

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: PHCO

TA No., Country, and Name: TA 4809-PHI: Government-Owned and -Controlled Corporations Reform			Amount Approved: \$750,000	Revised Amount: N/A
Executing Agency: Department of Finance (DOF)		Source of Funding: TASF	Amount Undisbursed: \$9,787	Amount Utilized: \$740,213
TA Approval Date: 29 June 2006	TA Signing Date: 20 July 2006	Fielding of First Consultant(s): 19 January 2007	TA Completion Date	
			Original: 31 March 2008 Actual: 15 July 2008	
			Account Closing Date	
			Original: 31 March 2008	Actual: 31 October 2008

Description:

There has been a large number of state-owned enterprises in the Philippines called Government-owned and/or –controlled Corporations (GOCC). Their mandate, in general, includes either socially-oriented responsibilities (like stabilization of food supply) or the provision of basic services, such as transport, water, power, housing; some GOCCs also support developmental and pioneering activities, including financing. The Department of Finance (DOF) is responsible for monitoring GOCCs' financial performance.

GOCCs' effectiveness and efficiency have been rather problematic due to weaknesses in the institutional and regulatory frameworks, low capacity, and inadequate coordination of GOCCs working in the same sector. As a result, most GOCCs have been incurring financial losses, which had to be covered by the budget directly (e.g., subsidies) or indirectly (e.g., credit guarantees). Direct budget financing of the GOCCs in 2000-2004 amounted to P80.4 billion, which contributed to fiscal deficits. In 2000-2004 on average GOCC's debt was 1/3 of the total public debt.

Against this background, GOCC reform was seen as a key element of the Government's fiscal consolidation program. ADB's 2005-2007 Country Strategy and Program for the Philippines had identified fiscal consolidation as one of major reform areas to be supported by ADB. Therefore, ADB provided, based on the Government's request, technical assistance (TA) support to improve efficiency and effectiveness of GOCCs. This TA complemented ADB TA project on debt and risk management (TA 4717-PHI: Technical Assistance to the Republic of the Philippines for Debt and Risk Management), and assistance provided by the World Bank, AusAID, and USAID through their GOCC-related programs.

Expected Impact, Outcome and Outputs:

TA's impact was macroeconomic stability through fiscal consolidation to be achieved by improved financial performance of selected GOCCs. In the medium term, the TA was to provide the primary building blocks to strengthen the oversight functions of the national Government over GOCCs, and improve GOCC's internal control and management systems.

TA's specific objectives were to support reforms in financial performance and monitoring of GOCCs, including (i) identifying improvements in the operations of selected GOCCs that will have immediate positive financial impact; (ii) developing performance criteria, targets, and contracts for selected GOCCs and identifying financial and nonfinancial incentives/rewards and penalties; and (iii) strengthening financial performance review and monitoring of the GOCCs, and improving the DOF's data banking system for the GOCCs.

TA's outputs were in-depth reviews (with specific recommendations) of (1) the organization, operations (including financial), policies, and procedures of the selected GOCCs, and (2) the existing tools and parameters used by the DOF in (2.1) monitoring and assessing the fiscal and financial performance of the GOCCs, (2.2) evaluating GOCC projects and loan/guarantee proposals, and (2.3) the data banking system at the Corporate Affairs Group (CAG) of DOF.

The TA initially targeted six GOCCs (Bases Conversion Development Authority, Home Insurance Guaranty Corporation, Philippine National Oil Company, Light Rail Transit Authority, Philippine National Railways, and Small Business Guarantee Fund Corporation) selected in consultation with the DOF on the basis of (a) the magnitude of existing government exposure to them in terms of budgetary support and guarantee exposure; (b) potential government exposure; and (c) their increasing involvement in activities normally performed by the private sector. These six GOCCs, however, were selected in the interim subject to confirmation at TA inception by DoF, which could substitute them with other GOCCs or take them out of the list.

The DOF was the Executing Agency (EA) with an interagency steering committee (formed and chaired by DOF) to oversee TA progress and implement recommendations. This interagency steering committee included the National Economic and Development Authority (NEDA), the Department of Budget and Management (DBM), Office of the President, and the selected GOCCs and their respective supervising agencies.

Delivery of Inputs and Conduct of Activities:

An international consulting firm was engaged by ADB to implement the TA with the cost slightly below the estimated budget of \$750,000.

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

The international firm worked in association a local consulting firm. A total of 64 person-months (28 international and 36 national) of consulting services were used as envisaged. A contract variation was issued to replace two national consultants due to conflict of interest. Various workshops, trainings, and consultation meetings were conducted to inform the supervising agencies of the selected GOCCs, oversight agencies, and other stakeholders of the results and findings of the consultants' work at different stages, and to generate feed-back. The quality and quantity of consultancy, workshops, trainings, and other inputs have been adequate. The consulting firm and its local associate demonstrated good knowledge of the international best practice in public corporate sector reform, and had Philippines-specific background in the GOCC sector. The consultants produced implementation-ready recommendations. Given this, performance of the consulting firm has been rated as excellent.

To achieve coordination among various stakeholders involved in the TA, DOF established a technical group (TG) for TA implementation with presidents of the selected GOCCs as members and Secretary of Finance as the head. The TG met regularly with consultants. As the EA, DOF performed satisfactorily. ADB's performance is also rated satisfactory due to close supervision from the Philippines Country Office (PhCO), which also facilitated coordination among development partners (DPs) that were providing technical assistance to selected other GOCCs.

Evaluation of Outputs and Achievement of Outcome

During the January-February 2007 TA inception mission the following four GOCCs were selected by DOF as pilots: (i) Light Rail Transit Authority (LRTA), (ii) Philippine National Railways (PNR), (iii) National Development Company (NDC), and (iv) Home Insurance Guaranty Corporation (HGC). DOF attributed the selection to the preparedness of these GOCCs for review under the TA. Despite the reduction in the number of GOCCs, the scope of the consultant's work did not change as the in-depth analysis of the NDC, which is an umbrella GOCC and which was not in the initial list of GOCCs, required above-average consultancy time, and actual per-GOCC required consultancy effort was found to be higher than anticipated.

All four selected GOCCs were extensively reviewed in terms of their mandates, governance and management practices, relevance of products and/or services and operational performance. In order to strengthen commitment, the consulting firm (in coordination with ADB and participation of DPs) carried out a series of workshops with GOCCs at various stages of TA implementation. Special briefing was held by the consulting firm for the Secretary of Finance on February 27, 2008, where the findings and recommendations of the TA were presented and discussed. As a result, CAG was instructed to follow up on the recommendations using DoF's own resources. The CAG-related recommendations of the TA were included in the DOF's draft rationalization program.

A comprehensive final report with detailed analysis was submitted in March 2008. Among the key recommendations are merging of GOCCs working in the same sector (like in Metro Manila Rail sector – LRTA and PNR), and gradual closure or privatization of NDC and HGC. The report included ready-to-adopt documents, such as draft Implementing Guidelines for the GOCCs' Performance Evaluation System (PES) and draft Administrative Order on the Corporate Governance Council (CGC) to ensure interdepartmental coordination. The proposed PES includes, among other things, clear indicators/criteria for each of the 4 pilot GOCCs. The report also identified functions of the government agencies to better supervise the selected GOCCs. There are draft templates for standard financial tools, indicators and/or ratios for monitoring and evaluation, and recommendations to improve the data banking and information management system in the report. TA component on reviewing DOF systems to evaluate GOCCs' project and loan/guarantee proposals was dropped to accommodate DOF request for a more comprehensive PES work and also in view of a separate TA on debt and risk management provided by ADB. Overall, the analysis carried out and the suggested recommendations have been of good quality, timely and appreciated by the stakeholders.

Overall Assessment and Rating:

The TA can be considered successful as it achieved its objectives in supporting the GOCC reform via detailed analysis and recommendations. Its impact would be achieved once the recommendations on the selected GOCCs and DOF's oversight function are implemented.

Major Lessons:

Given the large number of GOCCs and parallel assistance from DPs it was critical to closely coordinate TA's activities with other DPs to ensure that there was no overlap, duplication or contradiction in support and advice provided to various GOCCs and to the CAG.

The momentum in implementing the TA recommendations waned with the TA closure. With the benefit of hindsight the TA would have a better chance of achieving the intended impact if it had been a part of a comprehensive government program to reform the GOCC sector. Availability of such a program would also enable ADB and DPs to use their assistance to programmatically support the GOCC sector reform.

Recommendations and Follow-Up Actions:

Follow-up actions can be taken in the following areas: (i) improving corporate governance (e.g., GOCC board membership reform, establishment of hard budget constraints for GOCC, rationalization of the project portfolio of GOCCs); (ii) strengthening oversight of GOCCs (e.g., still pending approval and implementation of PES, creation of CGC, performance contracts with GOCCs); and (iii) improving operations of the four selected GOCCs (e.g., rationalization of the Metro Manila Rail system, disposition of the NDC and HGC, LRTA tariff adjustments). Some of these measures (with potentially high return) are difficult and costly to implement and may require assistance for capacity building at the CAG, Department of Transport and Communication, and the 4 selected GOCCs, and for jump starting the PES.

Prepared by: Aziz Haydarov

Designation: Young Professional (Economics)