



STATE OF THE NATION REPORTS

PHILIPPINE PRIVATIZATION: Experience, Issues, and Lessons

Epictetus E. Patalinghug

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FOREWORD

The most recent controversy over the awarding of the Manila Waterworks and Sewerage System to the Ayala and Lopez business empires and the Supreme Court decision on the sale of Manila Hotel to a Filipino corporation instead of to the winning Malaysian bidder brought to the fore critical issues surrounding government's privatization policy. Hugging the headlines within the same month, these two decisions revived debates in various circles over the advantages and disadvantages of putting government services and institutions, including state hospitals, in the hands of the private sector.

Written a year before the most recent controversial decisions to privatize public enterprises, this *State of the Nation Report* provides an overview of government's privatization efforts since 1986. Based on a paper written for the Sixth Southeast Asian Business Research Conference held at the University of Michigan on May 25 to 26, 1996, this report explores the impact of privatization on the government budget and on the internal efficiency of selected privatized firms. As such, it serves as a good background paper on the country's experience after a decade of privatization.

Dr. Epictetus Patalinghug is Professor of Business Administration and is on special detail at the Tariff Commission where he currently serves as Officer-in-Charge.

The UP Center for Integrative and Development Studies acknowledges the editorial assistance of Gloria Fernandez. Bella Lucas supervised the publication of the report with the help of Nanie Domingo and Stretch Payawal. Finally, Joy Aparis saw the publication through the UP Printery.

Maria Cynthia Rose Banzon Bautista

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Table of Contents

Foreword/Maria Cynthia Rose Banzon Bautista

PHILIPPINE PRIVATIZATION: EXPERIENCE, ISSUES AND LESSONS

Chronology of Philippine Privatization	2
Rationale for Privatization	4
Impact of Privatization	7
Lessons Learned	16
Difficulties Encountered	18
Policy Implications	19
<i>Notes</i>	21
<i>References</i>	22
<i>Appendices</i>	
Appendix A: Privatization of Philippine Public Corporations, 1987-1995	25
Appendix B: Sample Assets Facing Some Difficulties	28

List of Tables

Table 1	National Government Accounts and Privatization: 1987-1995	8
Table 2	Asset Privatization Trust: Sales, Exposure, Recovery Rate and Exposure Rate by Industry as of September 30, 1991	9
Table 3	Asset Privatization Trust: Sales, Remittances and Expenses, 1987-1995	11
Table 4	Financial Characteristics of Privatized Companies: Texfiber Corporation and Cebu Plaza Corporation	13
Table 5	Financial Characteristics of Privatized Companies: Philippine National Bank and Philippine Airlines	14

PHILIPPINE PRIVATIZATION: Experience, Issues and Lessons*

Privatization is an economic policy reform embraced by many countries to achieve sustainable growth. It is appealing to governments of both developed and developing nations because it is basically fiscal in nature and offers a quick solution to persistent fiscal deficits brought about by the inability of revenues to grow as fast or faster than expenditures.

The fiscal problem often makes the revenue-raising goal of privatization the dominant concern, despite the lip service given to other privatization goals such as enhancing efficiency, broadening the ownership base, promoting private entrepreneurship, and reducing the role of government in the market.

In the Philippines, privatization is in its final phase of implementation. The relative success in the initial stage of disposing nonperforming assets immediately shifted efforts toward privatizing large enterprises in competitive or potentially competitive markets. Private-sector participation in the construction of energy and road infrastructure projects has likewise been promoted. The current plan is to extend the coverage of the privatization program to include state hospitals and educational services, an idea that has aroused public criticism.

In light of recent interest in privatization efforts and the lack of definitive studies in this area, this paper seeks to assess the impact of privatization, explore related issues, and draw some lessons from experience for consideration by those in charge of the development of the country's privatization program. In particular, the paper discusses the chronology of events in the Philippine privatization efforts since 1986; the rationale for privatization; the impact of privatization on the government budget as well as on the internal efficiency of privatized firms; the lessons learned; the difficulties encountered; the policy implications, and some recommendations.

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Chronology of Philippine Privatization

The period between 1975 and 1985 witnessed the expansion of the public enterprise sector of the Philippine economy. The number of public enterprises increased rapidly from 13 in 1951, 37 in 1964, 70 in 1973, to 303 in 1985. This increase is significant considering that there were only 13 public enterprises in 1951 and 37 in 1964. (Manasan 1984 and Manasan 1986). However, compared to Indonesia and Singapore, the historical share of public enterprise in the Philippine economy has been much smaller.

The 303 public enterprises in 1985 underestimate the total number. During the period of authoritarian rule, the distinction between public and private enterprises was fuzzy. For instance, crony firms with access to government credit facilities were provided loan guarantees and granted exclusive government contracts, effectively contributing to the expansion of the public enterprise sector between 1975 and 1985. In 1987, 399 assets¹ from two government financial institutions were identified for disposal. And by the end of 1995, the Asset Privatization Trust (APT), reported a total of 404 assets for sale of which 320 were disposed, generating a total amount of 33.25 billion pesos). The 404 assets in 1995 exclude public enterprises that were not assigned to APT as well as those not considered for disposition. In addition to APT, other government units such as the government owned and controlled corporations (GOCCs) and the Presidential Commission on Good Government (PCGG) are likewise holding assets targeted for disposition.²

The increasing number of public enterprises over the years had rapidly expanded the fiscal burden of the state. Government resource commitments to these enterprises have taken various forms – direct transfers (explicit subsidies), equity contributions, net lending, and implicit subsidies. The last is less transparent as it has been done by bestowing monopoly price through the granting of a franchise, extending preferential credit terms, and providing preferential tax treatment.

The expanding resource commitment of the government in support of public enterprises has become unsustainable. In 1982 alone, the assets of public enterprises were valued at twice the assets of national and local governments. In addition, public enterprises accounted for approximately 73 cents for every dollar worth of outstanding foreign public debt (the remaining 27 cents were attributed to the national government). Furthermore, a whopping 96.4 billion pesos (in terms of budgetary support and equity infusion) was committed to the public-enterprise sector during the 1975-1984 period. The annual rate of growth of the fiscal burden was estimated to be increasing at 40.9 percent compared to the 15.5 percent annual growth rate for national government expenditures. In addition, the fiscal burden of public enterprises accounted for 18.2 percent of national government expenditures and 21.3 percent of national government revenues in 1975-1984. By 1986 the fiscal burden was estimated to account for 26.2 percent of the national budget.

Over the years, a change in budget deficit has been observed to relate positively to a change in the fiscal burden. In 1989, for instance, approximately 34 percent of the total national debt was attributed to the public-enterprise sector. This liability, valued at 172 billion pesos, consisted of: (1) nonperforming assets transferred to the national government from the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP); and (2) the liabilities incurred by the National Power Corporation (NAPOCOR), National Development Company (NDC), and Philguarantee which were absorbed by the national government. The immediate consequence of this fiscal burden was an increase in debt service by 27.1 billion pesos in 1990. What made the fiscal burden economically unpalatable was the realization that the government would have attained a budget surplus (instead of a budget deficit) had the fiscal burden of public enterprises been excluded from the total government expenditures during this period (Diokno 1985; Manasan 1986; Diokno 1986; and Diokno 1990).

The need to control the budget deficit, increase government revenues, and enhance the effects of redistribution were some of the economic objectives of the Aquino government when it attempted to formulate a privatization policy in 1986 (Diokno 1986).

On December 8, 1986 President Corazon C. Aquino issued Proclamation No. 50 creating the Asset Privatization Trust (APT) which was mandated to dispose of assets to be privatized under the supervision of the Committee on Privatization (COP). APT's main task is to dispose of nonperforming assets turned over to the national government by GOCCs such as the DBP, PNB, NDC and Philippine Exports and Foreign Loans Guarantee Corporation (PEFLGC). COP on the other hand is a cabinet-level body comprised of five cabinet members who head the following departments: Department of Finance (Chairman), Department of Budget and Management, Department of Justice, Department of Trade and Industry, and the National Economic and Development Authority. COP is mandated to oversee the Philippine privatization program. It is required to perform the following functions: formulate privatization policies and guidelines, approve the sale and disposition of assets, and monitor the progress of privatization activities.

The nature of the privatization policy of the Aquino administration was stated as follows:

... Thus, corporate operation is allowed only in activities, which by their nature, may be more efficiently and effectively operated by the government as monopolies, such as public utilities and large-scale infrastructure; those involving huge indivisible capital investment with highly uncertain gestation periods; those protecting the interest of national welfare, security and defense; those with wide social and economic externalities; and those that are noncommercial in nature, but need corporate status to operate effectively (Diokno 1990, page 32).

The definition of which public enterprises ought to be retained automatically implies which ones can be privatized. It is evident that the privatization policy envisioned by this statement did not cover public infrastructure projects under build-operate-transfer (BOT) and related schemes.

On January 17, 1992, Republic Act No. 7181 was signed into law by President Aquino. This act extended the term of COP and APT (which expired on December 8, 1991) to August 31, 1992. On August 10, 1992 President Fidel V. Ramos issued Executive Order No. 11 further extending the term of COP and APT to December 31, 1993. And on December 2 of the same year, President Ramos reiterated the government's privatization policy by issuing Executive Order No. 37 which expanded the coverage of privatization and stipulated the remittance to the national government of at least 50 percent of the net proceeds from the sale of shares or assets.

A year later, on December 23, 1993, the term of COP and APT was extended to June 30, 1995, with the approval of Republic Act No. 7661. This act stipulated that 60 percent of the proceeds from the sale of APT assets will be allotted to the Comprehensive Agrarian Reform Program (CARP) while the remaining 40 percent will go to the national government's general fund. Immunity from preliminary injunctions was likewise provided to COP, APT, duly designated disposition entities, and the purchaser of assets disposed by these entities.

On February 20, 1995, Republic Act No. 7886 was approved extending the term of COP and APT to December 31, 1999, and stipulating that the disposition of properties will have to cease during the last three months in order to devote some time to the liquidation of COP and APT and to the preparation of assets, records and properties for turnover to the Office of the President. This latest legal mandate has expanded further the coverage of privatization to include such activities as BOT and related schemes, leasing, and management contracting.

Some observers have described the Philippine privatization program as composed of two waves: (1) the disposition of idle government assets; and (2) private-sector participation in public investment projects. The government is currently contemplating on embarking on the third wave of the privatization program which covers state hospitals, certain medical services, housing, postal services, education, and state pension plans. This stage will raise a different analytical issue regarding the involvement of the private sector in government-mandated programs.

Rationale for Privatization

Both in theory and in practice, privatization has been justified for a variety of reasons, namely: (1) to enhance economic efficiency; (2) to broaden the ownership base; (3) to maximize government revenues; and (4) to encourage private

entrepreneurial behavior. Coincidentally, the literature (e.g. Jones 1975, Gillis 1980, and Diokno 1981) on the reasons for the use of public enterprises has identified practically the same set of factors that are now being mentioned to justify privatization. It is likewise suggested that shifting development theory and ideologies coupled with mounting public enterprise losses have made privatization appealing to many governments (Kikeri, Nellis and Shirley 1994).

The following factors have been identified as the additional reasons why many governments adopted privatization policies (Kikeri, Nellis and Shirley 1994): (1) public enterprises have become an unsustainable burden on the budget and the banking system; (2) public enterprises have yielded a disappointing rate of return on capital invested in them; (3) the costs of public enterprises may have exceeded the costs of market failures; and (4) poorly performing public enterprises have slowed the growth of the private sector in many developing countries. Privatization implies a change of ownership. However, public enterprise performance can be improved by adopting such reform programs as: privatizing management (e.g. management contracts, leases, or concessions), removing direct budgetary subsidy, eliminating easy access to the credit market, abolishing interest-rate subsidy, freeing managers of public enterprises from noncommercial and conflicting goals, less government interference in decision-making, removing tax and tariff privileges, and developing institutional mechanisms such as managerial evaluation systems.

Does ownership determine economic performance? This is a research issue initially explored in this paper. A contrasting view is that superior performance in private over public firms is due to market structure and not to ownership (Vickers and Yarrow 1988). Nevertheless, some analysts (Kikeri, Nellis and Shirley 1994) insist that recent evidence reveals considerable economic benefits from privatization. In addition, they argue that reform programs cannot remedy the deficiencies of public enterprises because these reforms are: (1) technically and politically difficult to implement; (2) the steps required to put the reform package in place are numerous and hard to coordinate; and (3) improvements in public enterprise performance are not sustainable. Consider the following argument:

... faced with the financial crisis or pushed by external forces, governments will initiate fundamental and far-reaching reforms in state operated enterprises that give management the mandate and the power to run their companies in a commercial manner. As the reforms are enacted, economic and financial performance does improve – although usually at the expense of some previously highly regarded political objectives. As the crisis fades, however, or the external pressure weakens, government ownership facilitates the revival of noncommercial objectives,

which in turn leads to renewed poor performance. So performance of state operated enterprises can be improved without changing ownership, but these improvements are exceedingly difficult to sustain (Kikeri, Nellis and Shirley 1994, page 245).

In the Philippines, privatization proceeds accounted for the biggest contribution to the nontax revenues in 1994 when the national government achieved the first budget surplus since 1974 (Neri and Taduran 1995). However, the emergence of large budgetary support to government corporations has also been observed (Diokno 1995). The rising deficits incurred by major public corporations in recent years, has rendered the privatization policy a relevant approach for removing government budgetary support to these public corporations. While outright sales may not be financially or politically feasible in such corporations as Metropolitan Waterworks and Sewerage System (MWSS), Light Rail Transit Authority (LRTA), Philippine National Railways (PNR), National Irrigation Administration (NIA), National Food Authority (NFA), National Electrification Administration (NEA), National Housing Authority (NHA), National Power Corporation (NAPOCOR), Philippine Economic Zone Authority (PEZA), Philippine Ports Authority (PPA), and Local Water Utilities Administration (LWUA), their performance may be improved by allowing them to operate like private firms.

Privatizing management is often considered the appropriate option for public utilities and natural monopolies in developing countries where capital markets are not developed, an institutional and regulatory framework is inadequate, technical competence is lacking, and private investors are few. Privatization will lead to greater economic benefits if monopolies in potentially competitive sectors such as NAPOCOR, MWSS, PETRON and Philippine Airlines are divided into smaller and comparable units before their sale. Had PETRON and PAL been broken up into smaller competing units before they were sold, efficiency would have been enhanced through greater competition. But if this option was pursued, the privatization of the two firms would have been delayed, transaction costs would have increased, and the sale price would have been affected. But viewed in a different perspective, the economy will benefit more if the government deregulates and establishes an adequate regulatory framework before it privatizes. This may mean a lower sale price which is bad for the budget. However, the other strategy of maximizing short-term government revenues, while good for the budget, leaves the monopolistic market structure intact since it simply transfers a public monopoly into a private monopoly and may not provide any net gain in economic efficiency. Thus, it may be now beneficial for liberalization to proceed in tandem with privatization although this was not followed in the privatization of PETRON. The company was privatized first before the oil deregulation act was passed by Congress.

Impact of Privatization

The impact of privatization can be evaluated on two aspects: (1) the level of revenues from the sales it generates for government; and (2) its effect on the internal efficiency of privatized firms. The first issue is tackled by measuring the revenue-generating performance of the privatization policy; and the second is examined by evaluating the financial characteristics (profitability, liquidity, and leverage ratios) of selected privatized firms before and after their privatization. The state of the economy before and after privatization is also analyzed.

An analysis of 20 assets that had been privatized by APT reveals that the privatization efforts were a remarkable success in terms of generating 4.3 billion pesos in additional revenues as well as in transforming these depressed assets into productive ones (Bustos 1993b).

Data on national government account balances and privatization sales and remittances from 1987 to 1995 are shown in Table 1. During this period, the privatization program achieved a total sales of 172.3 billion pesos which generated 78.8 billion in total remittances to the national government treasury. The 39 billion peso sale of Fort Bonifacio in 1995 (which generated a remittance of 18.5 billion pesos) was responsible for the sudden rise in the value of sales and remittances from the end of 1994 to the end of 1995. The question of how much privatization sales might have to be raised once the privatization program ends on December 31, 1999 is difficult to answer. But judging from the privatization performance in the last three years (1993-1995) which generated a total sales of 112.6 billion pesos and total remittances of 59 billion pesos, the most optimistic forecast would be a total sales of at least 322.43 billion pesos and total remittances of at most 168.95 billion pesos by the end of 1999. This figure implies a remittance rate (ratio of remittances to sales) of 52.4 percent. However, the remittance rate from 1987 to 1995 was only 45.73 percent. Thus, our "crude guesstimates" of expected total remittances by the end of the program based on past trends would be in the range of 147.45 to 168.95 billion pesos.

The expected proceeds could be much higher if the privatization momentum picks up from 1996 to 1999. For instance the extent of the success of the third stage of the privatization program will depend on how successfully it implements plans to privatize some functions of state hospitals (e.g. administrative, collection, janitorial and security services), educational services (e.g. special education, school, health and nutrition services, testing and research, management, programs on schoolbuilding, computer education, and joint development for the productive use of school sites), housing, postal services, and state pension plans.³ Another factor to consider is the recovery rate (ratio of sales to value of exposure). Table 2 shows that the average recovery rate in the disposal of 399 APT nonperforming assets is

Table 1
National Government Accounts and Privatization: 1987-1995
 (current prices in million pesos)

	1987	1988	1989	1990	1991	1992	1993	1994	1995
REVENUES	103,214	112,861	152,410	180,906	220,787	242,714	260,404	336,160	360,215
Tax	85,924	90,351	122,462	151,698	182,275	208,706	230,170	271,305	309,978
Nontax	17,290	22,510	29,948	29,208	38,512	34,008	30,234	64,855	50,237
EXPENDITURES	119,907	136,067	171,978	218,097	247,136	258,680	282,296	319,874	350,041
National Gov't Deficit	16,693	23,206	19,568	37,195	26,349	15,966	21,892	(16,286)	(10,174)
Gross Revenues from Privatization	5,100	7,600	5,300	15,600	7,600	18,300	18,300	50,400	43,900
Remittance to the National Treasury	1,200	5,200	4,300	3,600	3,600	1,900	1,800	32,700	24,500
Remittances as Percent of Gov't Revenues	1.16	4.61	2.82	1.99	1.63	0.78	0.69	9.73	6.80
Remittances as Percent of Non-Tax Revenues	6.94	23.10	14.36	12.33	9.35	5.59	5.95	50.42	48.77
Remittances as Percent of Privatization Revenues	23.53	68.42	81.13	23.08	47.37	10.38	9.84	64.88	55.81
Remittances as Percent of Gov't Deficit	7.19	22.41	21.97	9.68	13.66	11.90	8.22	(200.79)	(240.81)

Note: Data on government expenditures and revenues are provided by the Bureau of the Treasury; data on privatization revenues and remittances are provided by the Committee on Privatization.

Table 2
Asset Privatization Trust

Sales, Exposure, Recovery Rate and Exposure Rate by Industry
as of September 30, 1991
(in thousand pesos)

Industry Category	Sales	Exposure	Recovery Rate ^a (in percent)	Exposure Rate ^b (in percent)
Power	324,473	368,664	88.01	0.28
Real Estate	3,730,700	4,421,816	84.37	3.33
Hospitals	115,205	205,810	55.98	0.15
Hotels	995,155	1,856,259	53.61	1.40
Sugar	3,011,060	7,781,115	38.70	5.85
Cement	2,373,111	7,777,451	30.51	5.85
Textile	1,383,088	5,384,443	25.69	4.05
Wood	689,236	2,810,937	24.52	2.11
Financial Institutions	550,633	2,259,336	24.37	1.70
Food	880,862	3,838,588	22.95	2.89
Shipping	756,461	4,470,643	16.92	3.36
Other Manuf.	179,876	1,106,136	16.26	0.83
Other Agri.	127,114	808,948	15.71	0.61
Electronics	75,593	619,424	12.20	0.47
Metals	1,554,722	14,977,777	10.38	11.27
Leather	20,757	208,785	9.94	0.16
Other Services	24,173	244,016	9.91	0.18
Chemicals	775,367	10,161,894	7.60	7.64
Communications	122,892	2,242,690	5.48	1.69
Pulp and Paper	362,252	7,838,194	4.62	5.90
Government Entity	61,623	1,803,750	3.42	1.36
Construction	107,795	10,889,786	0.99	8.19
Transportation	6,525	1,253,953	0.52	0.94
Mining	121,437	39,485,206	0.31	29.70
Other Mining	0	110,087	0.00	0.08
TOTAL	18,347,110	132,925,708	13.80	100.00

SOURCE: Felixberto U. Bustos, Jr., "Effects of Environmental Factors, Government Policies and Asset Characteristics on the Re-Privatization of Nonperforming Assets: A Cross-Industry Analysis," DBA Dissertation, University of the Philippines, February 1993.

^a Ratio of sales to exposure

^b Ratio of each industry's exposure to total exposure

only 13.8 percent (Bustos 1993a) and that the firms in industries with higher exposure rates are not necessarily identified with the ones with higher recovery rates. Total exposure is composed of booked plus contingent balances of the transferred accounts. The selling price is market-based while the booked value is based on historical cost. This explains the low recovery rate since some of the assets are difficult to sell.

The privatization experience of some countries has shown that net revenues from sales have been insignificant because some transactions are in small amounts and the costs associated with privatization (e.g. settlement of debt, restructuring of costs, fees for advisory services, lost dividends, unpaid taxes, and custodianship expenses) are substantial (Kikeri, Nellis, and Shirley 1992). The Philippine experience does not seem to be hobbled by this particular problem. Data from APT sales, remittances and expenses from 1987 to 1995 (see Table 3) show that the average rate of total expenses to total sales from 1987 to 1995 was 4.86 percent and the average rate of total expenses to total remittances was 4.89 percent. The rate of remittances to sales in the same period was 91.47 percent. In some years (e.g. 1988, 1989, 1994, and 1995) remittances were even greater than sales. This is the case according to APT because remittances for a particular year include settlements, sales, collections, loan payments and other income from disposition transactions in previous years. Thus, the revenues in absolute value from privatization sales have been significant in the Philippine experience.

Furthermore, Table 1 reinforces this finding. The average rate of remittances as a percent of nontax revenues for the 1987-1995 period was 19.65 percent, and the average rate of remittances as a percentage of privatization sales for the same period was 42.72 percent. These remittances contributed an average of 13.58 percent of government budget deficit from 1987 to 1993; and 221 percent of government budget surplus from 1994 to 1995. The privatization proceeds for 1994-1995 were approximately more than twice the size of the government budget surplus in that period and, privatization was a major contributor in the attainment of the surplus (Neri and Taduran 1995). However, looking at the total government revenues for the 1987-1995 period, Table 1 shows that the average contribution rate was only 3.36 percent which is approximately 1.4 percentage points higher than the average rate observed for the 1987-1993 period. This was the effect of the disposition of big-ticket items such as PETRON, National Steel, Philippine Shipyard and Engineering Corporation (PHILSECO) and PICOP in 1994.

All told, the findings show that while privatization helps balance the budget in the short-run, its contribution to total government revenues is modest. As such, privatization can complement the broader liberalization program for the economy, but it should not be treated as a substitute for a comprehensive tax reform package, considering the huge revenue potential to be generated from tax revenues compared

Table 3
Asset Privatization Trust: Sales, Remittances and Expenses,
1987-1995
(in thousand pesos)

Year	Sales	Remittances	<u>Expenses</u>		<u>Expenses</u>	<u>Expenses</u>
			Operations	Custodianship	Sales (%)	Remittances (%)
1987	3,939,893	1,193,083	36,330	0	0.92	3.05
1988	3,994,908	5,234,333	13,082	45,561	3.97	3.03
1989	1,993,582	4,310,561	37,444	171,137	10.46	4.84
1990	7,396,388	3,624,563	81,573	135,809	1.50	6.00
1991	4,229,657	3,578,648	21,292	136,654	3.73	4.41
1992	3,771,272	1,876,152	19,732	94,537	3.03	6.09
1993	2,296,450	1,768,734	20,498	112,465	5.79	7.52
1994	3,686,847	5,332,733	17,414	204,176	5.54	4.16
1995	1,936,798	3,489,766	22,031	149,266	8.84	4.91
TOTAL	33,245,795	30,408,573	369,396	1,049,605	4.86	4.89

SOURCE: Asset Privatization Trust, 1995 Annual Report.

to nontax revenues (e.g. privatization). Furthermore, liberalization and privatization may conflict. If the government wants to maximize revenue from the sale of public enterprises, it might be tempted to keep them as monopolies. Some analysts (Diokno 1995) warn of the danger of a government fiscal policy that relies on privatization proceeds to finance recurring expenditures and low-value capital expenditures. This is an important issue, but is beyond the scope of this paper. For now, the government is relieved of the financial burden imposed by public enterprises. The continuation of the trend will depend on whether it can contain the rise in the deficits of the major monitored public corporations in the future.⁴ Appendix A shows a table of privatized firms, with information on date of sale, extent of privatization, remaining government holding, and sale price.

The second aspect along which the impact of privatization can be evaluated is its effect on the internal efficiency of privatized firms. Table 4 shows the financial characteristics of two medium-size firms while Table 5 shows the financial characteristics of two large-size firms. Table 4 indicates that the efficiency ratios of Texfiber Corporation were better after privatization, but its efficiency ratios were below industry averages although it performed well against its industry competitors in terms of current ratio, debt-to-asset ratio and debt-to-equity ratio. One factor behind Texfiber's financial turnaround was the lower cost of raw material imports due to the government's import liberalization program. The other factor explaining its performance was its improved capital structure which is now largely equity-financed rather than debt-capitalized (Bustos 1993a). At best, the impact of privatization on Texfiber's performance was supported by a conducive external environment i.e., a tariff reduction policy which benefited import-intensive firms such as Texfiber. Before privatization the economy (gross domestic product) was shrinking at an average rate of -0.38 percent while unemployment rate was at 9.8 percent. After liberalization, the economy grew at 5.7 percent and unemployment rate fell to 8.6 percent.

The performance of Cebu Plaza Hotel is likewise shown in Table 4. Interest-rate costs and low occupancy due to political instability contributed to Cebu Plaza's poor financial performance before privatization when the economy was shrinking at -0.91 percent and unemployment rate was a high 10 percent. Although occupancy rates increased after privatization, operating costs and financial charges substantially increased. However, workers' welfare seemed to be better. For instance, the number of workers decreased from 700 to 525, but salaries were higher after privatization; nonmonetary benefits such as one daily free meal and hospitalization privileges were also provided. Cebu Plaza's contribution to the local economy was estimated at 39 million pesos in taxes paid and \$12 million in tourism revenues (Bustos 1993a). Again the state of the economy was a positive factor during the post-privatization period. The economy was growing at 4.9 percent and unemployment rate fell to 8.3 percent.

Table 4

Financial Characteristics of Privatized Companies

A. Texfiber Corporation (now renamed Fibertex Corporation)

	Before Privatization						After Privatization		
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Net Income Margin (%)	(82.69)	(73.89)	(23.66)	(2.57)	10.99	0.28	0.75	0.72	1.51
Return on Total Assets (%)	(17.40)	(33.44)	(43.53)	(4.47)	10.23	0.58	0.41	0.37	0.72
Current Ratio	0.70	0.64	0.53	0.56	1.00	0.66	1.10	1.20	1.10
Debt Equity Ratio	CD	CD	CD	CD	CD	CD	22.58	21.36	1.03

B. Cebu Plaza Corporation (now Pathfinder Holdings Philippines, Inc.)
(in thousand pesos)

	Before Privatization					After Privatization		
	1983	1984	1985	1986	1987	1988	1989	1990
Gross Revenue	31,596	54,842	60,018	44,591	35,607	120,866	187,138	165,534
Costs and Expenses	34,684	50,055	56,905	53,161	40,096	117,521	163,507	165,826
Operating Income	(3,088)	4,787	3,113	(8,570)	(4,489)	3,344	23,631	(292)
Financial Change	35,284	30,023	15,748	22,643	17,653	26,957	25,141	22,310
Net Income	(38,372)	(35,236)	(12,635)	(31,213)	(22,142)	(23,613)	(1,510)	22,602

SOURCE: Felixberto U. Bustos, Jr., "Effects of Environmental Factors, Government Policies, and Asset Characteristics on the Re-Privatization of Non-Performing Assets: A Cross-Industry Analysis," DBA Dissertation, University of the Philippines, February 1993.

CD = Capital deficiency

Table 5

Financial Characteristics of Privatized Companies

A. Philippine National Bank

	Before Privatization						After Privatization				
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Total Resources	70,502.3	87,196.1	76,156.9	26,913.2	31,267.6	38,758.1	56,302.0	73,468.3	93,799.1	107,809	131,755.3
Deposits Outstanding	25,136.0	20,204.1	23,439.7	16,857.5	18,930.2	25,952.6	37,054.9	45,925.3	63,004.8	78,725	100,789.6
Capital Accounts	4,016.8	6,935.8	1,253.7	2,539.5	3,550.0	5,009.3	5,652.3	7,966.0	12,811.2	13,760	15,485.3
Total Earnings	7,738.3	9,170.8	5,176.1	3,941.1	3,398.1	4,998.3	6,777.3	10,675.1	13,201.6	11,918	12,307
Total Expenses	7,503.6	10,272.2	12,393.4	7,511.3	2,387.6	3,151.0	4,693.7	7,353.6	9,180.0	9,614	9,683
Net Profit	234.7	(1,101.4)	(7,217.3)	(3,570.2)	1,010.5	1,647.3	2,083.6	3,321.5	4,021.6	2,304	2,444

B. Philippine Airlines

	Before Privatization						After Privatization			
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Operating Ratio (%)	106.9	84.9	9.5	87.2	90.7	103.5	86.4	94.2	101.2	103.2
Net Income Ratio	(23.7)	3.2	(0.6)	2.2	(9.1)	(18.4)	4.6	4.2	(1.7)	(6.46)
Current Ratio	0.35	0.46	0.50	0.62	0.46	0.33	0.62	0.60	0.65	0.58
Debt Equity Ratio	(1.90)	(2.29)	(2.27)	(2.72)	(1.44)	(1.02)	0.7	0.33	0.64	0.70

SOURCE: Philippine National Bank, *Annual Report* (1985-1993); Philippine Airlines, *Annual Report* (1994-95).

The profitability performance of the Philippine National Bank (PNB) clearly improved after privatization (Table 5). It never incurred huge losses compared to years before privatization. But this information is misleading because the restructuring of PNB's assets after 1986 makes these data incomparable across time. Granting this comparison does not introduce any bias in the analysis, the value of PNB's net profit plus the annual dividends remitted to the government does not compensate for the value of the nonperforming assets transferred to the national government (some of which are no longer vendible). Debt write-downs, however, are standard practice to make the asset attractive to buyers. Could PNB have performed well without restructuring? Experience in other countries has shown that "there is little evidence that governments recover the costs of physical restructuring in the form of higher sale prices" (Kikeri, Nellis and Shirley 1994, page 263). Does privatization matter for PNB? PNB's inability to pay market rates in recruiting banking manpower expertise will be a negative factor in its performance. Moreover, if privatization transforms PNB into a commercial-oriented (not a service-oriented) firm where the prices of its services would move closer to its scarcity values, then privatization matters for PNB. Furthermore, if privatization implies less pressure for PNB to undertake risky service-oriented activities such as agrarian lending and financing rural infrastructure, then it would probably behave like any other private commercial bank. It would be financially stable, but it may be irrelevant to small farmers. The most important effect of privatization on PNB is its impact on managerial behavior. Managers will strive to be efficient if PNB losses are no longer financed by the national government. Again PNB's performance after privatization could likewise be partly attributed to the state of the economy which grew at 2.1 percent compared to 0.28 percent growth before privatization. Unemployment rate was also lower at 8.6 percent after privatization compared to 9.7 percent before privatization.

Finally, the financial performance of Philippine Airlines (PAL) after privatization is very disappointing (Table 5). Although PAL's capital structure improved from capital-deficient to equity-financed, its net income ratio is erratic. It continues to incur losses and its liquidity ratio (although improving) is less than 1. PAL's operational efficiency deteriorated after privatization (its operating expenses continue to exceed its operating revenues). And this happened despite PAL's virtual monopoly of the domestic airline industry. The state of the economy was relatively improved during the post-privatization period relative to the pre-privatization for PAL. Unfortunately, this factor was irrelevant given PAL's disappointing performance which was blamed on government interference in regulating its fares and requiring it to service unprofitable routes (World Bank 1995). But PAL's lack of commercial discipline after privatization may not be fully attributable to government interference. The failure to deregulate before privatization made the market structure intact which explained management's unchanging behavior.

The jury is still out on Philippine privatization. But preliminary evidence (both macro and micro) points to the following conclusion: its impact on alleviating short-term government budget balance is impressive, but its effect on the internal efficiency of the privatized firms is mixed. Of course, a comprehensive analysis of privatization's impact at the enterprise level requires the conduct of detailed company case studies to trace the effect of privatization on government revenues, workers' welfare, firm's productivity, firm's growth, investors' welfare, firm's profitability, consumers' welfare and the welfare of the economy at large. That should be the agenda for future research in this area.

Lessons Learned

One of the key lessons of the privatization experience in countries that borrow from the World Bank is that "the odds of succeeding are much improved when privatization is part of a more general liberalization process" (Kikeri, Nellis and Shirley 1994, page 245). Applying this dictum to the privatization experience of the Philippine Airlines (PAL), it implies that the privatization efforts would have produced more desirable results if it were accompanied by reforms to make the airline industry more competitive, or if free entry of other private carriers were encouraged.⁵ A privatization scheme that tries to maximize selling price is engaging in short-run revenue maximization. But such approach satisfies only the cash-generating objective of privatization, and it ignores the other objectives with long-run effects such as its ability to enhance industry efficiency, promote competition, encourage private entrepreneurship, and improve customer services. A privatization scheme that simply tries to maximize revenue without altering the structure of the market toward a more competitive and market-oriented environment would not be as effective. Most probably it would simply transform a public monopoly into a private monopoly. Thus, the right institutional and regulatory framework is a necessary complement to a successful privatization policy. The bright side of PAL's partial privatization is the reduction of the fiscal burden in terms of government subsidy to PAL, but its efficiency effect must be addressed too.

Another key lesson of the privatization experience is the critical role of transparency.⁶ The recent privatization of Fort Bonifacio easily passed the test of transparency. In the case of the PETRON sale, the bidding procedures were not perceived as clear. The minimum bid price was not pegged before the bids were submitted, and the bid proposal of one of the bidders (Westmont Holdings Bhd. of Malaysia) was not opened. However, market-based bidding would have been superior to setting a minimum-bid price based on accounting valuation, but there must be enough prequalified bidders to realize the superiority of competitive bidding. In the case of PETRON, there were only two prequalified bidders (Arab-American Oil

Company and Petronas of Malaysia) and the minimum bid price was pegged only after the bids were submitted. The Philippine National Oil Company (PNOC) explained that Westmont's bid was not opened because of its failure to meet the technical requirements of the bidding. But Westmont protested that it made a detailed technical presentation on its capability and expertise before the technical-bidding committee two days before the auction date. At any rate, the sale mechanism for PETRON was not adequate to protect PNOC from criticism.

The sale of Philippine Shipyard and Engineering Corporation (PHILSECO) likewise raised some questions on the soundness of APT's bidding rules. In December 1993, JG Summit Holdings, Inc. along with Sembawang Shipyard Ltd. of Singapore and Jurong Shipyard Ltd. of Malaysia won the bidding for PHILSECO with an offer of 2.03 billion pesos. Philyards Holdings, Inc. and a consortium led by SM Investment, Inc. were the other bidders. Philyards Holdings, Inc. (originally composed of Kawasaki Heavy Industries, Ltd. of Japan, and Magsaysay Shipping Corporation) decided to exercise its right to top by five percent the winning bid, and offered 2.13 billion pesos to APT for PHILSECO. APT's bidding rules specified Kawasaki's right to exercise this option. But JG Summit Holdings, Inc. protested this move because Philyards Holdings, Inc. added new members in its consortium such as Keppel Corporation of Singapore; Mitsui Engineering and Shipbuilding Corporation of Japan; International Container Terminal Services, Inc.; Insular Life Assurance Company; and SM Investment, Inc. The objection raised by the consortium led by JG Summit Holdings, Inc. is that most members of the consortium led by Philyard Holdings, Inc. were members of the consortium led by SM Investment, Inc. which lost to J.G. Summit Holdings, Inc. during the original bidding. According to JG Summit, allowing such a regrouping of former losing bidders "will make a mockery out of the APT's bidding rules to the prejudice of the real winning bidders" (*Manila Bulletin*, January 4, 1994).

On the positive side, the Philippine experience proved that privatization can indeed reduce the fiscal burden of public enterprises and had contributed to the budget surplus in 1994 and 1995. But there is a need to alert its proponents to the idea that the privatization program must not succumb to the various pressures to grant full fiscal and tax incentives to firms currently undertaking infrastructure projects under BOT and related schemes. As noted previously, the current plan to embark on the third stage of privatization covering state hospitals and education is already encountering public criticisms this early. A lesson can be learned from the experience of other countries (e.g. Japan and Venezuela) which effectively conducted information campaigns to explain the costs and benefits of privatization (Kikeri, Nellis and Shirley 1994).

And finally, the most important lesson of privatization is the creation of COP and APT which provide the central privatization authority answerable to the

President and Congress. Such a structure creates continuity, transparency, supervision, planning, monitoring, and accountability of the privatization process. A good privatization program requires a structure with a small and able staff, and a definite timetable. These requirements are satisfied by the Philippine experience. Despite its difficulties, this timetable must become definite and must not be continuously extended because another extension would lessen the pressure to dispose of assets with speed. Besides, a privatization program that drags on for 12 years (1987 to 1999) would be long enough. It is time for national energies and resources to be concentrated in other job-creation activities.

Difficulties Encountered

One objective of a privatization policy is to broaden the ownership base. It has been pointed out (Bustos 1993b) that while the Philippine privatization program enhanced economic efficiency, it failed to broaden public ownership of enterprises because APT sales were usually conducted through sealed bidding instead of through public offering. APT apparently opted for speed of privatization at the expense of broadening the ownership structure. In contrast, recent privatization efforts have attempted to address the ownership issue. For instance, the privatization of PETRON (despite its shortcomings) successfully addressed the issue of dispersed ownership by allocating 20 percent of outstanding shares to the public. The third and final phase of PNB's privatization was completed in 1996. Majority of PNB's shareholdings (57 percent) is now privately owned. PNB used public offering to complete its privatization program. Public offering, however, is risky in situations where the offering period coincides with the government's issuance of high-yield and low-risk certificates and securities which crowd out the shares in the market.

The choice between efficiency and the ever-broadening spread of the ownership of property was encountered in the privatization experience of the United Kingdom (UK). When the competition and efficiency justifications came under increasing criticism during the second term of Margaret Thatcher as Prime Minister, the British government emphasized the spread of ownership of housing and corporate shares. As a result, "owner-occupied housing as a percentage of all housing in England and Wales rose from 54 percent in 1979 to approximately 66 percent by the end of 1987, with upwards of one million council units sold by 1987" (Rukstad 1992, page 417). In addition, share ownership grew because of various promotional efforts undertaken by the government such as employee share ownership schemes (ESOPs), changes in the tax treatment of some investments, and large public offerings of public enterprises which allowed payment of shares in installments for a given period and employed maximum purchase provisions to encourage wide participation. The UK experience is not different from the schemes followed by PETRON. The difference lies in the negative public reaction to PETRON's policy

of allowing its employees to purchase larger allotment of shares at highly concessionary prices than the general public. Although broader distribution of shares is desirable, empirical evidence showed that it tends to reconcentrate over time: the number of Britons owning shares increased from three million in 1979 to 8.5 million in February 1987, but by mid-1987, the extent of small holder withdrawals from earlier privatization offerings was widespread (Rukstad 1992); and in Malaysia the number of shareholders of the Malaysian International Shipping Corporation dropped from 60,000 to 5,000 after a brief period (Kikeri, Nellis and Shirley 1994).

Major difficulties were also encountered in the privatization of some assets. These difficulties are described in Appendix B. Most of these difficulties involved legal maneuvers of former owners and other parties that affect the vendible state of acquired assets. The other factor that contributed to these difficulties is the requirement that the buyer of these assets settles its debt obligations. Given the remaining time mandated by law for COP and APT to dispose of remaining assets, the best strategy for them is to concentrate their efforts on vendible assets. It must also be innovative in disposing of assets with negative net worth or those with no recoverable value by selling these assets at a symbolic price of one peso, following the example of Germany which considered this move an investment in new management and technology.

Policy Implications

An analysis of assets that had been privatized in the Philippines indicates that privatization has met with remarkable success in generating additional revenues and in reducing the fiscal burden of public enterprises. However, the average recovery rate in the disposal of nonperforming assets has been relatively low. Moreover, the firm-level efficiency test shows that the impact of privatization on the performance of privatized firms has produced mixed results. As a temporary revenue-generating source, privatization can perform this function well if it focuses, in the immediate future, on the disposition of small and medium-size public enterprises that require no restructuring and can be sold without delay. Emphasis must be placed on cash sales, while debt-financed sales (either financed by government or by banks) should be avoided. Reliance on privatization proceeds to finance recurring government expenditures or low-value capital expenditures must not be part of fiscal policy.

The privatization program's ability to enhance efficiency and promote competition can be reinforced if government deregulates and establishes an adequate regulatory framework before it privatizes in potentially competitive sectors such as electricity generation, water, airlines, and telecommunications. In situations where assets to be disposed of have negative net worth, selling them at a symbolic price of

one peso is a step forward in buying management and technology. Liquidating these unproductive assets will eliminate waste and free scarce resources for job-creating activities elsewhere.

The few attempts to broaden the ownership base (e.g. PETRON) had been relatively successful, although controversial. But the goal of broadening the ownership base can only be enhanced in sales conducted through public offering which applies only to a few large enterprises. However, Republic Act No. 7886 specifies that the buyer of the assets must offer for sale to small local investors (including overseas Filipino workers) a minimum of 10 percent of the value of the assets acquired. During the period of public offering, the government must not crowd out these shares by simultaneously offering high-yield and low-risk instruments and securities in the market. The goal of broadening the ownership base must not be aggressively pursued to the extent of adversely affecting management performance.

The Philippine experience in privatization started with strong intentions and is meeting remarkable success. The sale of major assets at a fairly good price had demonstrated the maturity of Philippine capital markets, the capacity of its institutional and regulatory framework, the availability of technical expertise to undertake the preparation of privatization plans for specific assets, and the existence of enough interested investors. However, the difficulties encountered in the disposition of some assets point to the need to give COP and APT some legal and political clout⁷ to accelerate the progress of privatization. Moreover, COP and APT must consider December 31, 1999 as the definite deadline when all privatization efforts must be concluded and evaluated.

The Philippine experience has largely been an exercise in satisfying the objective of raising revenues as a solution to the persistent fiscal deficit problem. But it is important for privatization proceeds not to be treated by government as permanent sources of revenues. Neither should government plan future expenditure programs on the basis of short-run revenue gains. But one surprising observation in our review of the Philippine privatization experience that is certainly worth noting is the relative ease and success in the disposition of public enterprises – an achievement which observers only a decade ago deemed politically infeasible owing to built-in vested interests!

Notes

¹ An asset refers either to the entire assets of a public enterprise or just a part of the public enterprise (e.g. warehouse or bus terminal).

² As of December 31, 1993, the Committee on Privatization (COP) reported a total of 549 accounts identified for privatization, 408 of which were already disposed of (see COP 1993 Annual Report).

³ For instance some services from the following four state hospitals are envisioned to be privatized: Philippine Heart Center, Philippine Lung Center, National Kidney Institute, and Philippine Children's Hospital. See "Ramos Pushes Privatization of Hospitals," *Philippine Daily Inquirer*, December 7, 1995.

⁴ The government's equity contribution to four public enterprises (National Food Authority, National Housing Authority, Light Rail Transit Authority, and Metropolitan Waterworks and Sewerage System) will increase from 777.3 million pesos in 1995 to 1.3 billion pesos in 1996. In addition, total net lending to LRTA, National Electrification Administration, and Philippine National Railways in 1996 is valued at 1.152 billion pesos. See "P1.3-B Budget for GOCCs Discovered," *Manila Bulletin*, December 15, 1995.

⁵ PAL's experience was not completely different from the privatization of British Airways (BA). BA was successfully privatized through a public offering. However, the British government instituted regulations to protect BA's routes from competition. In addition, BA was allowed to purchase British Caledonia, its major competitor. To allay criticism, the government licensed British Midlands to compete with BA. But the size of British Midlands is unlikely to challenge the market dominance of BA (Rukstad 1992; and Kikeri, Nellis and Shirley 1992). In PAL's case, small private carriers such as Grand Air, Star Asia Airways, Cebu Pacific Air, Air Philippines, and Asian Spirit are licensed to compete with PAL.

⁶ Transparency is satisfied when the following exist: "competitive bidding procedures, clear selection criteria for evaluating bids, disclosure of purchase price and buyer, well-defined institutional responsibilities, and adequate monitoring of the program" (Kikeri, Nellis, and Shirley 1994, page 268).

⁷ Republic Act No. 7661 addressed this concern by providing COP and APT with immunity from preliminary injunctions in the exercise of their functions.

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APPENDIX A

Privatization of Philippine Public Corporations, 1987-1995

Company (million pesos)	Area of Activity	Date of Sale	Extent of Privatization (in percent)	Method of Privatization	Mode of Privatization	Remain'g Gov't. Holding (in pesos)	Sale Price (million pesos)
Asia Industries, Inc.	Machinery/equipment distribution	Jan 1988-Apr. 94	100	Public bidding	Sale of shares	0	131.00
Associated Bank	Commercial banking	Aug 1993	100	Negotiated sale	Sale of shares	0	50.00
Beta Electric Corporation	Electrical products		100			0	
Bicolandia Sugar Dev. Corp.	Sugar milling	Oct 1992	100	Negotiated sale	Sale of assets	0	160.00
Coco-Chemical Phil. Corp.	Coco-oil milling	May 1990	100	Negotiated sale	Sale of shares	0	32.00
Commercial Bank of Manila	Commercial banking	Nov 1987	100	Public bidding	Sale of shares	0	510.00
Davao Equip. Mfg. Corp.	Metal coating, foundry fabrication	Jul 1989	100	Negotiated sale	Sale of assets	0	6.60
Gasifier & Equip. Mg. Corp.	Gasifier equipment, fabrication	Feb. 1990	100	Public bidding	Sale of assets	0	6.00
Hotel Enterp. of the Phil. Inc.	Hotel management	Jun 1988	100	Public bidding	Sale of shares	0	325.00
International Corporate Bank	Commercial banking	1987/1993	100	Public bidding	Sale of shares	0	2,189.60
Luzon Integ. Services, Inc.	Security services	Jan 1991	100	Public bidding	Sale of shares	0	6.60
Marina Properties	Land development	Oct 1988	100	Public bidding	Sale of assets	0	1,777.80
Maunlad Saving & Loan Assoc.	Savings and loan association	Jan 1989	100	Public bidding	Sale of shares	0	14.10
Mindanao Textile Corp.	Garment manufacturing	Jul 1987	100	Public bidding	Sale of shares	0	23.60
Mindeva Ref. Inds., Inc.	Ice Prodn/cold storage	Aug 1991	100	Public bidding	Sale of shares	0	6.30
Monte Maria Poultry Farm, Inc.	Poultry farm operation	Aug 1990	100	Public bidding	Sale of shares	0	3.10
Nadeco Realty Company	Land ownership	1993/94	100	Negotiated sale	Sale of assets	0	196.00
National Marine Corp.	Overseas cargo shipping	Jun 1988	100	Public bidding	Sale of assets/shares	0	168.00
National Precision Cutting Tools	Prod. of industrial tools	Dec 1988	100	Public bidding	Sale of assets	0	21.30
National Shipways Corp.	Ship repairs & maintenance	Apr 1989	100	Public bidding	Sale of assets	0	38.00
Nat'l Shipping Corp of the Philippines	Liner services	1987/88/94	100	Bidding/nego sale	Sale of assets	0	782.60

Source: Committee on Privatization.

APPENDIX A (continued)

Company	Area of Activity	Date of Sale	Extent of Privatization (in percent)	Method of Privatization	Mode of Privatization	Remaining Gov't Holding (in percent)	Sale Price (million pesos)
Nat'l Stevedoring & Lighterage Co.	Stevedoring, lighterage & port mgt.	Jan. 88/89/90	100	Emp. buy-out/etc.	Sale shares	0	50.20
Nat'l Trucking and Forwarding Co.	Trucking, freight forwarding	May 1995	100			0	65.60
NDC Guthrie Plantation	Crude palm oil & palm kernel	1993/1994	100	Sale to JV partners	Sale of shares	0	499.40
NDC Guthrie Estate, Inc.	Palm oil production		100	-do-		0	
Philippine Plate Mills Co., Inc.	Mfg. of steel plates	Jun 1995	100	Comp. settlement	Settlement of claim	0	493.00
Philippine Plaza Holdings, Inc.	Hotel operation	May 1991	100	Negotiated sale	Sale of shares	0	1,500.00
Philippine National Lines	Shipping	1990	100	Public bidding	Sale of assets	0	1.80
Pilipinas Bank	Bank services	Oct 1987	00.	Public bidding	Sale of shares	0	38.60
PNOC Int'l Crude Oil Tankers	Int'l oil tanker operation	Dec 1994	100	Public bidding	Sale of assets		296.20
PNOC Marine Corp.	Shipbuilding & repair	Oct 1992	100	Public bidding	Sale of shares	0	668.00
PNOC Supply Base, Inc.	Supply base operation						
Primary Foods, Inc.	Mfr./sale of food products	Jul 1989	100	Negotiated sale	Sale of assets	0	2.20
Republic Planters Bank	Commercial banking	1991	100	Public bidding	Sale of shares	0	150.00
Tacoma Bay Shipping Co.	Ship owning & leasing	Nov 1987	100	Public bidding	Sale of assets	0	10.00
The Energy Corp.	Petroleum products	1987/Feb. 1994	100	Public bidding	Sale of shares	0	133.50
Union Bank of the Philippines. & Subs.	Commercial banking	1988/90/91	100	Pub. bidding/offering	Sale of shares	0	1,357.10
Usipil, Inc.	Mach./equip. dist. & servicing	Nov.-Dec. 1987	100	Public bidding	Sale of shares	0	35.50
Carmona Woodworking Industries, Inc.	Sawmilling	1990	89	Public bidding	Sale of assets	0	14.90
Furniture Mfg., Corp. of the Philippines	Wood furnishing, interior decor.	1990	73	Public bidding	Sale of assets	0	0.40
Metro Manila Transit Corp.	Passenger bus operation	Oct. 94/Feb., Mar & Sept. 95	50.71	Sale of emp. coops.	Sale of assets	49.29	100.40
Nat'l Steel Corp.	Steel Production	Sep 1994	75	Negotiated sale	Sale of shares	25	15,151.00

APPENDIX A (continued)

Company	Area of Activity	Date of Sale	Extent of Privatization (in percent)	Method of Privatization	Mode of Privatization	Remaining Gov't. Holding (in percent)	Sale Price (in millions)
Nat'l Sugar Refineries Corp.	Sugar refinery management	Apr 1991	66.70	Public bidding	Sale of assets	33.3	380.00
NIA Consult, Inc.	Consultancy	Jul 1994	1	Public bidding	Sale of assets	33.3	380.00
Negros Occ. Copperfield Mines	Copper Mining	Feb 88-91	18.70	Bidding/negotiation	Sale of assets	66.3	167.00
Philippine Shipyard & Eng'g Corp.	Ship repair & fabrication	Jan 1994	88	Bidding/emp. buyout	Sale of shares	8.7	2,131.50
Philippine Airlines	Air transportation	Jan 1992	67	Public bidding	Sale of shares	33	10,722.30
Petron Corp.	Oil	Dec 1993/ Sept 1994	60	Bidding/pub. offering	Sale of shares	40	25,055.00
Philippine Cotton Corp.	Cotton	Nov 1990		Negotiated sale	Sale of assets		28.70
Philippine Dairy Corp.	Dairy products	1990	4	Public bidding	Sale of assets	96	13.00
Phil. Nat'l Bank & Subs.	Banking services	1989/92	43	Public offerings	Sale of shares	57	4,603.40
Semirara Coal Corp.	Coal mining	1991	34.80	Dilution	Debt conversion	52.2	
PNOC Coal Corp.	Coal mining	1991	20	Negotiated sale	Sale of assets	80	11.30
Woodwaste Utilization & Development Corp.	Construction material from logging waste	1988-90	62	Public bidding	Sale of assets	38	17.00

APPENDIX B

Sample Assets Facing Some Difficulties

<i>Asset</i>	<i>Status</i>
1. Pantranco, North Express, Inc. (PNEI)	PNEI lost market value due to the following: the Department of Transportation and Communication (DOTC) returned it to Asset Privatization Trust (APT) in a run-down state: PNEI's area franchises and leases of PNEI's bus companies' and leases of PNEI's bus terminals expired. Ownership of property located in Metro Manila was claimed by the Philippine National Bank (PNB).
2. Domestic Satellite Corporation (DOMSAT)	Two failed biddings occurred in August 1993. Minimum bid price was lowered from 560 to 308 million pesos. Negotiated sale to Morton Holdings, Ltd. was cancelled in November 1993 because the latter failed to settle 10 percent of purchase price by end of October 1993. Metro Pacific Corporation's offer to buy DOMSAT was rejected by APT because it requires changing the privatization rules for DOMSAT.
3. Real Estate Asset of Filoil Refinery Corporation	The Philippine National Oil Company's (PNOC's) bidding on April 1993 failed. A farmer group claimed a portion of 58.3 hectare asset under the Agrarian Reform Program. In 1996, the Philippine Economic Zone Authority acquired the Filoil lot for integration into the Cavite Export Processing Zone.
4. North Davao Mining Corporation (NDMC)	APT conducted two failed biddings in May 1993 and March 1994. Slump in world metal prices contributed to the absence of qualified bidders for NDMC.

Appendix B (continued)

<i>Asset</i>	<i>Status</i>
5. Philippine National Bank (PNB)	PNB is planning to sell at least eight percent of the remaining state-owned shares to the private sector. However, the Committee on Privatization (COP) opposes PNB's plan to sell as much as 20 percent to a foreign strategic partner. The last phase of PNB's privatization was delayed by the issue of transferred liabilities which was finally cleared by the Commission on Audit. The Department of Finance has ruled that PNB may continue to service government accounts but only on a limited scale.
6. Associated Bank (AB)	APT encountered difficulties in the disposition of AB because its former owner blocked its sale before the courts, the Securities and Exchange Commission (SEC), and the Monetary Board. Finally, APT sold AB to its former owner in November 1993 for an upfront cash of 50 million pesos, the infusion of at least 750 million pesos for its rehabilitation, and the assumption of the 300 million pesos loan with Philippine Deposit Insurance Corporation. AB is now a viable entity called Westmont Bank.
7. Philippine Airlines (PAL)	PAL was sold in 1992 to PR Holdings, Inc., a consortium which holds 67 percent of PAL. The Tan group controls PAL with 51 percent of PR Holdings. The minority stockholders of PR Holdings have filed a suit before SEC to compel the Tan group to convert their shares in the holding firm into direct equity in PAL. This move is resisted by

Appendix B (continued)*Asset**Status*

the Tan group because it would translate its stake into only 33 percent hold of PAL. In 1996, there was an agreement between the Tan group and minority stockholders which calls for the dissolution of PR Holdings, Inc., provided the state-owned banks would waive their preemptive rights to a capital increase and allow the Tan group to gain majority control of PAL. The deal also stipulates the doubling of PAL's capital from five to 10 billion pesos.

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