



Technical Assistance Report

Project Number: 39606
June 2006

Republic of the Philippines: Government-Owned and -Controlled Corporations Reform

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 May 2006)

| | | |
|---------------|---|----------|
| Currency Unit | – | peso (P) |
| P1.00 | = | \$0.019 |
| \$1.00 | = | P52.62 |

ABBREVIATIONS

| | | |
|------|---|--|
| ADB | – | Asian Development Bank |
| CAG | – | Corporate Affairs Group |
| DBM | – | Department of Budget and Management |
| DOF | – | Department of Finance |
| GOCC | – | government-owned and -controlled corporation |
| PCEG | – | Presidential Committee on Effective Governance |
| TA | – | technical assistance |

TECHNICAL ASSISTANCE CLASSIFICATION

| | | |
|---------------------------------|---|---|
| Targeting Classification | – | General intervention |
| Sector | – | Law, economic management, and public policy |
| Subsector | – | Economic management |
| Themes | – | Governance, capacity development |
| Subthemes | – | Financial and economic governance, organizational development |

NOTE

In this report, "\$" refers to US dollars

| | |
|-------------------------|---|
| Vice President | C. Lawrence Greenwood, Jr., Operations Group 2 |
| Director General | R. Nag, Southeast Asia Department (SERD) |
| Director | T. Crouch, Country Director, SERD |
| Team leader | J. Balbosa, Programs Coordination Specialist, SERD |
| Team members | F. C. Kawawaki, Senior Private Sector Development Specialist, SERD R. Ondrik, Senior Project Implementation Specialist, SERD |

I. INTRODUCTION

1. The Government of the Philippines requested technical assistance (TA) from the Asian Development Bank (ADB) to improve the Government's monitoring and management of government-owned and -controlled corporations (GOCCs). This is a priority undertaking that would help achieve fiscal consolidation, and the TA¹ was consequently added to the ADB nonlending program of the country strategy and program 2005–2007. The Fact-Finding Mission was fielded on 15–29 November 2005 and agreement was reached with the Government on the TA's purpose, scope, implementation mechanisms, and financing arrangements. The design and monitoring framework for the TA is in Appendix 1.

II. ISSUES

2. Philippine GOCCs were created in one of three ways: by special laws, the corporation code, or by judicial decisions. In general, the mandate of individual GOCCs involves either socially-oriented responsibilities or the provision of basic services, such as transport, water, power, housing, and a stabilized food supply. They also engage in developmental and pioneering activities, including financing. The Department of Finance (DOF) estimates there are 736 GOCCs. The definition of a GOCC remains very complicated, as defined by legislative fiat, presidential decrees, and administrative orders.² The 736 GOCCs include (i) those created by judicial decision (e.g., local water districts), (ii) assets sequestered during the Marcos administration, (iii) assets acquired by government corporations, and (iv) those created via legislative charters.

3. The DOF is charged with monitoring the financial performance of all GOCCs.³ Effectively, however, only 14 corporations are closely monitored, due to their heavy dependence on the national Government for financial support, either (i) directly through equity, subsidy, or advances for debt servicing or (ii) indirectly through national Government guarantee of their obligations.⁴ These 14 GOCCs also account for a substantial portion of the consolidated public sector deficit. In general, the DOF's monitoring involves tracking of the financial performance of the 14 major corporations and their debt obligations. In addition, the DOF, through its Corporate Affairs Group (CAG), reviews the financial viability of the GOCCs, as well as their project, loan, and guarantee proposals. The DOF is expanding its monitoring beyond the 14 major GOCCs to include other corporations that may pose problems for the national Government. The requests from the additional GOCCs for direct and indirect national Government support form the basis for their financial performance monitoring. Inasmuch as the 14 major corporations comprise the substantial portion of the assets and liabilities of the government corporate sector, the consolidated financial performance of these major corporations provides an indication of the aggregate financial performance of the government corporate sector. Notwithstanding, there

¹ The TA first appeared in *ADB Business Opportunities* on 24 October 2005.

² Such as Republic of the Philippines.1988. Rationalizing the Government Corporate Sector. *Administrative Order*. Manila (AO59, series of 1988); and Presidential Decree No. 2029, Series of 1986 on Acquired Assets, among others.

³ Under Executive Order 127-A3 (1987) and Administrative Order No. 163 (2001).

⁴ The 14 monitored GOCCs are Home Guaranty Corporation, Light Rail Transit Authority, Local Water Utilities Administration, Manila Waterworks and Sewerage System, National Development Corporation, National Electrification Administration, National Food Authority, National Housing Authority, National Irrigation Authority, National Power Corporation (by virtue of the Electric Power Industry Reform Act, the Power Sector Assets and Liabilities Management Corporation and the National Transmission Corporation are added to the list), Philippine Economic Zone Authority, Philippine National Oil Corporation, Philippine National Railway, and Philippine Ports Authority.

remains a need for regular monitoring of government corporations outside of the 14 major GOCCs.

4. Most GOCCs are incurring significant financial losses. Budgetary support to the total Government corporate sector (including government financial institutions, social security institutions, and GOCCs providing goods and services to the public) amounted to P80.4 billion during 2000–2004. In addition, indirect support, in the form of guarantees on GOCC obligations, is also in the billions of pesos. In the past 5 years, there has been a noticeable increase in the aggregate deficit of the 14 monitored GOCCs, bringing their financial viability into question. While the 14 monitored GOCCs' current and capital expenditures fluctuated around 6% of GDP, revenues have fallen from 5% to 4.1% of GDP over 2000–2004, increasing the deficit of the monitored GOCCs from 0.6% to 1.8% of GDP over the same period. In 2004, the monitored GOCCs' consolidated deficit was P85.4 billion, a more than fourfold increase from the 2000 level of P19.2 billion. The 2004 deficit is already about the same size as the potential new revenues collected through the expanded value-added tax law. There are various reasons for the ballooning GOCC deficits, including (i) failure to adjust tariff rates, (ii) large capital requirements, and (iii) operational and management inefficiencies. The system used by the DOF to report on and supervise the GOCCs needs to be reviewed to determine why the deficits ballooned significantly in the past few years, and why the oversight mechanisms have failed to reverse this trend.⁵ There is also a need to (i) examine the sources of the ballooning GOCC deficits, given the diverse nature of their operations and the services they provide; and (ii) find long-term solutions to improve their viability as government corporations, and possibly to suggest privatization programs in some cases.

5. The significant financial losses of the GOCCs contribute to the public sector debt. The contribution of the monitored GOCCs' debt stock to total public sector debt has been high and increasing over the past 5 years, from 30.9% of total public sector debt in 2000 to 32.7% in 2003, with a slight decline to 29.3% in 2004. The increasing need for deficit financing will continue to put pressure on the GOCC debt stock to rise, which would in turn add to the already high levels of total public sector debt. The national Government's combined outstanding debt and estimated off-balance-sheet outstanding liabilities increased by P2.4 trillion 1997 to 2003. According to a recent study,⁶ nearly half of the increase is attributable to GOCC activities, both on- and off-balance sheet. The situation makes fiscal consolidation much more challenging for the Government. ADB's Philippine country strategy and program for 2005–2007 acknowledges these challenges, and makes support for fiscal consolidation a priority. In this context, the Government has requested ADB assistance to support GOCC reform.

6. The TA supports a core element of the Government's reform agenda. It complements another ADB TA on debt and risk management,⁷ as well as activities of other development partners, including the World Bank, the Australian Agency for International Development, and the United States Agency for International Development. The World Bank is providing complementary support to the DOF for contingent liability management. The United States Agency for International Development is helping the DOF Privatization Office prepare a comprehensive inventory of GOCC and Government assets, and develop guidelines for identifying and prioritizing assets and GOCCs for privatization. The Australian Agency for International Development, through the Partnership for Economic Governance Reforms facility,

⁵ In the past 5 years, the National Power Corporation has contributed significantly to the overall deficit of GOCCs. Reforms under the Power Sector Development Program supported by ADB are ongoing to address this issue. Reforms specific to the National Power Corporation are not covered by this TA.

⁶ ADB. 2005. *Putting GOCCs on Sound Footing: The Transformation Agenda*. ADB Discussant Document. McKinsey & Company, 2 August.

⁷ ADB. 2005. *Technical Assistance to the Republic of the Philippines for Debt and Risk Management*. Manila (TA 4717-PHI, for \$720,000, approved on 7 December).

is supporting the DOF's program of governance reforms for the GOCCs. ADB has worked closely with development partners in the preparation of the TA, and will continue to do so during the implementation process to ensure an efficient and effective use of resources. The DOF will manage the ongoing interventions and ensure that development partners will coordinate their GOCC strengthening and reform efforts.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

7. The TA's primary objective is to support the Government's fiscal consolidation through 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, thereby improving their financial performance and reducing their financial dependence on the national Government; (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.

8. Impacts of the TA are macroeconomic stability through fiscal consolidation and more effective and efficient delivery of GOCC public services. In the medium term, the TA provides the primary building blocks to enhance good governance in the oversight functions of both the national Government and individual GOCCs. The TA will support a framework to develop (i) clarity with respect to the mandate and purpose of the GOCCs; (ii) strong performance-oriented management and financial discipline for the GOCCs; and (iii) more effective and efficient delivery of goods and services to the public, as envisioned in their mandates. The detailed design and monitoring framework is in Appendix 1.

B. Methodology and Key Activities

9. The key activities of the TA are divided into two main components:

- (i) **Component 1: review of financial performance and operations of selected GOCCs.** Because of the limited resources available, the TA will focus on and work closely with a limited number of GOCCs selected by the DOF;⁸ this work will serve as a pilot for broader reforms across the GOCCs in the future. Initial GOCCs comprise: (a) Bases Conversion Development Authority, (b) Home Insurance Guaranty Corporation, (c) Philippine National Oil Company,⁹ (d) Light Rail Transit Authority, (e) Philippine National Railways, and (f) Small Business Guarantee Fund Corporation. The DOF chose these GOCCs on the basis of (a) the magnitude of existing government exposure to these GOCCs, in terms of budgetary support and guarantee exposure; (b) potential government exposure; and (c) the increasing involvement of these GOCCs in private sector activities. Component 1 primarily involves an in-depth review of the organization, operations (including financial), policies, and procedures of the selected GOCCs. The review will identify gaps and weaknesses, and provide specific

⁸ The six GOCCs are selected in the interim, subject to confirmation during TA inception; the DOF may substitute other GOCCs depending on the outcome of discussions with the respective GOCCs regarding the proposed study.

⁹ This includes two subsidiaries: Philippine National Oil Company- Energy Development Corporation and the Philippine National Company-Exploration Corporation.

recommendations that will have immediate financial impact on the GOCCs. These impacts include improvements in their financial position, and reduction, if not total elimination, of their dependence on direct and indirect financial support from the national Government, without need for legislation, immediate major Government policy shifts, or sector reforms. The review will include specific recommendations/actions on operational efficiency, inventory management and control, asset and liability management, financial restructuring, and other issues that have substantial impact on the financial position of the GOCCs. The recommendations will include identification of performance criteria, targets, and the corresponding incentive/reward and penalty mechanisms to arrive at a workable performance contract between the GOCCs and the oversight agency (i.e., the DOF). The review will identify key legislation, major policy shifts, and sector reforms needed in the medium term for GOCC development and effectiveness. This includes review of the mandates of the GOCCs, of their roles as providers of public goods versus the roles of the national or local government or the private sector, and the necessary dispositive actions, as applicable.

- (ii) **Component 2: strengthening the GOCC oversight functions of the DOF.** This component will review the existing tools and parameters utilized by the DOF in (a) monitoring and assessment of the fiscal and financial performance of the GOCCs, (b) evaluation of GOCC projects and loan/guarantee proposals, and (c) the data banking system at the Corporate Affairs Group (CAG). The review will produce recommendations regarding (a) improved tools and parameters, including the necessary templates to help the CAG strengthen its capacity in assessing and monitoring the fiscal and financial performance of the GOCCs; (b) evaluation of GOCC project, loan and guarantee proposals, including their fiscal impact; and (c) a more effective data banking system for the GOCCs.

C. Cost and Financing

10. The total cost of the TA is estimated to be \$1,071,430 equivalent. The Government has requested ADB to finance \$750,000 equivalent. The TA will be financed on a grant basis by ADB's TA funding program. The Government will finance the balance of the local currency cost, equivalent to \$321,430, through in-kind provision of office accommodation, transport, and counterpart staff. The detailed cost estimates are in Appendix 2.

D. Implementation Arrangements

11. The DOF will be the Executing Agency of the TA. An interagency steering committee, formed and chaired by the DOF, will oversee TA progress and implement recommendations in coordination with the interagency committees/government bodies concerned. The interagency working group will include the National Economic and Development Authority (NEDA), the Department of Budget and Management (DBM), representatives from the Office of the President, and representatives from the selected GOCCs and their respective supervising agencies. The DOF will provide overall direction for the study and take the lead in maintaining an efficient information flow with the management of the selected GOCCs, their supervising agencies, NEDA, the DBM, and other stakeholders concerned. The DOF will share the findings of the report with the DBM, in support of the Government's rationalization program under Executive

Order No. 366.¹⁰ The DOF will also take the lead in disseminating information to the public on the reform effort, with the support of this TA. Policy dialogue and consultation will be carried out with the selected GOCCs and their respective supervising agencies to ensure ownership and participation throughout the reform process, and to increase support for the recommended reforms. The study will also be shared with other stakeholders (i.e., development partners, the private sector, and academe) as the DOF deems necessary to ensure wider acceptance of and support for the recommended reform measures. Training materials will be prepared as required.

12. The Government will commit to the required counterpart funding through the provision of office space and staff resources.

13. A team of international and national consultants will implement the TA activities. A project management and consulting firm will be engaged by ADB to implement Components A and B, in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of national consultants, using simplified technical proposals under quality and cost-based selection. A total of 64 (28 international and 36 national) person-months of consulting services will be required. The terms of reference (TOR) for the consulting services with the details on the required duration of services are in Appendix 3. The consultants will provide written reports in English on a regular basis: (i) an inception report to include a comprehensive implementation plan will be submitted within 4 weeks after the start of the TA; (ii) interim report; (ii) progress reports; and (iv) a draft final report and, subsequently, a final report to be submitted before the end of the TA. Specific timing and content of reports will be discussed with DOF, considering the desired timetable of reports submission for each GOCC. The reports will be submitted to DOF and ADB (more reporting details specified in Appendix 3). ADB will procure the required office equipment, computers, and printers in accordance with ADB's *Procurement Guidelines*. The TA will commence in June 2006 and will be implemented over 22 months.

IV. THE PRESIDENT'S DECISION

14. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$750,000 on a grant basis to the Government of the Philippines for Government-Owned and -Controlled Corporations Reform, and hereby reports this action to the Board.

¹⁰ Signed by President Gloria Macapagal-Arroyo on 4 October 2004, Executive Order 366, or the Rationalization and Service Delivery Improvement Program, mandates all departments and agencies of the Government, including the GOCCs and government financial institutions, to conduct a strategic review of their role and functions, and develop possible organizational actions related to scaling down, phasing out, abolishing, strengthening, merging, deactivating, consolidating, regularizing, and/or privatizing their functions. Executive Order 366 also directs all agencies of the Government to provide a plan for the transition of displaced government workers. Executive Order 366's implementing rules and regulations were issued on 11 May 2005.

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets/Indicators | Data Sources/Reporting Mechanisms | Assumptions and Risks |
|--|--|---|--|
| <p>Impact</p> <p>Macro stability, fiscal consolidation, and more effective and efficient delivery of public services by GOCCs</p> | <p>Improvement in public sector financial position</p> <p>Effective and efficient service delivery by GOCCs</p> | <p>GOCC financial reports, consultant reports, public perception surveys, public sector debt, and overall balance</p> | <p>Assumption</p> <ul style="list-style-type: none"> • Full commitment of the Government and development partners |
| <p>Outcome</p> <p>Component 1 Financially viable GOCCs</p> <p>Streamlined and efficient GOCC service delivery mechanisms with clear performance criteria; responsive to incentive and/or merit system</p> <p>Clear guidelines on the mandate and role of GOCCs as public service providers</p> <p>Clear GOCC performance criteria and target-based incentives; reward system formulated for GOCCs</p> <p>Component 2 Clarity in the Government oversight agencies' authority, structure, resources and oversight functions</p> <p>Clear accountability and established basis for performance review</p> <p>Clear and strengthened methods, parameters, and instruments to measure financial and operational performance of GOCCs</p> <p>More effective and efficient data banking and information management system</p> | <p>Improvements in GOCC financial performance</p> <p>Progress in fiscal consolidation</p> <p>GOCCs are more responsive to government programs and public good delivery</p> <p>Timely, reliable, and accurate flow of information</p> <p>Better public perception of the GOCCs' role in provision of public goods</p> | <p>Annual reports, GOCC financial statements and/or balance sheets, consultant reports</p> <p>Performance indicators</p> <p>Scorecards and/or perception surveys</p> <p>Consultant reports</p> <p>Operating manuals</p> | <p>Assumptions</p> <ul style="list-style-type: none"> • Continued commitment by GOCCs; continued monitoring of oversight agencies • Successful change in management programs in the GOCCs <p>Risk</p> <ul style="list-style-type: none"> • Breakdown in IT system of oversight agencies |
| <p>Outputs</p> <p>Component 1 1. Recommendations for each selected GOCC regarding: (i) necessary financial restructuring, (ii) reforms in operational processes and their efficiency, (iii)</p> | <p>Completion of reports</p> <p>Dissemination of report</p> | <p>Consultant reports; government agency reports and/or progress updates</p> <p>Workshops and/or training</p> | <p>Assumption</p> <ul style="list-style-type: none"> • Strong commitment from the GOCCs and oversight agencies |

| Design Summary | Performance Targets/Indicators | Data Sources/Reporting Mechanisms | Assumptions and Risks |
|---|---|---|---|
| <p>improvement in financial planning and programming, (iv) reforms in revenue and/or tariff policy, (v) asset and liability management, (vi) inventory management and control, and (vii) change management strategy</p> <p>2. Identification of performance criteria, targets, and the corresponding incentive and/or reward and penalty mechanism to arrive at a workable performance contract between each GOCC and the oversight agency (i.e., the DOF)</p> <p>3. Identification of key legislation, major policy shifts and sector reforms needed for the medium-term development and effectiveness of the GOCCs</p> <p>Component 2</p> <p>1. Report identifying gaps and weaknesses in the reporting, accountability, monitoring, and control systems</p> <p>2. Templates for the standard financial tools, indicators and/or ratios (as applicable) for monitoring and evaluation</p> <p>3. Templates for evaluation of GOCC projects and loan proposals for the GOCCs, and other financial tools unique to each sector, such as, airports, ports, rails, power generation and transmission, and water</p> <p>4. Recommendations to improve the data banking and information management system</p> | <p>findings</p> <p>Dissemination of report findings</p> <p>Performance indicators capturing more effective and efficient data capture and analysis.</p> | <p>Workshops and/or training</p> <p>Consultant reports</p> <p>Workshops and/or training</p> | <p>Risks</p> <ul style="list-style-type: none"> • Delays in identification and hiring of consultants • Strong resistance from employees, management, and staff of the GOCCs <p>Assumption</p> <ul style="list-style-type: none"> • Strong commitment from the GOCCs and oversight agencies |
| Activities with Milestones | | | Inputs |
| <ul style="list-style-type: none"> • Submit within a month from inception of the TA an inception report, including (i) a work plan indicating the strategy of engagement, (ii) assessment of the GOCCs readiness to engage, and (iii) the timetable to prioritize engagement with selected GOCCs; clustering and prioritizing them into phases 1 to 3 schedule of engagement. • Within 2 months from inception, coordinate with selected GOCCs on workplan and build the transformation team in selected GOCCs to form the basis for coordination and activity implementation. | | | <ul style="list-style-type: none"> • International consulting services - 3 consultants (28 person-months) • National consulting services – 5 consultants (36 person-months) |

| | |
|--|---|
| <ul style="list-style-type: none"> • Submit quarterly progress reports in coordination with DOF, and relevant reports as required by DOF and ADB. • Conduct a midterm review to assess progress and report to secretary of finance on progress. • Submit a preliminary consolidated report (including manuals, analytical reports, among others) as agreed with DOF and ADB. • Conduct workshops, training and consultation meetings to feedback on preliminary results out of the studies generated from GOCCs, supervising agencies of selected GOCCs, oversight agencies and other stakeholders. The timing shall be agreed with DOF and ADB. • Submit final consolidated report to the Government and ADB on the 17th month from inception. | <ul style="list-style-type: none"> • Workshops and seminars • Reports • PMU operating costs • Contingencies • International and local travel |
|--|---|

ADB = Asian Development Bank, DOF = Department of Finance, GOCCs = government-owned and -controlled corporations, IT = information technology, PMU = project management unit, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

| Item | Total Cost |
|--|-----------------------|
| A. Asian Development Bank (ADB) Financing | |
| 1. Consultants | |
| a. Remuneration and Per Diem | |
| i. International Consultants | 382.00 |
| ii. National Consultants | 232.60 |
| b. International and Local Travels | 30.00 |
| c. Reports and Communications | 8.00 |
| 2. Equipment | 20.00 |
| 3. Training, Seminars, and Conferences | 35.80 |
| 4. Miscellaneous Administration and Support Costs | 4.00 |
| 5. Contingencies | 37.60 |
| Subtotal (A) | 750.00 |
| B. Government Financing | |
| 1. Office Accommodation and Transport | 107.43 |
| 2. Remuneration and Per Diem of Counterpart Staff | 114.00 |
| 3. Others | 100.00 |
| Subtotal (B) | 321.43 |
| Total | 1,071.43 |

^a Financed by ADB's technical assistance funding program.
Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Overall Project Management and Implementation (14 person-months)

1. The qualifications and capability of the project management and consulting firm (and its associated firms) to perform sustained contract management support for a number of varied activities for components 1 and 2 will be a key determinant in the selection of consultants. The equivalent of 14 person-months of consulting services will be provided by the firm's international consultant or project management and implementation expert, who will also serve as the team leader, and who will undertake all project management, contracting, purchasing, and related activities throughout the duration of the TA.

2. This function is distinct from the normal office overheads for support of consultants fielded by the firm. The activities would include (i) intellectual leadership in the design of the diagnostics; (ii) formulation of a strategy to engage and ensure commitments from selected government-owned and -controlled corporations (GOCCs); (iii) contracting for IT services, software and equipment; and (iv) the possible procurement or subcontracting of services associated with some activities. The proposed work plan and methodology must clearly demonstrate the firm's capability to undertake these project management and implementation functions.

3. The team leader is expected to draw guidance from the Department of Finance (DOF) and the Asian Development Bank (ADB). The consultant should have knowledge in the areas of corporate finance, financial management and auditing, financial restructuring, and project management, and should have extensive exposure to and dealings with Philippine GOCCs during the past 15 years. The consultant will be responsible for overseeing the implementation and consolidated reporting of the two TA components.

B. Component 1: Review of Operational and Financial Performance (32 person-months)

4. This component will require the expertise of one international consultant and three national consultants, to be engaged for a total of 8 person-months each, on an intermittent basis over an 18-month period. The exact duration and timing will be determined in consultation with the DOF.

5. The international consultant's specialization will be in the area of corporate finance and management; they should have over 10 years of experience in the field, and possess an in-depth understanding of the workings of public enterprises. The consultant will (i) report directly to the DOF; (ii) be familiar with processes, procedures, global best practices and issues relating to state-owned enterprises or GOCCs, and (iii) have extensive experience in implementing GOCC reforms in developing countries. The consultant will

- (i) Provide technical and analytical leadership for the operational and financial performance review of the selected GOCCs.¹
- (ii) Review the selected GOCCs'
 - (a) mandate, policies, legal, and executive issuances;

¹ The selected GOCCs are (i) Bases Conversion Development Authority; (ii) Home Guaranty Corporation; (iii) Light Rail Transit Authority; (iv) Philippine National Oil Company, including its two subsidiaries: Energy Development and Exploration Corporations; (v) Philippine National Railways; and (vi) Small Business Guarantee Fund Corporation.

- (b) organization, operations (including financial) procedures, and methodologies for the formulation of plans and programs. This should be undertaken with the objective of identifying gaps and weakness and developing recommendations that have immediate financial impact, through the improvement of the financial position of the GOCCs, and the reduction of, if not the elimination of, their dependence on direct and indirect financial support from the national Government. The recommendations should not require legislation, immediate major government policy shifts, or sectoral reforms;
 - (c) operational processes, the composition, quality, and management of their assets and liabilities, and composition of their operating costs;
 - (d) tariff and pricing structure and tariff-setting methodology;
 - (e) financial performance during the past 5 years, highlighting extraordinary circumstances with major impact on financial performance; and
 - (f) medium-term plans and programs, including financial plans and methodology for formulation.
- (iii) Benchmark financial performance with the experience of comparable countries.
 - (iv) Review the compensation system of selected GOCCs as it impacts on financial performance, and identify best practice in the equivalent industry structure of comparable countries.
 - (v) Provide specific recommendations and/or actions
 - (a) addressing operational efficiency, inventory management and control, asset and liability management, financial restructuring, and other issues that affect the financial position of the GOCCs; and
 - (b) regarding necessary performance criteria and targets (for the ensuing year), corresponding incentive/reward and penalty mechanisms, and appropriate performance contracts, including the appropriate contracting parties.
 - (vi) Provide recommendations on fundamental issues, which will be addressed through medium- to long-term solutions such as legislation, major policy shifts, and sector reform. This includes review of the mandate and role of the GOCCs as providers of public goods versus the role of the national or local government or the private sector, and the necessary dispositive actions, as applicable.

6. The three national consultants will report directly to the international consultant and will provide technical support for the activities mentioned in (ii)–(vi) above. The national consultants will have the same range of expertise as the international consultants with over 7 years of experience in the needed field of specialization.

7. The consultants will help the Government organize and conduct workshops and seminars based on the findings of the TA, in order to build awareness and strengthen ownership of the reforms among GOCC and oversight agency staff, development partners, and the public.

8. The TA will provide the necessary software, hardware, and training to effectively implement the recommendations.

C. Component 2: Strengthening the DOF's Oversight Functions over GOCCs (18 person-months)

9. This component will require the expertise of one international consultant and two national consultants, to be engaged for a total of 6 person-months each on an intermittent basis over an 18-month period. The exact duration/timing will be determined in consultation with the DOF.

10. The international consultant's specialization will include financial management and analysis, project evaluation, and accounting and auditing, with over 10 years of experience. The consultant will (i) report directly to the DOF; (ii) be familiar with the processes, procedures, and global best practices on disclosure and monitoring and control, auditing, project evaluation, and other related issues relating to state-owned enterprises or GOCCs; and (iii) have extensive experience in implementing GOCC reforms in developing countries. The consultant will

- (i) Perform an inventory of and understand the reports required by the DOF from the GOCCs, and the reports generated by the Corporate Affairs Group (CAG) of the DOF, including reports and information required by other agencies from the GOCCs and the DOF.
- (ii) Review the existing tools and parameters utilized by the DOF in (a) monitoring and assessing the fiscal and financial performance, financial plans and programs of the GOCCs, and (b) evaluating GOCC projects and loan/guarantee proposals.
- (iii) Review and identify gaps and weaknesses in the existing data banking system (including networking) at the CAG.
- (iv) Recommend improved tools and parameters, including the necessary templates and data banking system, to help CAG strengthen its capacity to assess and monitor the fiscal and financial performance of the GOCCs, as well as evaluate project and loan proposals and serve the information requirements of other agencies.
- (v) Test (a) the recommended improvements to the CAG data banking system (including the necessary software and networking), (b) the necessary evaluation and monitoring template for selected GOCCs, and (c) selected project and loan/guarantee proposals.
- (vi) Design systems to strengthen reporting and disclosure procedures.
- (vii) Ensure transfer of technology.

11. The national consultants will report directly to the international consultant and will provide technical support for the activities mentioned in (i)–(vii) above. At least one of the national consultants will have a strong knowledge of information technology practices, including financial modeling, with a strong background in finance and data banking practices relevant to this task. The national consultants should have at least 7 years of experience in the needed field of specialization.

12. The consultants will help the Government organize and conduct workshops and seminars based on the findings of the TA, in order to build awareness and strengthen ownership of the reforms among GOCC and oversight agency staff, development partners, and the public.

13. The TA will provide the necessary software, hardware, and training to effectively implement the recommendations.

D. Deliverables and Timeframe

14. The deliverables and implementation timeframe are as follows:²

- (i) Within a month of TA inception, an inception report will be submitted, which includes a work plan indicating the engagement strategy, assessment of the GOCCs readiness to engage, and a timetable prioritizing engagement with selected GOCCs; the work plan will also cluster and prioritize GOCCs into a three-phase schedule of engagement.
- (ii) Within 2 months of inception, the team will coordinate with selected GOCCs on the work plan and build transformation teams in selected GOCCs, which will form the basis for coordination and activity implementation.
- (iii) Quarterly progress reports will be submitted in coordination with DOF, and other reports submitted as required by the DOF and ADB.
- (iv) A midterm review will be conducted to assess progress and report to the secretary of finance on progress.
- (v) A preliminary consolidated report will be submitted, including manuals and analytical reports, among others, as agreed with the DOF and ADB.
- (vi) Workshops, training, and consultation meetings will be conducted to gather feedback from GOCCs, supervising agencies of selected GOCCs, oversight agencies, and other stakeholders on the results of preliminary studies. The timing will be agreed on with the DOF and ADB.
- (vii) A final consolidated report will be submitted to the Government and ADB 17 months after inception.
- (viii) Copies of all reports/studies/workshop/training materials will be provided to the DOF (2 copies of each document) and to ADB (1 copy of each document).

² A detailed timetable and activity schedule will be formulated with the DOF upon inception of the TA.