

DEVELOPMENTAL AND OTHER CORPORATIONS

THE 39 government developmental and other corporations exercise functions similar to those performed by the seven financing institutions discussed earlier. They pursue similar objectives, that of meeting the ever-increasing needs of the people, particularly those in rural areas, for financial assistance to enable them to participate in the government's developmental projects in various fields, from agricultural self-sufficiency to industrial development with the concomitant opening of more opportunities for employment, so that they may have room for, and create conditions suitable for better life and economic activity; and have a central meeting place in which facilities for culture and recreation, special educational arrangement and tourism are promoted.

The efforts towards the ultimate end, however, may be hampered by various constraints in view of the problems in the operation and the financial status of the 39 developmental institutions which are expected to provide financial support. A large part of their total expenditures goes to cost of sales and personal services and a huge amount of their assets is tied up in accounts receivable.

As of June 30, 1973, the financial conditions of the 39 developmental corporations are shown next page together with the results of their operations for the year then ended.

The total accounts receivable reached the staggering amount ₱397.91 million as of June 30, 1973. The expenses for personal services during the same period amounted to ₱148.48 million or 14.54% of the total expenditures of ₱1,021.46 million. (Appendices E-1 and E-2)

With their financial situation, it would indeed be difficult for these 39 corporations to meet the basic financial needs of the rural communities and most especially the ultimate ends of the National Government of alleviating the lot of the common man in the barrios.

These developmental corporations are having problems with their long-term liabilities. As of June 30, 1973, the total long-term liabilities from various financial institutions amounted to ₱1,137.85 million.

To improve their financial footings, these institutions should intensify collection of accounts receivable and study the possibility of reducing their expenses for personal services. Furthermore, an evaluation must be made on the practicability of financially sustaining those corporations which have been perennially incurring overdrafts and losses in their operations.

Of utmost importance is the wise servicing of debts. There are limitations to their incurrence. The first limitation is that of financial prudence.

This means not going into debt beyond the corporations's probable future capacity to meet interest charges and scheduled payments on the principal. A number of future events might arise which would slow down the inflow of cash. One of the principles of sound financial management is to avoid commitments which require the debtor-corporation to pay out large sums of cash to service debt. The second limitation in the use of debt is that creditors become progressively more reluctant to advance funds or goods if they think an excessive amount is sought. Lenders realize that as the proportion of debt to networth increases, the possibility of default increases. A corporation seeking credit must meet certain standards of performance: its income should be at least two or three times greater than the interest charges, including that on the proposed debt; debts falling due within a year should not exceed half the circulating assets; its total amount of debt must be low in relation to the amount of assets contributed or provided by the National Government; and the expected intake of cash should be sufficient to pay interest and principal on all debts, including the loan about to be granted. A corporation that does not meet these standards, shall inevitably obtain some additional credit by offering to pay a relatively high interest rate which can be impairing to its finances.

The over-all current ratio of government developmental and other corporations was roughly 1.24 to 1 as of June 30, 1973, and 1.26 to 1 as of

June 30, 1972. The ratios taken individually are by themselves relatively low and the decreasing trend aggravates matters. Under normal conditions, a ratio of at least 2 to 1 would be considered a satisfactory current ratio. Current assets were more than current liabilities by ₱592.43 million and ₱400.9 million, at the end of fiscal years 1973 and 1972, respectively. These amounts represented the over-all margin of protection of short-term creditors. (Appendix E-3)

Total networth of these institutions was less than the over-all liabilities so that the ratio of networth to liabilities was .44 to 1 only as of June 30, 1973 and .46 to 1 as of June 30, 1972. These ratios are also rather low and the decreasing trend should be looked upon with disfavor. The ratios of fixed assets to long-term liabilities of 1.33 to 1 as of June 30, 1972 and 1.36 to 1 as of June 30, 1973; do not speak very well of the asset protection of long-term creditors. As in the case of the current ratio, a ratio of at least 2 to 1 would be considered a satisfactory ratio of fixed assets to fixed liabilities. The increasing trend in the ratios, however, is favorable. The increase in the ratio is attributable to the faster increase in fixed assets than in long-term liabilities. Said increase in investment in fixed assets may be justified by the increased developmental activities of these corporations.

One undesirable feature noted in the operations of the 39 corporations is the increase of ₱24.32 million in the

over-all net loss, that is, from a net loss of ₱59.9 million in 1972 to ₱84.22 million in 1973. Reporting the biggest loss in 1973 was the PVTA, ₱68.35 million. The NGA, during its six-month period of operation (January to June 1973), reported a net loss of ₱46.27 million. This is distressing if we consider the fact that the defunct RCA realized a net income of ₱9.88 million during the preceding six-month period (July to December 1972). On the other hand, NIA realized the biggest income with ₱29.59 million, followed by the RCA and the PHILSUGIN with ₱9.88 million and ₱6.22 million, respectively. The biggest expenditure item in this category is cost of sales representing 50.86% of total expenses for fiscal year 1971-72 and 42.4% for fiscal year 1972-73. Taking the 39 institutions individually, the Coco-Chemical Philippines, Inc., the NGA and the GMTFM in that order showed the biggest rates of cost of sales to total expenses. It should be

noted that capital outlay, representing 16.67% in fiscal year 1971-72 and 26.96% in fiscal year 1972-73, is reflected in the statement of operations of most of these corporations, with the NEA and the NIA showing the highest rates. Personal services constituted the third biggest expenditure item. Charges to personal services of the Philippine Exchange Co., the PNC and the CLCVA were about the biggest percentage-wise, that is, 90.16%, 89.06% and 88.26%, respectively.

In view of the foregoing, there may be a need of reassessing policies to see that the corporations in general are buying and selling at the right prices; that all potential sources of income are tapped; that other expenses like personal services are checked; and that working capital is effectively utilized particularly in the face of the apparent shortages in working capital and the recurring losses in many of the 39 corporations.

SELF-GOVERNING BOARDS, COMMISSIONS AND AGENCIES

TO attain certain statutory objectives set by its legislative body, the National Government created various institutions to exercise governmental functions along the concept of specialization. Every agency created is entrusted with the administration of certain industry or service. Obviously, the creation of 19 self-governing boards, agencies and commissions was based on the needs and their priorities as manifested by the people in various fields. Scientific research and development, investment incentives, metal industry, cottage industry, medical care, oil industry, agrarian reform, pollution control and many others are placed under certain boards and commissions which were organized and entrusted with the pursuit of desired goals. The reason behind this is that setting aside and devoting time, money and effort at a time for a specified industry or service at a certain level would contribute greatly to the attainment of objectives. In the effort, however, of achieving these goals, there arose the duplication and overlapping of functions with all their concomitant conflicts. There is likewise the problem of overstaffing and the impracticability of financially sustaining some of these institutions.

As of June 30, 1973, the financial positions of 19 self-governing boards, commissions and agencies are summarized next page, together with the results of their operations for the fiscal year then ended.

As a gauge of the debt-paying ability of these 19 self-governing boards, commissions and agencies, their overall current ratio was computed at 2.14 to 1. This indicates that their current assets can pay off their current liabilities more than twice. Registering the highest current ratios are the OIC, 16.26 to 1; BOL, 11.64 to 1; and the BOI, 11.61 to 1. Except for the OIC however, whose income increased by ₱1.92 million from ₱.761 million to ₱2.676 million, the big current ratios for the BOL and the BOI may indicate inefficient utilization of working capital considering that the expenditures of the BOL exactly equaled its income, while the net income of the BOI decreased from ₱3.2 million to ₱2.08 million or by ₱1.12 million. Realizing the biggest excess of income over expenditures are the NSDB with ₱51.07 million and the POLCOM with ₱26.89 million. These two agencies, however, registered decreases in their net income from fiscal year 1972 to fiscal year 1973. The agencies showing the biggest increases in excess of income over expenditures are the REPACOM, ₱7.63 million; the OIC, ₱1.92 million; and the PMCC, ₱1.2 million. It should be noted that income reported by these institutions included allotment received from the National Government, if any. (Appendices F-1, F-2 and F-3)

Personal services constituted the biggest expense item for these 19 self-

governing boards, commissions and agencies in fiscal year 1972, and the second biggest in fiscal year 1973. The over-all total of ₱68.47 million for personal services represented 25.02% of over-all total expenditures in 1973, while the total of ₱53.24 million in 1972 represented 28.11% (Appendix F-2)

Contributions constituted the biggest item of expenditure in this group in fiscal year 1973 and this situation could be attributed principally to reparations transactions of the REPA-COM (taking the form of contributions) with the PNR, PHHC and PVB (Philippine Veterans Bank) as well as subscriptions of the REPA-COM to stocks of the DBP in accordance with the DBP charter, and grants, subsidies and contributions made by the POLCOM. (Appendix F-2)

A comparison of the total surplus of these self-governing boards, commissions and agencies with their total liabilities shows that as of the end of fiscal year 1973, their total surplus was 54.87% of borrowed capital, while at the end of FY 1972, the rate was 52.48%. It should be noted further that Invested Surplus (contra account

for fixed assets and long-term investments) registered the biggest percentage (89.73%) to total surplus. Current surplus represented 28.26% only; thus, it may be said that the agencies are relying much on borrowed capital to finance their operations.

The need, therefore, of tapping all potential sources of income, improving collection efforts and cutting down on expenses, particularly those chargeable to personal expenses, become all the more important under general existing conditions.

One notable problem in the administration of these institutions is the huge amount of resources tied up in their accounts receivable. As of June 30, 1973, their accounts receivable amounted to ₱122.82 million or 9.48% of their total assets.

It is about time that a thorough analysis of the operation of these institutions be made with the end in view of merging some if only to insure that the results of operation are commensurate with the amount of the people's money spent for them.

Individual discussion of the 19 self-governing boards, commissions and agencies follows.

CORPORATIONS	June 30, 1973 Fiscal Year 1973 Financial Condition			June 30, 1973 Fiscal Year 1973 Results of Operation		
	Assets	Liabilities	Networth	Income	Expenses	Net Income
	(In Millions)			(In Millions)		
National Cottage Industries Development Authority (NACIDA)	P 14.68	P 4.68	P 10.00	P 8.16	P 7.37	P .79
Board of Investments (BOI)	8.78	.66	8.12	6.63	4.56	2.07
Metals Industry Research and Development Center (MIRDC)	11.07	4.19	6.88	3.42	4.06	(.64)

Philippine Coconut Research Institute (PHILCORIN)	2.20	1.83	.37	1.57	1.17	.40
National Science Development Board (NSDB)	165.92	45.08	120.84	98.45	47.38	51.07
Philippine Atomic Energy Commission (PAEC)	10.92	4.82	6.10	6.55	5.75	.80
National Institute of Science and Technology (NIST)	18.29	7.38	10.91	9.65	7.43	2.22
Philippine Inventors Commission (PIC)	2.02	1.28	.74	1.47	1.20	.27
Board of Liquidators (BOL)	1.12	1.12	—	1.61	1.61	—
Philippine Medical Care Commission (PMCC)	11.93	6.01	5.92	8.50	6.58	1.92
Oil Industry Commission (OIC) ...	1.48	.07	1.41	3.72	1.05	2.67
Land Authority (LA), now Department of Agrarian Reform (DAR)	228.92	128.76	100.16	70.88	73.22	(2.34)
Joint Legislative-Executive Tax Commission (JLETC), now National Tax Research Center (NTRC)70	.68	.02	2.69	2.68	.01
National Water and Air Pollution Control Commission (NWAPCC)	1.82	1.18	.64	1.63	1.36	.27
Police Commission (POLCOM), now National Police Commission (NA-POLCOM)	4.23	33.44	(29.21)	68.60	41.71	26.89
Abaca and Other Fibers Development Board (AOFDB)	11.61	3.99	7.62	3.45	2.71	.74
Reparations Commission (REPACOM)	757.42	571.26	186.16	45.39	41.33	4.06
Science Foundation of the Philippines (SFP)	5.87	5.56	.31	2.38	2.38	—
Philippine Fisheries Commission (PFC), now Bureau of Fisheries (BF) ...	36.10	14.25	21.85	27.78	20.12	7.66
TOTAL	P1,295.08	P836.24	P458.84	P372.53	P273.67	P98.86