance. This service was provided through one of the auditing firms that was part of the IQC arrangement.

PAL Goes on the Block

Towards the end of 1991, the government issued solicitations inviting all the interested parties to bid for 67% of the airline. A total of 670 million shares were to be offered for privatization through a bidding process. The solicitation mandated the need for consortia to bid for the purchase of PAL, as it required that all those bidding for PAL have significant experience in the management and running of a professional airline. The consultants took the show on the road to promote the sale of the airline to prospective investors around the world.

PAL Attracts Prominent Local Investors and Higher Than Anticipated Bid Prices

On January 30, 1992, the public bidding for 67% of government-held PAL shares was held. Three investor groups led by: i) AB Capital Corporation (AB Capital), ii) Philippine Commercial and International Bank (PCIB) and iii) Union Bank of the Philippines (UBP) participated in the bidding. The shares were awarded to the AB Capital consortium for its winning bid of US\$419 million, which was 31% higher than the hurdle price of US\$319 million. The investor group led by PCIB ranked second with an offer of US\$370 million, followed by the UBP group with its offer of US\$217 million. These bids were over and above a fixed peso component of P4 billion.

The winning consortium is headed by Antonio Cojuangco, Chairman of PLDT, and Andres Soriano, III, Chairman of San Miguel Corporation. Korean Airlines, as the technical advisor in the consortium, will offer all the strategic guidance necessary to efficiently run airline operations.

Benefits Accrued To The Government Through PAL Privatization

What were the immediate benefits accrued to the government by this deal? It was the largest transaction undertaken and yielded a total profit of P2.17 billion (US\$82 million) through the sale of a liquified asset. Sales revenues generated through its disposition alone have accounted for more than 40% of all successful dispositions of GOCCs by the government in the last 6 years. The sales agreement prevents AB Capital Corporation from divesting its shares in PAL for three years, and the airline from issuing new shares that would dilute the government's stake. This alleviates the government's concerns with regards to the intentions of the buyer to own this company for the long haul.

Although not enough time has passed to measure the actual economic benefits of this privatization, estimates derived from plans and recent initiatives of the new owners indicate the following:

- o Privatization is helping in professionalizing the airline as the new owners have a tie-up with Korean Air, which is an efficient and well run airline. Also, professional managers are being hired for key positions. A former chief operating officer of Trans World Airways (TWA) has been appointed as the airline's chief executive officer.
- o The owners are making new investments in the airline through acquisition of new aircraft.
- o Expansions in the international network through additions of new destinations, namely Japan and elsewhere has been taking place.

o Cost control measures recently adopted by the firm have begun paring down operating expenses, while lower interest rates should reduce financing charges. Other measures, such as the use of long-haul aircraft to eliminate intermediate stops and cut fuel costs, and improved systems, should also boost the airline's profitability.

o New fiscal revenues will be generated for the government through taxes.

o Although the results may not be immediately apparent, the privatized airline will help in boosting the tourism industry by gaining access to international tour organizations and globalized ticketing networks. The airline has already begun promoting itself aggressively, an important requirement for success in this highly competitive industry.

Conclusions

The privatization of PAL has given a boost to the country's privatization program. Its successful privatization has made it clear that even an enterprise with all its problems-- large asset value; large indebtedness; complexity of operations; need for mobilizing consortium-type potential buyers; and political sensitivity-- can be sold if there is greater determination on the part of all those implementing privatization. The PAL privatization has generated an aura of optimism among various disposition entities in their privatization scenarios for big ticket but very difficult accounts such as Philphos, PASAR and others.